JOINT STOCK COMPANY

TRASTA KOMERCBANKA

BASE PROSPECTUS

OF THE BONDS OFFER PROGRAMME

Issuer:	JSC TRASTA KOMERCBANKA
Registration number of the Issuer:	40003029667
Legal address of the Issuer:	Miesnieku Street 9, Riga, LV-1010
Volume of the bond issue:	EUR 10 000 000 (ten million euro)
Maturity:	Up to 7 years (inclusive)

Table of Contents

1. TERMS AND ABBREVIATIONS USED

ALCO – Issuer's Resource Committee.

JSC TRASTA KOMERCBANKA group (TKB group) – the group consists of the Issuer's two branches in Latvia (in Liepāja and Daugavpils) and a branch in Cyprus, five representative offices of the Issuer (in Kazakhstan, Tajikistan, Belarus, Ukraine, Hong Kong) and two TKBL representative offices (in Russia and Azerbaijan), the consolidation group of TKB consists of the subsidiaries "TKB Nekustamie īpašumi", "TKB Līzings" and its subsidiaries "TKB Leasing Tajikistan", "TKB LU" and "Project 1", "Heckbert C7 Holdings" and its subsidiary "Ferrous Kereskedelmi KFT".

Stock Exchange (NASDAQ OMX Riga) – Joint Stock Company NASDAQ OMX Riga, unified registration number: 40003167049, legal address: Riga, Valņu Street 1, which is the only licensed maker of the regulated securities market in the Republic of Latvia.

DVP (Delivery vs Payment) – in accordance with the LCD rules, a type of settlement for financial instrument transactions in which the financial instrument transfers and the corresponding monetary settlements take place simultaneously.

Issuer – in accordance with the FIML, a person whose transferable securities are admitted to the regulated market, as well as a person who issues in its own name or intends to issue transferable securities or other financial instruments. In the current Base Prospectus – JSC TRASTA KOMERCBANKA, unified registration number: 40003029667, legal address: Miesnieku Street 9, Riga, LV-1050.

FIML – Financial Instruments Market Law of the Republic of Latvia, adopted on 20.11.2003; effective from 01.01.2004.

FCMC – Financial and Capital Market Commission, unified registration number: 40003167049, legal address: Kungu Street 1, Riga. In accordance with the Law on the Financial and Capital Market Commission, the FCMC is a public institution which regulates the activity of the financial and capital market and its participants by supervising the compliance with the legislation, as well as its regulations and decisions.

Annual Interest Rate – yearly rate of Bond revenue in percentage determined and calculated by the Issuer in accordance with the procedures laid down in the Base Prospectus and Final Terms.

Final Terms – offer terms of the relevant Series of Bonds that have not been indicated in the Base Prospectus.

Investment Brokerage Company – in accordance with the FIML, a capital company that provides investment services on a regular and professional basis.

Investor – a natural person or a legal entity that may potentially express a wish to acquire Bonds in accordance with the procedures laid down in the Base Prospectus and Final Terms.

ISIN (International Securities Identification Number) – a unique international financial instrument identification code which is granted by the LCD.

Bank of Latvia – the central bank of the Republic of Latvia.

LCD – Joint Stock Company "Latvian Central Depository", unified registration number: 40003242879, legal address: Vaļņu Street 1, Riga, which in accordance with the FIML registers and accounts for financial instruments which have been issued for public circulation, as well as ensures accounting of financial instruments and money settlements in financial instrument transactions.

Face Value – Bond value indicated in the Final Terms which is determined by the Issuer.

Bond – Issuer's debt security which is issued in accordance with the terms of this Base Prospectus and the Final Terms and entitles its owner to receive the Interest Income and Face Value in accordance with the procedures laid down in this Base Prospectus.

Base Prospectus of the Bonds Offer Programme (Base Prospectus) – a document that contains detailed information about the Issuer and the Bond admission to the regulated market, and does not contain information about the Final Terms of the offer.

ORICGS – The Central Storage of Regulated Information (available at: http://oricgs.lv) in which companies with financial instruments admitted to the regulated market publish the required information prescribed by the FIML.

Programme – complex of measures for the continuous or repeated issuance of Bonds of a similar or the same category during a period of time determined in the Final Terms for the respective category of Bonds.

Applicable Laws and Regulations – legislation of the Republic of Latvia, FCMC and LCD rules.

Interest Income – interest income from the Bonds that the Issuer undertakes to pay to the owner of the Bonds and the amount and payment procedure of which is determined in the Final Terms.

Series – securities of the same category that have a unified maturity and the same applicable Final Terms. For each Series separate Final Terms are approved and published.

2. SUMMARY

Section A. **Introduction and warnings**

A.1	Warnings	This summary has to be viewed as an introduction to the Prospectus. When making a decision to invest in securities the Investor has to consider the prospectus as a whole. If a claim relating to the information contained in the prospectus is brought before a court, the Investor who is the plaintiff may be required to cover the costs of translating the prospectus prior to the start of the legal proceedings in accordance with the laws and regulation of the member states. Civil liability applies only to those persons who have submitted the summary together with its translation and have applied communication, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.

Section B. **Issuer**

B.1	Legal and commercial name of the Issuer	Joint Stock Company TRASTA KOMERCBANKA
B.2	The domicile and legal form of the Issuer, the legislation under which the issuer operates and its country of establishment	The Issuer is located in the Republic of Latvia. Its legal form is a joint stock company and the Issuer operates in accordance with the legislation of the Republic of Latvia. The Issuer has licence No. 8 for the operation of a credit institution. The Bank of Latvia licence No. 8 for the operation of a credit institution was issued on 12 December 1991. Country of establishment – Republic of Latvia.
B.3	Description of, and key factors relating to, the nature of the Issuer's current operations and its principal activities	The principal activities of the Issuer include current account servicing, deposits, payment cards, loans, trade finance, trust services, investment services, exchange transactions, investments in gold and individual safe-deposit boxes. The main operational market of the Issuer is the Republic of Latvia and other European Union member states.
B.4a	The most significant recent trends affecting the Issuer and the industries in which it operates	On the day of preparing the Base Prospectus there is no information about any known trends that might have a significant negative impact on the operations of the Issuer or the banking sector after confirming the financial statement for the year 2013 and the statement for the first quarter of 2014.
B.4b	Description of any known trends affecting the Issuer and the industries in which it operates	The political and economic situation in Ukraine has significantly worsened at the end of November 2013. Political and social disorders together with the growing regional tension have intensified the current financial crisis. The management of the Issuer is implementing adequate measures in order to ensure the sustainability of TKB group business activities.
B.5	Issuer's position within the group	TKB group consists of the Issuer's two branches in Latvia (in Liepāja and Daugavpils) and a branch in Cyprus, five representative offices of the Issuer (in Kazakhstan, Tajikistan, Belarus, Ukraine, Hong Kong) and two "TKB Līzings" (Latvia) representative offices (in Russia and Azerbaijan), three subsidiaries of the Issuer: "TKB Līzings" (Latvia), "TKB nekustamais īpašums", and "Heckbert C7 Holdings", as well as its subsidiary "Ferrous Kereskedelmi KFT".
B.6	Issuer's main shareholders	Igors Buimisters, LV 43.21% C&R Invest SIA, LV 14.63%

		Charles Edward Treherne, GB 9.31% GCK Holdings Netherlands B.V., NL 7.42% Rikam S.A.H., LU 7.29% Issuer's shareholders do not have different voting rights. The Issuer is controlled by its shareholders in accordance with the procedures prescribed by the Commercial Law.
B.7	Key selected historical financial information about the Issuer	see tables below
B.8	Key pro forma financial information	Not applicable
B.9	Profit forecast or estimates	The Issuer has not made profit forecasts and estimates.
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	The financial statement for the year 2013 contains emphasis of matter: Business environment of Ukraine. The political and economic situation of Ukraine has significantly worsened ever since the government of Ukraine made the decision not to sign the Association Agreement and Deep and Comprehensive Free Trade Agreement with the European Union at the end of November 2013. Political and social disorders together with the growing regional tension have intensified the current financial crisis, as well as created an even bigger state budget deficit and the exhaustion of the foreign monetary reserves of the National Bank of Ukraine. As a result the sovereign credit rating of Ukraine has gone down even more. After the devaluation of the national currency in February 2014 the National Bank of Ukraine implemented administrative restrictions for currency conversion operations, as well as announced the transition to the regime of a floating exchange rate. The final decision and the consequences of the political and financial crisis

B.7 tables:

Key indicators of the Issuer	2012	2013
	thousand EUR	thousand EUR
Assets (net)	429 650	415 110
Loans (net)	135 728	113 436
Deposits	353 524	335 482
Capital	52 790	54 546
Operating profit	6 955	12 577
Net profit	3 265	1 851
Liquidity (%)	78.44	71.95
Capital adequacy (%)	16.22	17.54
Number of customers (pers.)	9 392	10 701

Key indicators of the Issuer during transitional periods	01.04.2013	01.04.2014
	thousand EUR	thousand EUR
Assets (net)	437 149	440 053
Loans (net)	142 910	115 826
Deposits	357 359	360 385
Capital	53 046	55 467
Operating profit	1 154	1 105
Net profit	283	957
Liquidity (%)	72.04	71.91
Capital adequacy (%)	14.96	15.79
Number of customers (pers.)	9 741	10 678

		are hard to predict, but they might have an even bigger impact on the economy of Ukraine. Although the management believes that it is implementing adequate measures in order to ensure the sustainability of TKB group business activities, the continuance of the conditions of the current inconsistent business environment could have a negative impact on the results and financial position of the Group in a way that is currently unpredictable. These consolidated financial statements show the current judgement of the Issuer's management about the impact of Ukraine's business environment on the activities and financial position of the Group. The future business environment may differ from the government's forecasts. These consolidated financial statements do not contain any corrections with regard to the impact of events in Ukraine that have taken place after the end date of the reporting period.
B.11	Issuer's capital adequacy	The Issuer's capital adequacy indicator corresponds with the existing demands of the Republic of Latvia and on 01.04.2014 amounted to 15.79%.
B.12	Forecast regarding the Issuer	The forecasts about the Issuer do not contain any adverse changes since the date of its last published audited financial statements.
B.13	Events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency	Since the day of publishing the last audited financial statement the Issuer has not had any information about events that could have a significant impact on the Issuer's solvency in the current or following financial periods.
B.14	Issuer's dependency on legal entities within the group	The issuer is not dependent on legal entities within the group.
B.15	Issuer's principal activities	The principal activities of the Issuer include current account servicing, deposits, payment cards, loans, trade finance, trust services, investment services, exchange transactions, investments in gold and individual safe-deposit boxes. The main operational market of the Issuer is the Republic of Latvia and other European Union member states.
B.16	Control	The Issuer is controlled by its shareholders in accordance with the procedures set forth in the Commercial Law.
B.17	Credit ratings	Not applicable
B.18 – B.50		Not applicable

Section C. **Securities**

C.1	Type and category of the securities	The Issuer's Bonds are public circulation securities that entitle their owner to receive Interest Income and Face Value in accordance with the procedures determined in the Base Prospectus. Final Terms containing detailed information about the terms within the respective Bond Issue Series will be prepared for each Bond Issue Series carried out within the scope of the Programme. In accordance with the FIML, the holding of Bonds is carried out by credit institutions and investment brokerage companies. The LCD keeps a record of financial instruments, including Bonds, owned by a credit institution or an investment brokerage company and keeps the total record of all financial instruments owned and held by the customers of the respective credit institution or investment brokerage company.
C.2	Currency of the Bond issue	*Euro*
C.3 –C.4 Issued shares		Not applicable
C.5	Free transferability of Bonds	Bonds are freely transferrable securities that represent the Issuer's debt to the owners of the Bonds without additional collateral. It is planned to admit the Bonds to the regulated market for public circulation. Bonds are dematerialized bearer securities without restraint on

		alienation – transferrable securities. In accordance with the FIML, the registration and accounting of securities dematerialized in the Republic of Latvia that will be admitted to the regulated market for trade is carried out by the LCD.
C.6	Share admission to the regulated market	Not applicable
C.7	Dividend policy	Not applicable
C.8	Rights attached to the Bonds	The goal of each individual Bond Issue Series is to raise funds which the Issuer will use to finance its principal activities and specifically: • to improve the term structure of the Issuer's assets and liabilities; • to raise funds for increasing the Issuer's subordinated capital. The goal of each individual Bond Issue Series will be provided in the Final Terms that will be related to the respective series. That is how, for example but not only in such a manner the Issuer may show that the earned means will be used for the increase of the Issuer's subordinated capital in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012. If the goal of the Bond Issue Series is to raise funds that the Issuer will use as subordinated capital, in case of the Issuer's insolvency the Investor's claims to the Issuer arising out of the Bonds will be satisfied after claims of all other creditors, but before satisfying claims of the shareholders.
C.9	Bond interest rate and conditions of the interest income payment	*Interest rate* The interest income rate is fixed. The Interest Income is determined and stated in the Final Terms of each Bond Issue Series. *Day from which the interest payments have to be carried out and the terms of the interest payments* The calculation of the Interest Income accrued under the Bonds and payment dates are specified in the Final Terms. *Term and procedure of the repayment* The Investor is entitled to receive the Face Value of the Bonds. The Face Value of the Bonds is repaid at the Bonds maturity by making a lump-sum payment. For each Bond Issue Series under the Programme, the Face Value and maturity of the Bond is set forth in the Final Terms. *Representatives of debt security holders* Holders of the debt securities may freely determine representatives for exercising the rights attached to the Bonds.
C.10	Interest payment relation to derivative financial instruments	Not applicable
C.11	Bond admission to the market	The application regarding the admission of Bonds to the regulated market shall be submitted for the inclusion of the respective Bonds in the NASDAQ OMX Riga List of Debt Securities which is an official listing pursuant to the FIML. The application for admitting the Bonds to the regulated market shall be prepared in accordance with the Stock Exchange requirements and submitted after the completion of the initial placement, and there will be all documents and information on the Bond issue attached thereto, as set forth in the FIML.
C.12	Minimum Face Value of the Bond issue	The size of each Bond Issue Series is stated in the Final Terms. The minimum size of one issue is EUR 1,000,000 EUR.
C.13 – C.22		Not Applicable

Section D. **Risks**

D.1 un D.2	Issuer's key risks	Risks may decrease the Issuer's ability to fulfil its liabilities and restrict the Investor's capability to perform transactions with Bonds. Issuer's key risks: *Credit risk* Credit risk is the risk of incurring of losses if the Issuer's debtor may not fulfil or refuses to fulfil its liabilities to the Issuer according to the terms and conditions of the agreement. In accordance with the legislation of the Republic of Latvia and laws and regulations adopted by the Bank of Latvia and the FCMC, the Issuer has created a risk management system and developed policies, procedures and other normative documentation by taking into account the total amount of loans issued by the Issuer, types of loans, acceptable loan collaterals and other factors. The credit risk management is carried out at different levels and several subdivisions of the Issuer are involved in the risk management. The Issuer uses the following methods to manage the credit risk: - setting of limits; - diversification of loan portfolio; - securing of enhanced risk transactions with relevant collateral and guarantees; - daily monitoring and control. *Liquidity risk* Liquidity risk is the risk that the Issuer may not be able on a daily basis and/or in the future to fulfil on time its liabilities in regard to legally sound claims without suffering substantial losses, and may not surmount unplanned changes of the Issuer's resources and/or market conditions due to insufficient volume of liquid assets. The Issuer pays great attention to the supervision of the liquidity risk. Owing to the adequate liquidity risk management policy and internal control and communication system, the Issuer manages to ensure and maintain a high liquidity ratio – at the end of 2013 the liquidity ratio was equal to 71.95%. In accordance with the requirements of the FCMC, at the moment the Issuer has to maintain the liquid assets in an amount sufficient enough for the fulfilment of liabilities, but not less than 60% of the total sum of the Issuer's current liabilities. *Country risk* Country risk is the risk that a counterparty/customer of the Issuer (official state institution, bank, and other customers of the bank) that is a resident of another country will not be able to fulfil its liabilities to the Bank due to an economic, social or political impact on the resident of the respective country. The Issuer has created a detailed limit system for the hedging of the country risk in accordance with the FCMC requirements and other Issuer limits. *Operational risk* Operational risk is the risk to incur losses due to irrelevant or incomplete fulfilment of internal processes, due to human actions or system functioning or due to the influence of external circumstances, including legal risk, but excluding strategic risk or reputation risk. The issuer has created an operational risk management system which also includes measures for risk mitigation. The Issuer evaluates and measures the operational risk on a regular basis. The operational risk level for the Issuer has been evaluated as low. *Concentration risk* Concentration risk is any risk transaction or a group of risk transactions due to which the Bank can incur losses that may pose a threat to the Issuer's solvency or the ability to continue its business. Concentration

		risk occurs from large exposures with customers or groups of associated customers, or risk transactions with customers whose solvency is characterized by one common risk factor (for instance, industry, geographical location, currency, credit risk mitigation instrument, uniform collateral or single collateral provider etc.). For the purpose of hedging and minimizing the concentration risk several limits have been developed that restrict: concentration of the loan portfolio, concentration of funds in correspondent accounts itemized by correspondent banks and by countries, concentration of assets itemized by country, concentration of deposits, concentration of currency transactions settlements itemized by country etc. *Risk of Laundering Proceeds from Criminal Activity and Financing of Terrorism* A risk in which the Issuer may be involved in money laundering or financing of terrorism. The Issuer has developed and approved a Policy on Prevention of Money Laundering and Terrorism Financing setting forth basic principles by which the Issuer is governed in its activities to ensure compliance with the legislation of the Republic of Latvia and application of best international practices in prevention of laundering proceeds from criminal activity and financing of terrorism, and to minimize the possibility of cooperation with customers that are involved in transactions of money laundering or financing of terrorism. *Reputation risk* Reputation risk is the risk that customers of the Issuer, its counterparties, shareholders, supervisory bodies or other stakeholders can form a negative opinion about the Issuer, which may affect the ability of the Issuer to maintain existing business relationships and create new ones with its customers and other counterparties, and have a negative effect on the availability of the Issuer's financing. As a result of the occurrence of reputation risk events other risks to the Issuer's activities may also occur (credit risk, liquidity risk, market risks etc.) and that may have a negative impact on the profit, amount of capital and liquidity of the Issuer. The Issuer has created a reputation risk management system that includes measures that have to be implemented if the reputation of the Issuer is endangered by negative information (risk mitigation measures). *Strategy and business risk* A risk concerning changes in the business environment and the Issuer's inability to react to such changes in a timely fashion, an improper or inaccurately chosen Issuer's development strategy or the inability of the Issuer to allocate resources necessary for the implementation of the strategy that may have a negative impact on the profit, amount of capital and liquidity of the Issuer. The management of the strategy and business risk is one of the Issuer's basic daily functions. Key principle of risk management – regular control of the Issuer's activities compliance with the strategy (long term) and budget plans (short term), analysis of deviations and timely adoption of decisions by the Issuer's management.
D.3	Key risks of Bonds	Risk factors associated with the Bonds: *Liquidity risk* The Issuer intends to submit an application for the registration of the issued series and admission of the Bonds to the regulated market NASDAQ OMX Riga after the completion of the initial placement of the corresponding series. The Investor should take into account that the admission of Bonds to the regulated market does not fully exclude the possibility of liquidity risk occurring, which may be related to the market participant lack of interest in the secondary market, and as a result it may be difficult to sell the Bonds for an adequate price.

		Price risk Price risk is related to the fluctuation of the Bond prices in the secondary market. The fluctuation of the price in the market may be affected by macroeconomic processes, changes within the sector in which the Issuer operates, and they can also be affected by changes in the financial position of the Issuer or events related to its reputation. The mentioned circumstances may change the profitability of the Bonds and accordingly the profit of the Investor during the respective period of time. *Legislative risk* The profitability and liquidity of the Bonds may also be affected by the legislative risk: if laws and regulations or rules are amended (including changes in the laws and regulations concerning taxes), their implementation and observation may be related to additional costs, which in turn may decrease the profitability of the investments.
D.4 – D.6		Not applicable

Section E. **Offer**

E.1 – E.2a		Not applicable
E.2b	Goal of the Bond Issue Series	The goal of each individual Bond Issue Series is to raise funds which the Issuer will use to finance its principal activities and specifically: • to improve the term structure of the Issuer's assets and liabilities; • to raise funds for the increase of the Issuer's subordinated capital. The goal of each individual Bond Issue Series will be provided in the Final Terms that will be related to the respective series. Thus, for example, but not only, the Issuer may show that the earned means will be used for the increase of the Issuer's subordinated capital in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.
E.3	Terms and conditions of the Bond offer	Within the current Base Prospectus the Issuer is entitled to issue Bonds with the total value of EUR 10,000,000.00 (ten million *euro*). In the Final Terms of each Bond Issue Series the Issuer shall set forth the particular issue volume and number of the Bonds. The volume of a single Bond Issue Series may not be lower than EUR 1,000,000.00 (one million *euro*). Before initial public offering of the respective issue is started and after the documents stipulated in the LCD rules are received from the Issuer, the LCD will register each Bond Issue Series performed under the Programme and assign ISIN to the Bonds, as well as will ensure posting and accounting of the outstanding Bonds. For clear identification of each new Bond Issue Series, the title of the Final Terms will contain the sequence number and currency of the Series. Each Bond Issue Series has a different ISIN code. The ISIN code will be announced on the Issuer's home page (www.tkb.lv) before the public offer start date.
E.4	Essential interests of the issue/offer	The Issuer has no information concerning conflicts of interests related to the issue.
E.5 – E.7		Not applicable

3. INFORMATION ABOUT THE BONDS

The Issuer's Bonds are public circulation securities which entitle their owner to receive Interest Income and Face Value in accordance with the procedures and time set in this Base Prospectus.

This section of the Base Prospectus contains information about the Bonds that will be issued within the framework of the Base Prospectus. Final Terms containing detailed information about the terms within the respective Bond Issue Series will be prepared for each Bond Issue Series carried out within the framework of the Programme.

The goal of each individual Bond Issue Series is to raise funds which the Issuer will use to finance its principal activities and specifically:

- to improve the term structure of the Issuer's assets and liabilities;
- to raise funds for the increase of the Issuer's subordinated capital.

The goal of each individual Bond Issue Series will be provided in the Final Terms that will be related to the respective series. Thus, for example, but not only, the Issuer may show that the earned means will be used for the increase of the Issuer's subordinated capital in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

Bonds are freely transferrable securities that represent the Issuer's debt to the owners of the Bonds without additional collateral. It is planned to admit the Bonds to the regulated market for public circulation.
Bonds are dematerialized bearer securities without restraint on alienation – transferrable securities. In accordance with the FIML, the registration and accounting of securities dematerialized in the Republic of Latvia that will be admitted to the regulated market for trade is carried out by the LCD.
In accordance with the FIML, the holding of Bonds is carried out by credit institutions and investment brokerage companies. The LCD keeps a record of financial instruments, including Bonds, owned by a credit institution or an investment brokerage company and keeps the total record of all financial instruments owned and held by the customers of the respective credit institution or investment brokerage company.

3.1. Legal Regulation

The securities are issued in accordance with the following laws and regulation effective in the Republic of Latvia:

- FIML;
- Commercial Law;
- Credit Institutions Law;
- LCD rules.

When preparing the Prospectus the following was taken into account: laws and regulations issued by the FCMC, Directive 2003/71/EC of the European Parliament and of the Council, Commission Regulation (EC) No. 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in Prospectus, as well as the format of Prospectus, incorporation of information with reference and publication of such Prospectus, and regarding the dissemination of advertisements, as well as other laws and regulations of the Republic of Latvia and the European Union.

3.2. Currency and Face Value of the Bonds

The currency of the Bond issue is *euro*, abbreviated – EUR.

The size of each Bond Issue Series is equal to the total number of Bonds issued within the particular series, which is indicated in the Final Terms, multiplied by the Face Value of a single Bond.

3.3. Interest Rate and Conditions of the Interest Income Payment

The Annual Interest Rate of each Bond Issue Series under the Programme is specified in the Final Terms. The Annual Interest Rate is fixed. The Interest Income is determined and stated in the Final Terms of each Bond Issue Series. The calculation of the Interest Income accrued under the Bonds and payment dates are specified in the Final Terms.

The procedure of paying the Interest Income is stipulated by LCD rules No. 8 "On Payment of Dividends, Coupons, Principal, and Other Cash Proceeds".

When paying the interest income, the Issuer shall credit the whole payable amount to the LCD cash account. The LCD transfers the funds to the account holders on the date of Interest Income payment in accordance with the number of the Bonds present in correspondent accounts on the Interest Income calculation date. The Interest Income amount is credited to the cash accounts of Bond owners by the account holder (that the securities account of the Bond owner is opened with). Should the Interest Income payment date appear to be a holiday, the Issuer shall pay the Interest Income on the next working day following the holiday.

3.4. Redemption

The Investor is entitled to receive the Face Value of the Bonds. The Face Value of the Bonds is repaid at the Bonds maturity by making a lump-sum payment. For each Bond Issue Series under the Programme, the Face Value and maturity of the Bond shall be stipulated in the Final Terms, but the latter shall not exceed 7 years.

The Issuer shall pay the Face Value on the Bonds maturity date in accordance with the LCD rules No. 8 "On Payment of Dividends, Coupons, Principal, and Other Cash Proceeds". Should the Bonds maturity date appear to be a holiday, the Issuer shall pay the Face Value of the Bonds on the next working day following the holiday. Should the Issuer fail to make settlement under redemption of the Bonds on the date set forth in the Final Terms, the Investor shall be entitled to lodge a claim to the Issuer demanding payment of the Face Value not earlier than in 4 (four) working days after the set Bonds maturity date.

The Issuer is entitled to prematurely redeem the part of the Bond issue the initial placement of which was not performed, as well as the Bonds that the Issuer purchased in the secondary securities market or acquired otherwise in compliance with the provisions of laws and regulations, provided that the laws and regulations contain no limitations with regard to such redemption.

The Issuer's rights to prematurely redeem Bonds shall be set forth in the Final Terms.

Should the Bonds, or a part of those, be redeemed prematurely, the Issuer shall make a corresponding notice in the Stock Exchange NASDAQ OMX Riga information system, ORICGS, and on the home page www.tkb.lv at least 4 (four) working days in advance, stating the number of the Bonds being redeemed, their amount at Face Value, the date of premature redemption, and the issue size that remains outstanding in the secondary market.

Other rights and responsibilities of the Investors arising out of the Bonds and not mentioned in this Base Prospectus shall be exercised in accordance with effective laws of the Republic of Latvia and subordinate legislation.

3.5. Calculation of Accrued Interest

The Interest Income under a single Bond for each interest income period is calculated considering the Face Value of the Bonds, Interest Income rate during the corresponding Interest Income period and the number of days in the Interest Income period. It is assumed that a single Interest Income period consists of 180 (one hundred eighty) days, and one year consists of 360 (three hundred sixty) days (30E/360 principle, where E – number of full months).

Should the Bonds be redeemed prematurely, the Interest Income shall be calculated from the previous Interest Income payment date until the date of premature redemption.

The Interest Income under a single Bond for each interest income period is calculated considering the following:

- Face Value of the Bond;
- Annual Interest Rate during the corresponding Interest Income period;
- number of days in the Interest Income period.

The Interest Income amount shall be calculated as follows: CPN = F * C / 2, where

CPN – the amount of accrued Interest Income payable in the issue currency per one Bond;

F – Face Value of a single Bond;

C – Annual Interest Rate.

The amount of Interest Income between the payment dates shall be calculated as follows:

AI = F x C / 360 x D, where

AI– accrued interest;

F – Face Value of a single Bond;

C – Annual Interest Rate;

D – number of days since the beginning of the interest accrual period.

3.6. Decisions on the Bond Issue

The Bonds are issued and public offering is performed pursuant to the following decisions of the Issuer:

- Decision on the Bond issue of the regular meeting of shareholders, dated 18 July 2014 (Minutes No. 2, paragraph 1).

The Final Terms of each Bond issue shall be approved by a decision of the Issuer's Board.

3.7. Public Offer Start and End Date

The public offer start date is the date specifically stated in the Final Terms of the Bond Issue Series after the FCMC permission for making a public offer has been received and the Issuer has published the issue prospectus.

The public offer end date is stated in the Final Terms of each Bond Issue Series. The Final Terms for the Bond issues are published on the Issuer's home page www.tkb.lv not later than 4 (four) working days prior to the initial public offer start.

The initially planned public offer period is a period of time within which the Investor or the Investment Company may submit an order for purchasing the Bonds, and it will be stated in the Final Terms of the Bond Issue Series. The Issuer shall perform the initial placement of the Bonds by means of their direct sale.

Information about the public offer start and end date is published on the Issuer's home page www.tkb.lv.

3.8. Restrictions on Free Transferability of the Securities

Bonds are freely (without restrictions) transferable securities and there are no restrictions on transferability of the Bonds.

3.9. Imposition of Income Tax on the Investor's Income

Notice

- The information provided in this Base Prospectus section shall not be treated as tax or legal advice.
- This Base Prospectus section does not contain complete information about all taxes applicable to the Investor and investment in the Bonds.
- There is a possibility that the tax rates and payment conditions may change during the period from approval of this Base Prospectus until the maturity of the Bonds.
- Before making a decision on investing in the Bonds, the Investor should independently, or with the help of a tax advisor, estimate taxes applicable to the investment, pursuant to the provisions of the laws and regulations of the Republic of Latvia and other countries, in case the Investor is not a resident of the Republic of Latvia.

Taxes (fees) laid down by the laws of the Republic of Latvia shall be paid by:

1) domestic taxpayers (residents);
2) foreign taxpayers (non-residents).

Interest Income is the income from any debt liabilities, income from government securities, and income from bonds or promissory notes, including premiums and bonuses pertaining to such securities, bonds or promissory notes.

Tax amount

	Interest Income tax rate	*Withholding of tax*
For residents:		
Natural person	10%	The Interest Income tax is withheld by the income payer.
Legal entity	15%	The Interest Income shall be included in the taxable income from which the enterprise income tax has to be paid.
For non-residents:		
Natural person	10%	The Interest Income tax is withheld by the income payer.
Legal entity	–	The Interest Income shall be included in the taxable income from which the enterprise income tax has to be paid. [1]

[1]If the legal entity is registered in any of the low tax or tax-free countries or territories mentioned in the regulations of the Cabinet of Ministers of the Republic of Latvia, the tax at the rate of 5% is withheld by the interest payer.

The Issuer shall be responsible for withholding and payment of taxes in compliance with the procedures and amount stated in the laws and regulations of the Republic of Latvia.

The Issuer shall not be responsible for the payment of taxes where the laws and regulations of the Republic of Latvia do not stipulate the Issuer's duty to assess and withhold the tax amount before making Interest Income payments.

4. AMOUNT OF BONDS AND CONDITIONS OF THE OFFER

4.1. Amount of Bonds

In accordance with this Base Prospectus, the Issuer is entitled to issue Bonds with the total value of EUR 10,000,000.00 EUR (ten million *euro*).

In the Final Terms of each Bond Issue Series the Issuer shall set forth the particular issue size and number of the Bonds. The size of a single Bond Issue Series may not be lower than EUR 1,000,000.00 (one million *euro*).

Before initial public offering of the respective issue is started and after the documents stipulated in the LCD rules are received from the Issuer, the LCD will register each Bond Issue Series performed under the Programme and assign ISIN to the Bonds, as well as will ensure posting and accounting of the outstanding Bonds.

For clear identification of each new Bond Issue Series, the title of the Final Terms will contain the sequence number and currency of the Series. Each Bond Issue Series has a different ISIN code. The ISIN code will be announced on the Issuer's home page (www.tkb.lv) before the public offer start date.

4.2. Settlement under Initial Placement Transactions

Settlement under the Bonds' initial placement transactions shall be performed by applying the DVP principle, regulated by the corresponding LCD rules of DVP settlement. The Issuer and the credit institution or the investment brokerage company may also not apply the DVP principle if agreed so by the transaction parties.

The DVP shall be executed on the T+3 day, where "T" stands for the day of concluding the Bond purchase transaction, and "3" is the 3rd (third) working day after the day of concluding the Bond purchase transaction. In case of applying the DVP principle, on the 3rd (third) working day after the day of concluding the Bond purchase transaction, the Investor shall ensure funds necessary for paying for the purchase of the Bonds in the account opened with the Investment Company that acted as intermediary in concluding the Bond purchase transaction.

The settlement method chosen by the Issuer to be applied to the initial placement transactions shall be specifically stated in the Final Terms of each Bond Issue Series.

4.3. Price of the Initial Placement and Procedure of Placement

During the initial placement, the Bonds will be sold for the price determined by the decision of the Issuer's board at least 4 (four) working days prior to the start date of the initial placement of the Bonds, and this price will be stated in the Final Terms and on the Issuer's home page www.tkb.lv. The information will also be published in ORICGS.

The Issuer's board determines the price of the Bonds by evaluating the demand in the securities market and yield of comparable market instruments. The price for the Bond Issue Series determined by the Issuer will be the same for all Investors and will remain constant throughout the whole initial placement period.

The Issuer's board determines the Face Value of the Bond and the price of the initial placement expressed as percentage of the Face Value.

The Investor purchasing the Bonds during the initial placement period will have to transfer only the set Bond sale price to the Issuer for each Bond unit being purchased.

The Investor is entitled to use the intermediation of different Investment Companies for the purchase of Bonds. The costs related to the purchase of Bonds may be found out in the respective Investment Company the intermediation of which shall be used by the Investor for concluding the Bond purchase transaction. The Issuer does not receive the mentioned payments and is not responsible for these additional costs.

The amount of additional costs may be found out in the respective Investment Company the intermediation of which shall be used by the Investor for concluding the Bond purchase transaction. The Issuer does not receive the mentioned additional payments.

Under initial placement, the Issuer shall sell the Bonds to the Investors in accordance with the following procedures:

- The transactions shall be executed at the price set forth in the Final Terms of the Bond Issue Series, which will be expressed as percentage of the Face Value.
- The transactions shall be concluded during the initial distribution period stated in the Final Terms of offer of the Bond Issue Series and within the size of the Bond Issue Series.
- The Investor shall submit an order for purchasing the Bonds to the chosen Investment Company.

- Representative of the Investment Company or the Investor itself, if it has a financial instrument account opened with JSC TRASTA KOMERCBANKA, shall contact the Issuer. The time of executing the transaction, phone number and contact person shall be stated in the Final Terms of the Bond Issue Series.
- The date or dates of selling the Bonds shall be stated in the Final Terms of the Bond Issue Series.
- The Final Terms of the Bond Issue Series shall state the date on which the Issuer's board shall make a decision on concluding the transactions in accordance with the sequence in which orders have been submitted, although the Issuer shall retain the right to partly execute an order or to deny conclusion of the transaction.
- The transactions shall be concluded pursuant to the order completed by the Investor or the Investment Company. The order form will be provided as an appendix to the Final Terms of the Bond Issue Series.

There are no restrictions on applying for purchase of the Bonds. The maximum number of Bonds that a single Investor may apply for is not set. The only amount restriction is the remaining number of Bonds that are not placed (the number of Bonds for the selling of which transactions have not been concluded) during the time when an Investor applies for purchasing the Bonds. The Investor may not apply for the purchase of less than 1 (one) Bond.

The secondary circulation of Bonds is allowed after their admission to the regulated market which is planned after finishing the initial placement.

4.4. Information about the Public Offer Results

Information about the initial placement results shall be published on the Issuer's home page www.tkb.lv within 10 (ten) working days after the public offer end date set forth in the Final Terms of the offer.

4.5. Depository

Functions of the depository shall be carried out by the LCD.

4.6. Application for Admitting of Bonds to the Regulated Market

The regulated market maker to which the application for including debt securities in the official listing will be submitted is NASDAQ OMX Riga.

The application shall be submitted for including the respective Bonds in the NASDAQ OMX Riga List of Debt Securities, which is an official listing pursuant to the FIML. The application for admitting the Bonds to the regulated market shall be prepared in accordance with the Stock Exchange requirements and submitted after the completion of the initial placement, and there will be all documents and information on the Bond issue attached thereto, as set forth in the FIML.

Previous issue performed by the Issuer and admitted to the regulated market

	Straight coupon bonds in EUR
ISIN	LV0000800415
Issue name	JSC Trasta Komercbanka 01/EUR series mortgage debentures
Discount rate (p.a.)	-
Coupon rate (p.a.)	Floating, EURIBOR 3M + 1,40%
Coupon rate determination date	01.12.2006
Coupon dates	Every quarter, annually on March1, June 1, September 1 and December 1
Issue date	01.12.2006
Maturity date	01.12.2012

5. RESPONSIBLE PERSONS

We, the Issuer's Chairman of the Board Gundars Grieze, First Deputy Chairman of the Board Māris Fogelis, Deputy Chairman of the Board Viktors Ziemelis, Member of the Board Edgars Diure, Member of the Board Svetlana Krasovska, Member of the Board Tatjana Konnova, are responsible for the information provided in the Base Prospectus and confirm that the information provided in this Base Prospectus is true and it does not overlook any data that might affect the meaning of the information provided therein, or decision of potential investor on acquisition of the Bonds:

Name, surname	Personal identity number	Position held	Signature
Gundars Grieze	101261-10715	Chairman of the Board	
Māris Fogelis	220768-11801	First Deputy Chairman of the Board	
Viktors Ziemelis	220670-12020	Deputy Chairman of the Board	
Edgars Diure	220673-11215	Member of the Board	
Svetlana Krasovska	050268-10611	Member of the Board	
Tatjana Konnova	240754-11821	Member of the Board	

6. AUDITORS THAT HAVE AUDITED THE FINANCIAL STATEMENTS OF THE ISSUER

The consolidated financial statements of the Issuer for the years 2012 and 2013 have been audited by auditors of the audit company KPMG Baltics SIA.

Registration number: 40003235171 in the Enterprises Register of the Republic of Latvia

Legal address: Vesetas Street 7, Riga, LV-1013

Telephone number: 67038000

Fax: 67038002

Issued licence: No. 55, for an indefinite period of time, issued on 04.12.2002 by the Latvian Association of Certified Auditors

The Auditor responsible for the audit of statements for the years 2012 and 2013:

Sworn Auditor Inga Lipšāne,

Certificate No. 112

7. SELECTED FINANCIAL INFORMATION

The data provided in this section are related to the Issuer and do not include TKB Group's indicators.

Indicator of the Issuer	2012	2013
	thousand EUR	thousand EUR
Assets (net)	429 650	415 110
Loans (net)	135 728	113 436
Deposits	353 524	335 482
Capital	52 790	54 546
Operating profit	6 955	12 577
Net profit	3 265	1 851
Liquidity (%)	78.44	71.95
Capital adequacy (%)	16.22	17.54
Number of customers (pers.)	9 392	10 701

<u>Financial indicators of 2012</u>

In 2012, the activities of the Issuer were characterised by positive dynamics, and as a result the Issuer ended the year with a profit in the amount of 3.3 million *euro*. Whereas the Issuer's subordinated capital amounted to 12.9 million *euro*. Last year the volume of Issuer's assets reached 429.7 million *euro* and that is by 7.2 million *euro* more than at the end of 2011. The volume of attracted deposits increased by 1.8 million *euro* and amounted to 353.5 million *euro*, but the Issuer's customer base increased by 12% (number of customers-private persons – by 9 %). The Issuer's loan portfolio decreased by 3.6 million *euro* during the reporting year, but the amount of loans allowance decreased from 13.1% to 11.1%.

<u>Financial indicators of 2013</u>

In 2013, the activities of the Issuer were profitable: the Issuer ended the year with a profit in the amount of 1.9 million *euro*, but its operating profit increased almost two times in comparison to 2012. The subordinated capital increased to 15.6 million *euro*. Last year the volume of Issuer's assets reached 415.1 million *euro*; the volume of attracted deposits amounted to 335.5 million *euro* last year, but the Issuer's customer base increased by 14% (number of customers-private persons – by 7%).

Key indicators of the Issuer's transitional periods	01.04.2013	01.04.2014
	thousand EUR	thousand EUR
Assets (net)	437 149	440 053
Loans (net)	142 910	115 826
Deposits	357 359	360 385
Capital	53 046	55 467
Operating profit	1 154	1 105
Net profit	283	957
Liquidity (%)	72.04	71.91
Capital adequacy (%)	14.96	15.79
Number of customers (pers.)	9 741	10 678

8. RISK FACTORS

8.1. <u>Information about the Risks</u>

The Investor must thoroughly assess the risks listed in this section of the Base Prospectus. Those may decrease the Issuer's ability to perform its liabilities and limit the Investor's ability to execute transactions with the Bonds. The Base Prospectus may not contain a complete list of all the possible risks that might affect the Issuer's operations or trading of the Bonds.

The laws and regulations of the European Union and the Republic of Latvia provide for strong supervision of credit institutions that minimizes the Investor's risk compared with investing in securities issued by companies operating in other sectors. In the Republic of Latvia such supervision is carried out by the FCMC. Nevertheless, before making a decision on investing in the Bonds, any Investor should independently assess the risks associated with the investment, engaging an advisor, if necessary.

8.2. <u>Risk Factors Associated with the Investor</u>

8.2.1. Credit Risk

Credit risk is the risk of incurring of losses if the Issuer's debtor may not fulfil or refuses to fulfil its liabilities to the Bank according to the terms and conditions of the agreement.

In accordance with the legislation of the Republic of Latvia and laws and regulations adopted by the Bank of Latvia and the FCMC, the Issuer has created a risk management system and developed policies, procedures and other normative documentation by taking into account the total amount of loans issued by the Issuer, types of loans, acceptable loan collaterals and other factors. Risk management is carried out at different levels and several subdivisions of the Issuer are involved in the risk management.

The Issuer uses the following methods to manage the credit risk:

- setting of limits;
- diversification of loan portfolio;
- securing of enhanced risk transactions with relevant collateral and guarantees;
- daily monitoring and control.

8.2.2. Liquidity risk

Liquidity risk is the risk that the Issuer may not be able on a daily basis and/or in the future to fulfil on time its liabilities in regard to legally sound claims without suffering substantial losses, and may not surmount unplanned changes of the Issuer's resources and/or market conditions due to insufficient volume of liquid assets.

The Issuer pays great attention to the supervision of the liquidity risk. Owing to the adequate liquidity risk management policy and internal control and communication system, the Issuer manages to ensure and maintain a high liquidity ratio – at the end of 2013 the liquidity ratio was equal to 71.95%. In accordance with the requirements of the FCMC, at the moment the Issuer has to maintain the liquid assets in an amount sufficient enough for the fulfilment of liabilities, but not less than 60% of the total sum of the Issuer's current liabilities.

8.2.3. Country Risk

Country risk is the risk that a counterparty/customer of the Issuer (official state institution, bank, and other customers of the bank) that is a resident of another country will not be able to fulfil its liabilities to the Bank due to an economic, social or political impact on the resident of the respective country.
The Issuer has created a detailed limit system for the hedging of the country risk in accordance with the FCMC requirements and other Issuer limits.

8.2.4. Operational Risk

Operational risk is the risk to incur losses due to irrelevant or incomplete fulfilment of internal processes, due to human actions or system functioning or due to the influence of external circumstances, including legal risk, but excluding strategic risk or reputation risk.
The Bank has created an operational risk management system which also includes measures for risk mitigation. The Bank evaluates and measures the operational risk on a regular basis. The operational risk level for the Bank has been evaluated as low.

8.2.5. Concentration Risk

Concentration risk is any risk transaction or a group of risk transactions due to which the Issuer can incur losses that may pose a threat to the Issuer's solvency or the ability to continue its business. Concentration risk occurs from large exposures with customers or groups of associated customers, or risk transactions with customers whose solvency is characterized by one common risk factor (for instance, industry, geographical location, currency, credit risk mitigation instrument, uniform collateral or single collateral provider etc.).

For the purpose of hedging and minimizing the concentration risk several limits have been developed that restrict: concentration of the loan portfolio, concentration of funds in correspondent accounts itemized by correspondent banks and by countries, concentration of assets itemized by country, concentration of deposits, concentration of currency transactions settlements itemized by country etc.

8.2.6. Risk of Laundering Proceeds from Criminal Activity and Financing of Terrorism

A risk that the Issuer may be involved in money laundering or financing of terrorism.

The Issuer has developed and approved its Policy on Prevention of Money Laundering and Terrorism Financing setting forth basic principles by which the Issuer is governed in its activities to ensure compliance with the legislation of the Republic of Latvia and application of best international practices in prevention of laundering proceeds from criminal activity and financing of terrorism, and to minimize the possibility of cooperation with customers that are involved in transactions of money laundering or financing of terrorism.

8.2.7. Reputation Risk

Reputation risk is the risk that customers of the Issuer, its counterparties, shareholders, supervisory bodies or other stakeholders can form a negative opinion about the Issuer, which may affect the ability of the Issuer to maintain existing business relationships and create new ones with its customers and other counterparties, and have a negative effect on the availability of the Issuer's financing. As a result of the occurrence of reputation risk events other risks to the Issuer's activities may also occur (credit risk, liquidity risk, market risks etc.) and that may have a negative impact on the profit, amount of capital and liquidity of the Issuer.

The Issuer has created a reputation risk management system that includes measures that have to be implemented if the reputation of the Issuer is endangered by negative information (risk mitigation measures).

8.2.8. Strategy and Business Risk

A risk concerning changes in the business environment and the Issuer's inability to react to such changes in a timely fashion, an improper or inaccurately chosen Bank development strategy or the inability of the Issuer to allocate resources necessary for the implementation of the strategy that may have a negative impact on the profit, amount of capital and liquidity of the Issuer.

The management of the strategy and business risk is one of the Issuer's basic daily functions. Key principle of risk management – regular control of the Issuer's activities compliance with the strategy (long term) and budget plans (short term), analysis of deviations and timely adoption of decisions by the Issuer's management.

8.3. Risk Factors Associated with the Type of Securities Being Issued

8.3.1. Liquidity Risk

The Issuer intends to submit an application for the registration of the issued series and admission of the Bonds to the regulated market NASDAQ OMX Riga after the completion of the initial placement of the corresponding series. The Investor should take into account that the admission of Bonds to the regulated market does not fully exclude the possibility of liquidity risk occurring, which may be related to the market participant lack of interest in the secondary market, and as a result it may be difficult to sell the Bonds for an adequate price.

8.3.2. Price Risk

Price risk is related to the fluctuation of the Bond prices in the secondary market. The fluctuation of the price in the market may be affected by macroeconomic processes, changes within the sector in which the Issuer operates, and they can also be affected by changes in the financial position of the Issuer or events related to its reputation. The mentioned circumstances may change the profitability of the Bonds and accordingly the profit of the Investor during the respective period of time.

8.3.3. Legislative Risk

The profitability and liquidity of the Bonds may also be affected by the legislative risk: if laws, legislative acts or rules are amended (including changes in the legislative acts concerning taxes), their implementation and observation may be related to additional costs, which in turn may decrease the profitability of the investments.

9. INFORMATION ABOUT THE ISSUER

9.1. <u>Issuer's History and Development</u>

TRASTA KOMERCBANKA was established in 1989 and its original name was Riga Bank. In 1991, the Issuer became a joint stock company, but on 27 December 1991 it was registered in the Enterprise Register of the Republic of Latvia. On 12 December of the same year the Issuer received a licence from the Bank of Latvia for carrying out all types of bank operations. In 1922, when the banking sector of the Republic of Latvia had become stable, the Association of Commercial Banks was established and the Issuer was one of the first to join.

Already at the beginning of the 90's the Issuer provided payment services and saving services, created lending programmes, carried out the first trust operations in the Republic of Latvia and provided trade finance services. In 1995, the Issuer received a new name – Trasta komercbanka. By that time the Issuer was already offering a number of new and safe solutions for the development of its customers' business.

At that time the new strategic plan of the Issuer was to specialize in services to corporate customers and operations with securities. In 1997, the Issuer became a member of the Riga Stock Exchange and the Central Depository. An active formation of the investment portfolio of the Baltic region, Russia and other countries began. After a year the Issuer was already the leader of the market.

The Issuer was the first bank in the Republic of Latvia that was able to offer share management services to rapidly growing companies. Public issue organisation was one of the most important services provided by the bank. One of the first significant projects was the organising of JSC "BALTA" first six closed issues and the first public issue.

The Issuer was the first bank in Latvia that offered remote account management services to its customers by introducing a number of modern technologies. The introduction of the internet banking Trast.Net in 1997 was a revolutionary step for the Republic of Latvia – it was the first internet bank not only in the Republic of Latvia and the whole Baltics, but also among the countries of the Commonwealth of Independent States (CIS). During this time for the convenience of the customers also the first telephone payment system in the Republic of Latvia *Telephone Bank* was created, as well as the automated modem payment system *TeleTrast*.

In 2000, the strategy of the Issuer was reconstructed and investments were allocated in order to strengthen the position within the banking sector. The development of individual services was chosen as the basis for the further development of the Issuer. Since the end of the previous century the *Private Banking* service has been carefully developed, and it provides the customers with an opportunity to receive elite services and co-operate with the Issuer as efficiently as possible.

In 200, the Issuer began opening of representative offices in other countries: in 2002 in Belarus, in 2003 in Ukraine and Russia (closed in 2006), in 2004, when the Issuer celebrated its 15th anniversary, representative offices were opened in Kazakhstan and Canada (closed in 2011), and in 2007 in Bulgaria (closed in 2009). The first branch of the Issuer was opened in Cyprus in 2006, which was followed by the opening of two branches in the regional centres of Latvia – in Liepāja and Daugavpils.

In 2004, the Issuer joined the international factoring association "Factors Chain International", becoming the first representative of Latvia in this world's leading factoring organisation. The membership in the organisation provides the opportunity to protect the interests of exporters and importers in international trade operations and offer unique individual solutions that are suited to each separate transaction, as well as financing without collateral in international export factoring operations.

In 2005, another subsidiary of the Issuer, "TKB Līzings", started operating. The leasing company was created with the goal to broaden the range of opportunities for the customers.

In 2007, the Issuer carried out its first issue of mortgage bonds in the amount of five million *euro*, which were included into secondary circulation in the Riga Stock Exchange after their initial distribution.

In 2009, the Issuer broadened its position in the Central Asia region by opening a representative office in Tajikistan. Thus, the Issuer became the first European bank to be represented in this country. The opening of this representative office is an important step on the Issuer's way to its customers and it is also an opportunity to open new fields of operation for companies of Latvia. By using the potential of Tajikistan's economic development and the financial solutions provided by the Issuer, businessmen are presented with vast export and import opportunities in a country the economy of which has been closed for western businessmen thus far. By developing the range of services in the Private Banking field, the Issuer offered its customers a new service – leasing of individual safe-deposit boxes. In 2010, TKB group expanded its geographical presence in the world, this time in East Caucasia. During September of the previous year a representative office of the Issuer's subsidiary "TKB Līzings" Ltd was registered in Azerbaijan. It consults the existing and potential customers of TKB group in Azerbaijan, as well as provides informative support to the businessmen of Latvia who are interested in business development in this region.

In 2011, TKB group continued expanding its geographical presence in the world, this time in the region of Asia. An Issuer's representative office was opened in Hong Kong, thus becoming the first Eastern European bank to be represented in this region. The Issuer's representative office consults the existing and prospective customers of TKB group in Hong Kong, as well as provides support to the businessmen of Latvia who are interested in business development in this region. The region of operation was also expanded by a member of TKB group – the subsidiary "TKB Līzings" Ltd, by creating the subsidiary CJSC "TKB Leasing" in Tajikistan in 2011, which provides leasing services within this market, where such type of financing is highly demanded.

In 2012, the Issuer offered a new electronic trading platform *TKB Trader*, which provides the customers with an opportunity to conclude transactions in the world's exchange and fund markets twenty-four hours a day. With a direct connection from a computer or a mobile phone our customers can conclude trade transactions with a single click, control their investment portfolios in real time, as well as use broad market analyses and trade idea generation possibilities. In order to broaden the region of operation of TKB group, the Bank's subsidiary "TKB Līzings" Ltd set up a subsidiary in Ukraine during the reporting year. It was established in order to support and expand the operation of TKB group in the respective country.

In 2013, thinking about additional possibilities for the Issuer's customers for mastering of new export markets, the Issuer became a member of the Latvian Chamber of Commerce and Industry (LCCI). That provides the opportunity to get acquainted with the problems and needs of exporting companies, as well as share with experience gained in concluding safe and efficient trade finance operations. In order to make the use of the electronic trading platform TKB TRADER more comfortable, the Issuer created a mobile application of the platform for users of tablets and mobile phones, which provides the opportunity to work in the world's financial markets in a comfortable, fast and simple manner by using mobile devices.

In 2014, the Issuer will celebrate its 25th anniversary, and that can be viewed as a testimony to the Issuer's experience, stability and successful operation in the Republic of Latvia and foreign financial markets. The Issuer will continue developing in accordance with its operating strategy which was approved by the Issuer's board during the 4th quarter of 2013. The Issuer will continue on developing its service by placing emphasis on the improvement and broadening of its range of services, quality of the services and deeper research of customer needs. In 2014 the Issuer is planning to pay most of its attention to the improvement of the information systems and technologies by mainly focusing on developing the internet banking website Trast.Net and the website of TKB.

9.2. Legal and Commercial Name of the Issuer

Joint Stock Company TRASTA KOMERCBANKA.

9.3. Place of Registration and Registration Number of the Issuer

The Issuer is registered with the Enterprise Register of the Republic of Latvia in Riga on 27 September 1991 under No. 000302966 and is later recorded in the Commercial Register of the Republic of Latvia with unified registration number: 40003029667.

9.4. Date of Issuer's Establishment

The Issuer was established in 1989 with the name Riga-Bank on the basis of the concluded memorandum of association.

9.5. Legal Address and Legal Form of the Issuer

Legal address of the Issuer: Miesnieku Street 9, Riga, LV-1050, telephone number: 67027777, fax: 67027700, e-mail address: info@tkb.lv, home page: www.tkb.lv. The legal form is a joint stock company.

9.6. Legislation under which the Issuer Operates and its Country of Establishment

The Issuer has licence No. 8 for the operation of a credit institution, and it allows the Issuer to carry out activities of a credit institution. The Bank of Latvia licence No. 8 for the operation of a credit institution was issued on 12 December 1991. During the three previous years the Issuer has not been a part of any legal proceedings that might significantly influence the activities and financial position of the Issuer. Country of foundation – Republic of Latvia.

9.7. Information about Recent Events of the Issuer which have Material Impact on the Evaluation of Issuer's Solvency

Since the day of publishing the last audited financial statement the Issuer does not have any information about events that could have a significant impact on the Issuer's solvency in the current or following financial periods.

9.8. Investments

The Issuer has not made any significant investments since the day of publishing the last financial statements.

10. BUSINESS OVERVIEW

The Issuer is the oldest private bank in Latvia, which offers its customers a full range of financial services by drawing a special attention to the mobility needed in the modern business world.

The principal activities of the Issuer are:

- current account servicing;
- deposits;
- payment cards;
- loans;
- trade finance;
- trust services;
- investment services;
- exchange transactions;
- precious metal accounts;
- investments in gold;
- individual safe-deposit boxes.

The Issuer takes care of the business interests of the customers so that they could be protected in different countries of the world. The representative offices of the Issuer are continuously broadening their activities in international markets, thus ensuring professional support to their customers in all types of transactions and financial operations. TKB group has opened representative offices in Russia, Belarus, Kazakhstan, Tajikistan, Azerbaijan, Hong Kong, Ukraine and a subsidiary in Cyprus, as well as two subsidiaries in regional centres of Latvia – in Liepāja and Daugavpils.

10.1. Principal Activities

10.1.1. Current Account Servicing

A multicurrency current account enables making any type of payment in euro, freely convertible currencies and also in the currencies of countries of the Commonwealth of Independent States (CIS). It can also be used for saving money of customers in different currencies.
By using a current account, customers can:

- freely carry out money transfers with euro, any freely convertible currency and also with the currencies of the countries of the Commonwealth of Independent States;
- save up money in the account and receive interest for the balance of the account;
- add money to the account without limits by making payments in cash or by transfer;
- freely convert currency;
- order the monthly salary to be transferred into the account;
- execute cheque books with the help of which the customer or a person authorised by the customer can comfortably receive money from the account.

Remote management of a current account provides a possibility to control the account and perform the needed operations in a comfortable and fast manner and at a time convenient for the customer by using safe and reliable remote service systems:

- internet bank Trast.Net;
- Telephone bank.

10.1.2. Deposits

The Issuer offers different types of deposit:

- term deposit;
- short-term deposit;
- deposit ¾;
- savings account;
- subordinated deposit.

The deposits are accepted in EUR and USD currencies.

10.1.3. Payment Cards

The Issuer offers MasterCard Maestro and Cirrus debit cards, MasterCard CLASSIC, Business and Gold credit cards. For the most demanding customers the Issuer offers the elite credit card World Elite MasterCard which is the peak of technology and the best a service can offer.

10.1.4. Loans

The well organised business of the Bank's customers foresees future development possibilities. That is why for the financial support of its customers the Issuer uses a wide range of loan services with flexible lending rules and loan repayment conditions, and provides individual consultations concerning loans. The customer may choose the most appropriate type of financing according to the chosen goal. Legal entities are offered commercial loans, overdrafts and investment loans, whereas private persons are offered mortgage loans, payment card loans and loans against securities.

Trade finance

In order for a company to function successfully nowadays it needs a steady financial flow, exclusion of risk in trade operations, as well as servicing and administration of debtors' debts. The experience and broad range of contacts of the Trade Finance Department gives the opportunity to individually solve each significant financing case by providing the customer with a safe service that helps decreasing expenses and obtaining the maximum profit. Trade finance services are as follows: factoring, letters of credit and Issuer's guarantees.

10.1.5. Trust Services

Trust operations include various property management services that are based on trust and agreement between the Issuer and the customer on the management of property handed over for trust. The Issuer offers individual investment portfolios (offered strategies – "Fixed Income", "Balanced", "Eastern European Shares", "Hedging Fund", "Fund of Funds"), placement of funds in an interbank market (in partner banks with a goal to gain higher deposit income) and fiduciaries (project financing, company share management and custody of assets).

10.1.6. Investment Services

Investments in financial instruments (shares, bonds, investment fund shares, derivatives, including options in agreements, future agreements, CFD etc.) is one of investment types that provides a lot of opportunities to earn more than when depositing money in a bank deposit. The Issuer offers a full range of services in relation to investments in financial instruments. For trading with financial instruments the Issuer offers to use electronic trading systems (for example, TKB TRADER). Issuer's services in financial instrument operations:

- broker services (operations with all types of financial instruments);
- custody services (accounting and storing of customer's financial instruments, making transaction payments, payment of dividends and interest income, processing of corporative actions);
- additional financing possibilities of the financial instrument market operations (lending against financial instrument pledge, REPO, REVERSE-REPO transactions, margin trading with financial instruments).

10.1.7. Exchange Transactions

The Issuer offers the following exchange transactions to its customers:

- TOD, TOM and SPOT transactions;
- FORWARD transactions;
- SWAP transactions;
- OPTION transactions;
- Margin trading transactions (against cover).

For currency transactions against cover the Issuer offers to use the electronic trading system TKB TRADER.

10.1.8. Investments in Gold

In order to diversify the investment risks and ensure the preservation of capital in the long term, the Issuer provides the service – investments in gold. It is an investment product for investing funds in 999.9 fine gold bars that are made in accordance with specific production, labelling and storing standards and correspond with the weight units approved in the precious metals market.

10.1.9. Individual Safe-Deposit Boxes

An individual safe-deposit box in a bank is the safest place for a customer to store personal valuables – securities, important documents, family jewellery or other valuable items. The safe-deposit boxes are located in a specially equipped certified storage room which corresponds with the newest modern security technology achievements.

10.2. Main Markets

The main operational market of the Issuer is the Republic of Latvia and other European Union member states. The customer base of the Issuer consists of different companies and private persons, European Union residents and non-residents. The market allocation of the most essential products (deposits and loans) in different dimensions has been provided below.

10.2.1. Deposit Allocation

Customer deposit geographical allocation as of 31.12.2013:

Other European Union states	26.00%
Republic of Latvia	13.82%
Russian Federation	5.70%
Other countries	54.48%
Total	**100.00%**

Customer deposit allocation by customer groups as of 31.12.2013:

Non-financial companies	79.37%
Households	19.43%
Associations and foundations servicing households	0.20%
Financial institutions	0.97%
Local governments	0.03%
Total	**100.00%**

Customer deposit allocation by the initial terms of the agreements as of 31.12.2013:

Up to 1 month	89.04%
From 1 to 3 months	1.93%
From 3 to 6 months	1.61%
From 6 months to 1 year	6.34%
From 1 to 5 years	1.08%
Total	**100.00%**

10.2.2. Loan Portfolio Allocation

Loan portfolio geographical allocation as of 31.12.2013:

Latvia	58.72%
Other European Union states	15.64%
Ukraine	10.59%
Russian Federation	3.01%
Other countries	12.04%
Total	**100.00%**

Loan portfolio allocation by customer groups as of 31.12.2013:

Private non-financial companies	69.11%
Financial institutions	15.82%
Households	13.47%
Personnel	1.60%
Total	**100.00%**

Loan portfolio allocation by economic sectors as of 31.12.2013:

Financial services	21.54%
Operations with real estate	21.00%
Retail and wholesale	11.84%
Manufacturing industry	11.51%
Transport, storage economy and communication	9.53%
Other loans of natural persons	8.39%
Loans of natural persons for housing purchase	5.91%
Construction	2.91%
Hotels and restaurants	1.87%
Extracting industry	1.59%
Agriculture, hunting, forestry and fishery	1.25%
Consumption loans of natural persons	0.76%
Other	1.90%
Total	**100.00%**

Loan portfolio allocation by types of loans as of 31.12.2013:

Commercial loans	37.05%
Mortgage loans	29.55%
Industrial loans	10.20%
Overdrafts	8.47%
Loans against customer's right to demand (factoring)	0.44%
Payment card loans	0.40%
Loans for purchasing of consumer goods	0.39%
Other	13.50%
Total	**100.00%**

Loan portfolio allocation by terms of the agreements as of 31.12.2013:

Up to 1 month	2.87%
From 1 to 3 months	15.01%
From 3 to 6 months	3.44%
From 6 months to 1 year	28.68%
From 1 to 5 years	35.49%
5 years and more	14.51%
Total	**100.00%**

Loan collateral analysis as of 31.12.2013:

Current and fixed assets	36.50%
Commercial real estate	24.88%
Apartments, residential buildings, land	20.77%
Vehicles	8.65%
Guarantees and pledges	6.96%
Securities and shares of capital	1.61%
Deposits in TKB	0.46%
Deposits in other credit institutions	0.17%
Total	**100.00%**

10.3. Issuer's Competitiveness

The market structure has a specific competitiveness level in the market which is in the range between a large number of buyers and sellers and a few or a single buyer and seller. The market structure shows what the level of competitiveness in a specific market is. The Issuer continuously follows the development in the markets that are important for it and updates the development scenarios for each of the segments of the market separately; these operations are managed by ALCO.

In 2013, the gross domestic product (GDP) of Latvia increased quite noticeably – by 4.1%. The lowest point in the economy of Latvia was marked in May of 2010, and after that a gradual recovering phase began (in 2011 the GDP of Latvia increased by 5.3%, in 2012 – by 5.2%). In European Union states, the residents of which (mainly banks) are important trading partners of the Issuer, a slow economic recovery phase began in 2013, therefore the demand for the services provided by the Issuer has slightly increased in these countries (first of all in relation to interbank loans).

The proportion of the countries of the Commonwealth of Independent States (CIS) did not exceed 12% of the Issuer's whole range of services (loans, interbank operations, deposits, investments etc.) towards the end of 2013. One of the most important markets of the Commonwealth of Independents States for the Issuer is Ukraine for which International Monetary Fund and European Union support programmes were approved, respectively in the amount of 17.01 billion US dollars and from 1.6 to 11 billion *euro* (payments respectively in the amount of 3.2 billion US dollars and 0.6 *euro* have already been received and it is planned to receive one more payment from the International Monetary Fund until August in the amount of 1.4 billion US dollars).

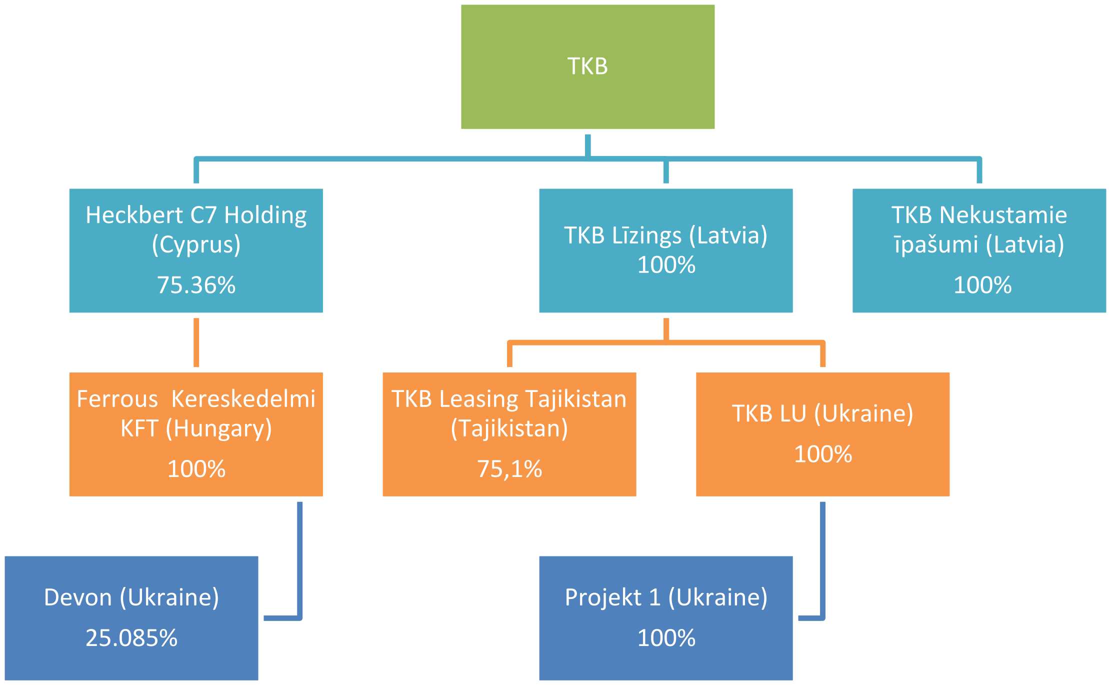
ALCO reviews development scenarios for different markets in detail and on a regular basis, once every 6 months. The Issuer analyses the scenarios and plans to use the research and forecasts of other banks and internationally recognised organisations.

In accordance with the report provided by the Association of Commercial Banks of Latvia, towards the end of the 1st quarter of 2014 the Issuer ranked 12th among the other 26 credit institutions operating in the Republic of Latvia with regard to the total amount of assets and deposits.

11. ORGANISATIONAL STRUCTURE OF THE ISSUER

11.1. Structure of TKB Group

TKB group consists of the Issuer's two branches in Latvia and a branch in Cyprus, five representative offices of the Issuer (in Kazakhstan, Tajikistan, Belarus, Ukraine, Hong Kong) and two TKBL representative offices (in Russia and Azerbaijan), three subsidiaries of the Issuer and their subsidiary undertakings according to the image below.



Heckbert C7 Holding, Ferrous Kereskedelmi KFT and Devon

"Heckbert C7 Holding", "Ferrous Kereskedelmi KFT" and "Devon" form the Issuer's a single joint investment, as neither "Heckbert C7 Holdings" nor "Ferrous Kereskedelmi KFT" conducts any business other than holding the shares of "Devon".

On 22 December 2009 the Issuer purchased 100% of "Levidi Ventures Limited" shares in the Cyprus based company "Heckbert C7 Holdings" which owns 100% of the shares of "Ferrous Kereskedelmi KFT" (Hungary) which in turn owns 25.085% of shares of the Ukraine gas company "Devon". The goal of this transaction was to obtain control over the 25.085% of "Devon" shares.

On 29 March 2012 the Issuer concluded an agreement with the company "Rabituma Limited" and sold 24.64% of "Heckbert" shares to "Rabituma Limited". Therefore during the time period from 22 December 2009 to 29 March 2012 the Issuer and "Devon" qualified as affiliated undertakings in accordance with the law "On Taxes and Fees" and the law "On Enterprise Income Tax", because the Issuer's indirect participation in "Devon" was 25.085%. The Issuer is holding this investment as available for sale and plans to sell it in the near future.

The private company "Devon" was founded in 2000 in Ukraine. The principal activities of the company include extraction of oil and natural gas and provision of relevant services, as well as wholesale of chemical products and fuel.

TKBL

JSC "TKB Līzings" (TKBL) was founded in 2002 with the goal to broaden the range of financial services offered within the Issuer's financial group by offering the customers a full spectrum of financial services. By creating the subsidiary, a leasing company, the Issuer developed a new segment of the financial market and can offer its existing and new clients comfortable and accessible financial services in the leasing and lending field.
TKBL was originally (in 2002) registered with the name "*TKB konsultāciju grupa*" and with 100% of its shares belonging to the Issuer. The initial lines of activity were: operations with real estate, law activities, accounting and audit services, provision of consultations about taxes, market and public opinion research, advertising etc. Later, in May of 2004, the Issuer made the decision to change the name of the company to "TKB Līzings", to amend the articles of association by

foreseeing new lines of activity in them that are related to financial and operating leasing, as well as to increase the company's capital and attract a new member in the amount of 25% of shares. Whereas in March of 2005 the Issuer bought back the minority shareholdings and became the only member of the company.

In order to widen its region of operation and increase the size and profitability of the portfolio, TKBL created subsidiaries and representative offices outside Latvia, and their main functions are related to servicing and consulting of existing and prospective customers of TKB group in the respective regions, as well as providing informative support to Latvian companies that are interested in business development in the respective regions. In 2006 TKBL opened a representative office in Moscow, Russia and in 2010 in Baku, Azerbaijan.

TKBL is also involved in other business activities that are not related to the provision of financial services: real estate purchasing, selling, management etc.

TKBLT

The private company "TKB Leasing Tajikistan" (TKBLT) was founded in 2011 in Tajikistan with the goal to broaden the range of financial services offered by the Issuer's and TKBL financial group by providing customers with the possibility to use leasing services in Tajikistan.

The goal of TKBLT activities is to broaden the financial leasing services market.

TKB LU and PROJEKT 1

The limited liability company "TKB LU" is a company founded by TKBL in Ukraine on 13 June 2012. The goal of its establishment is the founding of a 100% subsidiary in Ukraine that will take part in auctions of real estate that served as collateral for loans granted by the Issuer in order to protect the interests of the Issuer.

The limited liability company "PROJEKT 1" is a company founded in Ukraine on 20 August 2012. The founder of "PROJEKT 1" is "TKB LU" with a 100% capital. The goal of its establishment is to take part in auctions of real estate that served as collateral for loans granted by the Issuer in order to protect the interests of the Issuer.

TKBNĪ

The limited liability company "TKB Nekustamie īpašumi" (TKBNĪ) is a company founded in Latvia on 21 January 2005. The goal of creating TKBNĪ was to supplement the range of services provided by TKB related to loans against real estate pledge. The main activities of TKBNĪ were planned in the following fields: evaluation of real estate, investments in real estate, provision of intermediation services, purchasing and realisation of right to demand.

In 2008, a crisis started that did not allow TKBNĪ to reach its goals of activity. The reasons for that were the rapid shrinkage of the real estate market, as well as the lack of administrative resources for securing the principal activities of TKBNĪ.

The years 2011 and 2012 were unsuccessful for the economic activity of TKBNĪ. Similarly to other companies operating in this field, the company ended both years with losses and a negative equity capital. Besides, the company did not see significant changes in this field and in its activities in future, and that is why the Issuer decided to liquidate the company.

Further on this document provides no information about this company and no transactions are analysed, because the Issuer's transactions with TKBNĪ do not conform to the criteria on disclosure of information prescribed by the law of the Republic of Latvia "On Taxes and Fees".

12. INFORMATION ABOUT TRENDS

Since the day of publishing the last audited financial statement the Issuer's operational and financial prospects have not changed significantly. The Issuer has not detected trends or uncertainty factors, it does not possess knowledge about requests and liabilities, and it does not have any information about events that might significantly affect the prospects of the Issuer in the current or next financial years.

13. PROFIT FORECASTS OR ESTIMATES

The Issuer has decided not to include profit forecasts or estimates in the Base Prospectus.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

The administrative, management and supervisory bodies of the Issuer are the meeting of shareholders, council and board.

14.1. Structure of the Council

Igors Buimisters – Chairman of the Council. Address: Amatas Street 1-20, Jūrmala, LV-2008

Alfrēds Čepānis – Deputy Chairman of the Council. Address: Ievu Street 2, Garkalne District, LV-2137

Artēmijs Jeršovs – Member of the Council. Address: Kiev, Ivana Kudri 41/22-2, UA301133

14.2. Structure of the Board

Gundars Grieze – Chairman of the Board. Address: Rubeņu Street 53, Jūrmala, LV-2008

Māris Fogelis – Member of the Board, First Deputy Chairman of the Board. Address: Alberta Street 8-7, Riga, LV-1010

Viktors Ziemelis – Member of the Board, Deputy Chairman of the Board. Address: Ausekļa Street 4-8, Riga, LV-1010

Edgars Diure – Member of the Board. Address: Madaru Street 5, Katlakalns, Ķekava municipality, LV-2111

Svetlana Krasovska – Member of the Board. Address: Aleksandra Grīna Blvd 9-79, Riga, LV-1057

Tatjana Konnova – Member of the Board. Address: Tomsona Street 39 k.1-18, Riga, LV-1001

The persons mentioned in this section do not have any conflicts of interests between their duties related to the Issuer and their private interests or other duties. The Issuer observes all restrictions foreseen by the laws and regulations of the Republic of Latvia in relation to transactions with the members of the council and the board, as well as internal audit service officers in order to prevent possible conflicts of interests.

15. MANAGEMENT PRACTICE

Issuer's Audit Committee:

Hermanis Lapkovskis – Head of the Committee;
Silvija Gulbe – Member of the Committee.

The Audit Committee carries out the following tasks:

- supervising the preparation of the company's financial statements and consolidated financial statements;
- supervising the efficiency of the company's internal control and risk management system;
- supervising the course of the annual report and consolidated annual report audit prescribed by the law and prevention of deficiencies detected in the result of the audit;
- suggesting a sworn auditor for providing audit services to the company;
- verifying and supervising the independence of the sworn auditor in accordance with the law "On Sworn Auditors".

In its activities the Issuer observes the company management regime effective in the Republic of Latvia.

16. MAIN SHAREHOLDERS

In total there are 42 shareholders of which: 11 are legal entities and 31 are natural persons.

The main shareholders of the Issuer are:

No.	Shareholder (name, surname, place of registration)	Participation in share capital in percentage
1	Igors Buimisters, LV	43.21
2	C&R Invest SIA, LV	14.63
3	Charles Edward Treherne, GB	9.31
4	GCK Holdings Netherlands B.V., NL	7.42
5	Rikam S.A.H., LU	7.29

17. FINANCIAL INFORMATION ABOUT ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION, PROFIT OR LOSSES

17.1. Comparative Table of the Issuer's Two Previous Business Year's Balance Sheets, Calculation of Profits or Losses and Cash Flow

a) BALANCE SHEET

In thousands of *euro*	2013	2012
ASSETS		
Cash and due upon demand from the Bank of Latvia	88 927	102 006
Due from credit institutions with a maturity of less than 3 months	127 187	101 017
On demand	*112 327*	*88 662*
Other claims	*14 860*	*12 355*
Financial assets held for trading	2 244	1 521
Debt securities and other securities with fixed income	*2 187*	*235*
Shares and other securities with non-fixed income	-	*1 219*
Derivative financial instruments	*57*	*67*
Financial assets available for sale	25 484	35 732
Debt securities and other securities with fixed income	*25 440*	*35 688*
Shares and other securities with non-fixed income	*44*	*44*
Due from credit institutions with a maturity of more than 3 months	11 989	11 622
Loans	113 436	135 728
Accrued income and deferred expenses	242	213
Other non-current assets	3 911	3 727
Fixed assets	10 905	11 370
Intangible assets	312	329
Investments in share capital of affiliated undertakings	15 442	15 442
Deferred tax assets	403	858
Other assets	14 628	10 085
Total assets	**415 110**	**429 650**
LIABILITIES		
Due to credit institutions	5 604	4 707
On demand	*5 487*	*4 250*
Term due	*117*	*457*
Financial liabilities held for trading	-	3
Derivative financial instruments	-	*3*
Deposits	335 482	353 524
On demand	*294 349*	*266 800*
Term deposits	*41 132*	*86 724*
Accrued expenses and deferred income	953	2 006
Income tax liabilities	14	1
Other liabilities	2 915	3 677
Liabilities before subordinate liabilities	**344 968**	**363 918**

Subordinate liabilities (subordinated capital)	15 596	12 942
Total liabilities	**360 564**	**376 860**
CAPITAL AND RESERVES		
Share capital	20 642	20 642
Share premium	158	158
Reserve capital and other reserves	5 412	5 412
Revaluation reserves	20	115
Retained earnings	28 314	26 463
Total capital and reserves	**54 546**	**52 790**
Total liabilities and capital and reserves	**415 110**	**429 650**
Off-balance sheet liabilities		
Contingent liabilities	8 200	7 308
Commitments to customers	14 892	13 218
Total off-balance sheet liabilities	**23 092**	**20 526**

b) PROFITS AND LOSS ACCOUNT

In thousands of *euro*	**2013**	**2012**
Interest income	13 102	11 528
Interest expense	-3 359	-5 092
Net interest income	**9 743**	**6 436**
Losses from loan impairment, net	-9 744	-3 786
Net interest income after allowance for impairment	**-1**	**2 650**
Commission income	15 720	9 296
Commission expense	-2 442	-1 599
Net commission income	**13 278**	**7 697**
Net gains/(losses) from financial assets held for trading	552	-81
Net realised gains from financial assets available for sale	-	18
Profit from foreign currency trade and revaluation	2 888	2 682
Profit from partial disposal of subsidiary	-	404
Other income	147	2 527
Other non-interest income	**3 587**	**5 550**
Personnel expenses	-7 921	-7 230
Administrative expenses	-4 367	-4 132
Depreciation and amortisation	-919	-969
Other expenses	-824	-397
Other gains/(losses), from net value decreasing	-238	102
Other non-interest expenses	**-14 269**	**-12 626**
Profit before corporate income tax	**2 595**	**3 271**
Corporate income tax	-744	-6
Reporting year profit	**1 851**	**3 265**
Revaluation of financial assets available for sale	-95	117
Total comprehensive income	**1 756**	**3 382**

c) CASH FLOW REPORT

In thousands of *euro*	2013	2012
Cash flow as a result of operating activity:		
Profit/(loss) before corporate income tax	2 595	3 271
Amortisation/depreciation of intangible assets	919	969
Increase in allowance for impairment of loans	8 782	2 776
Foreign currency revaluation profit	-819	-349
Other assets impairment loss /(gain)	243	-263
(Gain)/loss from revaluation of financial assets	-1 251	344
Gain from disposal of other non-current assets	-	-1 899
Profit from partial disposal of subsidiary	-	-404
Loss from disposal of fixed and intangible assets	16	3
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**10 485**	**4 448**
Decrease of financial assets held for trading	223	647
(Increase)/decrease in due from credit institutions	-367	13 455
Decrease in loans	10 336	-3 840
Decrease in accrued income and deferred expense	27	125
(Increase)/decrease in other assets	-1 108	4 284
(Increase)/decrease in due to credit institutions	-340	61
(Decrease)/increase in deposits	-18 042	1 830
(Decrease)/increase in accrued expenses and deferred income	-1 053	1 103
(Decrease)/increase in other liabilities	-961	125
(Decrease)/increase in net cash flow from operational activities before taxes	**-800**	**22 238**
Income tax paid	-276	-351
(Decrease)/increase in cash and cash equivalents from operating activities	**-1 076**	**21 887**
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	-452	-182
(Increase)/decrease in financial assets available for sale	10 153	-22 258
Selling of investments in share capital of affiliated undertakings	-	5 259
Investments in other non-current assets	-185	-4 697
Proceeds from sale of other non-current assets	-	12 268
Decrease/(increase) in cash and cash equivalents from investing activities	**9 516**	**-9 610**
Cash flow from financing activities		
Subordinated liabilities issue	3 372	2 124
Subordinated liabilities repayment	-580	-
Redemption of issued bonds	-	-4 999
(Decrease)/increase in cash and cash equivalents from financing activities	**2 792**	**-2 875**
Increase in cash and cash equivalents	**11 232**	**9 402**
Cash and cash equivalents at the beginning of the reporting year	**198 772**	**189 172**
Foreign currency revaluation profit	**623**	**198**
Cash and cash equivalents at the end of the reporting year	**210 627**	**198 772**

17.2. <u>Accounting Policies</u>

The Issuer carries out accounting in accordance with the law of the Republic of Latvia "On Accounting", international accounting standards and instructions of the Bank of Latvia and FCMC.

The Issuer uses the following key principles in its accounting:

- ✓ continuity of activities – in its activities the Issuer relies on the fact that it will also continue performing them in the future;
- ✓ consistency principle – in its activities the Issuer shall use the same accounting and evaluation methods;
- ✓ accrual principle – proceeds and expenses related to the reporting period are displayed in the Issuer's profit and loss account without having regard to the date of receiving or paying them;
- ✓ precautionary principle – careful evaluation of the Issuer's assets and liabilities, i.e. the proceeds are presented when they have been obtained or obtaining of them is surely foreseeable, but the expenses are shown already when the possibility of their occurring is foreseeable, as well as all contingent losses are taken into account without having regard to the time of their occurrence;
- ✓ operations and other transactions are listed in the Issuer's balance sheet by taking into account their economic content and essence and not only the legal form.

When carrying out accounting *euro* is used as the measure of value. In cases when foreign currency is used as the measure of value for transactions, its conversion into *euro* is ensured in accordance with the *euro* reference rates provided by the European Central Bank.

17.3. <u>Notification about the Financial Information Audit</u>

The financial statements of the previous years have been audited by sworn auditors.

17.4. <u>Auditors' Report on the Financial Statement for the year 2012</u>

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Latvia

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Independent Auditors' Report

To the shareholders of JSC TRASTA KOMERCBANKA

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of JSC TRASTA KOMERCBANKA (hereinafter "the Bank"), which comprise the separate statement of financial position as on 3l December 2012, the separate statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 89. We have also audited the accompanying consolidated financial statements of JSC TRASTA KOMERCBANKA and its subsidiaries (hereinafter "the Group"), which comprise the consolidated statement of financial position as on 3l December 2012, the consolidated statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 89.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the separate financial position of JSC TRASTA KOMERCBANKA as on 31 December 2012, and of its separate financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of JSC TRASTA KOMERCBANKA and its subsidiaries as on 31 December 2012, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matters

The respective previous period comparative information is based on the separate financial statements of the Bank and consolidated financial statements of the Group for the year that ended on 31 December 2011 and that were audited by other auditors who expressed a qualified opinion on those statements on 3 April 2012 due to inability to obtain sufficient audit evidence as to the adequacy of impairment allowance for the investment stated at LVL l4.l million and LVL 13.8 million in consolidated and separate financial statements respectively as on 31 December 2011 and loan receivable stated at LVL 1.7 million as on 31 December 2011. The audit report also included an emphasis of matter drawing attention to the disclosures describing the assumptions used by the Group and the Bank in assessment of continuation of operations under the new capital adequacy requirements.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages from 3 to 4, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate financial statements of the Bank and consolidated financial statements of the Group. In our opinion, the Management Report is consistent with the financial statements.

KPMG Baltics SIA
Licence No. 55

Ondrej Fikle
Partner pp KPMG Baltics SIA
Riga, Latvia
28 February 2013

Inga Lipšāne
Sworn Auditor
Certificate No. 112

17.5. Auditors' Report on the Financial Statement for the year 2013

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Riga, LV-1013	Website	www.kpmg.lv
Latvia		

Independent Auditors' Report

To the shareholders of JSC TRASTA KOMERCBANKA

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of JSC TRASTA KOMERCBANKA (hereinafter "the Bank"), as set out on pages 9 to 89. The separate financial statements comprise the separate statement of financial position as on 3l December 2013, the separate statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes within the appendixes. We have also audited the accompanying consolidated financial statements of JSC TRASTA KOMERCBANKA and its subsidiaries (hereinafter "the Group"), as set out on pages 9 to 89. The consolidated financial statements comprise the consolidated statement of financial position as on 3l December 2013, the consolidated statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes within the appendixes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

Emphasis of Matter

Without expressing a qualified opinion we call attention to Subparagraph 25 of Appendix 2 to the separate and consolidated financial statements which contains information about the political and economic situation in Ukraine and the management's judgment on the possible impact of events in Ukraine on the Bank's and Group's activities and financial statements for the year ended 31 December 2013.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages from 3 to 4, the preparation of which is the responsibility of management, is consistent with the separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate and consolidated financial statements. In our opinion, the Management Report is consistent with the financial statements.

Ondrej Fikle
Partner pp KPMG Baltics SIA
Riga, Latvia
28 March 2014

Inga Lipšāne
Sworn Auditor
Certificate No. 112

17.6. <u>Financial Statements</u>

The Issuer's consolidated financial statements for the years ended on 31 December of 2012 and 2013 are included in Appendices No. 1 and No. 2 respectively.

The functional currency of the Issuer and the accounting currency of TKB group was the Latvian lat ("LVL") until 1 January 2014. These financial reports are prepared in thousands of lats (LVL 000). On 1 January 2014 the Republic of Latvia introduced *euro* as the national currency. The transition from lats to *euro* was made in accordance with the official exchange rate 0.702804 LVL/EUR. On this date all of the cash balances of TKB group and the Issuer in lats were converted into *euro* in accordance with the official exchange rate. The *euro* changeover did not directly affect the comprehensive income of TKB group and the Issuer.

17.7. <u>Interim Financial Information</u>

The Issuer has prepared and published a condensed financial statement for the first quarter of 2014. The respective statement is further on presented in the form of a comparative table together with the report for the first quarter of 2013 respectively.

These quarterly statements have not been audited by a sworn auditor.

The Issuer's interim condensed financial statements for the period ended on 31 March 2014 are included in Appendix No. 3.

17.8. <u>Legal and Arbitration Proceedings</u>

The Issuer is not involved in any legal proceedings that could have a significant impact on its financial position and profitability.

17.9. <u>Significant Changes in Issuer's Financial or Commercial Position</u>

The Issuer's financial indicators have not changed significantly since the publishing of the consolidated statement for 2013 and interim statement for the first quarter of 2014.

18. ADDITIONAL INFORMATION

18.1. Information about the Issuer's Capital

On the day of approving the Prospectus the Issuer's registered and paid-up share capital amounts to EUR 20,641,316. It consists of 20,641,316 shares and the face value of each share is EUR 1.

The paid-up capital:

Share capital	Paid
Share category	With right to vote
Type of share	Ordinary, registered
Share face value, EUR	1 EUR
Number of securities	20,641,316
In total, EUR	20,641,316

All shares are fully paid up. On the day of approving this Prospectus the Issuer had not repurchased and did not own any of its shares.

18.2. Memorandum of Association and Articles of Association

The Issuer is a joint stock company.

The Issuer operates in accordance with the laws and regulations of the Republic of Latvia, including the Commercial Law and Credit Institutions Law of the Republic of Latvia, and the Issuer's Articles of Association.

The Issuer was founded in 1989 with the name Riga-Bank in accordance with the concluded memorandum of association.

The Issuer is registered with the Enterprise Register of the Republic of Latvia in Riga on 27 September 1991 under No. 000302966 and is later recorded in the Commercial Register of the Republic of Latvia with e unified registration number: 40003029667.

Legal address of the Issuer: Miesnieku Street 9, Riga, LV-1050, telephone number: 67027777, fax: 67027700, e-mail address: info@tkb.lv, home page: www.tkb.lv.

The Issuer has licence No. 8 for the operation of a credit institution, and it allows the Issuer to carry out activities of a credit institution. The Bank of Latvia licence No. 8 for the operation of a credit institution was issued on 12 December 1991. During the three previous years the Issuer has not been a part of any legal proceedings that might significantly influence the activities and financial position of the Issuer.

19. MATERIAL CONTRACTS

19.1. Assurance to the Investors

The Issuer and its subsidiaries have not entered into any material contracts stipulating such responsibilities or liabilities to the Issuer which might affect the Issuer's ability to meet its liabilities to the investors in relation to the issuable securities.

20. DOCUMENTS AVAILABLE TO THE COMPANY

20.1. <u>Possibility for Getting Acquainted with the Documents</u>

Investors, potential investors and other members of the company have the possibility to get acquainted with the following documents:

- Issuer’s memorandum of association and Articles of Association in the Enterprise Register of the Republic of Latvia in Riga, Pērses Street 2;
- Issuer’s financial information about the two financial years before publishing the Prospectus on the Issuer’s home page www.tkb.lv.

21. LIST OF APPENDED DOCUMENTS

Appendix:

1. JSC TRASTA KOMERCBANKA Consolidated Financial Statements for the Year Ended on 31 December 2012 and Auditors' Report.

2. JSC TRASTA KOMERCBANKA Consolidated Financial Statements for the Year Ended on 31 December 2013 and Auditors' Report

3. JSC TRASTA KOMERCBANKA Condensed Financial Statements for the First Quarter of 2014.

TRASTA KOMERCBANKA

JSC "TRASTA KOMERCBANKA"
FINANCIAL STATEMENTS AND
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS AS ADOPTED BY EU
FOR THE YEAR ENDED 31 DECEMBER 2012
AND INDEPENDENT AUDITORS' REPORT

CONTENTS **PAGE**

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

In 2012, Latvia's economy featured upward trends. The country's GDP last year reached 5,5% exceeding even the most positive forecasts of 1.3 – 3% growth given at the beginning of the year. Such GDP growth was due to the positive dynamics which in all key sectors – trade, manufacturing, construction, transport and storage showed though in different proportions. Despite the recession which began in the European Union and the euro zone in the second half of 2012, for the economy of Latvia year 2013 is projected as a year of positive growth - its GDP forecast ranges between 3-5%. In 2012, the inflation rate in Latvia shrank from 4.4% to 2.3%, and the unemployment rate fell from 12.9% to 10.5%.

The improvement of country's financial performance should also be noted: in 2012, Latvia's general budget deficit contracted to only 1.5% of GDP, and in accordance with preliminary estimates, last year Latvia managed to stabilize its debt at 44% of GDP (in 2012, tax revenues by 2% exceeded the plan receipts). The current account deficit was also insignificant - about 1.8% of GDP. In addition, in December 2012, Latvia managed to prematurely extinguish its debt to the IMF by realizing successfully new government bonds in the international financial markets. The performance of Latvian financial sector in 2012, as a whole, was characterized by profitability, high liquidity and capital adequacy levels, and increased share of timely repaid loans in the loan portfolios of banks. Taking into account the Latvia's economic development rates, the international rating agencies Standard & Poor's and Fitch Ratings upgraded the country's credit rating last year - in November 2012, both agencies raised Latvia's long-term credit rating to BBB with a positive outlook.

In 2012, Bank's activities were also characterized by positive dynamics. The Bank ended the year with a profit of 2.3 million lats, thus increasing its capital. The Bank's subordinated capital last year amounted to 9.1 million lats. Last year the volume of Bank's assets reached 302.0 million lats, which is by 5.1 million more compared to the end of 2011. The volume of attracted deposits last year increased by 1.3 million lats, and amounted to 248.5 million lats, but the Bank's customer base increased by 12% (retail clients - by 10.1%). The Bank's loan portfolio in the reporting year decreased by 2.6 million lats, but the amount of loans allowance shrank from 13.1% to 11.1%. The Bank has decided not to distribute the profit of 2012, but include the entire profit in the calculation of Bank's capital adequacy.

At the end of 2012, the Bank's capital adequacy and liquidity ratios were accordingly 16.22% and 78.44%, exceeding the required standards and fully ensuring compliance with the Bank's current obligations. It should be noted that in December, 2012, the Bank redeemed the mortgage bonds issued in 2007 in the amount of 3.5 million lats.

The Group's assets at the year end amounted to 304.2 million lats, which is by 8.5 million lats more than the end balance of 2011. The Group ended year 2012 with a profit of 1.2 million lats. By expanding the Group's business region during the reporting year, the Bank's subsidiary company "TKB Līzings" has established subsidiaries in Ukraine. The purpose of its establishment is to provide support and to develop Group's activities in this country. The information about the Bank's group is provided in Note 25 of this report.

In 2012, the Bank continued to maintain the high standards of customer service and quality of payments. Last year, the Bank was appreciated again by the correspondent banks - Germany's biggest bank Deutsche Bank and Commerzbank, and the Bank received yet another award for excellent quality of its transfers. Following the global development tendencies, the Bank's technologies were upgraded in order to provide customers with convenient service and increased safety in the funds management. The Bank introduced a number of new technological solutions, including improvements to the TKB Internet system Trast.Net, offering customers the opportunity to make regular payments and an improved system for receiving account statements

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY) (continued)

Last year, the Bank offered its customers a new electronic trading platform *Trader TKB*, enabling customers to do business around the clock in the global currency and stock markets. With a direct connection from a personal computer or mobile phone our customers are now able to enter into commercial transactions with a single click, to monitor their investment portfolios in real time, and to use the extensive market analysis and trade ideas generation options.

In 2013, the Bank intends to go on supporting its customers in their business development and to extend its wealth management offers, including investment services and trust management services. The Bank will offer its customers new alternative investment products and new payment cards with a wide range of exclusive privileges.

This report is available on the Bank's Internet page at www.tkb.eu.

These financial statements were approved by the Board of the Bank on 27 February 2013 and by the Council of the Bank on 28 February 2013. According to the legislation of the Republic of Latvia the financial report of the Bank is subject to approval at a meeting of shareholders.

On behalf of the Bank's management:

____________________	____________________
Igors Buimisters	Gundars Grieze
Chairman of the Council	Chairman of the Board

Riga, Latvia
28 February 2013

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

Bank's management (Group's holding company) is responsible for preparation of consolidated financial statements and the separate financial statements, which fairly and truly present the Groups' and the Bank's financial standing as at the end of the financial year and the results of its activity and cash flow for that year, preparation according to the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 9 to 89 for the period from 1 January 2012 to 31 December 2012 have been prepared consistently applying relevant accounting methods and the management's judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared based on a going concern concept basis. The Management Report on pages 3 to 4 presents an explicit account on the development and performance of the Group and Bank's activities, as well as main risks and unclear conditions of the activities.

The Bank's management is responsible for proper keeping of accounting records, for safeguarding of the Group's and the Bank's assets and for prevention of any fraudulent actions. They are also responsible for managing the Group and the Bank in compliance with the Credit Institution Law of the Republic of Latvia, regulatory enactments of the Bank of Latvia and the Financial and Capital Market Commission and other applicable laws and regulations of the Republic of Latvia

On behalf of the management,

__________________	__________________
Igors Buimisters	Gundars Grieze
Chairman of the Council	Chairman of the Board

Riga, Latvia
28 February 2013

MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

Supervisory Council

Name, surname	Positions	Date of appointment
Igors Buimisters	Chairman of the Council	24.03.2006, reappointed 07.10.2010
Alfrēds Čepānis	Vice-chairman of the Council	30.03.1999, reappointed 07.10.2010
Igor Snisarevski	Member of the Council	07.10.2010

During the current year no changes in the Supervisory Council occurred.

Management Board

Name, surname	Positions	Date of appointment
Gundars Grieze	Chairman of the Board	28.06.1999, reappointed 29.03.2012
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reappointed 29.03.2012
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reappointed 29.03.2012
Svetlana Krasovska	Member of the Board	24.10.1995, reappointed 29.03.2012
Tatjana Konnova	Member of the Board	23.03.2006, reappointed 29.03.2012

During the current year no changes in the Management Board occurred.

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Latvia

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Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of TRASTA KOMERCBANKA AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of TRASTA KOMERCBANKA AS ("the Bank"), which comprise the separate statement of financial position as at 31 December 2012, the separate statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 89. We have also audited the accompanying consolidated financial statements of TRASTA KOMERCBANKA AS and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 89.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of TRASTA KOMERCBANKA AS as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of TRASTA KOMERCBANKA AS and its subsidiaries as at 31 December 2012, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matters

The separate financial statements of the Bank and consolidated financial statements of the Group as at and for the year ended 31 December 2011 were audited by another independent auditor who expressed a qualified opinion on those statements on 3 April 2012 due to inability to obtain sufficient audit evidence as to the adequacy of impairment allowance for the investment stated at LVL 14.1 million and LVL 13.8 million in consolidated and separate financial statements respectively as at 31 December 2011 and loan receivable stated at LVL 1.7 million as at 31 December 2011. The audit report also included an emphasis of matter drawing attention to the disclosures describing the assumptions used by the Group and the Bank in assessment of continuation of operations under the new capital adequacy requirements.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages from 3 to 4, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Bank and Group. In our opinion, the management report is consistent with the financial statements.

KPMG Baltics SIA
Licence Nr. 55

Ondrej Fikrle
Partner pp, KPMG Baltics SIA
Riga, Latvia
28 February 2013

Inga Lipšāne
Sworn Auditor
Certificate No 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

BANK'S STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of lats	Note	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Interest income	3	8 204	7 231	8 102	7 138
Interest expense	4	(3 566)	(3 606)	(3 579)	(3 624)
Net interest income		**4 638**	**3 625**	**4 523**	**3 514**
Loan impairment loss, net	12	(2 750)	(666)	(2 661)	(408)
Net interest gain after allowance for impairment		**1 888**	**2 959**	**1 862**	**3 106**
Commission income	5	6 531	5 390	6 533	5 383
Commission expense	6	(1 125)	(1 039)	(1 124)	(1 038)
Net commission income		**5 406**	**4 351**	**5 409**	**4 345**
Dividends		-	2	-	2
Net loss from trading financial assets	7	(57)	(389)	(57)	(389)
Realised gain from available-for-sale financial assets		13	2	13	2
Net gain from foreign currency trading and revaluation	8	1 908	1 412	1 885	1 435
Gain on partial disposal of subsidiary	25, (3)	-	-	284	-
Gain/(loss) from equity accounted investee	25, (3)	287	(503)	-	-
Other income	9	543	132	1 776	97
Other non-interest income		**2 694**	**656**	**3 901**	**1 147**
Salaries and benefits expenses	10	(5 280)	(4 925)	(5 081)	(4 759)
Administrative expenses	11	(2 804)	(3 014)	(2 904)	(3 137)
Depreciation and amortisation	24	(689)	(759)	(681)	(751)
Other expenses		(310)	(426)	(279)	(410)
Other impairment reversal/(loss), net		105	(270)	72	(554)
Other non-interest expense		**(8 978)**	**(9 394)**	**(8 873)**	**(9 611)**
Profit/(loss) before corporate income tax		**1 010**	**(1 428)**	**2 299**	**(1 013)**

BANK'S STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of lats	Note	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Income tax expense	13	179	(738)	(4)	(722)
Profit/(loss) for the year		**1 189**	**(2 166)**	**2 295**	**(1 735)**
Other comprehensive income:					
Available for sale financial asset revaluation profit		82	5	82	5
Change in foreign currency translation reserve		(383)	84	-	-
Total comprehensive income/(loss)		**888**	**(2 077)**	**2 377**	**(1 730)**

	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Profit/(loss) for the year, incl.:	***1 189***	***(2 166)***	***2 295***	***(1 735)***
Attributable to equity holders of the Bank	*1 086*	*(2 163)*	*2 295*	*(1 735)*
Attributable to non-controlling interest	*103*	*(3)*	*-*	*-*
Total comprehensive income/(loss), incl.:	***888***	***(2 077)***	***2 377***	***(1 730)***
Attributable to equity holders of the Bank	*772*	*(2 074)*	*2 377*	*(1 730)*
Attributable to non-controlling interest	*116*	*(3)*	*-*	*-*

On behalf of the management,

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 February 2013

BANK'S STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSISITION

In thousands of lats	Note	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
ASSETS					
Cash and balances due from the Bank of Latvia	15	71 690	67 322	71 690	67 322
Due from credit institutions with a maturity of less than 3 months	16	71 007	66 095	70 995	66 090
On demand		*62 324*	*54 965*	*62 312*	*54 960*
Other		*8 683*	*11 130*	*8 683*	*11 130*
Held for trading financial assets		1 069	1 619	1 069	1 619
Fixed income securities	17, (1)	*165*	*496*	*165*	*496*
Equity shares and other non-fixed income securities	17, (2)	*857*	*1 057*	*857*	*1 057*
Derivatives	18	*47*	*66*	*47*	*66*
Available for sale financial assets		25 113	9 388	25 113	9 388
Fixed income securities	19, (1)	*25 082*	*9 338*	*25 082*	*9 338*
Equity shares and other non-fixed income securities	19, (2)	*31*	*50*	*31*	*50*
Due from credit institutions with a maturity of more than 3 months	20	8 168	17 624	8 168	17 624
Loans	21	85 496	93 940	95 390	95 490
Accrued income and deferred expenses	22	152	140	150	139
Other non-current assets	23	9 910	6 605	2 619	6 605
Property and equipment	24	8 017	8 467	7 991	8 458
Intangible assets	24	231	319	231	319
Investment in share capital of subsidiaries	25	-	-	10 853	14 265
Investment in equity accounted investee	25, (3)	14 106	14 109	-	-
Income tax assets	13, (3)	17	-	-	-
Deferred tax assets	13, (4)	803	364	603	364
Other assets	26	8 373	9 680	7 088	9 217
TOTAL ASSETS		**304 152**	**295 672**	**301 960**	**296 900**

On behalf of the management,

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 February 2013

BANK'S STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of lats	Note	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
LIABILITIES					
Due to credit institutions	27	3 308	739	3 308	739
On demand		*2 987*	*461*	*2 987*	*461*
Term deposits		*321*	*278*	*321*	*278*
Held for trading financial liabilities	18	2	1	2	1
Derivatives		*2*	*1*	*2*	*1*
Due to customers	28	248 300	246 903	248 458	247 172
On demand		*187 350*	*164 853*	*187 508*	*165 122*
Term deposits		*60 950*	*82 050*	*60 950*	*82 050*
Debt securities issued	29	-	2 808	-	3 513
Accrued expenses and deferred income	30	1 436	656	1 410	635
Income tax liabilities	13, (3)	2	13	1	5
Other liabilities	31	3 020	2 481	2 584	2 444
Liabilities before subordinated liabilities		**256 068**	**253 601**	**255 763**	**254 509**
Subordinated liabilities	32	9 096	7 667	9 096	7 667
Total liabilities		**265 164**	**261 268**	**264 859**	**262 176**
EQUITY AND RESERVES					
Share capital	33, (1)	14 507	14 507	14 507	14 507
Share premium		111	111	111	111
Reserve capital and other reserves	33, (2)	4 361	3 804	3 804	3 804
Revaluation and retranslation reserves		908	1 483	81	(1)
Retained earnings		15 575	14 489	18 598	16 303
Equity and reserves attributable to shareholders of the Bank		**35 462**	**34 394**	**37 101**	**34 724**
Non-controlling interest		3 526	10	-	-
Total equity and reserves		**38 988**	**34 404**	**37 101**	**34 724**
TOTAL LIABILITIES AND EQUITY AND RESERVES		**304 152**	**295 672**	**301 960**	**296 900**

On behalf of the management,

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 February 2013

BANK'S STATEMENT OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES

(1) The Group

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial assets revaluation reserves	Foreign exchange translation reserve	Retained earnings	Total	Non - controlling interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2010	**7 049**	**111**	**3 804**	**(6)**	**1 400**	**16 652**	**29 010**	**-**	**29 010**
Net loss for the year	*-*	*-*	*-*	*-*	*-*	*(2 163)*	*(2 163)*	*(3)*	*(2 166)*
Other comprehensive income	*-*	*-*	*-*	*5*	*84*	*-*	*89*	*-*	*89*
Total comprehensive loss	-	-	-	5	84	(2 163)	(2 074)	(3)	(2 077)
Establishment of a subsidiary with non-controlling interest	-	-	-	-	-	-	-	13	13
Issue of share capital	7 458	-	-	-	-	-	7 458	-	7 458
BALANCE AS AT 31 DECEMBER 2011	**14 507**	**111**	**3 804**	**(1)**	**1 484**	**14 489**	**34 394**	**10**	**34 404**
Net profit for the year	*-*	*-*	*-*	*-*	*-*	*1 086*	*1 086*	*103*	*1 189*
Other comprehensive profit (loss)	*-*	*-*	*-*	*82*	*(396)*	*-*	*(314)*	*13*	*(301)*
Total comprehensive income	-	-	-	82	(396)	1 086	772	116	888
Sale of shares in subsidiary to non-controlling interests without a change in controls	-	-	557	-	(261)	-	296	3 400	3 696
BALANCE AS AT 31 DECEMBER 2012	**14 507**	**111**	**4 361**	**81**	**827**	**15 575**	**35 462**	**3 526**	**38 988**

BANK'S STATEMENT OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES (continued)

(2) The Bank

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2010	**7 049**	**111**	**3 804**	**(6)**	**18 038**	**28 996**
Net loss for the year	*-*	*-*	*-*	*-*	*(1 735)*	*(1 735)*
Other comprehensive income	*-*	*-*	*-*	*5*	*-*	*5*
Total comprehensive loss	-	-	-	5	(1 735)	(1 730)
Issue of share capital	7 458	-	-	-	-	7 458
BALANCE AS AT 31 DECEMBER 2011	**14 507**	**111**	**3 804**	**(1)**	**16 303**	**34 724**
Net profit for the year	*-*	*-*	*-*	*-*	*2 295*	*2 295*
Other comprehensive income	*-*	*-*	*-*	*82*	*-*	*82*
Total comprehensive income	-	-	-	82	2 295	2 377
BALANCE AS AT 31 DECEMBER 2012	**14 507**	**111**	**3 804**	**81**	**18 598**	**37 101**

On behalf of the management,

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 February 2013

BANK'S STATEMENT OF CASH FLOWS AND CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of lats	Note	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Cash flows arising from operations:					
Profit/(loss) before corporate income tax		1 010	(1 428)	2 299	(1 013)
Depreciation and amortisation		689	759	681	751
Increase/(decrease) in allowance for impairment of loans		2 040	(523)	1 951	(781)
Foreign currency revaluation loss/(profit)		(360)	310	(245)	291
Change in other provisions		(188)	274	(185)	272
Financial assets revaluation loss		242	88	242	373
Gain on disposal of other non-current assets		-	-	(1 335)	-
Gain from partial disposal of subsidiary		-	-	(284)	-
Gain/(loss) from investment in equity accounted investee		(287)	503	-	-
Loss on disposal of property and equipment		9	5	2	5
Net cash flows from operating activities before changes in assets and liabilities		**3 155**	**(12)**	**3 126**	**(102)**
Decrease in held for trading financial assets, net		455	325	455	325
Decrease /(increase) in due from credit institutions		9 456	(16 959)	9 456	(16 959)
Decrease /(increase) in loans		5 556	(1 568)	(2 699)	(1 208)
Decrease /(increase) in accrued income and deferred expense		87	(145)	88	(147)
Decrease /(increase)in other assets		2 192	(2 609)	3 011	(2 448)
Decrease in due to credit institutions		43	251	43	251
Increase in due to customers		1 397	71 975	1 286	72 243
Increase in accrued expenses and deferred income		780	153	775	142
Increase/(decrease) in other liabilities		487	(1 230)	88	(1 238)
Net cash flows from operating activities before tax		**23 608**	**50 181**	**15 629**	**50 859**
Income tax paid		(288)	(181)	(247)	(193)
Net cash flows from operating activities		**23 320**	**50 000**	**15 382**	**50 666**
Cash flows arising to investing activities:					
Purchase of property and equipment and intangible assets		(160)	(272)	(128)	(279)
Increase in available for sale financial assets		(15 643)	(1 423)	(15 643)	(1 423)
Sale/(purchase) of investments in share capital of subsidiaries		-	-	3 696	(650)
Purchase of other non-current assets		(3 305)	(2 213)	(3 301)	(2 213)
Proceeds from sale of other non-current assets		-	-	8 622	-
Net cash flows from investing activities		**(19 108)**	**(3 908)**	**(6 754)**	**(4 565)**

BANK'S STATEMENT OF CASH FLOWS AND CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of lats	Note	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Cash flows arising from financing activities:					
Subordinated debt issue		1 493	2 887	1 493	2 887
Debt securities redemption		(2 808)	-	(3 513)	-
Sale of shares in subsidiary to non-controlling interests		3 696	13	-	-
Issue of share capital		-	7 458	-	7 458
Net cash flows from financing activities		**2 381**	**10 358**	**(2 020)**	**10 345**
Increase/(decrease) in cash and cash equivalents		**6 593**	**56 450**	**6 608**	**56 446**
Cash and cash equivalents at the beginning of the year		**132 956**	**76 558**	**132 951**	**76 558**
Foreign exchange profit/(loss)		**161**	**(52)**	**139**	**(53)**
Cash and cash equivalents at the end of the year	**37**	**139 710**	**132 956**	**139 698**	**132 951**

On behalf of the management,

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 February 2013

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AS "Trasta Komercbanka" (the Bank) has been registered as a joint stock company, in the Latvian Register of Companies with the identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

The Bank has five representative offices outside Latvia, i.e. in Hong Kong, Kazakhstan, Tajikistan, Ukraine and Belarus. Their mission is to represent interests of the Bank in the respective countries, maintain relations with the Bank customers and provide them with necessary information. The Bank has a foreign branch in Cyprus and two branches in Latvia – in Liepaja and Daugavpils. Their functions incorporate provision of financial services to customers of the Bank.

The Bank's consolidation group (the Group) consists of the Bank, and its subsidiaries TKB Nekustamie īpašumi, TKB Līzings, subsidiary "Heckbert C7 Holdings" together with its subsidiary "Ferrous Kereskedelmi KFT". Services provided by SIA TKB LĪZINGS and SIA TKB NEKUSTAMIE ĪPAŠUMI extend the range of Bank's services. SIA TKB LĪZINGS has two registered representative offices abroad, i.e. in Russia and in Azerbaijan, and at the beginning of July 2011 it incorporated a subsidiary in Tajikistan SAS TKB Līzings Tadžikistāna (ТКБ ЛИЗИНГ ТОЧИКИСТОН). In 2012, SIA TKB LĪZINGS registered another subsidiary in Ukraine TKB LU LLC and its subsidiary PROJEKT 1 LLC, whose main activities are related to real estate operations and property management. Further information on the Bank's subsidiaries is provided in Note 25 herein.

These financial statements were approved by the Board of the Bank on 27 February 2013 and by the Council of the Bank on 28 February 2013. According to the legislation of the Republic of Latvia the financial statements of the Bank are subject to approval of the meeting of shareholders. The shareholders have the power to reject the financial statements, and the right to request that new financial statements be issued.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS

(1) General principles

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Bank is subject to the Law on Credit Institutions of the Republic of Latvia and the regulatory requirements of the Bank of Latvia, Financial and Capital Market Commission, and other regulations of the Republic of Latvia applicable to credit institutions. These regulations govern, among other things, capital adequacy, liquidity and the Bank's open foreign currency position.

The Bank maintains its accounting records in compliance with "The Law on Accounting" of the Republic of Latvia and instructions provided by the Financial and Capital Market Commission that comply with the legislation of the Republic of Latvia and International Financial Reporting Standards as adopted by EU.

The consolidated and separate financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held for trading and available-for-sale investments that have been measured at fair value except for those whose fair value cannot be reliably estimated.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations

Standards issued but not yet effective and not early adopted

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2012 and have not been applied in preparing these financial statements:

Amendments to IFRS 7 and IAS 32 on Offsetting Financial Assets and Financial Liabilities:

Amendments to IFRS 7 Disclosures (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

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

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). IFRS 10 provides a single model to be applied in the control analysis for all other investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

(1) it is exposed or has rights to variable returns from its involvements with the investee;
(2) it has the ability to affect those returns through its power over that investee; and
(3) there is a link between power and returns.

The new IFRS 10 also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements.

Under the new IFRS 11, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- ✓ a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- ✓ a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. IFRS 11 eliminates the free choice of equity accounting or proportionate consolidation; the equity method must always be used in financial statements.

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The impact of the initial application of the new standards will depend on the specific facts and circumstances of the investees and joint arrangements of the Group held at the date of initial application. Therefore, it is not practicable to prepare an analysis of the impact the standards will have on the financial statements until the date of the application.

IFRS 13 Fair Value Measurement (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The Group and Bank do not expect IFRS 13 to have a material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13 in material terms.

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively). The amendments:

- ✓ require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections;
- ✓ change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the Group were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: LVL 82 thousand recognised in the Available for sale financial assets revaluation reserve and LVL 383 thousand loss recognised in the Foreign exchange translation reserve. If the Bank were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: Available for sale financial assets revaluation amounted LVL 82 thousand.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendments are not relevant to the Group's and Bank's financial statements, since the Group and Bank do not have any investment properties measured using the fair value model in IAS 40.

IAS 19 (2011) Employee Benefits (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendments are not relevant to the Group's and Bank's financial statements, since the Group and Bank do not have any defined benefit plans.

IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014) introduces minor clarifications. The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements The Bank does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the Bank's accounting policy.

IAS 28 (2011) Investments in Associates and Joint Ventures (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). There are limited amendments made to IAS 28 (2008):

- ✓ Associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- ✓ Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Group and Bank do not expect the amendments to Standard to have material impact on the financial statements since the Group and Bank do not have any investments in associates or joint ventures that will be impacted by the amendments.

(3) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements in accordance with IAS 27 and IAS 28. The data on subsidiaries of the Bank is provided in Note 25. The consolidation was based on control over the subsidiaries, which resulted from the majority of rights to vote in the subsidiaries.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(3) Consolidation principles (continued)

When preparing the consolidated financial statements, their items were evaluated in accordance with the uniform accounting policies, which are used by the Group consistently from year to year in conformity with International Financial Reporting Standards as adopted by the European Union and the Financial and Capital Market Commission regulations on preparation of Bank's financial statements. If any of the accounting policies used by the subsidiaries differ from those applied by the Bank, the financial statements of the subsidiaries are adjusted for consolidation purposes. The financial statements of the subsidiaries were included in the Group's consolidated financial statements applying the method of full consolidation.

Non-controlling interest is the interest in subsidiaries not held, directly or indirectly, by the Bank. Non-controlling interest at the end of reporting period represents the non-controlling shareholders' portion of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the non-controlling shareholders' portion of movements in equity since the date of the combination. Non-controlling interest is presented within equity.

The Bank's and the Group's annual financial statements are reported in the currency of the Republic of Latvia – **the Lat**. All amounts in the financial statements are specified in **thousands of Lats** unless otherwise stated.

All information in Bank's and Group's financial statements contains comparatives with previous year. Should the difference between information about the Group and respective information about the Bank be insignificant, such information about the Group is not separately presented.

Investments in associates (equity-accounted investees).

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 percent and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for under the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Loss of control

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

Disposals not involving the loss of control

Partial disposals of subsidiaries to non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(4) Foreign currency translation

Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into lats using the official Bank of Latvia exchange rates at the period end. Transactions denominated in foreign currencies are translated into the functional currency (Latvian lat) using the official Bank of Latvia exchange rate on the date of the transaction. To arrive at the exchange rates for currencies that Bank of Latvia does not quote an official exchange rate Financial Times published rates are used (http://markets.ft.com/research/Markets/Data-Archive).

Gains and losses from currency exchange rate revaluation are included in the income statement for the period under Net gain from foreign currency trading and revaluation. The exchange rates applied at the period end for the principal currencies are as follows:

		31.12.2012	31.12.2011
LVL 1 =	USD	1.883	1.838
	EUR	1.423	1.423
	GBP	1.167	1.190
	RUB	57.471	58.824

Foreign operations

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

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

(5) Income and expense recognition

The accounting procedure of the Group's and Bank's income and expense is based on the accrual principles.

Interest income and expense is recognised using the effective interest method.

Dividends are recognised in the period of income statement when the Bank or the Group obtain the right to receive them, namely, it has been assigned the right as a shareholder to receive dividends.

Commission income and expenses are recognised in the income statement as services are provided or on the execution of a significant transaction, as applicable.

Unrealised gains and losses on Available-for-Sale Financial Assets are recognised in the statement of comprehensive income as other comprehensive income , except for impairment losses and foreign exchange gains and losses for fixed income securities (monetary items), until the moment when the financial asset is derecognised, and when before in the other comprehensive income gain or loss is recognised as income or loss. Interest calculated using the effective interest method is recognised in the income statement. Dividends on an available-for-sale equity instrument are recognised as comprehensive income or loss in comprehensive income statement when the right to receive payment is established.

Income gained from disposal of other assets is recognised provided that the following conditions are met:

- ✓ the Bank or the Group has transferred to the buyer all significant risks and rewards of ownership of these assets;
- ✓ the Bank or the Group retains neither continuing rights usually associated with ownership nor effective control over the sold assets;
- ✓ the amount of revenue can be estimated reliably;
- ✓ it is probable that the Bank or the Group will receive the economic benefits related to the transaction;
- ✓ expenses, which have been or will be incurred, can be measured reliably.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(6) Classification of financial assets

Financial assets are classified into the following categories: *financial assets at fair value are recognised in profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.*

Financial assets at fair value are recognised in profit or loss – are financial assets classified as held for trading because they are:

- ✓ acquired principally for the purpose of selling them in the near term (held for trading financial assets);
- ✓ part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- ✓ a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets classified as held for trading are not reclassified into another category.

Loans and receivables – are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market at initial recognition. Loans and receivables are originated by the Group and the Bank through lending activities, sale of assets or provision of services directly to debtors, or participation in credit advanced by other lenders, and are not financial assets created for the purpose of immediate or short-term sale.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Available-for-sale financial assets – are non-derivative financial assets, which are designated as available-for-sale or are not classified into the above-mentioned categories.

Recognition of financial assets and financial liabilities

Generally, the Group and the Bank recognise financial instruments on the statement of financial position when the Group and the Bank become a party to the contractual provisions of the instrument, except for:

- ✓ loan commitments, which are recognised on drawdown moment ; and
- ✓ financial guarantees and letters of credit, which are recognised when the related fee received as consideration is recognised.

All financial liabilities, other than those designated at fair value in profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(6) Classification of financial assets (continued)

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from statement of financial position where:

- ✓ the rights to receive cash flows from the asset have expired; or
- ✓ the Group and the Bank has transferred its rights to receive cash flows from the asset, or also retained the right to receive cash flows from the asset, but at the same time has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ✓ the Group and the Bank either (a) has transferred substantially all the risks and rewards with the asset, or (b) has neither transferred nor retained substantially all the risks and rewards with the asset, but has transferred control of the asset.

Where the Group and the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards with the asset related to them, nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower from the values: the original carrying amount of the asset or the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

A financial liability is derecognised from the statement of financial position when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised as income or loss.

(7) Investments in subsidiaries and equity accounted investees in the separate financial statements of the Bank

Investments in subsidiaries and equity accounted investees are stated in the Bank's separate financial statements at cost, including transaction costs. In the event that the investment's carrying amount exceeds its recoverable amount it is reduced to its recoverable amount. That reduction is recognised as an impairment loss.

The dividends received from those investments are included in income or loss of the comprehensive income statement .

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(8) Derivatives

Derivative financial instruments are contracts whose fair values change in response to changes in variables underlying the derivative instruments such as foreign exchange rates, interest rates or primary financial instruments (base asset).

All derivatives are measured at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The changes of the fair value of derivates, which are not eligible for hedging accounts, are recognised as income or loss in the comprehensive income statement.

(9) Impairment loss of financial assets

Financial assets measured at amortized cost

If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced creating the allowance. The loss is recognized as loss in the comprehensive income statement.

The Group and the Bank first assesses whether objective evidence of individual impairment exist for financial assets at amortised cost (such as due from banks and loans and advances to customers) that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. *For financial assets that are assessed collectively* the estimation of impairment loss is based on historical loss rate, which is measured taking into account the loss experience of loans with similar risk parameters for last years. Assets individually assessed for impairment and for which an impairment loss is recognized are not included in collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized as income or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been at the reversal date absent the impairment.

Where possible, the Group and the Bank seeks to restructure loans. These are loans that are granted concession due to the economic or legal reasons connected to borrower's financial difficulties that the Group and the Bank in other circumstances would not have granted and that may include the following types of restructuring:
- ✓ easing of any loan terms and conditions, e.g., extension of loan period, deferral of payments, capitalization of interest, lowering of initial interest rates;
- ✓ taking over of collateral or other assets for partial loan repayment;
- ✓ replacement of the original borrower or involvement of additional borrower.

Following the restructuring, loans continue to be subject to individual or collective impairment assessment using the original effective interest rate.

In case a loan loses all value and all measures taken to recover the debt have been exhausted, impairment allowances of 100% are formed for the loan and the Group's and Bank's management takes a decision as to writing off the bad debt from the statement of financial position.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(9) Impairment loss of financial assets (continued)

Available for sale assets

The Group and the Bank assesses at each reporting date whether there is objective evidence that available-for-sale securities are impaired. If any such evidence exists, for available for sale investments the cumulative impairment loss - measured as the difference between the amortized cost of the asset and the current fair value, less any impairment loss previously recognized - is removed from other comprehensive income and recognized as income or loss.

Impairment losses which recognised in income or loss are subsequently reversed for fixed income (monetary) investments if a fair value increase is observed that can be objectively related to an event occurring after the impairment loss was recognised. The assessment of the evidence for impairment and the determination of the amount of impairment or its reversal requires the application of management's judgement and estimates.

The Bank reviews its debt securities classified as available–for–sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Bank also records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(10) Classification of lease

Only risks and rewards incidental to ownership of the leased asset during the lease period should be considered when determining lease classification. Relevant risks include the possibility of losses from idle capacity or technological obsolescence and from decreases in the value of the asset; relevant rewards may include the gain from the increase in value of the asset or realization of the residual value at the end of the lease. Conversely, risks associated with construction of the asset prior to lease commencement, financing such construction and the costs of providing services using the leased asset, are not incidental to ownership of the leased asset during the lease period and, in our view generally should be disregarded in evaluating the classification of the lease. The classification of a lease is determined at the inception of the lease and is not revised unless the lease agreement is modified

(11) Non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property, land and buildings presented under property, and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.
An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in statement of comprehensive income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(12) Property, equipment and intangible assets

Property and equipment are stated at historical cost, less accumulated depreciation. Depreciation is calculated on a straight-line method, taking into account expected usage of the assets. The following depreciation rates have been applied:

Property and equipment :	
Buildings	2-5% annually
Furniture and equipment	10% annually
Computer hardware and office equipment	25% annually
Transport vehicles	20% annually
Other fixed assets	20-50% annually
Intangible assets:	
Patents, licences and trademark	20% annually
Software	20% annually
Concession	10% annually
Other intangible fixed assets	20% annually
Leasehold improvements	over the shorter of useful life and period of lease

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the Group and the cost of the item can be measured reliably.

Leasehold improvements are capitalized and depreciated over the shorter of their useful life and the remaining lease contract period on a straight-line basis, if the lease agreement of property and equipment does not foresee their compensation.

Gains and losses on disposal of property and equipment are recognised in the income statement in the year of disposal.

(13) Leased assets - lessee

Assets held by the Group and the Bank under leases which transfer to the Group and the Bank substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Group's statement of financial position.

(14) Other non-current assets

Other non-current assets include investments into long-term projects of real estate development. Long-term project costs are stated at the lower of cost and net realizable value. The land parcels mentioned in Note 23 were purchased for the purpose of building a residential apartment house with subsequent sale of apartments.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(15) Debt securities issued

Debt securities issued are carried in the Bank's and the Group's statement of financial position at amortized cost using the effective interest method. Incremental transaction costs directly related to issue or sale of debt securities are deducted from the fair value of the debt securities issued on initial recognition and amortized to the income statement using the effective interest method. In case where debt securities issued are sold at a discount or premium, the difference is amortized before the maturity date of the debt by applying the effective interest method and recognised in the Bank's income statement as interest expense or as a decrease in interest expense.

(16) Commitments and guarantees

The daily operating activities of the Group involve financial transactions related to the issuance of loans, guarantees and the registration of letters of credit.

(17) Financial assets accounting and assessment

Held for Trading Financial Instruments are initially recognised in the statement of financial position at fair value. To recognise financial instruments included in the trading portfolio the Bank uses settlement date accounting, i.e., assets are recognised in the statement of financial position only when transferred/supplied to the Bank. Any change in fair value between trade date and settlement date are recognised in the income statement. After initial recognition the financial instruments included in the trading portfolio are measured at fair value. Fair value is estimated:

- ✓ for a financial instrument with a published price quotation in an active securities market using such quotes;
- ✓ for a debt instrument with credit rating assigned by an independent rating agency using discounted cash flow analysis;
- ✓ for a financial instrument, which has an appropriate valuation model using such a model.

If the financial instrument market is not active, i.e., transactions in the market are not frequent, published price quotations are adjusted in order to get reliable measurement of fair value. If a quoted market price is not available, the fair value of the financial instrument is estimated using alternative pricing methods taking into account, that the fair value is not an amount which the Bank would receive or pay in case of a forced transaction, involuntary liquidation or distress sale. Changes in fair value of financial instruments included in the trading portfolio, which are related to their valuation at fair value, are recognised in the Bank's income statement in the period in which they occur.

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable, willing parties on an arm's length basis. To estimate the fair value of a financial instrument the Group and the Bank uses quoted market prices, or applicable valuation models. If a quoted market price is not available, the fair value of the financial instrument is estimated using alternative pricing methods taking into account that the fair value is not an amount, which the Group and the Bank would receive or pay in case of a forced transaction, involuntary liquidation or a distress sale. Such models are based on a discounted cash flow method, where the associated cash flows from relevant financial assets are estimated and discounted by interest rate, which is based on discount rates applicable for certain type of assets.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(17) Financial assets accounting and assessment (continued)

Loans and receivables are stated *at amortized cost*. Lending commitments before the loan issuance (drawdown) date are disclosed as commitments and guarantees as a balance (limit) of undisbursed loan amount. Where objective evidence of impairment indicates that the Bank and the Group will not be able to collect all amounts that are due to it (principal and interest) specific impairment allowance is created. Gains or losses are recognised in the income statement when the financial asset is derecognised or impaired, and through the amortization process.

Available–for-sale financial assets are initially recognised at fair value, including transaction costs which are directly related to acquisition of financial assets. Available–for-sale financial assets are recognised applying settlement date accounting. Any change in the fair value between trade date and settlement date is recognised directly in other comprehensive income. After initial recognition the available-for-sale financial assets are measured at fair value. The methods applied to measure fair value of available-for-sale financial assets correspond to the methods applied to measure fair value of financial instruments of the trading portfolio. Profit or loss of available-for-sale financial assets due to changes in fair value is included directly in equity as revaluation reserve of available-for-sale financial assets in the period in which it occurs. When available-for-sale financial assets are purchased with a coupon, discount or premium, the difference is amortized before the investment maturity date using the effective interest method and included in the Bank's income statement as interest income or decrease in interest income - in case of a premium.

(18) Assets and liabilities under management

Managed assets and managed liabilities are assets and liabilities held by the Bank and the Group on behalf of clients and registered in the name of the Bank or the Group. The Bank and the Group does not carry credit risk, market risk or any other risk in respect of these managed assets. Accordingly, these assets and liabilities are not included in the Bank's or the Group's statement of financial position.

(19) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash and deposits with other credit institutions with a maturity of less than 3 months when purchased, less balances due to credit institutions with a maturity of less than 3 months and subject to insignificant risk of change in value.

(20) Taxation

Corporate income tax at a rate of 15% (2011:15%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period, as adjusted for non-deductible income and expenses.

Deferred taxation is provided for all temporary differences arising between the carrying amount of assets and liabilities and their tax bases according to tax legislation. The deferred tax asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from the differing rates of amortization or depreciation on intangible assets and property and equipment, and from tax losses carried forward. Where an overall deferred taxation asset arises, this is only recognised in the financial statements when its recoverability is probable. To recognize deferred taxation assets, management of the Group assesses its further activities and ability to recover tax losses within a certain period. Information on estimates and assumptions, underlying assessment of management of the Group and the Bank, is disclosed in Note 13.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(21) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as adopted by European Union, requires management of the Bank and the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the financial statements relate to depreciation (residual values and useful lives), evaluation of impairment for loan losses, fair value of financial instruments, recoverability of long-term project costs and recognition of deferred tax assets. The information on estimates and assumptions of the management of the Group in relation to recognition of the deferred tax is provided in Note 13.

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Group and the Bank regularly review its loans and receivables to assess impairment. The Group and the Bank use their experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group and the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Group and Bank Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. In 2012, the main factor that influenced formation of provisions was connected to the low value of collateral, insufficient solvency of borrowers and their still unstable financial standing.

One of the key management of the Group estimates the context of long-term projects for which the information is provided in the Note 23. The Group's management believes that these sites will be disposed during one-two years with a profit.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

(22) Events after the reporting date

Post-year-end events that provide additional information about the Group'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.

(23) Display principles of accounting policy changes

To register uniform transactions, facts and events the Group applies methods of consequent accounting. The Group changes its policy only if it is stipulated by external normative acts (standards and interpretations) or if change of accounting policy allows drawing up financial statements that provide credible and corresponding information regarding the influence of transactions, facts and events on the financial condition, activity results and cash flow of the Group.

Change of accounting policy is applied retrospectively, i.e. every equity capital item balance affected is corrected in prior periods presented in all financial statements, as well as other comparative indices for all prior periods presented are corrected as if the new accounting policy has always been applied.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(24) Going concern

The Bank has made an assessment of its own future activities and it believes that given the credit market recovery trends and customer support measures through restructuring of their loans by the Bank, it can be expected that the ratio of bad loans will decrease in the next few years, which will positively affect the amount of impairment allowances created by the Bank and thus profitability of the Bank as a whole. Key risks related to operating activity of the Bank are discussed in subsequent notes related to risk management analysis.

(25) Repossessed assets

In cases where the property which served as a collateral for granted loans is transferred to the Bank (as a result of takeover or acquisition), initially the asset is recognized at transaction cost. In subsequent periods these assets are carried at cost less impairment, if any.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

3 INTEREST INCOME

Due from other credit institutions	1 590	1 214	1 590	1 214
Loans to customers	6 184	5 645	6 082	5 552
Incl. from impaired loans to customers	*1 597*	*1 276*	*1 596*	*1 254*
Debt securities	347	237	347	237
Incl. trading debt securities	*101*	*71*	*101*	*71*
Incl. available-for sale debt securities	*246*	*166*	*246*	*166*
Other interest income	83	135	83	135
	8 204	**7 231**	**8 102**	**7 138**

4 INTEREST EXPENSE

Due to customers	(1 980)	(2 525)	(1 980)	(2 525)
Payments in deposit guarantee fund	(765)	(400)	(765)	(400)
Due to other credit institutions	(10)	(10)	(10)	(10)
Subordinated debt	(676)	(548)	(676)	(548)
Debt securities issued	(68)	(73)	(81)	(91)
Other interest expense	(67)	(50)	(67)	(50)
	(3 566)	**(3 606)**	**(3 579)**	**(3 624)**

5 FEE AND COMMISSION INCOME

Money transfers	4 574	4 238	4 575	4 238
Securities operations	817	257	818	257
Management (trust) operations	625	525	625	525
Travellers cheques and credit cards	245	178	245	178
Current account servicing	101	75	101	75
Cash operations	88	69	88	69
Letters of credit	10	13	10	13
Guarantees	22	14	22	14
Other commission income	49	21	49	14
	6 531	**5 390**	**6 533**	**5 383**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

6 FEE AND COMMISSION EXPENSE

Money transfers	(733)	(728)	(732)	(727)
Securities operations	(136)	(96)	(136)	(96)
Credit cards	(114)	(101)	(114)	(101)
Cash operations	(49)	(35)	(49)	(35)
Other commission expense	(93)	(79)	(93)	(79)
	(1 125)	**(1 039)**	**(1 124)**	**(1 038)**

7 NET LOSS FROM TRADING FINANCIAL ASSETS

Profit/(loss) from trading, net	36	(148)	36	(148)
Loss from revaluation, net	(93)	(241)	(93)	(241)
	(57)	**(389)**	**(57)**	**(389)**

This Note states the result gained from disposal of held-for-trading equity and debt securities and from changes in fair value of securities stated in Note 17. Total net result from equity instruments during the year is a loss of 148 thousand lats (2011: loss 136 thousand lats), and from debt securities a net gain amounting to 91 thousand lats (2011: a loss of 253 thousand lats).

8 NET GAIN FROM FOREIGN CURRENCY TRADING AND REVALUATION

Profit from trading, net	1 747	1 484	1 746	1 488
Gain/(loss) from foreign currency revaluation, net	161	(72)	139	(53)
incl. spot revaluation, net	*(146)*	*189*	*(146)*	*189*
incl. forward revaluation, net	*(20)*	*(28)*	*(20)*	*(28)*
	1 908	**1 412**	**1 885**	**1 435**

Profit from trading principally consists of sales and purchase of currency on behalf of the customers.

9 OTHER INCOME

The Bank's other income of the reporting period includes a profit of 1 335 thousand lats from the object which the Bank has sold to a subsidiary within the Group. Consequently, the gain has been eliminated on consolidation and Group's income statement is adjusted for the unrealized profit. Information about the object is provided in Note 23.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011

10 SALARIES AND BENEFITS EXPENSES

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Wages and salaries	(4 311)	(4 013)	(4 151)	(3 885)
Council	*(141)*	*(141)*	*(141)*	*(141)*
Board	*(425)*	*(416)*	*(400)*	*(392)*
Other	*(3 745)*	*(3 456)*	*(3 610)*	*(3 352)*
Social security contributions	(946)	(874)	(905)	(842)
Council	*(33)*	*(33)*	*(33)*	*(33)*
Board	*(106)*	*(101)*	*(100)*	*(95)*
Other	*(807)*	*(740)*	*(772)*	*(714)*
Change in provisions for unused annual holidays and bonuses	(23)	(38)	(25)	(32)
Board	*2*	*(2)*	*2*	*(1)*
Other	*(25)*	*(36)*	*(27)*	*(31)*
	(5 280)	**(4 925)**	**(5 081)**	**(4 759)**
Council	***(174)***	***(174)***	***(174)***	***(174)***
Board	***(529)***	***(519)***	***(498)***	***(488)***
Other	***(4 577)***	***(4 232)***	***(4 409)***	***(4 097)***

Average number of employees in the reporting period	**287**	**270**	**258**	**249**

Employee category				
Managers	70	70	64	66
Other	217	200	194	183
	287	**270**	**258**	**249**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

11 ADMINISTRATIVE EXPENSES

Professional services	(326)	(276)	(311)	(263)
Audit services	(68)	(67)	(55)	(59)
Rent	(592)	(579)	(545)	(541)
Communications	(262)	(261)	(249)	(251)
Advertising and representation	(202)	(266)	(201)	(266)
Non-deductible value added tax [1]	90	(181)	93	(180)
Sponsorship	(15)	(22)	(15)	(22)
Maintenance expenses	(439)	(479)	(440)	(483)
Travel and entertainment	(222)	(204)	(217)	(198)
Insurance	(112)	(106)	(108)	(106)
Low - value inventory	(15)	(15)	(15)	(15)
Security	(27)	(12)	(27)	(12)
Other administrative expenses	(614)	(546)	(814)	(741)
	(2 804)	**(3 014)**	**(2 904)**	**(3 137)**

[1] The amount for 2012 includes adjustment related to the previous years' value added tax (recognized as expense) recalculation, resulting in a recognition of income

12 LOAN IMPAIRMENT LOSS, NET

Allowance for loans, assessed individually	(4 755)	(3 117)	(4 646)	(2 848)
Allowance for loans, assessed collectively, net	1	113	1	113
Release of individual allowance	2 004	2 338	1 984	2 327
	(2 750)	**(666)**	**(2 661)**	**(408)**

The following breakdown shows changes in allowance for impairment of loans during the reporting period:

Allowance as of 1 January	**15 656**	**17 374**	**14 347**	**16 323**
Additional ***individual*** allowance	4 755	3 117	4 646	2 848
Net change in collective impairment	(1)	(113)	(1)	(113)
Release of ***individual*** allowances	(2 004)	(2 338)	(1 984)	(2 327)
Interest on loans, which are recognized as impaired	(818)	(1 205)	(818)	(1 205)
Write-off credits	(4 429)	(1 195)	(4 412)	(1 195)
Effect of the foreign exchange	108	16	108	16
Allowance as of 31 December (Note 21)	**13 267**	**15 656**	**11 886**	**14 347**
Incl.allowance for loans, ***assessed individually***	*13 225*	*15 613*	*11 844*	*14 304*
Incl.allowance for loans, ***assessed collectively***	*42*	*43*	*42*	*43*

In the reporting period the collectively assessed loans were reclassified to individual loans with the amount of provisions of 0.4 thousand lats (2011: 675 thousand lats).

The amount of impairment allowance for related parties is disclosed in Note 38.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011

13 INCOME TAX EXPENSE

(1) Income tax expense

Corporate income tax of the reporting year	(31)	(28)	(25)	(12)
Income tax paid abroad	(229)	(161)	(218)	(161)
Change in deferred tax (Note 13, (4))	439	(549)	239	(549)
Total	**179**	**(738)**	**(4)**	**(722)**

(2) Reconciliation of accounting profit to tax charge

Profit/(loss) before taxation	**1 010**	**(1 428)**	**2 299**	**(1 013)**
Current tax rate	15%	15%	15%	15%
Expected tax charge	(152)	214	(345)	152
Deferred tax recoverability assessment effect	626	(626)	626	(626)
Tax effect of non-deductable income/(expenses)	(295)	(326)	(285)	(248)
Total	**179**	**(738)**	**(4)**	**(722)**

Effective tax rate	**17.72%**	**51.68%**	**0.17%**	**71.27%**

The effective tax rate was influenced by the income tax paid abroad, which is not recognised for CIT needs, as well as by the amount of change in the recognized deferred tax asset (Note 13 (4)).

(3) Movement of corporate income tax (assets)/liability

Corporate income tax (assets)/liabilities as of 1 January	**13**	**5**	**5**	**25**
Corporate income tax paid for previous years	(13)	(26)	(5)	(25)
Repayment of overpaid tax	-	16	-	-
Corporate income tax of the reporting year	31	28	25	12
Corporate income tax of the reporting year paid in advance	(46)	(10)	(24)	(7)
Corporate income tax (assets)/liabilities as of 31 December	**(15)**	**13**	**1**	**5**
incl. tax assets	*(17)*	-	-	-
incl. tax liabilities	*2*	*13*	*1*	*5*

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

13 CORPORATE INCOME TAX (continued)

(4) The Group's and Bank's deferred tax calculation

The management of the Bank manages deferred tax separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's tax analysis. The Group's tax analysis is not materially different from Bank's deferred tax analysis.

The Group

In thousands of lats	2012 Temporary differences	2012 Tax effect	2011 Temporary differences	2011 Tax effect
Deferred tax assets				
Accumulated tax losses [1]	7 112	1 067	4 211	632
Provisions for unused annual holidays	332	50	309	46
Deferred tax assets	**7 444**	**1 117**	**4 520**	**678**
Deferred tax liabilities				
Accelerated tax depreciation	1 998	300	1 837	275
Accumulated revaluation surplus [2]	93	14	259	39
Deferred tax liabilities	**2 091**	**314**	**2 096**	**314**
Deferred tax assets, net value [3]	**5 353**	**803**	**2 424**	**364**

The Bank

In thousands of lats	2012 Temporary differences	2012 Tax effect	2011 Temporary differences	2011 Tax effect
Deferred tax assets				
Accumulated tax losses [1]	5 794	869	4 225	634
Provisions for unused annual holidays	320	48	295	44
Deferred tax assets	**6 114**	**917**	**4 520**	**678**
Deferred tax liabilities				
Accelerated tax depreciation	1 998	300	1 837	275
Accumulated revaluation surplus [2]	93	14	259	39
Deferred tax liabilities	**2 091**	**314**	**2 096**	**314**
Deferred tax assets, net value [3]	**4 023**	**603**	**2 424**	**364**

[1] The accumulated tax losses are tax losses calculated according to corporate income tax return. According to the Republic of Latvia legislation the Bank is entitled to cover these losses from the reporting year's profit before tax until the losses are fully settled. The Bank considers that the economic situation in the country will gradually stabilize and the Bank will manage to cover these tax losses in due time.

[2] The accumulated revaluation surplus includes the income related to revaluation of the future currency transactions (spot and forward) Next year, when this income is realized, it will increase the basis of taxable income.

[3] The deferred tax assets are calculated taking into account the Bank management's assumption that the Bank will manage to cover these tax losses on time. The assumptions of the Bank management are based on the planned activities in the upcoming years when the Bank is planning to generate enough income to cover these losses. In 2011 the Group and Bank did not recognise accumulated taxable losses amounting to 4 174 thousand lats. In 2012 this was reassessed and all accumulated taxable losses have been recognized as the Group and Bank believe that in the coming years these will be recovered.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

14 OTHER PAID TAXES AND FEES

Personal income tax of employees	1 011	978	983	953
Employer state social insurance obligatory payments (Note 10)	946	874	905	842
Non-deductible value added tax (Note 11)	(90)	181	(93)	180
Employees state social insurance obligatory payments	420	390	412	381
Taxes paid abroad (Note 13., (1))	229	161	218	161
	2 516	**2 584**	**2 425**	**2 517**

15 CASH AND BALANCES DUE FROM THE BANK OF LATVIA

Balances due from the Bank of Latvia	70 465	66 156	70 465	66 156
Cash	1 225	1 166	1 225	1 166
	71 690	**67 322**	**71 690**	**67 322**

In accordance with the regulatory requirements credit institutions are required to maintain funds (mandatory reserves) on their accounts with the Bank of Latvia up to the standard of mandatory reserves. Their volume depends on the funds attracted by the credit institution. By the end of the reporting period the standard of mandatory reserves ranged between 2-4% (2011: 3-5%). The average standard of mandatory reserve in the reporting period was 3.84% (2011: 4.85%). The Bank of Latvia calculates remuneration for keeping the reserves on the reserve account with the Bank of Latvia in the amount of 18 thousands of lats (2011: 24 thousands of lats). These funds may be used without any restrictions.

16 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF LESS THAN 3 MONTHS [1]

Due from credit institutions registered in the Republic of Latvia	1 817	3 286	1 817	3 286
Due from credit institutions registered in foreign countries	69 190	62 809	69 178	62 804
	71 007	**66 095**	**70 995**	**66 090**

[1] Demand claims that may be satisfied without previous claim, or with demand term of 24 hours or one working day, and claims with demand term of up to 3 months are disclosed under this section. The claims are disclosed according to their initial maturity pursuant to the agreements.

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011

17 HELD FOR TRADING SECURITIES

(1) Held for trading debt securities and other fixed income securities

Investment amount of debt securities	168	549	168	549
Unrealised losses on debt securities, net	(3)	(53)	(3)	(53)
Incl.exchange differences result	*1*	*1*	*1*	*1*
	165	**496**	**165**	**496**

The reporting period's debt securities portfolio includes debt securities of a Kazakhstan state-owned company (2011: Russian, Ukrainian and Polish corporate and government debt securities).

All investments in debt securities and other securities with fixed income have been made in securities quoted on exchanges.

(2) Held for trading equity shares and other non-fixed income securities

Investments in equity shares	1 596	1 670	1 596	1 670
Unrealised losses on equity investments, net	(739)	(613)	(739)	(613)
Incl.exchange differences result	*16*	*6*	*16*	*6*
	857	**1 057**	**857**	**1 057**

The reporting period's equity securities portfolio includes corporate equity securities of Russian issuers (in 2011: Latvia and Russia).

All investments in equity shares have been made in securities quoted on stock exchanges.

18 DERIVATIVES

The table below shows the fair value of forward foreign exchange contracts which is disclosed for each contract as an asset or liability. The notional value of these contracts reflects the reference amount of basis currency underlying the agreement whose changes determine the cash flow of the forward exchange contracts.

Fair value of foreign currency forwards

Assets (positive fair value)	**47**	**66**	**47**	**66**
Liabilities (negative fair value)	**(2)**	**(1)**	**(2)**	**(1)**

Notional principal value of foreign currency forwards

Assets (due from)	**5 047**	**1 339**	**5 047**	**1 339**
Liabilities (due to)	**(5 002)**	**(1 274)**	**(5 002)**	**(1 274)**

All foreign currency forwards are forwards concluded to secure currency trading transactions of the Group's customers. The concluded foreign currency forwards are provided for purchase and sale of foreign currency in the future under the terms specified beforehand. The maximum remaining term of payments of foreign currency forwards does not exceed 14 days.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

19 AVAILABLE FOR SALE FINANCIAL ASSETS

(1) Available for sale debt securities and other fixed income securities

Investment amount of government debt securities	24 673	8 307	24 673	8 307
Government debt securities revaluation profit, net	91	8	91	8
	24 764	**8 315**	**24 764**	**8 315**
Investment amount of debt securities of other institutions	328	1 032	328	1 032
Revaluation losses of debt securities of other institutions, net	(10)	(9)	(10)	(9)
	318	**1 023**	**318**	**1 023**
	25 082	**9 338**	**25 082**	**9 338**

The Government debt securities portfolio of 2012 includes debt securities issued by Latvian and U.S. state governments (2011: Latvian and other EU states). The debt securities portfolio of other institutions includes the debt securities of one Latvian credit institution and debt securities of a Latvian corporate (2011: one Latvian credit institution and one Latvia corporate debt securities).

All investments in debt securities and other securities with fixed income have been made in securities quoted on exchanges, with the exception of Latvian company debt securities, which are valued using discounted cash flows.

(2) Available for sale equity shares and other non-fixed income securities

Investments in equity shares and other non-fixed income securities	31	50	31	50
	31	**50**	**31**	**50**

By the end of the reporting year, this position included the investments in *SWIFT* (2011: one Latvian company *and SWIFT*).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011

20 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF MORE THAN 3 MONTHS [1]

Due from credit institutions registered in foreign countries	8 168	17 624	8 168	17 624
	8 168	**17 624**	**8 168**	**17 624**

[1] In this note claims to credit institutions are disclosed according to their initial maturity pursuant to agreements.

21 LOANS

(1) Classification of loan balance by customer groups:

Non-financial corporations	76 672	89 142	71 041	85 374
Households	16 681	18 797	16 400	18 547
Loans to financial institutions	3 948	45	18 492	4 461
Loans to employees	1 462	1 612	1 343	1 455
Gross loans	**98 763**	**109 596**	**107 276**	**109 837**
Allowance for loans, ***assessed individually*** (Note 12)	(13 225)	(15 613)	(11 844)	(14 304)
Allowance for loans, ***assessed collectively*** (Note 12)	(42)	(43)	(42)	(43)
Net loans	**85 496**	**93 940**	**95 390**	**95 490**

By the end of the reporting year the total amount of the Bank's doubtful loans for which the accrual of nominal interest has been discontinued was thousand lats 41 209 , including loans which have expired – 15 680 thousand lats, restructured loans – 20 448 thousand, loans past due over 30 days – 5 081 thousand lats (2011: 51 596 thousand lats, including loans which have expired – 28 319 thousand lats, restructured loans – 19 594 thousand lats, loans past due over 30 days – 3 683 thousand lats). To determine the value of these loans the Bank applied methods used for assessment of collateral adequacy and solvency of borrowers. The total amount of written off unrecoverable debts in the reporting year are 4 412 thousand lats (2011: 1 195 thousand lats).

(2) Classification of impairment for loans by customer groups:

Private non-financial corporations	9 971	12 950	8 760	11 828
Households	3 296	2 706	3 126	2 519
	13 267	**15 656**	**11 886**	**14 347**

The main criterion used to evaluate loan quality is the borrower's solvency. When assessing a loan the Bank takes into account the borrower's credit history, financial standing, performance and prospects of business activity and correspondence of the loan purpose to repayment sources, presence of solvent guarantors, adequacy of the borrower's current and anticipated cash flows to repay the loan, collateral value, compliance with repayment schedule, and country risk if a loan is granted to a non-resident. A collateral dependent loan is assessed based on the value of loan collateral. In 2012 and 2011, the main factor affecting the creditworthiness of borrowers was connected with still instable financial standing of borrowers.

According to the Bank's loan assessment, made by the Financial and Capital Market Commission, the Bank has to make additional provisions in the amount of 5 385 thousand lats (as at 31.12.2011. – 4 260 thousand lats). In performing its loan assessment, the Bank applies the FCMC Regulations On Assets Quality Assessment and Provisioning which provides for making additional impairment allowances in accordance with IFRS as adopted by the EU. Given that the Bank's assessment of the respective loans does not show any impairment in value, the Bank has not created impairment allowances in the amounts required by FCMC. According to the FCMC Regulations in such a case the Bank has to perform its capital adequacy calculation adjustment (reduction) for this amount, less the risk-weighting factor that is 4 863 thousand lats (as at 31.12.2011. – 3 913 thousand lats (Note 45)).

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011

21 LOANS (continued)

(3) Loans principal classification by loan type:

Mortgage loans [1]	31 118	38 915	31 118	38 915
Commercial loans	23 225	27 572	37 448	31 988
Industrial loans	14 035	12 242	14 035	12 242
Finance leasing	5 518	3 950	-	-
Overdrafts	5 891	6 527	5 891	6 527
Consumer loans	431	590	354	365
Factoring	530	249	530	249
Secured by deposit	-	550	-	550
Payment card loans	346	439	346	439
Other	17 669	18 562	17 554	18 562
	98 763	**109 596**	**107 276**	**109 837**
Loans which serve as collateral for debt securities issued by the Bank (Note 29) [1]	*-*	*3 810*	*-*	*3 810*

[1] In 2012, the Bank repaid its debt securities. Therefore, the Bank did not have any pledged loans in the reporting period (in 2011, the fair value of such loans was 5 030 thousand lats (unaudited)). The information about the debt securities issued by the Bank is described in Note 29.

(4) Analysis of loans by industry:

Operations with real estate [1]	24 523	31 121	24 522	30 921
Wholesale and retail	12 670	15 482	10 989	15 204
Mortgage loans to individuals	5 564	7 334	5 564	7 334
Other loans to individuals	11 481	11 873	11 481	11 873
Transport, warehousing and communication	9 978	8 641	8 576	6 941
Financial services	9 883	9 990	24 427	14 406
Manufacturing	10 061	11 120	9 239	10 783
Construction	5 168	5 666	4 448	5 555
Extractive industry	1 726	1 769	1 726	1 769
Agriculture, hunting, wood processing and fishing	1 358	97	1 324	55
Hotels and restaurants	2 091	2 114	1 589	1 591
Consumer loans to individuals	1 097	1 202	697	795
Other	3 163	3 187	2 694	2 610
	98 763	**109 596**	**107 276**	**109 837**

[1] Operations with real estate mostly consist of loans given to real estate developers.

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

21 LOANS (continued)

(5) Analysis of collateral [1]:

Apartments, dwelling houses, land	38 393	40 584	38 393	40 584
Commercial real estate	42 698	54 230	41 863	54 230
Current and fixed assets	38 205	26 616	46 947	30 382
Vehicles	12 818	12 564	9 317	8 957
Securities and shares (book value)	2 878	17 644	2 878	17 644
Guarantees	7 171	7 329	7 171	7 329
Deposits placed in the other credit institutions	2 761	2 829	2 761	2 829
Deposits placed in the Bank (Note 28)	7 801	3 677	7 801	3 677
	152 725	**165 473**	**157 131**	**165 632**

[1] Loan collaterals also refer to the Bank's commitments and guarantees with regard to loan limits that have not been used (Note 34) and serve as factors that mitigate the risk of such liabilities (Note 43, (1)).

Loan collaterals are stated at their fair values, except for fixed assets and shares, which are assessed at book value or face value.

(6) Grouping of Finance lease agreements by the type of leased assets:

Transport vehicles	2 975	3 023	-	-
Production equipment	1 383	923	-	-
Other assets	1 160	4	-	-
	5 518	**3 950**	**-**	**-**

(7) Analyses of finance lease receivables according to the time bands:

Present value of minimum lease payments				
Up to 1 year	3 021	2 187	-	-
Over 1 year to 5 years	1 781	1 763	-	-
Over 5 years	716	-	-	-
	5 518	**3 950**	**-**	**-**
Interest income to be received under financial leasing				
Up to 1 year	306	173	-	-
Over 1 year to 5 years	326	308	-	-
Over 5 years	94	-	-	-
	726	**481**	**-**	**-**
Future value of minimum financial leasing payments				
Up to 1 year	3 327	2 360	-	-
Over 1 year to 5 years	2 107	2 071	-	-
Over 5 years	810	-	-	-
	6 244	**4 431**	**-**	**-**
Allowance for finance leases	**(1 210)**	**(1 122)**	**-**	**-**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

22 ACCRUED INCOME AND DEFERRED EXPENSES

Prepayments	125	118	123	117
Other accrued income	28	80	28	80
	153	**198**	**151**	**197**
Impairment allowance	(1)	(58)	(1)	(58)
	152	**140**	**150**	**139**

During the reporting year, the other accrued income was written off in the amount of 59 thousand lats.

23 OTHER NON-CURRENT ASSETS

Land parcels	3 479	2 400	175	2 400
Finished and unfinished construction costs	6 317	3 707	2 330	3 707
Prepayments for unfinished construction	114	498	114	498
	9 910	**6 605**	**2 619**	**6 605**

The long term assets mentioned in this Note are associated with the facility, which served as loan collateral and consisted of land and incomplete construction. It was taken over and posted on the Bank's statement of financial position against a loan settlement. To increase the realization options and value of the facility, the Bank has made additional investments to finish the construction of the facility. This Note includes also the object (including the related land plot) in the amount of 7 291 thousand lats (in 2011: 4 168 thousand) which the Bank has sold to a subsidiary within the Group for further sale.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

All property, equipment and intangible assets in the possession of the Bank and the Group are used for the Bank's and Group's operations, for rendering financial services and maintenance of social infrastructure.

(1) The Group

Changes in property and equipment and intangible assets in 2012	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2011	**6 355**	**749**	**2 042**	**1 992**	**1 075**	**12 213**
Adjustment	-	(2)	-	-	2	-
Additions	2	83	47	4	14	150
Prepayments	(7) [1]	-	17	-	-	10
Disposals	-	(24)	(18)	-	-	(42)
At 31 December 2012	**6 350**	**806**	**2 088**	**1 996**	**1 091**	**12 331**
Accumulated depreciation and amortisation						
At 31 December 2011	**404**	**436**	**1 406**	**425**	**756**	**3 427**
Adjustment	-	(2)	-	-	2	-
Charge for the reporting year	131	99	204	153	102	689
Disposals	-	(18)	(15)	-	-	(33)
At 31 December 2012	**535**	**515**	**1 595**	**578**	**860**	**4 083**
Net carrying value at 31 December 2011	**5 951**	**313**	**636**	**1 567**	**319**	**8 786**
Net carrying value at 31 December 2012	**5 815**	**291**	**493**	**1 418**	**231**	**8 248**

[1] Adjustment for 2011, relating to advance payment refund.

Changes in property and equipment and intangible assets in 2011	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2010	**6 337**	**885**	**2 037**	**1 992**	**992**	**12 243**
Additions	11	136	56	-	83	286
Prepayments	7	-	1	-	-	8
Disposals	-	(272)	(52)	-	-	(324)
At 31 December 2011	**6 355**	**749**	**2 042**	**1 992**	**1 075**	**12 213**
Accumulated depreciation and amortisation						
At 31 December 2010	**273**	**561**	**1 227**	**272**	**632**	**2 965**
Charge for the reporting year	131	123	228	153	124	759
Disposals	-	(248)	(49)	-	-	(297)
At 31 December 2011	**404**	**436**	**1 406**	**425**	**756**	**3 427**
Net carrying value at 31 December 2010	**6 064**	**324**	**810**	**1 720**	**360**	**9 278**
Net carrying value at 31 December 2011	**5 951**	**313**	**636**	**1 567**	**319**	**8 786**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (continued)

(2) The Bank

Changes in property and equipment and intangible assets in 2012	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2011	**6 355**	**726**	**2 028**	**1 992**	**1 075**	**12 176**
Additions	2	74	24	4	14	118
Prepayments	(7) [1]	-	17	-	-	10
Disposals	-	(13)	(15)	-	-	(28)
At 31 December 2012	**6 350**	**787**	**2 054**	**1 996**	**1 089**	**12 276**
Accumulated depreciation and amortisation						
At 31 December 2011	**404**	**415**	**1 399**	**425**	**756**	**3 399**
Charge for the reporting year	131	94	201	153	102	681
Disposals	-	(11)	(15)	-	-	(26)
At 31 December 2012	**535**	**498**	**1 585**	**578**	**858**	**4 054**
Net carrying value at 31 December 2011	**5 951**	**311**	**629**	**1 567**	**319**	**8 777**
Net carrying value at 31 December 2012	**5 815**	**289**	**469**	**1 418**	**231**	**8 222**

[1] Adjustment for 2011, relating to advance payment refund.

Changes in property and equipment and intangible assets in 2011	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2010	**6 337**	**853**	**2 025**	**1 992**	**992**	**12 199**
Additions	11	136	53	-	83	283
Prepayments	7	9	1	-	-	17
Disposals	-	(272)	(51)	-	-	(323)
At 31 December 2011	**6 355**	**726**	**2 028**	**1 992**	**1 075**	**12 176**
Accumulated depreciation and amortisation						
At 31 December 2010	**273**	**546**	**1 222**	**272**	**632**	**2 945**
Charge for the reporting year	131	117	226	153	124	751
Disposals	-	(248)	(49)	-	-	(297)
At 31 December 2011	**404**	**415**	**1 399**	**425**	**756**	**3 399**
Net carrying value at 31 December 2010	**6 064**	**307**	**803**	**1 720**	**360**	**9 254**
Net carrying value at 31 December 2011	**5 951**	**311**	**629**	**1 567**	**319**	**8 777**

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARIES

(1) Composition of the consolidation group

The consolidation group of the Bank consists of the subsidiaries TKB Nekustamie īpašumi , TKB Līzings and its subsidiaries CJSC TKB Leasing Tajikistan and „TKB LU" LLC and its subsidiary „PROJECT 1" LLC; "Heckbert C7 Holdings" and its subsidiary "Ferrous Kereskedelmi KFT". Services provided by TKB Līzings, TKB Leasing Tajikistan, TKB LU and TKB Nekustamie īpašumi extend the range of services offered by the Bank. The description of "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" is provided in this Note, part (3).

No	Name of commercial company	Registration place code , registration address	Type of activity of commercial company *	Share in the fixed capital (%)	Voting share in commercial company (%)	Grounds for inclusion in the Group**
1	TKB nekustamie īpašumi, Ltd., LV-40003723143	9 Miesnieku, Riga, LV	AC	100	100	SC
2	TKB līzings, Ltd., LV-40003591059	9 Miesnieku, Riga, LV	AFI	100	100	SC
3	CJSC TKB Leasing Tajikistan TJ-0210013797	TJ, Dushanbe, Pr.Rudaki 100, Tajikistan	AFI	75.10	75.10	TKB līzings, Ltd. SC
4	TKB LU LLC UA-15561020000043994	UA, Odesa, Genuezka 24a-321	AC	100	100	TKB līzings, Ltd. SC
5	PROJECT 1 LLC UA-15561020000044353	UA, Odesa, Genuezka 24a-321	AC	100	100	TKB LU LLC SC
6	Heckbert C7 Holdings Limited CY-HE134861	CY, Nicosia, Kritonos 21, Cyprus	AFI	75.36	75.36	SC
7	Ferrous Kereskedelmi KFT HU-01-09-717395	HU, Budapest, 3 Szegedi street, Hungary	AFI	100	100	Heckbert C7 Holdings SC

* - BNK – bank, EMI - electronic money institution, IC – insurance company, RI – reinsurer, IMC – insurance management company, IBC – investment brokerage company, IMC – investment management company, PF – pension fund, AFI – another financial institution, AC - auxiliary company, FMC – financial management company.
** - SC – subsidiary company, JVC – joint-venture company,, PC – parent company.

(2) The Bank has the following participation in the share capital of its subsidiaries in its separate financial statements

	2012			2011		
	Investment and participation			Investment and participation		
Group companies: registration number and address	Total carrying value of assets	Cost	Cost less impair-ment	Total carrying value of assets	Cost	Cost less impair-ment
SIA TKB Nekustāmie	1	2	2	2	2	2
SIA TKB Līzings	16 169	700	415	5 647	700	415
	16 170	**702**	**417**	**5 649**	**702**	**417**

The methods applied to include the subsidiaries financial statements in the Group's consolidated financial statements are described in Note 2, (3). The subsidiaries shares are not quoted on a stock exchange.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARIES (continued)

(2) The Bank has the following participation in the share capital of its subsidiary (continued)

The below data reflects financial information of subsidiaries:

	2012	2011
Assets	16 170	5 649
Liabilities	(16 410)	(5 775)
Net assets	**(240)**	**(126)**
Gross income from operating activities	381	280
Loss for the period	(114)	(180)

(3) The Bank has the following participation in equity accounted investees

At the end of the 2009 the Bank purchased 100% of the share capital of Cyprus Company "Heckbert C7 Holdings", which owns 100% of the share capital of the company "Ferrous Kereskedelmi KFT" (Hungary), which is the owner of 25,085% of the Ukrainian gas company "Dewon" shares. The purpose of this transaction was to obtain control over 25.085% of the share capital of "Dewon". "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" do not perform any other commercial activities, except the holding of "Dewon" shares.

On 29 March 2012, the Bank entered into a deal on partial sale of the investment in the Cyprus Company "Heckbert C7 Holdings". This deal resulted in a sale of 24.64% of the shares of "Heckbert C7 Holdings" and receipt of USD 7 million. These shares were sold at a profit of 284 thousand lats which is presented in Bank's separate financial statements. The carrying amount of the remaining part of the investment at the end of 2012 was 10 853 thousand (2011: 14 265 thousand).

The remaining part of the investment is represented in this item in accordance with IAS 28. Independent experts provided their fairness opinion of the "Dewon" company's shares as of reporting period end. The assessment showed no reduction in the fair value below the book value of the investment.

According to the Financial and Capital Market Commission's assessment of this investment, the Bank has to make capital adjustment for the book value of this investment. In February 2013, independent experts performed fair share assessment of the company "Dewon". The assessment did not show impairment in the fair value which is below the balance sheet value of the investment. Taking into account the independent experts' assessment, the Bank disagrees with the assessment of the FCMC. According to the FCMC assessment, the Bank has to perform its capital adequacy calculation adjustment (reduction) for this amount, less the risk-weighting factor - by 9 601 thousands lats (as at 31.12.2011 - 12 741 thousand lats (Note 45)).

Report on the financial position of Dewon

	2012				2011			
	100%		25.085%		100%		25.085%	
	UAH	LVL	UAH	LVL	UAH	LVL	UAH	LVL
Assets	1 015 679	67 035	254 783	16 816	985 237	66 700	247 147	16 721
Liabilities	(167 378)	(10 803)	(41 987)	(2 710)	(153 833)	(10 414)	(38 589)	(2 612)
Net assets	**848 301**	**56 232**	**212 796**	**14 106**	**831 404**	**56 286**	**208 558**	**14 109**
Gross income from operating activities	147 685	9 992	37 047	2 507	525	33	132	8
Profit/(loss) for the period	16 897	1 143	4 238	287	(31 456)	(1 991)	(7 891)	(503)

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
26 OTHER ASSETS				
Financial assets				
Receivables from brokerage companies	1 907	3 753	1 907	3 753
Spot foreign exchange assets [3]	131	225	131	225
Non-financial assets				
Real estate property held for sale [1]	5 197	1 729	4 631	1 404
Overpaid value added tax	730	365	35	358
Other assets [2]	660	3 991	634	3 855
	8 625	**10 063**	**7 338**	**9 595**
Impairment allowance	(252)	(383)	(250)	(378)
	8 373	**9 680**	**7 088**	**9 217**

In the reporting year other assets in the amount of 52 thousand lats were written off (2011: 5 thousand lats).

[1] A real estate property held for sale is the real estate property whose possession is taken by the Group (as a result of takeover or acquisition) and which served as collateral for granted loans. The acquisition cost of this real estate property is measured at the transaction cost. As a result of such transactions the amount received is channeled to settle customer's obligations to the Group.

[2] Other assets include various claims on debtors in relation to operating activities of the Bank.

[3] The table below shows the fair value of spot foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the value of base asset underlying the agreement whose changes in fair value and the fair value of future receivable and payable cash flows are estimated.

Fair value of foreign currency futures

Assets (positive fair value)	**131**	**225**	**131**	**225**
Liabilities (negative fair value)	**(83)**	**(31)**	**(83)**	**(31)**

Notional principal value of foreign currency futures

Assets (due from)	**106 841**	**50 345**	**106 841**	**50 345**
Liabilities (due to)	**(106 793)**	**(50 151)**	**(106 793)**	**(50 151)**

All foreign currency spot transactions are OTC deals and have been entered into to support the trading transactions of the Bank's customers. The concluded foreign currency spot transactions determine the purchase and sale of foreign currency in the future under the terms specified beforehand.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

27 DUE TO CREDIT INSTITUTIONS

	2012	2011	2012	2011
Credit institutions registered in other countries	2 986	406	2 986	406
Credit institutions registered in the Republic of Latvia	322	333	322	333
	3 308	**739**	**3 308**	**739**

Deposits that serve as collateral of the following claims:

	2012	2011	2012	2011
Other transactions (card payments)	27	27	27	27
	27	**27**	**27**	**27**

28 DUE TO CUSTOMERS

	2012	2011	2012	2011
Non-financial corporations	197 948	189 538	197 948	189 538
Households	47 771	54 196	47 771	54 196
Non-profit institutions serving households	424	328	424	328
Financial institutions	2 137	1 781	2 295	2 050
Local government	20	1 060	20	1 060
	248 300	**246 903**	**248 458**	**247 172**

Deposits which serve as collateral for the following claims:

	2012	2011	2012	2011
Loans (Note 21, (5))	7 498	3 409	7 498	3 409
Unused credit lines (Note 43, (1) and Note 21, (5))	303	268	303	268
Guarantees (Note 34, (2) and 43, (1))	1	2 205	1	2 205
Other transactions (card payments)	98	-	98	-
	7 900	**5 882**	**7 900**	**5 882**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

29 DEBT SECURITIES ISSUED

In 2007, the Bank issued mortgage bonds for five million euros (3.5 million lats) - a total of 50 000 bonds with a nominal value of 100 euros. The redemption date of the mortgage bonds was December 1, 2012. The Bank redeemed the bonds in full.

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
30 ACCRUED EXPENSES AND DEFERRED INCOME				
Unused holiday and premium pay	332	309	320	295
Other accrued expenses	1 104	347	1 090	340
	1 436	**656**	**1 410**	**635**
31 OTHER LIABILITIES				
Suspense accounts [1]	451	102	451	102
Spot foreign exchange liabilities (Note 26)	83	31	83	31
Money in transit [2]	195	288	195	288
Unpaid dividends of previous periods	1 767	1 767	1 767	1 767
Other liabilities	524	293	88	256
	3 020	**2 481**	**2 584**	**2 444**

[1] Suspense accounts represent payments received by the Bank where the beneficiary is not clearly identified. After identification procedures they are credited to customer accounts.

[2] As cash in transit are posted the funds the transfer of which has not been confirmed by correspondent banks yet.

In thousands of lats

32 SUBORDINATED LIABILITIES

As of 31 December 2012 the balance of subordinated non-convertible liabilities was 9 096 thousand lats (2011: 7 667 thousand lats) with maturities in 2014- 2019.

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2012, Group and the Bank:

Name	Currency of contract	Principal 000'LVL	Book value 000'LVL	Date of origination	Maturity	Interest %
TUAREG HOLDINGS S.A.	USD	1 496	1 526	31.07.2008.	31.07.2015.	12
TUAREG HOLDINGS S.A.	EUR	470	480	31.07.2008.	31.07.2015.	12
PERRYCAT LIMITED	USD	1 328	1 276	01.08.2011.	02.08.2016.	5
Other [1]	USD, EUR	5 815	5 814	2008.-2012.	2014.-2019.	4.75-10
TOTAL		**9 109**	**9 096**			

[1] Other liabilities include one individual's subordinated liabilities in the amount of 1,415 thousand lats, which exceeds 10% of the total subordinated liabilities amount.

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2011:

Name	Currency of contract	Principal 000'LVL	Book value 000'LVL	Date of origination	Maturity	Interest %
TUAREG HOLDINGS S.A.	USD	1 532	1 564	31.07.2008.	31.07.2015.	12
TUAREG HOLDINGS S.A.	EUR	470	480	31.07.2008.	31.07.2015.	12
PERRYCAT LIMITED	USD	1 360	1 292	01.08.2011.	02.08.2016.	5
Other [1]	USD, EUR	4 360	4 331	2008.-2011.	2013.-2016.	4.75-10
TOTAL		**7 722**	**7 667**			

[1] Other liabilities include one individual's subordinated liabilities in the amount of 1,415 thousand lats, which exceeds 10% of the total subordinated liabilities amount.

Subordinated deposits have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims. Subordinated liabilities (subordinated capital) consist of cash assets, borrowed by the Bank for the period which is not shorter than five years. Conditions that allow demanding pre-term repayment of a loan are regulated in accordance with the regulations for calculating of capital requirements that foresee the right of lenders to demand repayment of a loan before its maturity only in case of a borrower's liquidation. In case of a borrower's liquidation the subordination regulations of subordinated liabilities (loan) determine that the lender's claims are satisfied only after claims of all other borrower's creditors are satisfied, but before satisfying the claims of shareholders of the borrower. Basic provisions for all other subordinated liabilities correspond to the afore-mentioned.

The Bank may repay such loan on its own initiative before the maturity if after such loan repayment its own equity complies with the regulation provisions and the FCMC has no objections thereof.

The concluded agreements do not foresee possibility to change subordinated liabilities into investments in equity, or other possible liabilities.

The above mentioned amount of subordinated liabilities is included in excess capital for the purposes of calculation of the capital adequacy ratio (see Note 45).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

33 SHARE CAPITAL AND RESERVES

(1) Share capital

The Bank's paid-up share capital on 31 December 2012 was 14 507 thousand lats (2011: 14 507 thousand lats). It consisted of 290 136 (2011: 290 136) ordinary shares with a nominal value of 50 lats each. The total number of shareholders is 47 (2011: 47), of which 10 (2010: 10) - corporate and 37 (2011: 37) individuals.

In December 2012, the shareholders' meeting passed the decision to increase the share capital by 12 562 thousand lats, issuing 251 246 shares with a nominal value of 50 lats each. Thus, by the end of the reporting period, the Bank's announced capital is 27 069 thousand lats, consisting of 541 382 ordinary shares with a nominal value of 50 lats each. The subscription for and paying of the shares has to be completed by April 30, 2013.

List of shareholders and mutually related shareholder groups which directly or indirectly control 10% or more of the paid-up share capital:

Shareholder	Country	Shareholding 2012		Shareholding 2011	
		%	LVL'000	%	LVL'000
I.Buimisters	Latvia	43.21	6 269	43.21	6 269
SIA "C&R Invest"	Latvia	14.60	2 117	14.60	2 117
C.E.G. Treherne	Great Britain	9.31	1 351	9.31	1 351
GCK Holdings Netherlands B.V.	Netherlands	7.40	1 074	7.40	1 074
Rikam S.A.H.	Luxembourg	7.29	1 058	7.29	1 058
Figon Co Limited	Cyprus	3.40	493	3.40	493

(2) Reserves

The reserve capital and other reserves of the Bank were created by the decisions of shareholders in prior years. As there are no regulatory requirements for maintaining these reserves, they could be released in future periods based on the decision of shareholders. Reserves balance amount as at the end of the year was 3 804 thousand lats (2011: 3 804 thousand lats).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

34 COMMITMENTS AND GUARANTEES

(1) Classification of commitments and guarantees

In thousands of lats	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Contingent liabilities	**5 136**	**8 297**	**5 136**	**8 297**
of which guarantees	*257*	*2 797*	*257*	*2 797*
of which rent commitments [1]	*4 879*	*5 500*	*4 879*	*5 500*
Commitments to clients	**7 890**	**10 853**	**9 290**	**11 552**
of which unused credit lines	*7 890*	*7 901*	*9 290*	*8 600*
of which other liabilities	*-*	*2 952*	*-*	*2 952*
Total commitments and guarantees	**13 026**	**19 150**	**14 426**	**19 849**

[1] Analysis of lease agreements according to remaining validity:	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Up to 1 year	9	33	9	33
From 1 year up to 5 years	74	128	74	128
Over 5 years	4 796	5 339	4 796	5 339
	4 879	**5 500**	**4 879**	**5 500**

Analysis of lease receivables according to the time bands:	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Up to 1 year	554	587	554	587
From 1 year up to 5 years	2 019	2 089	2 019	2 089
Over 5 years	2 306	2 824	2 306	2 824
	4 879	**5 500**	**4 879**	**5 500**

(2) Analysis of collateral of commitments and guarantees

	The Group 2012	The Group 2011	The Bank 2012	The Bank 2011
Guarantees	343	2 693	343	2 693
Deposits placed with the Bank (Note 28)	*1*	*2 205*	*1*	*2 205*
Financial insurance	*32*	*161*	*32*	*161*
Apartments, dwelling houses, land	*229*	*327*	*229*	*327*
Current and fixed assets	*81*	*-*	*81*	*-*
	343	**2 693**	**343**	**2 693**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011

35 ASSETS AND LIABILITIES UNDER MANAGEMENT

This item includes assets and liabilities held by the Bank under its own name on behalf of its clients. The Bank receives fees based on the amounts managed. The amount of these assets and liabilities are not recognised in the statement of financial position.

Assets and liabilities under management are composed as follows:

Assets under management

Shares of credit institutions	1 970	-	1 970	-
Due from corporate	25 945	21 561	25 945	21 561
Due from credit institutions	870	2 380	870	2 380
Due from individuals	377	9 792	377	9 792
	29 162	**33 733**	**29 162**	**33 733**

Customer profile on whose behalf the assets are managed

Credit institutions	23 303	10 983	23 303	10 983
Enterprises	5 859	22 750	5 859	22 750
	29 162	**33 733**	**29 162**	**33 733**

36 MORTGAGED ASSETS

As of 31 December 2012 and 2011 the Bank had no mortgaged assets, except for those that are used for currency and bank card transactions .

37 CASH AND CASH EQUIVALENTS

In thousands of lats	The Group		The Bank	
	2012	2011	2012	2011
Due from other credit institutions with a maturity of less than 3 months from the date of acquisition	71 007	66 095	70 995	66 090
Cash and balances due from the Bank of Latvia	71 690	67 322	71 690	67 322
Due to other credit institutions with initial maturity of less than 3 months from the date of acquisition	(2 987)	(461)	(2 987)	(461)
	139 710	**132 956**	**139 698**	**132 951**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

38 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Group and the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, Group's associates, chairpersons and members of the council and management board, and employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Group and the Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, brokerage services etc. These transactions are mostly conducted on normal business terms.

(1) Presented below are the Group's transactions with related parties

In thousands of lats	Share-holders	Council and board	Subsi-diaries	Equity accounted investees	Other related parties [1]	Total
		2012				
Assets						
Loans [2]	319	293	-	1 722	673	**3 007**
Allowance for loans	*(10)*	*(6)*	-	-	(1)	***(17)***
Loans, net	309	287	-	1 722	672	**2 990**
Liabilities						
Deposits [3]	5	176	-	-	1 158	**1 339**
Commitments and guarantees						
Unused credit lines	85	26	-	-	11	**122**
Income statement						
Interest income	18	20	-	-	24	**62**
Fee and commission income	1	1	-	-	1	**3**
Interest expense	-	(2)	-	-	(13)	**(15)**
Release of impairment/ impairment) of loans	-	4	-	-	921	**925**
Other expenses	(23)	(52)	-	(4)	(42)	**(121)**
		2011				
Assets						
Loans [2]	277	351	-	1 806	3 759	**6 193**
Allowance for loans	*(10)*	*(10)*	-	-	(922)	***(942)***
Loans, net	267	341	-	1 806	2 837	**5 251**
Liabilities						
Deposits [3]	5	187	-	-	1 555	**1 747**
Commitments and guarantees						
Unused credit lines	15	23	-	-	7	**45**
Income statement						
Interest income	16	23	-	-	44	**83**
Fee and commission income	-	1	-	-	3	**4**
Interest expense	-	(4)	-	-	(13)	**(17)**
Release of impairment/ impairment) of loans	(7)	4	-	-	(920)	**(923)**
Other expenses	(12)	(52)	-	-	(31)	**(95)**

[1] Other related parties are associates, spouses and children of the shareholders and council and board members and companies in which they have a controlling interest.

[2] Related party lending rates are set from 2.67% to 11% (2011: from 2.88% to 11%).

[3] Related party deposit rates are set from 0.1% to 3.5% (2011: from 0.1% to 4%).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

38 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Presented below are the Bank's transactions with related parties

In thousands of lats	Share-holders	Council and board	Subsi-diaries	Equity accounted investees	Other related parties [1]	Total
		2012				
Assets						
Loans [2]	212	292	14 544	1 722	673	**17 443**
Allowance for loans	*(10)*	*(6)*	-	-	(1)	***(17)***
Loans, net	202	286	14 544	1 722	672	**17 426**
Liabilities						
Deposits [3]	5	176	158	-	1 158	**1 497**
Commitments and guarantees						
Unused credit lines	85	26	1 441	-	11	**1 563**
Income statement						
Interest income	11	20	326	-	24	**381**
Fee and commission income	1	1	3	-	1	**6**
Interest expense	-	(2)	(15)	-	(13)	**(30)**
Release of impairment/ impairment) of loans	-	4	-	-	921	**925**
Other expenses	(23)	(52)	1 085	(4)	(42)	**964**
		2011				
Assets						
Loans [2]	141	346	4 416	1 806	3 759	**10 468**
Allowance for loans	*(10)*	*(10)*	-	-	(922)	***(942)***
Loans, net	131	336	4 416	1 806	2 837	**9 526**
Liabilities						
Deposits [3]	5	187	273	-	1 555	**2 020**
Commitments and guarantees						
Unused credit lines	15	23	699	-	7	**744**
Income statement						
Interest income	9	23	162	-	44	**238**
Fee and commission income	-	1	2	-	3	**6**
Interest expense	-	(4)	(19)	-	(13)	**(36)**
Release of impairment/ impairment) of loans	(7)	4	-	-	(920)	**(923)**
Other expenses	(12)	(52)	(211)	-	(31)	**(306)**

[1] Other related parties are associates, spouses and children of the shareholders and council and board members and companies in which they have a controlling interest.
[2] Related party lending rates are set from 2.67% to 11% (2011: from 2.88% to 11%).
[3] Related party deposit rates are set from 0.1% to 3.5% (2011: from 0.1% to 4%).

(3) The Bank's related parties' loan and unused credit lines collateral analysis

In thousands of lats	2012	2011
Apartments, dwelling houses, land	1 281	553
Commercial real estate	114	4 053
Commercial collateral (current and fixed assets)	15 509	8 718
	16 904	**13 324**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

39 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES

(1) Comparison of the Bank's financial assets and liabilities net book value to the fair value

The table below contains a comparison of the fair value of the Bank's financial assets and liabilities to their net book value. An assessment of the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to these financial statements.

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Cash and balances due from the Bank of Latvia	71 690	71 690	66 156	66 156
Due from credit institutions with a maturity of less than 3 months	70 995	70 995	66 090	66 090
Held for trading financial assets	1 069	1 069	1 619	1 619
Available for sale financial assets	25 113	25 113	9 388	9 388
Due from credit institutions with a maturity of more than 3 months	8 168	8 168	17 624	17 624
Loans	95 390	96 707	95 490	94 232
Other assets	2 422	2 422	8 859	8 859
Total financial assets	**274 847**	**276 164**	**265 226**	**263 968**
LIABILITIES				
Due to credit institutions	3 308	3 308	739	739
Held for trading financial liabilities	2	2	1	1
Due to customers	248 458	248 863	247 172	247 621
Debt securities issued	-	-	3 513	3 513
Subordinated liabilities	9 096	10 094	7 667	8 474
Other liabilities	2 584	2 584	31	31
Total financial liabilities	**263 448**	**264 851**	**259 123**	**260 379**
COMMITMENTS AND GUARANTEES				
Contingent liabilities	5 136	5 136	8 297	8 297
Commitments to clients	9 290	9 290	11 552	11 552
Total commitments and guarantees	**14 426**	**14 426**	**19 849**	**19 849**

The fair value of loans was calculated taking into account the existing variable rates and attributing them to loans with fixed interest rates excluding loans with short period of maturity (approximately 1 year). The fair value of liabilities was calculated taking into account the existing market interest rates for relevant time deposits. It is assumed that the net book value of financial assets and liabilities with liquidity or a short period of maturity approximates their fair value. This assumption is also used for demand deposits, savings accounts without pre-set maturity and financial instruments with variable rates.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

39 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES (continued)

(2) Analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities

The table below contains an analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities. An assessment for the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to these financial statements.

	2012				2011			
	1. level	2. level	3. level	Total	1. level	2. level	3. level	Total
ASSETS								
Held for trading financial assets	857	212	-	**1 069**	1 057	562	-	**1 619**
Fixed income securities	*-*	*165*	*-*	***165***	*-*	*496*	*-*	***496***
Equity shares and other non-fixed income securities	*857*	*-*	*-*	***857***	*1 057*	*-*	*-*	***1 057***
Derivatives	*-*	*47*	*-*	***47***	*-*	*66*	*-*	***66***
Available for sale financial assets	14 497	10 267	349	**25 113**	-	9 023	365	**9 388**
Fixed income securities	*14 497*	*10 267*	*318*	***25 082***	*-*	*9 023*	*315*	***9 338***
Equity shares and other non-fixed income securities	*-*	*-*	*31*	***31***	*-*	*-*	*50*	***50***
Total financial assets	**15 354**	**10 479**	**349**	**26 182**	**1 057**	**9 585**	**365**	**11 007**
LIABILITIES								
Held for trading financial liabilities	-	2	-	**2**	-	1	-	**1**
Derivatives	*-*	*2*	*-*	*2*	*-*	*1*	*-*	*1*
Total financial liabilities	**-**	**2**	**-**	**2**	**-**	**1**	**-**	**1**

The Group and the Bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial instruments by valuation technique:

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.

In thousands of lats

39 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES (continued)

(3) Reconciliation of movement for financial assets measured at Level 3 of the fair value hierarchy

The Bank	**2012**	**2011**
Balance at 1 January	**365**	**191**
Total gains or losses:	54	15
in profit or loss	*52*	*24*
in other comprehensive income	*2*	*(9)*
Purchases	-	174
Settlements	(70)	(15)
Balance at 31 December	**349**	**365**

Total gains or losses included in profit or loss relate to securities that are in the Bank's portfolio as at 31 December 2012 and 31 December 2011.

Based on the management's assessment change in estimation inputs would not change fair value significantly, therefore the sensitivity analysis is not disclosed.

In thousands of lats

40 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND COMMITMENTS AND GUARANTEES

The table below summarizes the Bank's geographical analysis. The Group's geographical analysis is not materially different from the Bank's geographical analysis.

31 December 2012	Latvia	EU	USA	Russia	Ukraine	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	71 690	-	-	-	-	-	71 690
Due from credit institutions with a maturity of less than 3 months	1 817	44 137	6 404	15 102	2 130	1 405	70 995
Held for trading financial assets	-	47	-	857	-	165	1 069
Available for sale financial assets	10 585	31	14 497	-	-	-	25 113
Due from credit institutions with a maturity of more than 3 months	-	2 109	-	-	6 059	-	8 168
Loans	55 305	18 039	-	2 097	8 923	11 026	95 390
Accrued income and deferred expenses	90	50	4	1	-	5	150
Long-term projects costs	2 619	-	-	-	-	-	2 619
Property and equipment	7 940	51	-	-	-	-	7 991
Intangible assets	190	41	-	-	-	-	231
Investments in share capital of subsidiaries	417	-	-	-	10 436	-	10 853
Deferred tax assets	603	-	-	-	-	-	603
Other assets	4 975	2 003	-	25	41	44	7 088
Total assets	**156 231**	**66 508**	**20 905**	**18 082**	**27 589**	**12 645**	**301 960**
LIABILITIES							
Due to credit institutions	322	-	-	294	2	2 690	3 308
Held for trading financial liabilities	-	2	-	-	-	-	2
Due to customers [1]	43 534	86 925	95	16 886	1 082	99 936	248 458
Debt securities issued	-	-	-	-	-	-	-
Accrued expenses and deferred income	1 358	52	-	-	-	-	1 410
Corporate income tax liabilities	-	1	-	-	-	-	1
Subordinated liabilities	1 470	1 231	-	2 282	1 034	3 079	9 096
Other liabilities	2 118	430	-	3	-	33	2 584
Total liabilities	**48 802**	**88 641**	**95**	**19 465**	**2 118**	**105 738**	**264 859**
COMMITMENTS AND GUARANTEES							
Contingent liabilities	4 898	126	-	112	-	-	5 136
Commitments to clients	7 065	63	-	61	7	2 094	9 290
Total commitments and guarantees	**11 963**	**189**	**-**	**173**	**7**	**2 094**	**14 426**
Net position as at 31 December 2012	**95 466**	**(22 322)**	**20 810**	**(1 556)**	**25 464**	**(95 187)**	**22 675**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Belize, Bahamas, Marshall Islands, Panama, Seychelles, New Zealand, and other countries.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

40 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND COMMITMENTS AND GUARANTEES (continued)

31 December 2011	Latvia	EU	USA	Russia	Ukraine	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	67 322	-	-	-	-	-	67 322
Due from credit institutions with a maturity of less than 3 months	3 286	44 856	4 929	10 016	1 695	1 308	66 090
Held for trading financial assets	26	121	-	1 373	99	-	1 619
Available for sale financial assets	6 009	3 379	-	-	-	-	9 388
Due from credit institutions with a maturity of more than 3 months	-	2 125	-	-	14 127	1 372	17 624
Loans	48 299	19 505	-	1 284	12 059	14 343	95 490
Accrued income and deferred expenses	93	35	6	-	-	5	139
Long-term projects costs	6 605	-	-	-	-	-	6 605
Property and equipment	8 382	76	-	-	-	-	8 458
Intangible assets	262	57	-	-	-	-	319
Investments in share capital of subsidiaries	417	-	-	-	13 848	-	14 265
Deferred tax assets	363	1	-	-	-	-	364
Other assets	2 288	6 653	-	160	87	29	9 217
Total assets	**143 352**	**76 808**	**4 935**	**12 833**	**41 915**	**17 057**	**296 900**
LIABILITIES							
Due to credit institutions	333	92	-	177	-	137	739
Held for trading financial liabilities	-	1	-	-	-	-	1
Due to customers [1]	48 117	63 763	2 445	7 277	524	125 046[1]	247 172
Debt securities issued	3 513	-	-	-	-	-	3 513
Accrued expenses and deferred income	567	68	-	-	-	-	635
Corporate income tax liabilities	-	5	-	-	-	-	5
Subordinated liabilities	1 470	1 234	-	1 642	407	2 914	7 667
Other liabilities	2 330	83	-	6	-	25	2 444
Total liabilities	**56 330**	**65 246**	**2 445**	**9 102**	**931**	**128 122**	**262 176**
COMMITMENTS AND GUARANTEES							
Contingent liabilities	7 814	230	-	144	-	109	8 297
Commitments to clients	8 603	1 700	10	105	-	1 134	11 552
Total commitments and guarantees	**16 417**	**1 930**	**10**	**249**	**-**	**1 243**	**19 849**
Net position as at 31 December 2011	**70 605**	**9 632**	**2 480**	**3 482**	**40 984**	**(112 308)**	**14 875**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Panama, New Zealand, Belize, Panama, Marshall Islands and other countries.

41 RISK CONTROL AND MANAGEMENT

Since the Group's level of activity does not differ materially from that of the Bank, the Bank performs management of the relevant risks individually, except for the credit risk and operational risk which are managed at the Group's level. The same procedures that are described below are used for risk management at the Group's level. During the reporting period the Bank performed identification of substantial risks and assessment of internal capital adequacy. The identified substantial risks have not changed compared to the previous period. The description of results of the identification of substantial risks inherent to Bank's activities and assessment of internal capital adequacy is provided below.

(1) General principles

In order to manage the Bank's exposures, the Bank identifies on a regular basis the risks inherent to its activities. The Bank regularly assesses the risks that may affect its operation and performance results. For each important exposure the Bank has elaborated appropriate policies and control procedures. For the purpose of management and control of Bank's risks the Bank has the following policies in place: Risk Management Policy, Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, State Risk Management Policy, Lending Policy, Investment Policy, Reputation Risk Management Policy, Compliance Function Risk Management Policy, Policy on Prevention of Money Laundering and Terrorist Financing and other relevant policies. These policies are developed according to the Bank's Strategic Plan and they are regularly updated taking account of the development of the market and the Bank's activities.

These policies define the principles according to which the Bank defines:

- ✓ general guidelines which govern the Bank in its activities in order to minimise all kinds of risks which may result in losses ;
- ✓ classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- ✓ general day-to-day control and administration of risks of the Bank.

The main purpose of the Risk Management Policy of the Bank is to describe and determine a framework for the Bank to minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not paid on time and in full amount, or the Bank incurs losses of any other kind.

The Risk Management Policy of the Bank is implemented by the Bank Council, Board, Asset-Liability Assessment Committee (hereinafter – ALCO), Loan Committee, Loan Assessment Committee and respective Bank subdivisions controlling risk transactions.

The Council has overall responsibility for the oversight of the risk management framework for the Bank. It provides general management of the Bank ensuring achievement of goals and targets set in the Articles of Association. To exercise control over the risk management system of the Bank, the Council approves internal risk management policies, ensures compliance with such policies, their efficiency analysis and improvement.

The Board provides day-to-day management of the Bank ensuring compliance with internal documents which set out risk management procedures and requirements, distribution of powers and responsibilities among subdivisions and elaboration, approval and submission of risk management reports. The Board ensures identification and management of operational risks.

ALCO Committee determines the asset-liability structure of the Bank, sets and monitors parameters controlling statement of financial position as well as commitments and guarantees exposures - limits for positions of assets and liabilities; where necessary, it determines the amount of special provisions for doubtful loans, except for the portfolio of commercial loans where reserves are set by the Loan Committee; ensures the Bank's ability to fulfil its current financial liabilities, takes charge of long-term liquidity of the Bank by forming a balanced asset-liability term-structure; takes care of ensuring the Bank contingent activities with financial resources; analyses, assesses and controls risks of the Bank on a regular basis; elaborates and revises regularly limits restricting risks of the Bank; monitors compliance with these limits; manages assets/liabilities portfolios of the Bank (commercial loans, interbank loans, securities and others) and their limits; determines administrators of portfolios and guidelines of administration; defines and conducts correspondent banking policy of the Bank; provides assessment of correspondent banks and state of correspondent accounts.

41 RISK CONTROL AND MANAGEMENT (continued)

(1) General principles (continued)

Loan Committee is in charge of elaboration of the Bank Lending Policy; management of the loan portfolio within the framework of the Lending Policy; considers loan applications and guarantee requests; takes decisions on lending terms and conditions and interest rates of loans to be granted; on a regular basis (at least once a month) inspects the quality of loan portfolio.

Loan Assessment Committee develops certain procedures in order to timely identify impairment of loan quality, ie. main criteria for assessment and classification; revises procedures in place on a regular basis and, where necessary, amend those regularly but no less than once a quarter, provides assessment of loan quality of the Bank and classification according to the respective risk degree and based on the assessment and classification criteria.

The AML Compliance Committee assesses on a regular basis the internal control system for prevention of money laundering and terrorist financing according to the developed and approved plans, and suggests improvement to these internal control policies.

The Compliance Committee is responsible for management of compliance risk. Compliance risk is the risk of the Bank to suffer losses or to become subject to legal liabilities or to sanctions, or the risk of the Bank's reputation to deteriorate due to non-compliance or breach of compliance laws by the Bank.

The main purpose of ***the Internal Audit Division*** is to provide independent and objective evaluation of effectiveness of the internal control system of the Bank and its monitoring in order to assist the Council and the Board and subdivisions of the Bank to perform their roles. The Internal Audit Division performs its work in accordance with the activities plan approved by the Council. On every audit performed by the Internal Audit Division a report is prepared and presented to the Bank's management of its findings and deficiencies in the internal control system, policies and procedures, and inadequately identified or managed risks and it provides recommendations for remedial actions.

(2) Capital Adequacy Assessment Process

For the purpose of capital adequacy assessment and in accordance with its capital adequacy maintenance strategy, the Bank has defined that capital is an aggregate of elements of capital, reserves and liabilities which are freely available to the Bank to cover contingent, not yet identified, losses related to risks of ordinary activities. To assess capital adequacy the Bank applies the "First Pillar+" approach using as a basis regulatory minimum capital requirements, set in the amount of 8% of the total of their risk-weighted exposure amounts, and including the following risks and assessment methods:

- ✓ for credit risk capital requirements – *standardised approach;*
- ✓ for market risk capital requirements - *standardised approach;*
- ✓ for operational risk capital requirements – *key figure approach.*

Within the framework of the internal capital adequacy assessment the Bank:

- ✓ evaluates whether the calculated regulatory minimum capital requirements for credit risk, operational risk and market risk are adequate and comply with the Bank's activities;
- ✓ assesses the risks for which the regulatory minimum capital requirements are not set and calculates the amount of capital that is necessary to cover the substantial risks;
- ✓ determines the reserve of capital;
- ✓ determines the amount of internal capital that is necessary to cover overall risks;
- ✓ determines the internal early warning level of necessary capital which, if being reached, requires a plan for maintenance of capital adequacy maintenance to be put in place.

41 RISK CONTROL AND MANAGEMENT (continued)

(2) Capital Adequacy Assessment Process (continued)

The purpose of assessment of the internal capital adequacy is to ensure that the Bank's capital in terms of volume, elements and their specific weight is adequate in order to cover the risks inherent to the current Bank's activities and also the contingent risks. As a result of the internal capital adequacy assessment performed by the Bank, the internal capital adequacy level for 2012 was determined not lower than 12.3% (2011: 11.04%). Subsequently, the Financial and Capital Market Commission determined the minimum Bank's capital adequacy ratio requirement of 13.1%, effective from September 30, 2012. The required levels of capital were reached within the time frames set by the FCMC. Within the framework of the capital adequacy assessment performed in 2012, the Bank identified the following risks inherent to its activities:

- ✓ credit risk;
- ✓ liquidity risk;
- ✓ country risk;
- ✓ operational risk;
- ✓ concentration risk;
- ✓ reputation risk;
- ✓ money laundering risk;
- ✓ strategy and business risks.

To ensure capital adequacy the Bank has the following sources for capital increases:

- ✓ increase of capital through share issue;
- ✓ attraction of subordinated capital;
- ✓ formation of operation development reserves from profit of the Bank;
- ✓ retained earnings from the previous year;
- ✓ audited profit for the current year (by permission of the Financial and Capital Market Commission).

The Bank has developed the "Internal Capital Adequacy Maintenance Plan" which includes detailed measures for maintenance of capital adequacy in extraordinary circumstances (where threat occurs for the capital adequacy ratio to fall below a defined early warning level). In addition to the above described sources for capital increases, the plan foresees:

- ✓ improvement of asset quality;
- ✓ asset restructuring for the purpose of minimising the share of risk group assets;
- ✓ application of Tier 3 capital elements (by permission of the Financial and Capital Market Commission).

The Bank management ensures daily supervision of the capital adequacy. The relevant subdivisions regularly provide information to the ALCO Committee and the Board on compliance with the internal capital adequacy level and minimum regulatory requirements, as well as capital adequacy scenario analysis. The Board at least once a year submits a report to the Council on the state of capital.

The analysis of the actual figure is provided in the table below:

	2012	2011
	%	%
31 December	16.22	11.40
Average for the period	12.44	14.09
Highest level	16.22	19.06
Lowest level	10.13	11.40

(3) Credit Risk

Credit risks – is a risk of incurring losses if a borrower (debtor of the Bank) is unable to fulfil or refuse to fulfil its liabilities to the Bank according to the terms and conditions of the agreement.

The Bank provides assessment of its loan quality on a regular basis which allows timely identification of contingent losses and operational risks if the loan quality impairs. The loans granted by the Bank and its subsidiaries are regularly supervised and assessed in order to minimise the amount of losses that the Bank and its subsidiaries may incur in transactions with domestic and foreign customers. The loan assessment principles are described in section 10 of Note 2.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

41 RISK CONTROL AND MANAGEMENT (continued)

(3) Credit Risk (continued)

The Bank's Lending Policy specifies general guidelines according to which the Bank provides lending. It defines the general procedure for issuance of loans and guarantees, and for loan repayment; the procedure for control and supervision of risk transactions; basic principles for analysis of borrower's financial standing, criteria for assessment of loans and guarantees, procedure for implementation of security measures in case of contingent losses. The Bank controls concentration risk in order to comply with the maximum exposure limits. In order to minimise exposure to credit risks and prevent concentration of credit means the Bank manages diversification of its loan portfolio by countries, industries, loan types, currencies and collateral types, and sets limits for transactions per one customer and group of mutually related customers or counterparty.

In order to meet the limits set by the Bank's Sovereign Risk Management Policy, the Bank performs daily and monthly reviews of these limits. The limits for transaction partners and types of transactions are determined by evaluating sovereign risks and risks of transaction partners.

(4) Liquidity risk

Liquidity risk – a risk that the Bank may not be able - on a daily basis and/or in the future - to fulfil timely obligations in regard to legally sound claims without suffering substantial losses, and may not manage overcome extraordinary stresses to Bank's resources and/or market conditions due to insufficient volume of liquid assets.

General guidelines and principles that govern the Bank in managing its liquidity risk are set in the Liquidity Risk Management Policy and Policy for Attraction of Deposits and Other Resources. These policies specify also the following:

- ✓ liquidity risk assessment and management methods;
- ✓ early warning system, which helps to identify a potential vulnerability of the Bank's liquidity position;
- ✓ internal limits for liquidity net positions of asset-liability term-structure and liquidity net positions in lats, dollars and euros separately;
- ✓ procedures and frequency for assessment of the term-structure of assets and liabilities;
- ✓ internal limits for the concentration of funding ;
- ✓ action in case of non-compliance with the internal limits;
- ✓ contingent action plan to deal with a potential liquidity crisis.

The Bank's Board and ALCO committee are responsible for compliance with the Liquidity Management Policy. The Financial Market Department and the Resources Management Division are responsible for compliance with the liquidity requirements on a daily basis.

The Bank monitors its liquidity in both short and long-term positions, bearing in mind the regulations on liquidity requirements for credit institutions set by FCMC. The Bank maintains liquid assets in the amount which is sufficient to fulfil its liabilities but not less than 30% of the total amount of its current liabilities (liquidity ratio). The actual liquidity ratio for the reporting period is presented in the table below:

	2012	2011
	%	%
31 December	78.44	73.97
Average for the period	69.86	64.86
Highest level	78.44	73.97
Lowest level	65.75	53.50

A liquidity crisis in the Bank's understanding occurs when the daily liquidity ratio becomes less than 35%. In this event the Bank takes a number of measures in order to increase the liquidity indicators. Such measures include the following:

Optimization of the Bank's loan portfolio,

- ✓ reduction in the loan portfolio – negotiations with a preliminarily determined group of customers (*loyal customers*), to inquire about the possibility of an early repayment of loans;
- ✓ monitoring of unused credit lines – all the credit lines which have not been used are seen as subject to probable reduction;
- ✓ refinancing of a part of the loan portfolio in other financial institutions (loans to residents – in commercial banks of Latvia, loans to non-residents – in banks of their residence countries).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

41 RISK CONTROL AND MANAGEMENT (continued)

(4) Liquidity risk (continued)

Management of the liquidity portfolio (in the current market situation the Bank considers that a liquidity portfolio is the highly-liquid part of the interbank loan portfolio and securities trade portfolio),

- ✓ Reduction in the Interbank loan portfolio with the term up to 1 week;
- ✓ Repo transactions;
- ✓ Realisation of portfolio;

Management of property and equipment, assessment of property and equipment for the purpose of further realization;

Attraction of shareholder support (increasing of subordinated capital and equity capital and other options);

Increasing of customer basis by means of term deposits,

- ✓ Attraction of term deposits offering interest rates which exceed the market rates (*loyal customers*);
- ✓ Attraction of subordinated capital (*loyal customers*);

Increasing of customer basis with deposits on demand,

- ✓ Attraction of news customer through representative offices and subsidiaries;
- ✓ Increasing of residents' balances (negotiations of TKB with customers).

Attraction of additional funding,

- ✓ Receiving of approved lines from cooperation partners;
- ✓ Receiving of different loans from banks, including syndicated, club, etc.;
- ✓ Issuing of mortgage bonds, other long-term and medium-term financial instruments;
- ✓ Finding of funding opportunity against the collateral of loan portfolio (in the Bank of Latvia, international organisations and domestic financial institutions).

Implementation of the communication action plan:

- ✓ Summarizing of information concerning the crisis situation;
- ✓ Stating of Bank's position and preparation of key information for each group of information recipients (Bank staff and representatives; Bank shareholders, Bank customers, incl. depositors and borrowers, authorities supervising Bank's activities, the entire society, mass media representatives);
- ✓ Aggregating of data confirming Bank's stability and ability to overcome temporary difficulties;
- ✓ Formulation and dissemination of messages to Bank employees, customers and mass media;
- ✓ In-depth media monitoring and research of other public space, analysis of the monitoring results.
- ✓ In order to assess the probable vulnerability of liquidity positions, the Bank regularly performs liquidity stress testing and scenario analysis. In this framework, the Bank evaluates the effectiveness of the liquidity crisis management plan. Based on such analysis results, the Bank improves the plan in accordance with changes in the Bank's operation and external factors affecting the Bank's operation.

(5) Market risk

Market risk – is a risk to incur losses due to revaluation of statement of financial position and commitments and guarantees which is related to changes of market prices of financial instruments, including derivatives, caused by fluctuation of currency rates and interest rates.

Currency risk is a risk to incur losses due to revaluation of statement of financial position and commitments and guarantees denominated in foreign currency when currency exchange rates change. The Bank Currency Risk Management Policy specifies general guidelines which govern the Bank in formation of its currency asset-liability structure; in general daily control and management of currency risks of the Bank and in defining its safeguard mechanism against contingent currency risks.

To ensure control of currency risks the Bank defines limits for the currency risk to which it can be exposed and monitors whether its assets are in a balanced position in relation to liabilities in the respective currencies (i.e., the Bank maintains as minimal as possible its currency positions and the total currency position). To control its currency exposure the Bank determines restrictions for positions of each foreign currency and of the total open position and their relation against the equity capital and various types of limits. As a result the Bank ensures that it complies with the required standards. According to the Law on Credit Institutions the total open position in foreign currencies cannot exceed 20% of equity capital.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

41 RISK CONTROL AND MANAGEMENT (continued)

(5) Market risk (continued)

The analysis of the total open position in foreign currencies of the Bank is presented in the table below:

	2012	2011
	%	%
31 December	3.86	7.74
Average for the period	5.06	3.70
Highest level (worse)	7.35	7.74
Lowest level (better)	3.86	2.75

Interest rate risk is a risk that market changes of interest rates may affect financial standing of the Bank. The day-to-day activity of the Bank is related to interest rate exposure which is affected by maturity dates of the assets, liabilities and commitments and guarantees that are related to interest income and expenses and interest rate revision dates. The Bank Interest Rate Risk Management Policy defines the interest rate risk measurement methodology which covers the main sources of interest rate exposures and allows assessing the impact of interest rate exposure on earnings of the Bank and its economic value; internal limits of interest rate risk and measures to be taken in case of noncompliance with these limits; procedure for stress testing and its frequency, including assumptions of possible development scenarios and conditions in which the Bank may incur substantial losses due to interest rate exposure (if the losses thereof exceeds 15% of equity capital), and assumptions and feasible plan of actions.

To measure the exposure to interest rate risk the Bank applies spread analysis method. This method sets the net position of interest rate risk as a spread between assets, liabilities and commitments and guarantees which are interest rate sensitive according to their remaining maturities.

The Bank assesses the size of interest rate risk by calculating the net position of interest risk, overall position of the interest risk and impact on the annual net interest income if interest rates in parallel increase (regardless of the original period) by 1 percent (or 100 basis points).

The Trade Portfolio Policy sets out the principles which the Bank applies to its investing activities. The Policy defines the conditions for acquisition of Trade Portfolio positions, and basic principles for their accounting and valuation.

As a part of implementation of the Trade Portfolio Policy, the Bank values assets in the trading portfolio on a daily basis. Thus, it allows increased efficiency for the short-term investments of the Bank. Besides, the Trade Portfolio Policy of the Bank defines different types of market risk limits and their control mechanism.

(6) Operational risk

Operational risk – is a possibility to incur losses due to irrelevant or incomplete fulfilment of internal processes, human actions or system functioning or due to the influence of external circumstances, including legal risk, except for strategic or reputation risks. The Operational Risk Management Policy sets operational risk management objectives; definition of operational risk that is intended for internal use and that corresponds to the application and experience of the Bank; the key processes and priorities of the operational risk management; approach that is to be applied to identification, assessment, supervision and control of operational risks, and methods of operational risk mitigation and basic principles for provision of continuity of operations, which include methods chosen by the Bank to handle emergency situations .

The Bank provides regular supervision of inherent operational risks in regard to all its major products, types of activities, processes and systems in order to discover and eliminate on time any discrepancies regarding the Operational Risk Management Policy and procedures and, therefore, considerably minimise the frequency of possible occurrence of operational losses and their size.

The Bank applies the following methods to operational risk mitigation:

- ✓ investments into respective data processing and information security technologies;
- ✓ investments into training of personnel;
- ✓ outsourcing in situations where service providers have more experience or higher potential in management of operational risks related to certain activities of the Bank;
- ✓ insurance (if necessary), making sure that its use for operational risk mitigation does not create other types of risk (legal risk or business partner risk);
- ✓ elaboration of a plan for provision of continuity of operations.

41 RISK CONTROL AND MANAGEMENT (continued)

(7) Internal Control System for Prevention of Laundering of Proceeds Derived From Crime and Financing of Terrorism.

The internal control system for prevention of money laundering and terrorism financing is a set of document and measures, which the Bank observes and improves on a regular basis in order to ensure rigid management of money laundering and terrorism financing risk.

Within the framework of the internal control system for prevention of money laundering and terrorism financing the Bank has defined the procedure for identification and monitoring of customers (true beneficial owners) and unusual and suspicious financial transactions, and submission of reports thereof, it has developed a risk-based approach to customer due diligence, acceptance and supervision of transactions performed by customers, it organizes training of employees on a regular basis to provide them with necessary knowledge for the prevention of money laundering and terrorism financing and to ensure practical application of this knowledge to the measures prescribed in the internal control system documents.

In order to ensure sufficient compliance with the legislation of the prevention of money laundering and terrorism financing and best international practices, the Internal Audit Division of the Bank inspects and evaluates efficiency of the internal control system regularly.

The Bank continuously develops its internal control system, including the technical equipment. The Bank has yearly drafted and approved a plan of measures for upgrading the internal control system for prevention of money laundering and terrorism financing. Within the scope of this plan the Bank improves its technical supply and conducts employee training and knowledge testing.

Employees of the Bank upgrade their knowledge on a regular basis by participating in international seminars and conferences and in training programmes organized by the Consultation and Training centre to the Association of Commercial banks of Latvia on the prevention of money laundering and terrorism financing.

In 2010 the Bank established the Customer Payments Monitoring Division. Its main task is monitoring of Customers' daily payments. At the beginning of 2011 the Bank introduced an automated transaction monitoring system. This system ensures effective identification of suspicious transactions or deviations from the model of customer's behaviour.

In order to further improve the efficiency of the system set up and provide an even more in-depth understanding of the Bank's customer business operations and management, the Bank's Customer Department was reorganized in 2012 by establishing the Foreign Customer Service and Regions Development Department and the Customer Service Department. Furthermore, a special focus is now directed on visiting customers at their business running venues and on revising of legal files of individual customer groups.

41 RISK CONTROL AND MANAGEMENT (continued)

(8) Other substantial risks inherent to Bank activities

Country risk is the risk that a partner/ customer of the Bank that is a resident of another country will not be able to fulfil its obligations to the Bank due to impact of economic, social and political conditions of the country on the resident of this country. This risk is managed according to the Bank's Country Risk Management Policy which sets risk classification, limit and controlling mechanisms.

Concentration risk - any exposure or exposure group, due to which the Bank may incur such losses that may threaten Bank's solvency or ability to continue operations. Concentration risk arises from the large-scale risk transactions with customers or groups of related customers or risk transactions with customers whose creditworthiness is determined by one joint risk factor (e.g., economic sector, geographic region, currency, and etc.). For the purpose of containment and minimization of concentration risk the ALCO Committee has developed a number of concentration limits (e.g., concentration of assets in breakdown by countries, concentration of correspondent accounts, etc.). The system of management of the concentration risk is governed by appropriate risk management policies.

Reputation risk is the risk that the Bank customers, business partners, shareholders, supervisory authorities and other stakeholders may develop a negative opinion about the Bank which could adversely affect Bank's ability to maintain its existing business relationships or establish new relationships with its customers and business partners. The reputation risk management is governed by the Bank's Reputation Risk Management Policy.

Strategy and business risk is the risk that changes in business environment and Bank's failure to timely respond to such changes, or inappropriately or wrongly chosen development strategy of the Bank, or Bank's failure to provide necessary resources for implementation of the strategy may adversely affect profits, amount of capital and liquidity of the Bank. The underlying principle of risk management - regular control over Bank's compliance with the strategy (long-term) and budget plans (short-term), deviation analysis and making of timely management decisions.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 CREDIT RISK

As one of the Bank's subsidiaries extends finance leases and loans, credit quality management of financial assets is carried out by the Bank's management on a consolidated basis. Therefore, in the opinion of the Bank's management, presenting information in the tables analysing aging and credit quality of the financial assets only for the Group increases quality of information and provides the most realistic information about credit quality.

(1) Maximum exposure to credit risk by types of financial assets

	The Group		The Bank	
	2012	2011	2012	2011
ASSETS				
Cash and balances due from the Bank of Latvia	70 465	66 156	70 465	66 156
Due from credit institutions with a maturity of less than 3 months	71 007	66 095	70 995	66 090
Held for trading financial assets	1 069	1 619	1 069	1 619
Available for sale financial assets	25 113	9 388	25 113	9 388
Due from credit institutions with a maturity of more than 3 months	8 168	17 624	8 168	17 624
Loans	85 496	93 940	95 390	95 490
Other assets	2 446	7 586	2 422	7 455
TOTAL ASSETS	**263 764**	**262 408**	**273 622**	**263 822**
COMMITMENTS AND GUARANTEES				
Contingent liabilities	257	2 797	257	2 797
Commitments to clients	7 890	7 901	9 290	8 600
TOTAL COMMITMENTS AND GUARANTEES	**8 147**	**10 698**	**9 547**	**11 397**

The maximum exposure to credit risk reflects the value of financial assets and commitments and guarantees exposed to credit risk and is not reduced for the value of security or other factors reducing the credit.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 CREDIT RISK (continued)

(2) Analysis of a summary of the credit quality of the Group's financial assets and commitments and guarantees

	Assets not past due nor impaired	Assets past due but not impaired	Impaired assets	Total
		2012		
Cash and balances due from the Bank of Latvia	70 465	-	-	70 465
Due from credit institutions with a maturity of less than 3 months	71 007	-	-	71 007
Held for trading financial assets	1 069	-	-	1 069
Available for sale financial assets	25 113	-	-	25 113
Due from credit institutions with a maturity of more than 3 months	8 168	-	-	8 168
Loans [1]	60 399	10 322	14 775	85 496
Other assets	4 645	200	-	4 845
TOTAL ASSETS	**240 866**	**10 522**	**14 775**	**266 163**
Contingent liabilities	257	-	-	257
Commitments to clients	7 890	-	-	7 890
TOTAL COMMITMENTS AND GUARANTEES	**8 147**	**-**	**-**	**8 147**
		2011		
Cash and balances due from the Bank of Latvia	66 156	-	-	66 156
Due from credit institutions with a maturity of less than 3 months	66 061	34	-	66 095
Held for trading financial assets	1 619	-	-	1 619
Available for sale financial assets	9 388	-	-	9 388
Due from credit institutions with a maturity of more than 3 months	17 624	-	-	17 624
Loans [1]	63 107	17 137	13 696	93 940
Other assets	7 406	180	-	7 586
TOTAL ASSETS	**231 361**	**17 351**	**13 696**	**262 408**
Contingent liabilities	2 797	-	-	2 797
Commitments to clients	7 901	-	-	7 901
TOTAL COMMITMENTS AND GUARANTEES	**10 698**	**-**	**-**	**10 698**

[1] Criteria for loan evaluation are described in Note 21, (2) and 2, (10).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 CREDIT RISK (continued)

(3) Analysis of the Group's financial assets neither past due nor impaired (Note 42, (2))

	By groups of classification	By ratings	Other	Total
		2012		
Cash and balances due from the Bank of Latvia	-	70 465	-	70 465
Due from credit institutions with a maturity of less than 3 months	-	71 007	-	71 007
Held for trading financial assets	-	1 069	-	1 069
Available for sale financial assets	-	25 113	-	25 113
Due from credit institutions with a maturity over than 3 months	-	8 168	-	8 168
Loans [1]	60 399	-	-	60 399
Other assets	-	-	4 645	4 645
TOTAL ASSETS	**60 399**	**175 822**	**4 645**	**240 866**
Contingent liabilities	257	-	-	257
Commitments to clients	7 890	-	-	7 890
TOTAL COMMITMENTS AND GUARANTEES	**8 147**	**-**	**-**	**8 147**
		2011		
Cash and balances due from the Bank of Latvia	-	66 156	-	66 156
Due from credit institutions with a maturity of less than 3 months	-	66 061	-	66 061
Held for trading financial assets	-	1 619	-	1 619
Available for sale financial assets	-	9 388	-	9 388
Due from credit institutions with a maturity over than 3 months	-	17 624	-	17 624
Loans [1]	63 107	-	-	63 107
Other assets	-	-	7 406	7 406
TOTAL ASSETS	**63 107**	**160 848**	**7 406**	**231 361**
Contingent liabilities	2 797	-	-	2 797
Commitments to clients	7 901	-	-	7 901
TOTAL COMMITMENTS AND GUARANTEES	**10 698**	**-**	**-**	**10 698**

[1] Loans that are assessed by classification groups incorporate the loans classified as Standard. *Standard loans* are loans for which there is no indication as at reporting date that these will not be paid, i.e. no problem is expected to occur with loan repayment, as the current and forecast cash flows are sufficient to repay the debt.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 CREDIT RISK (continued)

(4) Analysis of the Group's financial assets with credit quality assessed by credit ratings (Note 42, (3))

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No ratings	Total
				2012				
Cash and balances due from the Bank of Latvia	-	-	70 465	-	-	-	-	70 465
Due from credit institutions with a maturity of less than 3 months	36 683	9 294	605	16 495	380	-	7 550	71 007
Held for trading financial assets	-	-	165	-	-	-	904	1 069
Available for sale financial assets	14 497	-	10 267	-	-	-	349	25 113
Due from credit institutions with a maturity of more than 3 months	-	2 108	-	-	-	219	5 841	8 168
Total assets	**51 180**	**11 402**	**81 502**	**16 495**	**380**	**219**	**14 644**	**175 822**
				2011				
Cash and balances due from the Bank of Latvia	-	-	-	66 156	-	-	-	66 156
Due from credit institutions with a maturity of less than 3 months	42 674	45	554	10 610	-	-	12 178	66 061
Held for trading financial assets	-	55	-	342	-	99	1 123	1 619
Available for sale financial assets	1 471	1 860	5 692	-	-	-	365	9 388
Due from credit institutions with a maturity of more than 3 months	-	2 125	-	-	-	450	15 049	17 624
Total assets	**44 145**	**4 085**	**6 246**	**77 108**	**-**	**549**	**28 715**	**160 848**

Table of Rating Summary

	Moody's Investors Service Ltd		FitchRatings		Standard&Poor's Ratings Services	
Quality grade	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**
Class 1	Aaa to Aa3	P-1	AAA to AA-	F-1+, F-1	AAA to AA-	A-1+, A-1
Class 2	A1 to A3	P-2	A+ to A-	F-2	A+ to A-	A-2
Class 3	Baa1 to Baa3	P-3	BBB+ to BBB-	F-3	BBB+ to BBB-	A-3
Class 4	Ba1 to Ba3	NP	BB+ to BB-	Lower than F3	BB+ to BB-	B-1, B-2, B-3, C
Class 5	B1 to B3		B+ to B-		B+ to B-	
Class 6	Caa1 and lower		CCC+ and lower		CCC+ and lower	

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 CREDIT RISK (continued)

(5) Ageing analysis of the Group's financial assets past due but not impaired (Note 42, (2))

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Total
			2012			
Private non-financial corporations	2 594	3 309	2 284	13	753	8 953
Households	358	302	18	41	850	1 569
Total assets	**2 952**	**3 611**	**2 302**	**54**	**1 603**	**10 522**
Collaterals	*2 999*	*6 688*	*3 511*	*169*	*4 724*	*18 091*
			2011			
Private non-financial corporations	4 084	4 405	199	1 493	5 002	15 183
Households	382	269	92	440	985	2 168
Total assets	**4 466**	**4 674**	**291**	**1 933**	**5 987**	**17 351**
Collaterals	*8 413*	*3 851*	*1 771*	*2 452*	*9 376*	*25 863*

(6) Ageing analysis of the Group's impaired assets (Note 42, (2))

	Without delay	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Total
				2012			
Private non-financial corporations	11 636	-	84	-	342	8 414	20 476
Households	220	-	11	-	252	7 041	7 524
Total assets	**11 856**	**-**	**95**	**-**	**594**	**15 455**	**28 000**
Allowance for loans	**(3 585)**	**-**	**(89)**	**-**	**(411)**	**(9 140)**	**(13 225)**
Total assets, net	**8 271**	**-**	**6**	**-**	**183**	**6 315**	**14 775**
Collaterals	*12 813*	*-*	*-*	*-*	*183*	*7 968*	*20 964*
				2011			
Private non-financial corporations	8 407	-	-	519	500	12 058	21 484
Households	1 116	-	-	-	95	6 614	7 825
Total assets	**9 523**	**-**	**-**	**519**	**595**	**18 672**	**29 309**
Allowance for loans	**(4 349)**	**-**	**-**	**(480)**	**(417)**	**(10 367)**	**(15 613)**
Total assets, net	**5 174**	**-**	**-**	**39**	**178**	**8 305**	**13 696**
Collaterals	*6 681*	*-*	*-*	*41*	*206*	*10 888*	*17 816*

(7) Analysis of restructured loans which would otherwise be overdue and/or impaired in their value

	2012	2011
Private non-financial corporations	10 504	8 534
Households	4 271	5 162
Total assets	**14 775**	**13 696**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 LIQUIDITY RISK

(1) The Bank's maturity analysis of assets, liabilities and commitments and guarantees

The below table summarizes the Bank's maturity analysis. The Group's maturity analysis is not materially different from Bank's maturity analysis.

According to terms of the payments to maturity

31 December 2012	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
ASSETS								
Cash and balances due from the Bank of Latvia	71 690	-	-	-	-	-	-	71 690
Due from credit institutions with a maturity of less than 3 months	67 800	3 195	-	-	-	-	-	70 995
Held for trading financial assets	51	-	-	-	161	-	857	1 069
Available for sale financial assets	8 966	1 588	6 536	5 646	2 214	132	31	25 113
Due from credit institutions with a maturity of more than 3 months	2 145	3 223	2 710	90	-	-	-	8 168
Loans	5 093	7 919	13 526	28 930	26 202	13 720	-	95 390
Accrued income and deferred expenses	-	-	3	4	143	-	-	150
Long-term projects costs	-	-	-	-	-	-	2 619	2 619
Property and equipment	-	-	-	-	-	-	7 991	7 991
Intangible assets	-	-	-	-	-	-	231	231
Investments in share capital of subsidiaries	-	-	-	-	-	-	10 853	10 853
Deferred tax assets	-	-	-	-	-	-	603	603
Other assets	2 038	-	-	-	-	-	5 050	7 088
Total assets	**157 783**	**15 925**	**22 775**	**34 670**	**28 720**	**13 852**	**28 235**	**301 960**
LIABILITIES								
Due to credit institutions	2 987	-	157	137	27	-	-	3 308
Held for trading financial assets	2	-	-	-	-	-	-	2
Due to customers	197 211	4 562	14 018	20 619	12 048	-	-	248 458
Debt securities issued	-	-	-	-	-	-	-	-
Accrued expenses and deferred income	1 410	-	-	-	-	-	-	1 410
Corporate income tax liabilities	-	-	1	-	-	-	-	1
Subordinated liabilities	66	-	6	-	7 618	1 406	-	9 096
Other liabilities	2 568	-	2	14	-	-	-	2 584
Total liabilities	**204 244**	**4 562**	**14 184**	**20 770**	**19 693**	**1 406**	**-**	**264 859**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and commitments and guarantees (continued)

According to terms of the payments to maturity

31 December 2012	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Commitments and guarantees								
Contingent liabilities	75	97	175	346	4 443	-	-	5 136
Incl. secured by deposits, placed in the Bank	*-*	*1*	*-*	*-*	*-*	*-*	*-*	*1*
Commitments to clients	9 290	-	-	-	-	-	-	9 290
Incl. secured by deposits, placed in the Bank (Note 21, (5). and 34, (2))	*303*	*-*	*-*	*-*	*-*	*-*	*-*	*303*
Total commitments and guarantees	**9 365**	**97**	**175**	**346**	**4 443**	**-**	**-**	**14 426**
Liquidity net position as at 31 December 2012	**(55 523)**	**11 267**	**8 416**	**13 554**	**4 584**	**12 446**	**28 235**	**22 979**

According to the Rules for compliance with the liquidity requirements, commitments and guarantees secured by deposits are not required to be included in the net position calculation. Commitments and guarantees with possible maturity before the agreement expires are disclosed in the maturity group "Up to 1 month".

In the maturity analysis, trading and available-for-sale securities are stated according to their maturity date. Assets that do not have a definite repayment or sales date are disclosed in the "Other" category. Liabilities with an indefinite due date or which are payable on demand are disclosed in the "Up to 1 month" category.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and commitments and guarantees (continued)

According to terms of the payments to maturity

31 December 2011	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
ASSETS								
Cash and balances due from the Bank of Latvia	67 322	-	-	-	-	-	-	67 322
Due from credit institutions with a maturity of less than 3 months	64 452	1 638	-	-	-	-	-	66 090
Held for trading financial assets	66	4	4	-	434	54	1 057	1 619
Available for sale financial assets	34	12	840	5 225	3 096	131	50	9 388
Due from credit institutions with a maturity of more than 3 months	14 201	1 651	-	1 360	412	-	-	17 624
Loans	10 434	11 954	8 838	15 623	33 832	14 809	-	95 490
Accrued income and deferred expenses	12	23	35	69	-	-	-	139
Long-term projects costs	-	-	-	-	-	-	6 605	6 605
Property and equipment	-	-	-	-	-	-	8 458	8 458
Intangible assets	-	-	-	-	-	-	319	319
Investments in share capital of subsidiaries	-	-	-	-	-	-	14 265	14 265
Deferred tax assets	-	-	-	-	-	-	364	364
Other assets	3 978	-	-	-	-	-	5 239	9 217
Total assets	**160 499**	**15 282**	**9 717**	**22 277**	**37 774**	**14 994**	**36 357**	**296 900**
LIABILITIES								
Due to credit institutions	462	27	85	165	-	-	-	739
Held for trading financial assets	1	-	-	-	-	-	-	1
Due to customers	196 204	6 808	10 687	25 633	7 840	-	-	247 172
Debt securities issued	-	8	-	3 505	-	-	-	3 513
Accrued expenses and deferred income	635	-	-	-	-	-	-	635
Corporate income tax liabilities	-	-	5	-	-	-	-	5
Subordinated liabilities	63	-	6	-	7 598	-	-	7 667
Other liabilities	692	-	-	1 752	-	-	-	2 444
Total liabilities	**198 057**	**6 843**	**10 783**	**31 055**	**15 438**	**-**	**-**	**262 176**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and commitments and guarantees (continued)

According to terms of the payments to maturity

31 December 2011	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Commitments and guarantees								
Contingent liabilities	53	209	423	2 537	1 224	3 851	-	8 297
Incl. secured by deposits, placed in the Bank[1]	*1*	*-*	*-*	*2 203*	*1*	*-*	*-*	*2 205*
Commitments to clients	9 113	-	2 439	-	-	-	-	11 552
Incl. secured by deposits, placed in the Bank (Note 21, (5). and 34, (2))	*268*	*-*	*-*	*-*	*-*	*-*	*-*	*268*
Total commitments and guarantees	**9 166**	**209**	**2 862**	**2 537**	**1 224**	**3 851**	**-**	**19 849**
Liquidity net position as at 31 December 2011	**(46 455)**	**8 230**	**(3 928)**	**(9 112)**	**21 113**	**11 143**	**36 357**	**17 348**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 LIQUIDITY RISK (continued)

(2) Analysis of the gross contractual future cash flows of the Bank's liabilities and commitments and guarantees [1]

The table below contains an analysis of the expected future cash flows of the Bank's liabilities. The analysis of the expected future cash flow of the Group's liabilities does not differ materially from that of the Bank.

According to terms of the payments

31 December 2012	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total	Carrying amount
LIABILITIES								
Due to credit institutions	2 987	-	159	139	27	-	3 312	3 308
Held for trading financial liabilities	(45)	-	-	-	-	-	(45)	(45)
incl. forward foreign exchange receivable	*(5 047)*	-	-	-	-	-	*(5 047)*	*(5 047)*
incl. forward foreign exchange payable	*5 002*	-	-	-	-	-	*5 002*	*5 002*
Due to customers	197 286	4 717	14 293	21 142	12 606	-	250 044	248 458
Debt securities issued	-	-	-	-	-	-	-	-
Accrued expenses and deferred income	1 410	-	-	-	-	-	1 410	1 410
Subordinated liabilities	98	73	181	344	9 649	1 637	11 982	9 096
Corporate income tax liabilities	-	-	1	-	-	-	1	1
Other liabilities	2 437	-	2	14	-	-	2 453	2 453
incl. spot foreign exchange receivable	*(106 841)*	-	-	-	-	-	*(106 841)*	*(106 841)*
incl. spot foreign exchange payable	*106 793*	-	-	-	-	-	*106 793*	*106 793*
Total liabilities	**204 173**	**4 790**	**14 636**	**21 639**	**22 282**	**1 637**	**269 157**	**264 681**
COMMITMENTS AND GUARANTEES								
Contingent liabilities	75	97	175	346	4 443	-	5 136	5 136
Commitments to clients	9 290	-	-	-	-	-	9 290	9 290
Total commitments and guarantees	**9 365**	**97**	**175**	**346**	**4 443**	**-**	**14 426**	**14 426**
Total as at 31 December 2012	**213 538**	**4 887**	**14 811**	**21 985**	**26 725**	**1 637**	**283 583**	**279 107**

[1] This analysis is based on the undiscounted liability cash flow which includes interest payments as well as the gross value of the cash flow of derivative instruments.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 LIQUIDITY RISK (continued)

(2) Analysis of the expected future cash flow of the Bank's liabilities and commitments and guarantees (continued)

According to terms of the payments

31 December 2011	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total	Carrying amount
LIABILITIES								
Due to credit institutions	462	27	86	169	-	-	744	739
Held for trading financial liabilities	(65)	-	-	-	-	-	(65)	(65)
incl. forward foreign exchange receivable	*(1 339)*	-	-	-	-	-	*(1 339)*	*(1 339)*
incl. forward foreign exchange payable	*1 274*	-	-	-	-	-	*1 274*	*1 274*
Due to customers	196 281	7 206	10 923	26 346	8 428	-	249 184	247 172
Debt securities issued	-	25	21	3 556	-	-	3 602	3 513
Accrued expenses and deferred income	635	-	-	-	-	-	635	635
Subordinated liabilities	93	62	165	312	9 491	-	10 123	7 667
Corporate income tax liabilities	-	-	5	-	-	-	5	5
Other liabilities	467	-	-	1 752	-	-	2 219	2 219
incl. spot foreign exchange receivable	*(50 345)*	-	-	-	-	-	*(50 345)*	*(50 345)*
incl. spot foreign exchange payable	*50 151*	-	-	-	-	-	*50 151*	*50 151*
Total liabilities	**197 873**	**7 320**	**11 200**	**32 135**	**17 919**	**-**	**266 447**	**261 885**
COMMITMENTS AND GUARANTEES								
Contingent liabilities	53	209	423	2 537	1 224	3 851	8 297	8 297
Commitments to clients	9 113	-	2 439	-	-	-	11 552	11 552
Total commitments and guarantees	**9 166**	**209**	**2 862**	**2 537**	**1 224**	**3 851**	**19 849**	**19 849**
Total as at 31 December 2011	**207 039**	**7 529**	**14 062**	**34 672**	**19 143**	**3 851**	**286 296**	**281 734**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and commitments and guarantees

The below table summarizes the Bank's currency analysis. The Group's currency analysis is not materially different from Bank's currency analysis.

31 December 2012	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	17 878	575	53 222	15	71 690
Due from credit institutions with a maturity of less than 3 months	33	45 398	7 584	17 980	70 995
Held for trading financial assets	47	1 022	-	-	1 069
Available for sale financial assets	7 986	14 497	2 630	-	25 113
Due from credit institutions with a maturity of more than 3 months	-	6 059	2 109	-	8 168
Loans	4 857	36 489	54 044	-	95 390
Accrued income and deferred expenses	102	23	25	-	150
Long-term projects costs	1 619	-	1 000	-	2 619
Property and equipment	7 940	-	51	-	7 991
Intangible assets	189	-	42	-	231
Investments in share capital of subsidiaries	564	10 289	-	-	10 583
Deferred tax assets	603	-	-	-	603
Other assets	5 093	1 863	68	64	7 088
Total assets	**46 911**	**116 215**	**120 775**	**18 059**	**301 960**
Spot foreign exchange receivable [1]	**3 965**	**73 191**	**14 154**	**15 531**	**106 841**
LIABILITIES					
Due to credit institutions	-	1 540	1 762	6	3 308
Held for trading financial liabilities	2	-	-	-	2
Due to customers	7 498	153 418	70 222	17 320	248 458
Debt securities issued	-	-	-	-	-
Accrued expenses and deferred income	1 328	19	60	3	1 410
Corporate income tax liabilities	-	-	1	-	1
Subordinated liabilities	685	4 380	4 031	-	9 096
Other liabilities	1 920	457	179	28	2 584
Total liabilities	**11 433**	**159 814**	**76 255**	**17 357**	**264 859**
Spot foreign exchange payable [1]	**2 410**	**26 660**	**61 574**	**16 149**	**106 793**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and commitments and guarantees (continued)

31 December 2012	LVL	USD	EUR	Other currencies	Total
Commitments and guarantees					
Contingent liabilities	4 816	-	320	-	5 136
Commitments to clients	618	3 711	4 961	-	9 290
Total commitments and guarantees	**5 434**	**3 711**	**5 281**	**-**	**14 426**
Net forward position [2]	**-**	**(3 863)**	**3 908**	**-**	**45**
Net position as at 31 December 2012					
Net amount of the long/(short) position[3]	**37 033**	**(931)**	**1 008**	**84**	**37 194**
Net position	**-**	**(931)**	**1 008**	**84**	**1 092**
% of regulatory capital	**-**	**(3.29)**	**3.56**	**0.30**	**3.86**

[1] In compliance with the Rules for calculation of the minimum capital requirements, the total sums of Spot Agreements are to be included into calculation of currency net open position in case settlement date accounting has been applied for transaction accounting purposes.

[2] According to the Rules for calculation of the minimum capital requirements, net forward position i.e. difference between all receivable and payable amounts from concluded foreign currency forward agreements are to be included in the calculation of currency net forward position.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and commitments and guarantees (continued)

31 December 2011	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	21 447	449	45 411	15	67 322
Due from credit institutions with a maturity of less than 3 months	32	49 607	7 016	9 435	66 090
Held for trading financial assets	92	1 527	-	-	1 619
Available for sale financial assets	3 495	1 153	4 740	-	9 388
Due from credit institutions with a maturity of more than 3 months	-	15 499	2 125	-	17 624
Loans	6 482	38 161	50 847	-	95 490
Accrued income and deferred expenses	100	18	21	-	139
Long-term projects costs	6 605	-	-	-	6 605
Property and equipment	8 448	10	-	-	8 458
Intangible assets	319	-	-	-	319
Investments in share capital of subsidiaries	564	13 701	-	-	14 265
Deferred tax assets	363	-	1	-	364
Other assets	2 557	6 410	136	114	9 217
Total assets	**50 504**	**126 535**	**110 297**	**9 564**	**296 990**
Amounts receivable under spot foreign exchange transactions [1]	**733**	**29 562**	**11 305**	**8 745**	**50 345**
LIABILITIES					
Due to credit institutions	60	423	115	141	739
Held for trading financial liabilities	1	-	-	-	1
Due to customers	10 425	134 418	91 331	10 998	247 172
Debt securities issued	-	-	3 513	-	3 513
Accrued expenses and deferred income	541	17	75	2	635
Corporate income tax liabilities	-	-	5	-	5
Subordinated liabilities	455	3 603	3 609	-	7 667
Other liabilities	2 059	232	126	27	2 444
Total liabilities	**13 541**	**138 693**	**98 774**	**11 168**	**262 176**
Amounts payable under spot foreign exchange transactions [1]	**1 015**	**18 451**	**22 764**	**7 921**	**50 151**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and commitments and guarantees (continued)

31 December 2011	LVL	USD	EUR	Other currencies	Total
Commitments and guarantees					
Contingent liabilities	7 546	109	642	-	8 297
Commitments to clients	3 123	2 977	5 452	-	11 552
Total commitments and guarantees	**10 669**	**3 086**	**6 094**	**-**	**19 849**
Net forward position [2]	**-**	**(341)**	**(434)**	**840**	**65**
Net position as at 31 December 2011					
Net amount of the long/(short) position[3]	**36 681**	**(1 388)**	**(370)**	**60**	**34 983**
Net position	**-**	**(1 388)**	**(370)**	**60**	**(1 758)**
% of regulatory capital	**-**	**(6.11)**	**(1.63)**	**0.26**	**(7.74)**

[1] In compliance with the Rules for calculation of the minimum capital requirements, the total sums of Spot Agreements are to be included into calculation of currency net open position in case settlement date accounting has been applied for transaction accounting purposes.

[2] According to the Rules for calculation of the minimum capital requirements, net forward position i.e. difference between all receivable and payable amounts from concluded foreign currency forward agreements are to be included in the calculation of currency net forward position.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 MARKET RISK (continued)

(2) Analysis of the Bank's exposure to interest rate risks

	2012			2011		
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
LVL	-175	213	260	+25	42	30
USD	-12.5	75	67	-12.5	42	36
EUR	-25	(79)	(59)	-12	(7)	2
		209	**268**		**77**	**68**

	2012			2011		
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
LVL	+175	(213)	(260)	-25	(42)	(30)
USD	+12.5	(75)	(67)	+12.5	(42)	(36)
EUR	+25	79	59	+12	7	(2)
		(209)	**(268)**		**(77)**	**(68)**

The Bank has been assessing on a regular basis the interest rate risk for each currency for which the extent of the Bank's assets or liabilities exceeds 5 percent of the total balance, and for all currencies on the whole. The analysis of exposure to interest rate risks is calculated as the effect on the net income of interest per year (which equals the effect of pre-tax profit or loss). When calculating the effect of interest rate changes, the interest rate risk's net open position as at 31 December 2012 and 31 December 2011 is multiplied by expected change in interest rates expressed as basis points.

According to management estimations the reasonable change in prices for capital markets would be 15% which would result in effect on profit/loss 128 thousands of lats and on equity 128 thousands of lats (2011: 159 thousands of lats and on equity 159 thousands of lats).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 MARKET RISK (continued)

(3) Analysis of the Bank's exposure to currency risks

	2012			2011		
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
USD	+5	(50)	(43)	+5	(69)	(59)
EUR	+1	10	9	+1	(4)	(3)
Other	+5	4	3	+5	3	3
		(36)	**(31)**		**(70)**	**(59)**

	2012			2011		
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
USD	-5	50	43	-5	69	59
EUR	-1	(10)	(9)	-1	4	3
Other	-5	(4)	(3)	-5	(3)	(3)
		36	**31**		**70**	**59**

The analysis of exposure to currency risks is calculated as the effect on pre-tax profit or loss from the currency net position As the actual market situation changes, its effect may change either positively or negatively.

In thousands of lats

45 CALCULATION OF CAPITAL ADEQUACY

	Group 2012	Group 2011	Bank 2012	Bank 2011
OWN FUNDS	**25 681**	**21 952**	**28 277**	**22 708**
Tier 1 capital	**37 569**	**32 601**	**36 789**	**34 405**
Adequate equity	**14 618**	**14 618**	**14 618**	**14 618**
Paid up capital	*14 507*	*14 507*	*14 507*	*14 507*
Share issue premium	*111*	*111*	*111*	*111*
Adequate reserves	**23 182**	**18 302**	**22 402**	**20 106**
Reserve capital and other reserves, revaluation reserves and retained profit and losses of previous years	*18 850*	*20 456*	*20 107*	*21 842*
Non-controlling interest	*3 246*	*10*	*-*	*-*
Audited profit/(loss) of the current year	*1 086*	*(2 163)*	*2 295*	*(1 735)*
Revaluation reserves and changes in fair value (negative result), which refers to Tier 1	*-*	*(1)*	*-*	*(1)*
Other elements reducing Tier 1 capital (-)	**(231)**	**(319)**	**(231)**	**(319)**
Intangible assets (Note 24)	*(231)*	*(319)*	*(231)*	*(319)*
Tier 2 capital	**5 952**	**4 957**	**5 952**	**4 957**
2 group of Tier two capital	**5 952**	**4 957**	**5 952**	**4 957**
Subordinated capital	*5 952*	*4 957*	*5 952*	*4 957*
Deductions from Tier 1 and Tier 2 capital	**(17 840)**	**(15 606)**	**(14 464)**	**(16 654)**
Deductions from Tier 1 and Tier 2 capital prescribed by the legislation [1]	*(17 840)*	*(15 606)*	*(14 464)*	*(16 654)*

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Thousands of lats

45 CAPITAL ADEQUACY CALCULATION (continuation)

	Group		Banka	
	2012	2011	2012	2011
SUMMARY OF CAPITAL REQUIREMENT CALCULATIONS	**14 273**	**15 799**	**13 943**	**15 935**
Total of capital requirements for credit risk, counterparty credit risk, dilution risk and free deliveries risk according to standardized approach	**12 208**	**13 748**	**12 031**	**13 966**
Central governments or central banks	*11*	*18*	*11*	*18*
Public authorities	*51*	*52*	*51*	*52*
Institutions	*2 012*	*2 810*	*2 012*	*2 810*
Commercial companies	*5 716*	*6 415*	*6 656*	*6 574*
Secured by real estate	*34*	*35*	*34*	*35*
Past due exposures	*1 121*	*1 724*	*970*	*1 697*
Other items	*3 263*	*2 694*	*2 297*	*2 780*
Capital requirements for position, foreign exchange and commodities risks according to standardized approach	**372**	**355**	**233**	**288**
Traded debt instruments	*5*	*49*	*5*	*49*
Equity instruments	*137*	*169*	*137*	*169*
Foreign currency	*230*	*137*	*91*	*70*
Capital requirements for operational risk according to basic indicator approach	**1 693**	**1 696**	**1 679**	**1 681**
CAPITAL REQUIREMENTS COVERED BY OWN FUNDS (SURPLUS (+) OR SHORTFALL (-))	**11 408**	**6 153**	**14 334**	**6 773**
CAPITAL ADEQUACY RATIO (%)	**14.39**	**11.12**	**16.22**	**11.40**

[1] Information about this deduction for the Bank is provided in Notes 21 and 25.

46 SUBSEQUENT EVENTS

There were no subsequent events requiring adjustments to these financial statements or disclosures in these financial statements.

* * * * *

TRASTA KOMERCBANKA

JSC "TRASTA KOMERCBANKA"
FINANCIAL STATEMENTS AND
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS AS ADOPTED BY EU
FOR THE YEAR ENDED 31 DECEMBER 2013
AND INDEPENDENT AUDITORS' REPORT

CONTENTS **PAGE**

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

In 2013 Latvian GDP grew by 4.1%, and this growth was mainly secured by such sectors as trade, construction and operations with real estate. Notwithstanding that the indicator is 1.1-1.2% down compared to two previous years, it is still one of the highest in Europe. Unemployment in Latvia in 2013 dropped from 10.5% to 9.5% and no further inflation was registered. Meanwhile, the European Union and the euro zone, of which Latvia became a member on January 1, 2014, reported the end of recession in the second half of 2013, and the fact will facilitate continuous growth of Latvian economy next year. It is predicted that in 2014 GDP in Latvia will potentially go up 3%.

Latvian budget deficit in 2013 was at about 1.5% of GDP. In line with the initial estimates, the national debt was reduced last year in percentage terms and it fell below 40% of GDP (tax revenues in 2013 exceeded expected figure by 2.3%). The current account deficit was not large either, i.e., about 1% of GDP. In January 2014 Latvia managed to successfully borrow 1 billion euros from global financial markets, thanks to the issuance of 7-year government euro bonds, which made it possible to reduce in March the debt to the European Commission by this amount. Thus, the government finances at this point can be called well balanced. In view of the above and taking into consideration Latvian economy growth rates as well as expected accession to the euro zone, the international rating agencies *Moody′s Investors Service, Standard & Poor′s* and *Fitch Ratings* last year upgraded credit ratings of the country.

The operation of the Latvian financial sector in 2013 in general was characterized by profit (173 million LVL), high liquidity (64%) and capital adequacy (19%). It should be mentioned that reduction of the share of delinquent loans in credit portfolios of financial sector undertakings has become a tendency.

In 2013, the Bank continued to bring to perfection customer service and functionality of online services, worked on improving the quality of bank's assets and was actively involved in preparations for introduction of the euro on January 1, 2014. The Bank managed to achieve good results, as evidenced by the accomplishments of the accounting period.

The Bank closed 2013 with profit amounting to 1.30 million lats (1.85 million euros), which led to growth of its own capital. In addition, last year the Bank increased its subordinated capital to 10.96 million lats (15.59 million euros) and expanded its customer base by 14% (the number of customers-individuals – by 7%). In 2013 the Bank increased its revenues in all key sectors: interest and commission fees, income from transactions with securities and foreign exchange, while as to interest liabilities, on the contrary, we were able to reduce them. Bank's capital adequacy and liquidity ratios at the end of 2013 were 17.54% and 71.95%, respectively, well above the established standards and planned budget figures. We plan not to distribute profit earned in 2013 but instead to include all of it in the calculation of the Bank's capital adequacy.

The Bank's capital and reserves as of December 31, 2013 amounted to 38.34 million lats (54.55 million euros). On December 31, 2013 the Bank's total assets were 291.74 million lats (415.11 million euros), which is 10.22 million (14.54 million euros) less than the closing number of 2012. The total amount of deposits in the accounting period was 235.78 million lats (335.48 million euros), while the Bank's loan portfolio was 79.72 million lats (113.43 million euros).

The consolidated bank group consists of subsidiaries *TKB Nekustamie Ipasumi, TKB Lizings* and its subsidiaries *TKB Leasing Tajikistan* ,*TKB LU* and *Project 1*, *Heckbert C7 Holdings* and its subsidiary *Ferrous Kereskedelmi KFT*. Assets of the Group as of the end of the accounting period were 292.85 million lats (416.69 million euros), which is 11.30 million lats (16.08 million euros) less than the closing figure of 2012. The Group closed the fourth quarter of 2013 with a profit of 1.08 million lats (1.54 million euros).

Thinking about further possibilities that can be offered to Bank's customers in acquisition of new export markets, in 2013 the Bank became a member of the Latvian Chamber of Commerce and Industry (LCCI). This membership provides an opportunity to hear opinions of business people, get an idea about problems and needs of export undertakings, as well as to share Bank's experience in execution of safe and effective trade financing operations, which the Bank has been providing to its customers for a decade as the sole representative of the international factoring organization *Factors Chain International* (FCI) in Latvia.

Taking care of those customers of the Bank who are seeking to accumulate and diversify their capital, in June of 2013 the Bank started offering a new service – Investment Gold, which is the facilitation of investments in purchasing gold bullions of eight different denominations of the highest purity (999.9 parts per thousand, or 24 carat) and storing them in the Bank's safe vault.

A new, elite payment card – *World Elite™ MasterCard® – was added to the range of* Bank's payment cards in 2013. The Bank offers this elite card with the widest spectrum of exclusive privileges to its most dedicated customers as appreciation of the long-term and fruitful cooperation.

Last year, the Bank continuously maintained high standards of customer service and quality of payments. Excellent quality of Bank's international payments was once again confirmed by Bank's business partners. The largest German banks *Deutsche Bank* and *Commerzbank* for the eighth consecutive year awarded the Bank with the annual prizes *STP Award 2012* and *STP Excellence Award 2012*. Thus, the Bank once again has received acknowledgment of professionalism of its team and impeccable customer service as demonstrated during the previous year of work.

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY) (continued)

In October of 2013, the international rating agency *Moody's Investors Service* reviewed the Bank's ratings and left them unchanged. Thus, the Bank's rating for long-term deposits in foreign and national currency remained the same, i.e., B3. The agency kept the following ratings at the previous level: Bank's financial strength rating, the rating of short-term liabilities in foreign and national currency, and the rating outlook.

In 2013 the Bank continued to develop technologies which secure access of Bank's customers to their accounts from anywhere in the world with the highest degree of safety. For customer convenience in using online banking, a quick e-signature feature for low-risk transactions was introduced in the Trast.Net system, whereby signatures are generated with code cards. Since 1997, when the Bank became the first in Latvia to introduce the internet banking, all customer accounts have been protected with unique access codes for account browsing and creation of a secure electronic signature, which are generated by the multi-level security systems, including the safest electronic code card Digipass. Development of technologies and compliance with the highest safety standards in the Bank's services will remain as one of the Bank's priorities.

To improve customer convenience in using online trading platform TKB TRADER, in 2013 the Bank created platform mobile applications for tablet and mobile phone users, which enable fast, convenient and easy work in the global financial markets by using mobile devices running in iOS and Android operating systems. Mobile application users can access basic features of the trading platform, such as monitoring of the investment portfolio in real-time mode, closing of transactions, functions of technical analysis, and others.

In order to discuss the trends and directions of development in dynamically growing Asian markets, representatives of the Bank and the management of Bank's representative office in Hong Kong participated in the sixth *Asian Financial Forum* in Hong Kong, where the Bank is the only bank from the Baltics that opened its representative office. At the end of the year, the Bank was invited to join the Baltic – Hong Kong Trade Association which serves as a platform for cooperation of companies from Latvia, Lithuania, Estonia, Hong Kong and mainland China.

In preparation for the introduction of the euro in Latvia on January 1, 2014, the Bank implemented an extensive set of measures in 2013 to ensure ultimately convenient, inexpensive and easy transition to the euro for its customers, minimizing service disruptions and facilitating cashless and remote banking services. The Bank provided its customers with all necessary information about the transition period, in due time introduced display of prices in both currencies, took care of supplying euro cash ahead of time, and joined the initiative of Latvian business people called "Honest euro introducer", this way affirming the Bank's commitment to fair transition to the euro. When saying good-bye to the Latvian national currency – the lat – at the end of 2013, the Bank issued a special desk calendar featuring limited edition lat coins dedicated to Latvian regions and cities, major events and persons, which allows one to get to know better the Latvian money and its history.

The Bank will celebrate its 25th anniversary in 2014, which in itself is a testimony of the Bank's experience, stability and successful operation on Latvian and foreign financial markets. During the upcoming year, the Bank will continue to grow in line with its business strategy which was approved by the Board during the fourth quarter of 2013. The Bank will continue to perfect its performance, with an emphasis on improving and expanding the range of services, service quality, and in-depth study of customer needs. In 2014 the Bank intends to pay special attention to improvement of information systems and technologies and also focus on the development of the Internet bank Trast.Net and TKB web page. At the same time, we plan to make some internal changes for the purposes of business risk mitigation, better organization of processes and personnel training.

The management of the Bank is grateful to all customers, shareholders and employees of the Bank for their loyalty, support and successful performance.

This report is available on the Bank's Internet homepage at www.tkb.eu.

This financial report has been approved by the Board of the Bank on March 25, 2014 and by the Council of the Bank on March 28, 2014. According to the requirements of applicable laws of the Republic of Latvia the financial report of the Bank is to be approved by the general meeting of shareholders.

On behalf of the Bank's management:

Igors Buimisters	Gundars Grieze
Chairman of the Council	Chairman of the Board

Riga, Latvia

28 March 2014

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

Bank's management (Group's holding company) is responsible for preparation of consolidated financial statements and the separate financial statements, which fairly and truly present the Groups' and the Bank's financial standing as at the end of the financial year and the results of its activity and cash flows for that year, according to the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 9 to 89 for the period from 1 January 2013 to 31 December 2013 have been prepared consistently applying relevant accounting methods and the management's judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared based on a going concern concept basis. The Management Report on pages 3 to 4 presents an explicit account on the development and performance of the Group and Bank's activities, as well as main risks and unclear conditions of the activities.

The Bank's management is responsible for proper keeping of accounting records, for safeguarding of the Group's and the Bank's assets and for prevention of any fraudulent actions. They are also responsible for managing the Group and the Bank in compliance with the Credit Institution Law of the Republic of Latvia, regulatory enactments of the Bank of Latvia and the Financial and Capital Market Commission and other applicable laws and regulations of the Republic of Latvia

On behalf of the management,

Igors Buimisters	Gundars Grieze
Chairman of the Council	Chairman of the Board

Riga, Latvia
28 March 2014

MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

Supervisory Council

Name, surname	Positions	Date of appointment
Igors Buimisters	Chairman of the Council	24.03.2006, reappointed 11.10.2013
Alfrēds Čepānis	Vice-chairman of the Council	30.03.1999, reappointed 11.10.2013
Igor Snisarevski	Member of the Council	07.10.2010, reappointed 11.10.2013

During the current year no changes in the Supervisory Council occurred.

Management Board

Name, surname	Positions	Date of appointment
Gundars Grieze	Chairman of the Board	28.06.1999, reappointed 29.03.2012
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reappointed 29.03.2012
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reappointed 29.03.2012
Svetlana Krasovska	Member of the Board	24.10.1995, reappointed 29.03.2012
Tatjana Konnova	Member of the Board	23.03.2006, reappointed 29.03.2012

During the current year no changes in the Management Board occurred.

KPMG

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Independent Auditors' Report

To the shareholders of TRASTA KOMERCBANKA AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of TRASTA KOMERCBANKA AS ("the Bank") as set out on pages 9 to 89. Separate financial statements comprise the separate statement of financial position as at 31 December 2013, the separate statements of comprehensive income, changes in equity and reserves, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We have also audited the accompanying consolidated financial statements of TRASTA KOMERCBANKA AS and its subsidiaries ("the Group") as set out on pages 9 to 89. Consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and reserves, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Group's management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

Opinion

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

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 subsection 25 of the separate and consolidated financial statements which describes Ukraine's political and economic situation, and management's assessment of potential impact of the events in Ukraine on the Bank's and the Group's operating activities and the financial statements as at and for the year ended 31 December 2013.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate and consolidated financial statements of the Bank and Group. In our opinion, the Management Report is consistent with the financial statements.

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

Inga Lipšāne
Sworn Auditor
Certificate No 112

BANK'S STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of lats	Note	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Interest income	3	9 100	8 204	9 208	8 102
Interest expense	4	(2 361)	(3 566)	(2 361)	(3 579)
Net interest income		**6 739**	**4 638**	**6 847**	**4 523**
Loan impairment loss, net	12	(7 242)	(2 750)	(6 848)	(2 661)
Net interest gain after allowance for impairment		**(503)**	**1 888**	**(1)**	**1 862**
Commission income	5	11 081	6 531	11 048	6 533
Commission expense	6	(1 722)	(1 125)	(1 716)	(1 124)
Net commission income		**9 359**	**5 406**	**9 332**	**5 409**
Net gain/(loss) from trading financial assets	7	388	(57)	388	(57)
Realised gain from available-for-sale financial assets		-	13	-	13
Net gain from foreign currency trading and revaluation	8	2 042	1 908	2 030	1 885
Gain on partial disposal of subsidiary	25, (3)	-	-	-	284
(Loss)/gain from equity accounted investee	25, (3)	(224)	287	-	-
Other income	9	1 000	543	103	1 776
Other non-interest income		**3 206**	**2 694**	**2 521**	**3 901**
Salaries and benefits expenses	10	(5 815)	(5 280)	(5 567)	(5 081)
Administrative expenses	11	(2 933)	(2 804)	(3 069)	(2 904)
Depreciation and amortisation	24	(654)	(689)	(646)	(681)
Other expenses		(743)	(310)	(579)	(279)
Other impairment reversal/(loss), net		(196)	105	(167)	72
Other non-interest expense		**(10 341)**	**(8 978)**	**(10 028)**	**(8 873)**
Profit before corporate income tax		**1 721**	**1 010**	**1 824**	**2 299**

BANK'S STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of lats	Note	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Income tax expense	13	(640)	179	(523)	(4)
Profit for the year		**1 081**	**1 189**	**1 301**	**2 295**
Other comprehensive income:					
Available for sale financial asset revaluation		(67)	82	(67)	82
Change in foreign currency translation reserve and other reserves		(805)	(383)	-	-
Total comprehensive income		**209**	**888**	**1 234**	**2 377**

	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Profit for the year, incl.:	***1 081***	***1 189***	***1 301***	***2 295***
Attributable to equity holders of the Bank	*1 130*	*1 086*	*1 301*	*2 295*
Attributable to non-controlling interest	*(49)*	*103*	*-*	*-*
Total comprehensive income, incl.:	***209***	***888***	***1 234***	***2 377***
Attributable to equity holders of the Bank	*468*	*772*	*1 234*	*2 377*
Attributable to non-controlling interest	*(259)*	*116*	*-*	*-*

The notes on pages 17 to 89 are an integral part of these financial statements.

On behalf of the management,

I. Buimisters

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 March 2014

BANK'S STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSISITION

In thousands of lats	Note	The Group		The Bank	
		2013	2012	2013	2012
ASSETS					
Cash and balances due from the Bank of Latvia	15	62 498	71 690	62 498	71 690
Due from credit institutions with a maturity of less than 3 months	16	89 402	71 007	89 388	70 995
On demand		*78 958*	*62 324*	*78 944*	*62 312*
Other		*10 444*	*8 683*	*10 444*	*8 683*
Held for trading financial assets		1 577	1 069	1 577	1 069
Fixed income securities	17, (1)	*1 537*	*165*	*1 537*	*165*
Equity shares and other non-fixed income securities	17, (2)	-	*857*	-	*857*
Derivatives	18	*40*	*47*	*40*	*47*
Available for sale financial assets		17 910	25 113	17 910	25 113
Fixed income securities	19, (1)	*17 879*	*25 082*	*17 879*	*25 082*
Equity shares and other non-fixed income securities	19, (2)	*31*	*31*	*31*	*31*
Due from credit institutions with a maturity of more than 3 months	20	8 426	8 168	8 426	8 168
Loans	21	72 101	85 496	79 723	95 390
Accrued income and deferred expenses	22	173	152	170	150
Other non-current assets	23	7 273	9 910	2 749	2 619
Property and equipment	24	7 693	8 017	7 664	7 991
Intangible assets	24	220	231	219	231
Investment in share capital of subsidiaries	25	-	-	10 853	10 853
Investment in equity accounted investee	25, (3)	13 043	14 106	-	-
Income tax assets	13, (3)	6	17	-	-
Deferred tax assets	13, (4)	407	803	283	603
Other assets	26	12 121	8 373	10 281	7 088
TOTAL ASSETS		**292 850**	**304 152**	**291 741**	**301 960**

The notes on pages 17 to 89 are an integral part of these financial statements.

On behalf of the management,

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 March 2014

BANK'S STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of lats	Note	The Group		The Bank	
		2013	2012	2013	2012
LIABILITIES					
Due to credit institutions	27	3 938	3 308	3 938	3 308
On demand		*3 856*	*2 987*	*3 856*	*2 987*
Term deposits		*82*	*321*	*82*	*321*
Held for trading financial liabilities	18	-	2	-	2
Derivatives		*-*	*2*	*-*	*2*
Due to customers	28	235 762	248 300	235 778	248 458
On demand		*206 854*	*187 350*	*206 870*	*187 508*
Term deposits		*28 908*	*60 950*	*28 908*	*60 950*
Accrued expenses and deferred income	29	678	1 436	670	1 410
Income tax liabilities	13, (3)	26	2	10	1
Other liabilities	30	2 288	3 020	2 049	2 584
Liabilities before subordinated liabilities		**242 692**	**256 068**	**242 445**	**255 763**
Subordinated liabilities	31	10 961	9 096	10 961	9 096
Total liabilities		**253 653**	**265 164**	**253 406**	**264 859**
EQUITY AND RESERVES					
Share capital	32, (1)	14 507	14 507	14 507	14 507
Share premium		111	111	111	111
Reserve capital and other reserves	32, (2)	4 378	4 361	3 804	3 804
Revaluation and retranslation reserves	19	229	908	14	81
Retained earnings		16 705	15 575	19 899	18 598
Equity and reserves attributable to shareholders of the Bank		**35 930**	**35 462**	**38 335**	**37 101**
Non-controlling interest		3 267	3 526	-	-
Total equity and reserves		**39 197**	**38 988**	**38 335**	**37 101**
TOTAL LIABILITIES AND EQUITY AND RESERVES		**292 850**	**304 152**	**291 741**	**301 960**

The notes on pages 17 to 89 are an integral part of these financial statements.

On behalf of the management

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 March 2014

BANK'S STATEMENT OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES

(1) The Group

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial assets revaluation reserves	Foreign exchange translation reserve	Retained earnings	Total	Non - controlling interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2011	**14 507**	**111**	**3 804**	**(1)**	**1 484**	**14 489**	**34 394**	**10**	**34 404**
Net profit for the year	-	-	-	-	-	*1 086*	*1 086*	*103*	*1 189*
Other comprehensive profit (loss)	-	-	-	*82*	*(396)*	-	*(314)*	*13*	*(301)*
Total comprehensive income	-	-	-	82	(396)	1 086	772	116	888
Sale of shares in subsidiary to non-controlling interests without a change in controls	-	-	557	-	(261)	-	296	3 400	3 696
BALANCE AS AT 31 DECEMBER 2012	**14 507**	**111**	**4 361**	**81**	**827**	**15 575**	**35 462**	**3 526**	**38 988**
Net profit for the year	-	-	-	-	-	*1 130*	*1 130*	*(49)*	*1 081*
Other comprehensive profit (loss)	-	-	*17*	*(67)*	*(612)*	-	*(662)*	*(210)*	*(872)*
Total comprehensive income	-	-	17	(67)	(612)	1 130	468	(259)	209
BALANCE AS AT 31 DECEMBER 2013	**14 507**	**111**	**4 378**	**14**	**215**	**16 705**	**35 930**	**3 267**	**39 197**

BANK'S STATEMENT OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES (continued)

(2) The Bank

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2011	**14 507**	**111**	**3 804**	**(1)**	**16 303**	**34 724**
Net profit for the year	*-*	*-*	*-*	*-*	*2 295*	*2 295*
Other comprehensive income	*-*	*-*	*-*	*82*	*-*	*82*
Total comprehensive loss	-	-	-	82	2 295	2 377
BALANCE AS AT 31 DECEMBER 2012	**14 507**	**111**	**3 804**	**81**	**18 598**	**37 101**
Net profit for the year	*-*	*-*	*-*	*-*	*1 301*	*1 301*
Other comprehensive loss	*-*	*-*	*-*	*(67)*	*-*	*(67)*
Total comprehensive income	-	-	-	(67)	1 301	1 234
BALANCE AS AT 31 DECEMBER 2013	**14 507**	**111**	**3 804**	**14**	**19 899**	**38 335**

The notes on pages 17 to 89 are an integral part of these financial statements.

On behalf of the management,

Igors Buimisters Chairman of the Council	Gundars Grieze Chairman of the Board

Riga, Latvia
28 March 2014

BANK'S STATEMENT OF CASH FLOWS AND CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of lats	Note	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Cash flows arising from operations:					
Profit before corporate income tax		1 721	1 010	1 824	2 299
Depreciation and amortisation	24	654	689	646	681
Increase in allowance for impairment of loans	12	6 566	2 040	6 172	1 951
Foreign currency revaluation profit		(560)	(360)	(576)	(245)
Changes in other provisions, loss/(profit)		196	(188)	171	(185)
Financial assets revaluation (profit)/loss		(879)	242	(879)	242
Gain on disposal of other non-current assets	9	(828)	-	-	(1 335)
Gain from partial disposal of subsidiary		-	-	-	(284)
Loss/(gain) from investment in equity accounted investee		224	(287)	-	-
Loss on disposal of property and equipment		11	9	11	2
Net cash flows from operating activities before changes in assets and liabilities		**7 105**	**3 155**	**7 369**	**3 126**
Decrease in held for trading financial assets, net		157	455	157	455
(Increase)/decrease in due from credit institutions		(258)	9 456	(258)	9 456
Decrease in loans		3 850	5 556	7 264	(2 699)
Decrease in accrued income and deferred expense		18	87	19	88
(Increase)/decrease in other assets		(611)	2 192	(779)	3 011
(Increase)/decrease in due to credit institutions		(239)	43	(239)	43
(Decrease)/increase in due to customers		(12 538)	1 397	(12 680)	1 286
(Decrease)/increase in accrued expenses and deferred income		(758)	780	(740)	775
(Decrease)/increase in other liabilities		(855)	487	(675)	88
Net cash flows (used in)/from/operating activities before tax		**(4 129)**	**23 608**	**(562)**	**15 629**
Income tax paid		(209)	(288)	(194)	(247)
Net cash flows from operating activities		**(4 338)**	**23 320**	**(756)**	**15 382**
Cash flows arising from investing activities:					
Purchase of property and equipment and intangible assets		(330)	(160)	(318)	(128)
Decrease/(increase) in available for sale financial assets		7 136	(15 643)	7 136	(15 643)
Sale of investments in share capital of subsidiaries		-	-	-	3 696
Purchase of other non-current assets		(131)	(3 305)	(130)	(3 301)
Proceeds from sale of other non-current assets		3 596	-	-	8 622
Net cash flows (used in)/from investing activities		**10 271**	**(19 108)**	**6 688**	**(6 754)**

BANK'S STATEMENT OF CASH FLOWS AND CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of lats	Note	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Cash flows arising from/(used in) financing activities:					
Subordinated debt issue		2 370	1 493	2 370	1 493
Subordinated debt repayment		(408)	-	(408)	-
Debt securities redemption		-	(2 808)	-	(3 513)
Sale of shares in subsidiary to non-controlling interests		-	3 696	-	-
Net cash flows from/(used in) financing activities		**1 962**	**2 381**	**1 962**	**(2 020)**
Increase in cash and cash equivalents		**7 895**	**6 593**	**7 894**	**6 608**
Cash and cash equivalents at the beginning of the year		**139 710**	**132 956**	**139 698**	**132 951**
Foreign exchange profit	**8**	**439**	**161**	**438**	**139**
Cash and cash equivalents at the end of the year	**36**	**148 044**	**139 710**	**148 030**	**139 698**

The notes on pages 17 to 89 are an integral part of these financial statements.

On behalf of the management,

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
28 March 2014

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AS "Trasta Komercbanka" (the Bank) has been registered as a joint stock company, in the Latvian Register of Companies with the identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

The Bank has five representative offices outside Latvia, i.e. in Hong Kong, Kazakhstan, Tajikistan, Ukraine and Belarus. Their mission is to represent interests of the Bank in the respective countries, maintain relations with the Bank customers and provide them with necessary information. The Bank has a foreign branch in Cyprus and two branches in Latvia – in Liepaja and Daugavpils. Their functions incorporate provision of financial services to customers of the Bank.

The Bank's consolidation group (the Group) consists of the Bank, and its subsidiaries TKB Nekustamie īpašumi, TKB Līzings, subsidiary "Heckbert C7 Holdings" together with its subsidiary "Ferrous Kereskedelmi KFT". Services provided by SIA TKB LĪZINGS and SIA TKB NEKUSTAMIE ĪPAŠUMI extend the range of Bank's services. SIA TKB LĪZINGS has two registered representative offices abroad, i.e. in Russia and in Azerbaijan, and at the beginning of July 2011 it incorporated a subsidiary in Tajikistan SAS TKB Līzings Tadžikistāna (ТКБ ЛИЗИНГ ТОЧИКИСТОН). In 2012, SIA TKB LĪZINGS registered another subsidiary in Ukraine TKB LU LLC and its subsidiary PROJEKT 1 LLC, whose main activities are related to real estate operations and property management. Further information on the Bank's subsidiaries is provided in Note 25 herein.

These financial statements were approved by the Board of the Bank on 25 March 2014 and by the Council of the Bank on 28 March 2014. According to the legislation of the Republic of Latvia the financial statements of the Bank are subject to approval of the meeting of shareholders. The shareholders have the power to reject the financial statements, and the right to request that new financial statements be issued.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures.

(1) General principles

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Bank is subject to the Law on Credit Institutions of the Republic of Latvia and the regulatory requirements of the Bank of Latvia, Financial and Capital Market Commission, and other regulations of the Republic of Latvia applicable to credit institutions. These regulations govern, among other things, capital adequacy, liquidity and the Bank's open foreign currency position.

The Bank maintains its accounting records in compliance with "The Law on Accounting" of the Republic of Latvia and instructions provided by the Financial and Capital Market Commission that comply with the legislation of the Republic of Latvia and International Financial Reporting Standards as adopted by EU.

The consolidated and separate financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held for trading and available-for-sale investments that have been measured at fair value except for those whose fair value cannot be reliably estimated.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations

Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 2 to all periods presented in these consolidated financial statements.

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

Fair value measurement

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

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

Other amendments to standards

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

Amendment to IAS 1 – Presentation of financial statements

Amendment to IFRS 7 – Offsetting of financial assets and liabilities

Amendment to IAS 19 (2011) – Employee benefits

Amendments to IAS 12 – Deferred tax: Recovery of Underlying Assets

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

New standards and interpretations not yet adopted

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

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

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

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. The Group's interest is a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities. The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted. The Group is in the process of assessing the effects on financial statements from this standard.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is in the process of assessing the effects on financial statements from this standard.

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

IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014). IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The standard no longer addresses the principle of control and requirements relating to the presentation of consolidated financial statements, which ahve been incorporated into IFRS 10, *Consolidated Financial Statements*. The Group does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the entity's accounting policy.

IAS 28 (2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014). There are limited amendments to IAS 28 (2008) which related to associates and joint ventures held for sale and changes in interest held in associates and joint ventures. The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any significant investments in associates or joint ventures that will be impacted by the amendments.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

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

Amendments to IFRS 10, IFRS 12 and IAS 27 on Investment Entities (effective for annual periods beginning on or after 1 January 2014). The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities, as well as investments in associates and joint ventures at fair value through profit or loss, rather than consolidating them. The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated. An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. The Group does not expect the new standard to have any impact on the financial statements, since the Group does not qualify as an investment entity.

Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require additional disclosures related to fair value hierarchy when impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal. The Group does not expect the new Standard will have a material impact on the financial statements, because the amount of non-financial assets for which impairment loss has been recognised is not significant to the financial statements.

Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014). The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when certain criteria are met. The Group does not expect the new standard to have any impact on the financial statements, since the entity does not apply hedge accounting.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(3) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements in accordance with IAS 27 and IAS 28. The data on subsidiaries of the Bank is provided in Note 25. The consolidation was based on control over the subsidiaries, which resulted from the majority of rights to vote in the subsidiaries.

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

Non-controlling interest is the interest in subsidiaries not held, directly or indirectly, by the Bank. Non-controlling interest at the end of reporting period represents the non-controlling shareholders' portion of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the non-controlling shareholders' portion of movements in equity since the date of the combination. Non-controlling interest is presented within equity.

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

When preparing the consolidated financial statements, their items were evaluated in accordance with the uniform accounting policies, which are used by the Group consistently from year to year in conformity with International Financial Reporting Standards as adopted by the European Union and the Financial and Capital Market Commission regulations on preparation of Bank's financial statements. If any of the accounting policies used by the subsidiaries differ from those applied by the Bank, the financial statements of the subsidiaries are adjusted for consolidation purposes. The financial statements of the subsidiaries were included in the Group's consolidated financial statements applying the method of full consolidation.

The financial statements of the Bank and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

The Bank's and the Group's annual financial statements are reported in the currency of the Republic of Latvia **– the Lat**. All amounts in the financial statements are specified in **thousands of Lats** unless otherwise stated.

All information in Bank's and Group's financial statements contains comparatives with previous year. Should the difference between information about the Group and respective information about the Bank be insignificant, such information about the Group is not separately presented.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(3) Consolidation principles (continued)

Investments in associates (equity-accounted investees).

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 percent and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are recognized initially at cost and subsequently are accounted for under the equity method . The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Loss of control

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

Disposals not involving the loss of control

Partial disposals of subsidiaries to non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(4) Foreign currency translation

Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into lats using the official Bank of Latvia exchange rates at the period end. Transactions denominated in foreign currencies are translated into the functional currency (Latvian lat) using the official Bank of Latvia exchange rate on the date of the transaction. To arrive at the exchange rates for currencies that Bank of Latvia does not quote an official exchange rate Financial Times published rates are used (http://markets.ft.com/research/Markets/Data-Archive).

Gains and losses from currency exchange rate revaluation are included in the income statement for the period under Net gain from foreign currency trading and revaluation. The exchange rates applied at the period end for the principal currencies are as follows:

		31.12.2013	31.12.2012
LVL 1 =	USD	1.942	1.883
	EUR	1.423	1.423
	GBP	1.186	1.167
	RUB	64.103	57.471

Foreign operations

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

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

(5) Income and expense recognition

The accounting procedure of the Group's and Bank's income and expense is based on the accrual principles.

Interest income and expense is recognised using the effective interest method.

Dividends are recognised in the period of income statement when the Bank or the Group obtain the right to receive them, namely, it has been assigned the right as a shareholder to receive dividends.

Commission income and expenses are recognised in the income statement as services are provided or on the execution of a significant transaction, as applicable.

Unrealised gains and losses on Available-for-Sale Financial Assets are recognised in the statement of comprehensive income as other comprehensive income , except for impairment losses and foreign exchange gains and losses for fixed income securities (monetary items), until the moment when the financial asset is derecognised, and when before in the other comprehensive income gain or loss is recognised as profit or loss. Interest calculated using the effective interest method is recognised in the income statement. Dividends on an available-for-sale equity instrument are recognised as comprehensive profit or loss in comprehensive income statement when the right to receive payment is established.

Income gained from disposal of other assets is recognised provided that the following conditions are met:

- ✓ the Bank or the Group has transferred to the buyer all significant risks and rewards of ownership of these assets;
- ✓ the Bank or the Group retains neither continuing rights usually associated with ownership nor effective control over the sold assets;
- ✓ the amount of revenue can be estimated reliably;
- ✓ it is probable that the Bank or the Group will receive the economic benefits related to the transaction;
- ✓ expenses, which have been or will be incurred, can be measured reliably.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(6) Fair value measurement principles

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group and the Bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial instruments by valuation technique:

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.

The fair value for assets measured at fair value is determined based on publicly available price quotes. In cases when direct price quote of abovementioned assets is not available the fair value is determined based on other observable market inputs. Fair value of derivatives is determined based on brokerage quotes. For determining the fair value of financial assets which are not quoted in the market value determination models are used which are based on the assumptions and expectations related to future financial performance of counterparty.

The fair value of loans was calculated taking into account the existing variable rates and attributing them to loans with fixed interest rates excluding loans with short period of maturity (approximately 1 year). The fair value of liabilities was calculated taking into account the existing market interest rates for relevant time deposits. It is assumed that the net book value of financial assets and liabilities with liquidity or a short period of maturity approximates their fair value. This assumption is also used for demand deposits, savings accounts without pre-set maturity and financial instruments with variable rates.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(7) Financial assets accounting and assessment

Held for Trading Financial Instruments are initially recognised in the statement of financial position at fair value. To recognise financial instruments included in the trading portfolio the Bank uses settlement date accounting, i.e., assets are recognised in the statement of financial position only when transferred/supplied to the Bank. Any change in fair value between trade date and settlement date are recognised in the income statement. After initial recognition the financial instruments included in the trading portfolio are measured at fair value.

Loans and receivables are stated *at amortized cost*. Lending commitments before the loan issuance (drawdown) date are disclosed as commitments and guarantees as a balance (limit) of undisbursed loan amount. Where objective evidence of impairment indicates that the Bank and the Group will not be able to collect all amounts that are due to it (principal and interest) specific impairment allowance is created. Gains or losses are recognised in the income statement when the financial asset is derecognised or impaired, and through the amortization process.

Available–for-sale financial assets are initially recognised at fair value, including transaction costs which are directly related to acquisition of financial assets. Available–for-sale financial assets are recognised applying settlement date accounting. Any change in the fair value between trade date and settlement date is recognised directly in other comprehensive income. After initial recognition the available-for-sale financial assets are measured at fair value. The methods applied to measure fair value of available-for-sale financial assets correspond to the methods applied to measure fair value of financial instruments of the trading portfolio. Profit or loss of available-for-sale financial assets due to changes in fair value is included directly in equity as revaluation reserve of available-for-sale financial assets in the period in which it occurs. When available-for-sale financial assets are purchased with a coupon, discount or premium, the difference is amortized before the investment maturity date using the effective interest method and included in the Bank's income statement as interest income or decrease in interest income - in case of a premium.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(8) Financial instruments

Financial instruments of the Group are classified into the following categories: *financial assets at fair value are recognised in profit or loss, loans and receivables, and available-for-sale financial assets.*

Financial assets at fair value are recognised in profit or loss – are financial assets classified as held for trading because they are:

- ✓ acquired principally for the purpose of selling them in the near term (held for trading financial assets);
- ✓ part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- ✓ a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets classified as held for trading are not reclassified into another category.

Loans and receivables – are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market at initial recognition. Loans and receivables are originated by the Group and the Bank through lending activities, sale of assets or provision of services directly to debtors, or participation in credit advanced by other lenders, and are not financial assets created for the purpose of immediate or short-term sale.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Available-for-sale financial assets – are non-derivative financial assets, which are designated as available-for-sale or are not classified into the above-mentioned categories.

Recognition of financial assets and financial liabilities

Generally, the Group and the Bank recognise financial instruments on the statement of financial position when the Group and the Bank become a party to the contractual provisions of the instrument, except for:

- ✓ loan commitments, which are recognised on drawdown moment ; and
- ✓ financial guarantees and letters of credit, which are recognised when the related fee received as consideration is recognised.

Measurement and assessment of financial assets and financial liabilities

All financial liabilities, other than those designated at fair value in profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(8) Financial instruments (continued)

<u>Derecognition of financial assets</u>

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from statement of financial position where:

- ✓ the rights to receive cash flows from the asset have expired; or
- ✓ the Group and the Bank has transferred its rights to receive cash flows from the asset, or also retained the right to receive cash flows from the asset, but at the same time has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ✓ the Group and the Bank either (a) has transferred substantially all the risks and rewards with the asset, or (b) has neither transferred nor retained substantially all the risks and rewards with the asset, but has transferred control of the asset.

Where the Group and the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards with the asset related to them, nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower from the values: the original carrying amount of the asset or the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

<u>Derecognition of financial liabilities</u>

A financial liability is derecognised from the statement of financial position when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised as profit or loss.

(9) Investments in subsidiaries and equity accounted investees in the separate financial statements of the Bank

Investments in subsidiaries and equity accounted investees are stated in the Bank's separate financial statements at cost, including transaction costs. In the event that the investment's carrying amount exceeds its recoverable amount it is reduced to its recoverable amount. That reduction is recognised as an impairment loss.

The dividends received from those investments are included in profit or loss of the comprehensive income statement .

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(10) Derivatives

Derivative financial instruments are contracts whose fair values change in response to changes in variables underlying the derivative instruments such as foreign exchange rates, interest rates or primary financial instruments (base asset).

All derivatives are measured at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The changes of the fair value of derivates, which are not eligible for hedging accounts, are recognised as profit or loss in the comprehensive income statement.

(11) Impairment loss of financial assets

Financial assets measured at amortized cost

If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced creating the allowance. The loss is recognized as loss in the comprehensive income statement.

The Group and the Bank first assesses whether objective evidence of individual impairment exist for financial assets at amortised cost (such as due from banks and loans and advances to customers) that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. *For financial assets that are assessed collectively* the estimation of impairment loss is based on historical loss rate, which is measured taking into account the loss experience of loans with similar risk parameters for last years. Assets individually assessed for impairment and for which an impairment loss is recognized are not included in collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized as profit or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been at the reversal date absent the impairment.

Where possible, the Group and the Bank seeks to restructure loans. These are loans that are granted concession due to the economic or legal reasons connected to borrower's financial difficulties that the Group and the Bank in other circumstances would not have granted and that may include the following types of restructuring:

- ✓ easing of any loan terms and conditions, e.g., extension of loan period, deferral of payments, capitalization of interest, lowering of initial interest rates;
- ✓ taking over of collateral or other assets for partial loan repayment;
- ✓ replacement of the original borrower or involvement of additional borrower.

Following the restructuring, loans continue to be subject to individual or collective impairment assessment using the original effective interest rate.

In case a loan loses all value and all measures taken to recover the debt have been exhausted, impairment allowances of 100% are formed for the loan and the Group's and Bank's management takes a decision as to writing off the bad debt from the statement of financial position.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(11) Impairment loss of financial assets (continued)

Available for sale assets

The Group and the Bank assesses at each reporting date whether there is objective evidence that available-for-sale securities are impaired. If any such evidence exists, for available for sale investments the cumulative impairment loss - measured as the difference between the acquisition cost less any principal repayment and amortization of the asset and the current fair value, less any impairment loss previously recognized - is removed from other comprehensive income and recognized as profit or loss.

Impairment losses recognised in profit or loss are subsequently reversed for fixed income (debt) investments if a fair value increase is observed that can be objectively related to an event occurring after the impairment loss was recognised. The impairment loss on equity securities is never reversed through profit or loss.

The assessment of the evidence for impairment and the determination of the amount of impairment or its reversal requires the application of management's judgement and estimates.

The Bank reviews its debt securities classified as available–for–sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Bank also records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(12) Classification of lease

Only risks and rewards incidental to ownership of the leased asset during the lease period should be considered when determining lease classification. Relevant risks include the possibility of losses from idle capacity or technological obsolescence and from decreases in the value of the asset; relevant rewards may include the gain from the increase in value of the asset or realization of the residual value at the end of the lease. Conversely, risks associated with construction of the asset prior to lease commencement, financing such construction and the costs of providing services using the leased asset, are not incidental to ownership of the leased asset during the lease period and, in our view generally should be disregarded in evaluating the classification of the lease. The classification of a lease is determined at the inception of the lease and is not revised unless the lease agreement is modified

(13) Impairment loss of Non-financial assets

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

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

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

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(14) Property, equipment and intangible assets

Property and equipment are stated at historical cost, less accumulated depreciation. Depreciation is calculated on a straight-line method, taking into account expected usage of the assets. The following depreciation rates have been applied:

Property and equipment :	
Buildings	2-5% annually
Furniture and equipment	10% annually
Computer hardware and office equipment	25% annually
Transport vehicles	20% annually
Other fixed assets	20-50% annually
Intangible assets:	
Patents, licences and trademark	20% annually
Software	20% annually
Concession	10% annually
Other intangible fixed assets	20% annually
Leasehold improvements	over the shorter of useful life and period of lease

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the Group and the cost of the item can be measured reliably.

Leasehold improvements are capitalized and depreciated over the shorter of their useful life and the remaining lease contract period on a straight-line basis, if the lease agreement of property and equipment does not foresee their compensation.

Gains and losses on disposal of property and equipment are recognised in the income statement in the year of disposal.

(15) Leased assets - lessee

Assets held by the Group and the Bank under leases which transfer to the Group and the Bank substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Group's statement of financial position.

(16) Other non-current assets

Other non-current assets include investments into long-term projects of real estate development. Long-term project costs are stated at the lower of cost and net realizable value. The land parcels mentioned in Note 23 were purchased for the purpose of building a residential apartment house with subsequent intention to sell the apartments.

(17) Commitments and guarantees

The daily operating activities of the Group involve financial transactions related to the issuance of loans, guarantees and the registration of letters of credit.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(18) Assets and liabilities under management

Managed assets and managed liabilities are assets and liabilities held by the Bank and the Group on behalf of clients and registered in the name of the Bank or the Group. The Bank and the Group does not carry credit risk, market risk or any other risk in respect of these managed assets. Accordingly, these assets and liabilities are not included in the Bank's or the Group's statement of financial position.

(19) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash and deposits with other credit institutions with a maturity of less than 3 months when purchased, less balances due to credit institutions with a maturity of less than 3 months and subject to insignificant risk of change in value.

(20) Taxation

Corporate income tax at a rate of 15% (2012:15%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period, as adjusted for non-deductible income and expenses.

Deferred taxation is provided for all temporary differences arising between the carrying amount of assets and liabilities and their tax bases according to tax legislation. The deferred tax asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from the differing rates of amortization or depreciation on intangible assets and property and equipment, and from tax losses carried forward. Where an overall deferred taxation asset arises, this is only recognised in the financial statements when its recoverability is probable. To recognize deferred taxation assets, management of the Group assesses its further activities and ability to recover tax losses within a certain period. Information on estimates and assumptions, underlying assessment of management of the Group and the Bank, is disclosed in Note 13.

(21) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as adopted by European Union, requires management of the Bank and the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used and judgement made in the preparation of the financial statements relate to lease classification (note 21), depreciation (residual values and useful lives) (note 24), evaluation of impairment for financial instruments (note 21), fair value of financial instruments (note 17, 19), recoverability of long-term project costs (note 26) and recognition of deferred tax assets (note 13).

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

(22) Events after the reporting date

Post-year-end events that provide additional information about the Group'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.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(23) Display principles of accounting policy changes

To register uniform transactions, facts and events the Group applies methods of consequent accounting. The Group changes its policy only if it is stipulated by external normative acts (standards and interpretations) or if change of accounting policy allows drawing up financial statements that provide credible and corresponding information regarding the influence of transactions, facts and events on the financial condition, activity results and cash flow of the Group.

Change of accounting policy is applied retrospectively, i.e. every equity capital item balance affected is corrected in prior periods presented in all financial statements, as well as other comparative indices for all prior periods presented are corrected as if the new accounting policy has always been applied.

(24) Going concern

The Bank has made an assessment of its own future activities and it believes that given the credit market recovery trends and customer support measures through restructuring of their loans by the Bank, it can be expected that the ratio of bad loans will decrease in the next few years, which will positively affect the amount of impairment allowances created by the Bank and thus profitability of the Bank as a whole. Key risks related to operating activity of the Bank are discussed in subsequent notes related to risk management analysis.

(25) Ukrainian Business Environment note

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. These consolidated financial statements do not include any adjustments for the impact of events in Ukraine that have occurred after the reporting date. The structure of assets and liabilities by their geographical profile is provided in Note 39.

(26) Repossessed assets

In cases where the property which served as a collateral for granted loans is transferred to the Bank (as a result of takeover or acquisition), initially the asset is recognized at transaction cost. In subsequent periods these assets are carried at the lower of cost or net realizable value.

(27) Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. No other types of employee benefits were provided.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

3 INTEREST INCOME

Due from other credit institutions	1 249	1 590	1 249	1 590
Loans to customers	7 255	6 184	7 363	6 082
Incl. from impaired loans to customers	*2 430*	*1 597*	*2 430*	*1 596*
Debt securities	444	347	444	347
Incl. trading debt securities	*275*	*101*	*275*	*101*
Incl. available-for sale debt securities	*169*	*246*	*169*	*246*
Other interest income	152	83	152	83
	9 100	**8 204**	**9 208**	**8 102**

4 INTEREST EXPENSE

Due to customers	(984)	(1 980)	(984)	(1 980)
Payments in deposit guarantee fund	(547)	(765)	(547)	(765)
Due to other credit institutions	(4)	(10)	(4)	(10)
Subordinated debt	(747)	(676)	(747)	(676)
Debt securities issued	-	(68)	-	(81)
Other interest expense	(79)	(67)	(79)	(67)
	(2 361)	**(3 566)**	**(2 361)**	**(3 579)**

5 FEE AND COMMISSION INCOME

Money transfers	7 191	4 574	7 194	4 575
Securities operations	2 454	817	2 454	818
Management (trust) operations	654	625	654	625
Travellers cheques and credit cards	274	245	274	245
Current account servicing	208	101	208	101
Cash operations	97	88	97	88
Letters of credit	14	10	14	10
Guarantees	6	22	6	22
Other commission income	183	49	147	49
	11 081	**6 531**	**11 048**	**6 533**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

6 FEE AND COMMISSION EXPENSE

Money transfers	(1 045)	(733)	(1 045)	(732)
Securities operations	(400)	(136)	(400)	(136)
Credit cards	(150)	(114)	(150)	(114)
Cash operations	(64)	(49)	(64)	(49)
Other commission expense	(63)	(93)	(57)	(93)
	(1 722)	**(1 125)**	**(1 716)**	**(1 124)**

7 NET GAIN/(LOSS) FROM TRADING FINANCIAL ASSETS

(Loss)/profit from trading, net	(261)	36	(261)	36
Profit/(loss) from revaluation, net	649	(93)	649	(93)
	388	**(57)**	**388**	**(57)**

8 NET GAIN FROM FOREIGN CURRENCY TRADING AND REVALUATION

Profit from trading, net	1 603	1 747	1 592	1 746
Gain/(loss) from foreign currency revaluation, net	439	161	438	139
incl. spot revaluation, net	*212*	*(146)*	*212*	*(146)*
incl. forward revaluation, net	*(5)*	*(20)*	*(5)*	*(20)*
	2 042	**1 908**	**2 030**	**1 885**

Profit from trading principally consists of sales and purchase of currency on behalf of the customers.

9 OTHER INCOME

The Bank's other income for the previous year included a profit of 1 335 thousand lats from the object which the Bank has sold to a subsidiary within the Group. Consequently, the gain has been eliminated on consolidation and Group's income statement is adjusted for the unrealized profit. During the reporting period part of the facility was realized to third persons, as a result, consolidated earnings were 828 thousand lats. Information about the object is provided in Note 23.

The remaining income of the reporting period includes other miscellaneous income, int. al. safe deposit box rental fees and bullion safekeeping fees.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

10 SALARIES AND BENEFITS EXPENSES

Wages and salaries	(4 764)	(4 311)	(4 566)	(4 151)
Council	*(171)*	*(141)*	*(171)*	*(141)*
Board	*(520)*	*(425)*	*(499)*	*(400)*
Other	*(4 073)*	*(3 745)*	*(3 896)*	*(3 610)*
Social security contributions	(1 048)	(946)	(1 003)	(905)
Council	*(42)*	*(33)*	*(42)*	*(33)*
Board	*(134)*	*(106)*	*(129)*	*(100)*
Other	*(872)*	*(807)*	*(832)*	*(772)*
Change in provisions for unused annual holidays and bonuses	(3)	(23)	2	(25)
Board	*(11)*	*2*	*(12)*	*2*
Other	*8*	*(25)*	*14*	*(27)*
	(5 815)	**(5 280)**	**(5 567)**	**(5 081)**
Council	***(213)***	***(174)***	***(213)***	***(174)***
Board	***(665)***	***(529)***	***(640)***	***(498)***
Other	***(4 937)***	***(4 577)***	***(4 714)***	***(4 409)***

Average number of employees in the reporting period	**293**	**287**	**263**	**258**
Employee category				
Managers	71	70	63	64
Other	222	217	200	194
	293	**287**	**263**	**258**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

11 ADMINISTRATIVE EXPENSES

Rent	(596)	(592)	(543)	(545)
Maintenance expenses	(406)	(439)	(404)	(440)
Communications	(277)	(262)	(264)	(249)
Travel and entertainment	(219)	(222)	(214)	(217)
Professional services	(188)	(326)	(183)	(311)
Advertising and representation	(185)	(202)	(181)	(201)
Insurance	(108)	(112)	(105)	(108)
Non-deductible value added tax [1]	(102)	90	(102)	93
Audit services	(94)	(68)	(81)	(55)
Security	(70)	(27)	(70)	(27)
Low - value inventory	(15)	(15)	(15)	(15)
Sponsorship	(14)	(15)	(14)	(15)
Other administrative expenses	(659)	(614)	(893)	(814)
	(2 933)	**(2 804)**	**(3 069)**	**(2 904)**

[1] The amount for 2012 includes adjustment related to the previous years' value added tax (recognized as expense) recalculation, resulting in a recognition of income

12 LOAN IMPAIRMENT LOSS, NET

Allowance for loans, assessed individually	(7 688)	(4 755)	(7 288)	(4 646)
Allowance for loans, assessed collectively, net	2	1	2	1
Release of individual allowance	444	2 004	438	1 984
	(7 242)	**(2 750)**	**(6 848)**	**(2 661)**

The following breakdown shows changes in allowance for impairment of loans during the reporting period:

Allowance as of 1 January	**13 267**	**15 656**	**11 886**	**14 347**
Additional ***individual*** allowance	7 688	4 755	7 288	4 646
Net change in collective impairment	(2)	(1)	(2)	(1)
Release of ***individual*** allowances	(444)	(2 004)	(438)	(1 984)
Interest on loans, which are recognized as impaired	(613)	(818)	(613)	(818)
Write-off of loans	(4 969)	(4 429)	(4 251)	(4 412)
Effect of the foreign exchange	(63)	108	(63)	108
Allowance as of 31 December (Note 21)	**14 864**	**13 267**	**13 807**	**11 886**
Incl.allowance for loans, ***assessed individually***	*14 828*	*13 225*	*13 771*	*11 844*
Incl.allowance for loans, ***assessed collectively***	*36*	*42*	*36*	*42*

In the reporting period the collectively assessed loans were reclassified to individual loans with the amount of allowance of 3.8 thousand lats (2012: 0.4 thousand lats).

The amount of impairment allowance for related parties is disclosed in Note 37.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

13 INCOME TAX EXPENSE

(1) Income tax expense

Corporate income tax of the reporting year	(73)	(31)	(54)	(25)
Income tax paid abroad	(171)	(229)	(149)	(218)
Change in deferred tax (Note 13, (4))	(396)	439	(320)	239
Total	**(640)**	**179**	**(523)**	**(4)**

(2) Reconciliation of accounting profit to tax charge

Profit/(loss) before taxation	**1 721**	**1 010**	**1 824**	**2 299**
Current tax rate	15%	15%	15%	15%
Expected tax charge	(258)	(152)	(274)	(345)
Deferred tax recoverability assessment effect	-	626	-	626
Tax effect of non-deductable expenses	(382)	(295)	(249)	(285)
Total	**(640)**	**179**	**(523)**	**(4)**
Effective tax rate	**37.19%**	**17.72%**	**28.67%**	**0.17%**

(3) Movement of corporate income tax (assets)/liability

Corporate income tax (assets)/liabilities as of 1 January	**(15)**	**13**	**1**	**5**
Corporate income tax paid for previous years	(1)	(13)	-	(5)
Tax adjustment paid in the previous year	(1)	-	(1)	-
Repayment of overpaid tax	17	-	-	-
Corporate income tax of the reporting year	73	31	54	25
Corporate income tax of the reporting year paid in advance	(53)	(46)	(44)	(24)
Corporate income tax (assets)/liabilities as of 31 December	**20**	**(15)**	**10**	**1**
incl. tax assets	*(6)*	*(17)*	*-*	*-*
incl. tax liabilities	*26*	*2*	*10*	*1*

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

13 CORPORATE INCOME TAX (continued)

(4) The Group's and Bank's deferred tax calculation

The management of the Bank manages deferred tax separately for each Bank's subsidiary. Deferred tax assets and liabilities are looked into only at the moment when it is legally justified. All the below listed temporary differences are recognized in the profit and loss account.

The Group

In thousands of lats		2013			2012	
	Assets	Liabilities	Net value	Assets	Liabilities	Net value
Held for trading financial assets	-	(6)	(6)	-	(7)	(7)
Property and equipment	-	(301)	(301)	-	(300)	(300)
Other assets	-	(39)	(39)	-	(7)	(7)
Other liabilities	50	-	50	50	-	50
The accumulated tax losses	703	-	703	1 067	-	1 067
	753	**(346)**	**407**	**1 117**	**(314)**	**803**

The Bank

In thousands of lats		2013			2012	
	Assets	Liabilities	Net value	Assets	Liabilities	Net value
Held for trading financial assets	-	(6)	(6)	-	(7)	(7)
Property and equipment	-	(301)	(301)	-	(300)	(300)
Other assets	-	(39)	(39)	-	(7)	(7)
Other liabilities	48	-	48	48	-	48
The accumulated tax losses	581	-	581	869	-	869
	629	**(346)**	**283**	**917**	**(314)**	**603**

The accumulated tax losses are tax losses calculated according to corporate income tax return. According to the Republic of Latvia legislation the Bank is entitled to cover these losses from the reporting year's profit before tax until the losses are fully settled. The Bank considers that the economic situation in the country will continue to improve and the Bank will manage to cover these tax losses in due time. This is also supported by current year realization of prior year tax losses.

On 15 December 2011 amendments permitting tax loss carry forward for infinite period were passed by Latvian government. These are applicable for tax loss from accounting periods starting in 2008 or later years; amendments are effective from 1 January 2012.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

14 OTHER PAID TAXES AND FEES

Personal income tax of employees	1 032	1 011	1 000	983
Employer state social insurance obligatory payments (Note 10)	1 048	946	1 003	905
Non-deductible value added tax (Note 11)	102	(90)	102	(93)
Employees state social insurance obligatory payments	470	420	461	412
Taxes paid abroad (Note 13., (1))	171	229	149	218
	2 823	**2 516**	**2 715**	**2 425**

15 CASH AND BALANCES DUE FROM THE BANK OF LATVIA

Balances due from the Bank of Latvia	61 457	70 465	61 457	70 465
Cash	1 041	1 225	1 041	1 225
	62 498	**71 690**	**62 498**	**71 690**

In accordance with the regulatory requirements credit institutions are required to maintain funds (mandatory reserves) on their accounts with the Bank of Latvia up to the standard of mandatory reserves. During 2013 and 2012 the Bank was compliant with the requirements.

Balance of the correspondent account with the Bank of Latvia also includes an amount of 461 thousand lats, which serves as collateral for the advance delivery of euro banknote and coins (2012: none).

16 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF LESS THAN 3 MONTHS [1]

Due from credit institutions registered in the Republic of Latvia	1 922	1 817	1 922	1 817
Due from credit institutions registered in foreign countries	87 480	69 190	87 466	69 178
	89 402	**71 007**	**89 388**	**70 995**

[1] Demand claims that may be satisfied without previous claim, or with demand term of 24 hours or one working day, and claims with demand term of up to 3 months are disclosed under this section. The claims are disclosed according to their initial maturity pursuant to the agreements.

Claims on credit institutions also include an amount of 6 654 thousand lats, which serves as collateral for foreign exchange and securities transactions (2012: 6 685 thousand lats).

As at 31 December 2013 and 2012 the Group had 3 and 2 banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2013 and 2012 were LVL 29 986 thousand and LVL 21 065 thousand, respectively.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012

17 HELD FOR TRADING SECURITIES

(1) Held for trading debt securities and other fixed income securities

Investment amount of debt securities	1 607	168	1 607	168
Unrealised losses on debt securities, net	(70)	(3)	(70)	(3)
	1 537	**165**	**1 537**	**165**

All investments in debt securities and other securities with fixed income have been made in securities listed on exchanges.

(2) Held for trading equity shares and other non-fixed income securities

Investments in equity shares	-	1 596	-	1 596
Unrealised losses on equity investments, net	-	(739)	-	(739)
	-	**857**	**-**	**857**

18 DERIVATIVES

The table below shows the fair value of forward foreign exchange contracts which is disclosed for each contract as an asset or liability. The notional value of these contracts reflects the reference amount of basis currency underlying the agreement whose changes determine the cash flow of the forward exchange contracts.

Fair value of foreign currency forwards

Assets (positive fair value)	**40**	**47**	**40**	**47**
Liabilities (negative fair value)	**-**	**(2)**	**-**	**(2)**

Notional principal value of foreign currency forwards

Assets (due from)	**594**	**5 047**	**594**	**5 047**
Liabilities (due to)	**(554)**	**(5 002)**	**(554)**	**(5 002)**

All foreign currency forwards are forwards concluded to secure currency trading transactions of the Group's customers. The concluded foreign currency forwards are provided for purchase and sale of foreign currency in the future under the terms specified beforehand. The maximum remaining term of payments of foreign currency forwards does not exceed 6 months.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012

19 AVAILABLE FOR SALE FINANCIAL ASSETS

(1) Available for sale debt securities and other fixed income securities

Investment amount of government debt securities	17 536	24 673	17 536	24 673
Government debt securities revaluation profit, net	23	91	23	91
	17 559	**24 764**	**17 559**	**24 764**
Investment amount of debt securities of other institutions	329	328	329	328
Revaluation losses of debt securities of other institutions, net	(9)	(10)	(9)	(10)
	320	**318**	**320**	**318**
	17 879	**25 082**	**17 879**	**25 082**

The Government debt securities portfolio of 2013 includes debt securities issued by Latvian and U.S. state governments (2012: Latvian and U.S. states). The debt securities portfolio of other institutions includes the debt securities of Latvian company (2012: Latvian company debt securities).

All investments in debt securities and other securities with fixed income have been made in securities with actively quoted prices, with the exception of Latvian company debt securities, which are valued using discounted cash flows.

(2) Available for sale equity shares and other non-fixed income securities

Investments in equity shares and other non-fixed income securities	31	31	31	31
	31	**31**	**31**	**31**

By the end of the reporting year, this position represents the investment in *SWIFT* (2012: *SWIFT*).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012

20 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF MORE THAN 3 MONTHS [1]

	2013	2012	2013	2012
Due from credit institutions registered in foreign countries	8 426	8 168	8 426	8 168
	8 426	**8 168**	**8 426**	**8 168**

[1] In this note claims to credit institutions are disclosed according to their initial maturity pursuant to agreements.

21 LOANS

(1) Classification of loan balance by customer groups:

	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Non-financial corporations	70 423	76 672	64 643	71 041
Households	12 813	16 681	12 598	16 400
Loans to financial institutions	2 155	3 948	14 797	18 492
Loans to employees	1 574	1 462	1 492	1 343
Gross loans	**86 965**	**98 763**	**93 530**	**107 276**
Allowance for loans, ***assessed individually*** (Note 12)	(14 828)	(13 225)	(13 771)	(11 844)
Allowance for loans, ***assessed collectively*** (Note 12)	(36)	(42)	(36)	(42)
Net loans	**72 101**	**85 496**	**79 723**	**95 390**

By the end of the reporting year the total amount of the Bank's doubtful loans for which the accrual of nominal interest has been discontinued was thousand lats 43 909 , including loans which have expired – 13 472 thousand lats, restructured loans – 25 415 thousand, loans past due over 30 days – 5 022 thousand lats (2012: 41 209 thousand lats, including loans which have expired – 15 680 thousand lats, restructured loans – 20 448 thousand lats, loans past due over 30 days – 5 081 thousand lats). To determine the value of these loans the Bank applied methods used for assessment of collateral adequacy and solvency of borrowers. The total amount of written off unrecoverable debts in the reporting year are 4 251 thousand lats (2012: 4 412 thousand lats).

(2) Classification of impairment for loans by customer groups:

	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Private non-financial corporations	10 568	9 971	9 517	8 760
Households	4 296	3 296	4 290	3 126
	14 864	**13 267**	**13 807**	**11 886**

The main criterion used to evaluate loan quality is the borrower's solvency. When assessing a loan the Bank takes into account the borrower's credit history, financial standing, performance and prospects of business activity and correspondence of the loan purpose to repayment sources, presence of solvent guarantors, adequacy of the borrower's current and anticipated cash flows to repay the loan, collateral value, compliance with repayment schedule, and country risk if a loan is granted to a non-resident. A collateral dependent loan is assessed based on the value of loan collateral. In 2013 and 2012, the main factor affecting the creditworthiness of borrowers was connected with still instable financial standing of borrowers.

According to the Bank's loan assessment, made by the Financial and Capital Market Commission, the Bank has to make additional provisions in the amount of 3 219 thousand lats (as at 31.12.2012. – 5 385 thousand lats). In performing its loan assessment, the Bank applies the FCMC Regulations On Assets Quality Assessment and Provisioning which provides for making additional impairment allowances to those created in accordance with IFRS as adopted by the EU. Given that the Bank's assessment of the respective loans is that either no impairment allowance needs to be raised or that the allowance is lower than that requested by FCMC, the Bank has not created sufficient impairment allowances in the amounts required by FCMC. According to the FCMC Regulations in such a case the Bank has to adjust its capital adequacy calculation (reduction) for this amount, less the risk-weighting factor, in the amount of 2 926 thousand lats (as at 31.12.2012. – 4 863 thousand lats (Note 44)).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

21 LOANS (continued)

(3) Loans principal classification by loan type:

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Mortgage loans	27 642	31 118	27 642	31 118
Commercial loans	23 005	23 225	34 657	37 448
Industrial loans	9 536	14 035	9 536	14 035
Finance leasing	5 068	5 518	-	-
Overdrafts	7 925	5 891	7 925	5 891
Consumer loans	386	431	367	354
Factoring	408	530	408	530
Payment card loans	373	346	373	346
Other	12 622	17 669	12 622	17 554
	86 965	**98 763**	**93 530**	**107 276**

(4) Analysis of loans by industry:

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
Operations with real estate [1]	19 669	24 523	19 638	24 522
Wholesale and retail	12 602	12 670	11 075	10 989
Mortgage loans to individuals	5 525	5 564	5 525	5 564
Other loans to individuals	7 849	11 481	7 849	11 481
Transport, warehousing and communication	9 842	9 978	8 916	8 576
Financial services	7 503	9 883	20 144	24 427
Manufacturing	11 024	10 061	10 762	9 239
Construction	4 719	5 168	2 718	4 448
Extractive industry	1 660	1 726	1 491	1 726
Agriculture, hunting, wood processing and fishing	1 221	1 358	1 167	1 324
Hotels and restaurants	2 237	2 091	1 749	1 589
Consumer loans to individuals	1 013	1 097	716	697
Other	2 101	3 163	1 780	2 694
	86 965	**98 763**	**93 530**	**107 276**

[1] Operations with real estate mostly consist of loans given to real estate developers.

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012

21 LOANS (continued)

(5) Analysis of collateral [1]:

Apartments, dwelling houses, land	30 947	38 393	30 947	38 393
Commercial real estate	37 059	42 698	37 059	41 863
Current and fixed assets	42 524	38 205	54 383	46 947
Vehicles	19 270	12 818	12 883	9 317
Securities and shares (book value)	2 401	2 878	2 401	2 878
Guarantees	10 367	7 171	10 367	7 171
Deposits placed in the other credit institutions	247	2 761	247	2 761
Deposits placed in the Bank (Note 28)	689	7 801	689	7 801
	143 504	**152 725**	**148 976**	**157 131**

[1] Loan collaterals also refer to the Bank's commitments and guarantees with regard to loan limits that have not been used (Note 33) and serve as factors that mitigate the risk of such liabilities (Note 42, (1)).

Loan collaterals are stated at their fair values, except for fixed assets and shares, which are assessed at book value or face value.

(6) Grouping of Finance lease agreements by the type of leased assets:

Transport vehicles	3 421	2 975	-	-
Production equipment	1 246	1 383	-	-
Other assets	401	1 160	-	-
	5 068	**5 518**	**-**	**-**

(7) Analyses of finance lease receivables according to the time bands:

Present value of minimum lease payments				
Up to 1 year	3 975	3 021	-	-
Over 1 year to 5 years	1 093	1 781	-	-
Over 5 years	-	716	-	-
	5 068	**5 518**	**-**	**-**
Interest income to be received under financial leasing				
Up to 1 year	217	306	-	-
Over 1 year to 5 years	71	326	-	-
Over 5 years	-	94	-	-
	288	**726**	**-**	**-**
Future value of minimum financial leasing payments				
Up to 1 year	4 192	3 327	-	-
Over 1 year to 5 years	1 164	2 107	-	-
Over 5 years	-	810	-	-
	5 356	**6 244**	**-**	**-**
Allowance for finance leases	**(1 051)**	**(1 210)**	**-**	**-**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

22 ACCRUED INCOME AND DEFERRED EXPENSES

Prepayments	155	125	152	123
Other accrued income	20	28	20	28
	175	**153**	**172**	**151**
Impairment allowance	(2)	(1)	(2)	(1)
	173	**152**	**170**	**150**

During the reporting year, the other accrued income was written off in the amount of 1 thousand lats (2012: 59 thousand lats).

23 OTHER NON-CURRENT ASSETS

Land parcels	1 555	2 400	175	175
Finished and unfinished construction costs	5 711	7 396	2 567	2 330
Prepayments for unfinished construction	7	114	7	114
	7 273	**9 910**	**2 749**	**2 619**

The long term assets mentioned in this Note are associated with the facility, which served as loan collateral and consisted of land and incomplete construction. It was taken over and posted on the Bank's statement of financial position against a loan settlement. To increase the realization options and value of the facility, the Bank has made additional investments to finish the construction of the facility. This Note includes also the object (including the related land plot) in the amount of 4 524 thousand lats (in 2012: 7 291 thousand) which the Bank has sold to a subsidiary within the Group for further sale.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

All property, equipment and intangible assets in the possession of the Bank and the Group are used for the Bank's and Group's operations, for rendering financial services and maintenance of social infrastructure.

(1) The Group

Changes in property and equipment and intangible assets in 2013	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2012	**6 350**	**806**	**2 088**	**1 996**	**1 091**	**12 331**
Additions	21	121	162	5	80	389
Disposals	-	(317)	(163)	-	-	(480)
At 31 December 2013	**6 371**	**610**	**2 087**	**2 001**	**1 171**	**12 240**
Accumulated depreciation and amortisation						
At 31 December 2012	**535**	**515**	**1 595**	**578**	**860**	**4 083**
Charge for the reporting year	131	94	184	154	91	654
Disposals	-	(266)	(144)	-	-	(410)
At 31 December 2013	**666**	**343**	**1 635**	**732**	**951**	**4 327**
Net carrying value at 31 December 2012	**5 815**	**291**	**493**	**1 418**	**231**	**8 248**
Net carrying value at 31 December 2013	**5 705**	**267**	**452**	**1 269**	**220**	**7 913**

Changes in property and equipment and intangible assets in 2012	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2011	**6 355**	**749**	**2 042**	**1 992**	**1 075**	**12 213**
Reclassification	-	(2)	-	-	2	-
Additions	2	83	64	4	14	167
Disposals	(7) [1]	(24)	(18)	-	-	(49)
At 31 December 2012	**6 350**	**806**	**2 088**	**1 996**	**1 091**	**12 331**
Accumulated depreciation and amortisation						
At 31 December 2011	**404**	**436**	**1 406**	**425**	**756**	**3 427**
Reclassification	-	(2)	-	-	2	-
Charge for the reporting year	131	99	204	153	102	689
Disposals	-	(18)	(15)	-	-	(33)
At 31 December 2012	**535**	**515**	**1 595**	**578**	**860**	**4 083**
Net carrying value at 31 December 2011	**5 951**	**313**	**636**	**1 567**	**319**	**8 786**
Net carrying value at 31 December 2012	**5 815**	**291**	**493**	**1 418**	**231**	**8 248**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (continued)

(2) The Bank

Changes in property and equipment and intangible assets in 2013	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2012	**6 350**	**787**	**2 054**	**1 996**	**1 089**	**12 276**
Additions	21	121	134	5	79	360
Disposals	-	(317)	(144)	-	-	(461)
At 31 December 2013	**6 371**	**591**	**2 044**	**2 001**	**1 168**	**12 175**
Accumulated depreciation and amortisation						
At 31 December 2012	**535**	**498**	**1 585**	**578**	**858**	**4 054**
Charge for the reporting year	131	92	178	154	91	646
Disposals	-	(266)	(142)	-	-	(408)
At 31 December 2013	**666**	**324**	**1 621**	**732**	**949**	**4 292**
Net carrying value at 31 December 2012	**5 815**	**289**	**469**	**1 418**	**231**	**8 222**
Net carrying value at 31 December 2013	**5 705**	**267**	**423**	**1 269**	**219**	**7 883**

Changes in property and equipment and intangible assets in 2012	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2011	**6 355**	**726**	**2 028**	**1 992**	**1 075**	**12 176**
Additions	2	74	41	4	14	135
Disposals	(7) [1]	(13)	(15)	-	-	(35)
At 31 December 2012	**6 350**	**787**	**2 054**	**1 996**	**1 089**	**12 276**
Accumulated depreciation and amortisation						
At 31 December 2011	**404**	**415**	**1 399**	**425**	**756**	**3 399**
Charge for the reporting year	131	94	201	153	102	681
Disposals	-	(11)	(15)	-	-	(26)
At 31 December 2012	**535**	**498**	**1 585**	**578**	**858**	**4 054**
Net carrying value at 31 December 2011	**5 951**	**311**	**629**	**1 567**	**319**	**8 777**
Net carrying value at 31 December 2012	**5 815**	**289**	**469**	**1 418**	**231**	**8 222**

In the reporting period, equipment in the amount of 11 thousand lats was written off (2012: none).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARIES

(1) Composition of the consolidation group

The consolidation group of the Bank consists of the subsidiaries TKB Nekustamie īpašumi , TKB Līzings and its subsidiaries CJSC TKB Leasing Tajikistan and „TKB LU" LLC and its subsidiary „PROJECT 1" LLC; "Heckbert C7 Holdings" and its subsidiary "Ferrous Kereskedelmi KFT". Services provided by TKB Līzings, TKB Leasing Tajikistan, TKB LU and TKB Nekustamie īpašumi extend the range of services offered by the Bank. The description of "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" is provided in this Note, part (3).

No	Name of commercial company	Registration place code , registration address	Type of activity of commercial company *	Share in the fixed capital (%)	Voting share in commercial company (%)	Grounds for inclusion in the Group**
1	TKB nekustamie īpašumi, Ltd., LV-40003723143	9 Miesnieku, Riga, LV	AC	100	100	SC
2	TKB līzings, Ltd., LV-40003591059	9 Miesnieku, Riga, LV	AFI	100	100	SC
3	CJSC TKB Leasing Tajikistan TJ-0210013797	TJ, Dushanbe, Pr.Rudaki 100, Tajikistan	AFI	75.10	75.10	TKB līzings, Ltd. SC
4	TKB LU LLC UA-15561020000043994	UA, Odesa, Genuezka 24a-321	AC	100	100	TKB līzings, Ltd. SC
5	PROJECT 1 LLC UA-15561020000044353	UA, Odesa, Genuezka 24a-321	AC	100	100	TKB LU LLC SC
6	Heckbert C7 Holdings Limited CY-HE134861	CY, Nicosia, Kritonos 21, Cyprus	AFI	75.36	75.36	SC
7	Ferrous Kereskedelmi KFT HU-01-09-717395	HU, Budapest, 3 Szegedi street, Hungary	AFI	100	100	Heckbert C7 Holdings SC

* - AFI – another financial institution, AC - auxiliary company.
** - SC – subsidiary company.

(2) The Bank has the following participation in the share capital of its subsidiaries in its separate financial statements

	2013			2012		
	Investment and participation			Investment and participation		
Group companies: registration number and address	Total carrying value of assets	Cost	Cost less impair-ment	Total carrying value of assets	Cost	Cost less impair-ment
SIA TKB Nekustāmie īpašumi	-	2	2	1	2	2
SIA TKB Līzings	12 119	700	415	14 781	700	415
Heckbert C7 Holdings Limited	14 589	10 436	10 436	15 039	10 436	10 436
	26 708	**11 138**	**10 853**	**29 821**	**11 138**	**10 853**

The methods applied to include the subsidiaries financial statements in the Group's consolidated financial statements are described in Note 2, (3). The subsidiaries shares are not quoted on a stock exchange. According to the assessment of Bank's management that was made on the basis of future business plans and cash flow, the Bank will manage to recover its investments in associated companies.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARIES (continued)

(2) The Bank has the following participation in the share capital of its subsidiary (continued)

The below data reflects financial information of subsidiaries:

	2013	2012
Assets	26 708	29 821
Liabilities	(12 832)	(15 093)
Net assets	**13 876**	**14 728**
Gross income from operating activities	402	381
Loss for the period	(400)	(131)

(3) The Bank has the following participation in equity accounted investees

At the end of the 2009 the Bank purchased 100% of the share capital of Cyprus Company "Heckbert C7 Holdings", which owns 100% of the share capital of the company "Ferrous Kereskedelmi KFT" (Hungary), which is the owner of 25,085% of the Ukrainian gas company "Dewon" shares. The purpose of this transaction was to obtain control over 25.085% of the share capital of "Dewon". "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" do not perform any other commercial activities, except the holding of "Dewon" shares.

On 29 March 2012, the Bank entered into a deal on partial sale of the investment in the Cyprus Company "Heckbert C7 Holdings". This deal resulted in a sale of 24.64% of the shares of "Heckbert C7 Holdings" and receipt of USD 7 million. These shares were sold at a profit of 284 thousand lats which is presented in Bank's separate financial statements. The carrying amount of the remaining part of the investment at the end of 2013 was 10 853 thousand (2012: 10 853 thousand).

The remaining part of the investment is represented in this item in accordance with IAS 28. Independent experts provided their fairness opinion of the "Dewon" company's shares as of reporting period end. The assessment showed no reduction in the fair value below the book value of the investment.

According to the Financial and Capital Market Commission's assessment of this investment, the Bank has to make capital adjustment for the book value of this investment. In February 2013, independent experts performed fair share assessment of the company "Dewon". The assessment did not show impairment in the fair value which is below the balance sheet value of the investment. Taking into account the independent experts' assessment, the Bank disagrees with the assessment of the FCMC. According to the FCMC assessment, the Bank has to perform its capital adequacy calculation adjustment (reduction) for this amount, less the risk-weighting factor - by 9 601 thousands lats (as at 31.12.2012 – 9 601 thousand lats (Note 44)).

Report on the financial position of Dewon

	2013				2012			
	100%		25.085%		100%		25.085%	
	TUAH	TLVL	TUAH	TLVL	TUAH	TLVL	TUAH	TLVL
Assets	1 022 380	63 694	256 464	15 978	1 015 679	67 035	254 783	16 816
Liabilities	(187 849)	(11 703)	(47 122)	(2 935)	(167 378)	(10 803)	(41 987)	(2 710)
Net assets	**834 531**	**51 991**	**209 342**	**13 043**	**848 301**	**56 232**	**212 796**	**14 106**
Gross income from operating activities	269 164	17 471	67 520	4 383	147 685	9 992	37 047	2 507
Profit/(loss) for the period	(13 769)	(894)	(3 454)	(224)	16 897	1 143	4 238	287

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
26 OTHER ASSETS				
Financial assets				
Receivables from brokerage companies	2 007	1 907	2 007	1 907
Spot transactions positive fair value [3]	483	131	483	131
Non-financial assets				
Real estate property held for sale [1]	8 296	5 197	6 942	4 631
Overpaid value added tax	33	730	33	35
Other assets [2]	1 586	632	1 101	634
	12 405	**8 597**	**10 566**	**7 338**
Impairment allowance	(284)	(224)	(285)	(250)
	12 121	**8 373**	**10 281**	**7 088**

In the reporting year other assets in the amount of 134 thousand lats were written off (2012: 52 thousand lats).

[1] A real estate property held for sale is the real estate property whose possession is taken by the Group (as a result of takeover or acquisition) and which served as collateral for granted loans. The acquisition cost of this real estate property is measured at the transaction cost or at fair value less cost to sell in case there is evidence that transaction cost is higher. As a result of such transactions the amount received is channeled to settle customer's obligations to the Group.

In 2013 the Group has revalued part of objects to fair value less cost to sell with loss of 111 thousand lat charged to impairment loss caption (2012: none). The carrying amount of revalued assets as of 31 December 2013 is 210 thousand lat (2012: 321 thousand lat). These assets are attributed to 3rd level of fair value hierarchy and significant unobservable inputs in place are rental income, discount rate and occupancy.

[2] Other assets include also an amount of 567 thousand lats (2012: 537 thousand lats), which serve as collateral for payment card transactions and other transactions.

[3] The table below shows the fair value of spot foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the value of base asset underlying the agreement whose changes in fair value and the fair value of future receivable and payable cash flows are estimated.

Fair value of foreign currency spot transactions				
Assets (positive fair value)	**483**	**131**	**483**	**131**
Liabilities (negative fair value, Note 30)	**(223)**	**(83)**	**(223)**	**(83)**

Notional principal value of foreign spot transactions				
Assets (due from)	**89 596**	**106 841**	**89 596**	**106 841**
Liabilities (due to)	**(89 336)**	**(106 793)**	**(89 336)**	**(106 793)**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012

27 DUE TO CREDIT INSTITUTIONS

	2013	2012	2013	2012
Credit institutions registered in other countries	3 855	2 986	3 855	2 986
Credit institutions registered in the Republic of Latvia	83	322	83	322
	3 938	**3 308**	**3 938**	**3 308**

Deposits that serve as collateral of the following claims:

	2013	2012	2013	2012
Other transactions (card payments)	-	27	-	27
	-	**27**	**-**	**27**

28 DUE TO CUSTOMERS

	2013	2012	2013	2012
Non-financial corporations	187 130	197 948	187 131	197 948
Households	45 826	47 771	45 826	47 771
Non-profit institutions serving households	463	424	463	424
Financial institutions	2 278	2 137	2 293	2 295
Local government	65	20	65	20
	235 762	**248 300**	**235 778**	**248 458**

Deposits which serve as collateral for the following claims:

	2013	2012	2013	2012
Loans (Note 21, (5))	412	7 498	412	7 498
Unused credit lines (Note 42, (1) and Note 21, (5))	246	303	246	303
Guarantees (Note 33, (2) and 42, (1))	31	1	31	1
Other transactions (card payments)	149	98	149	98
	838	**7 900**	**838**	**7 900**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

In thousands of lats	The Group 2013	The Group 2012	The Bank 2013	The Bank 2012
29 ACCRUED EXPENSES AND DEFERRED INCOME				
Unused holiday and premium pay	335	332	318	320
Other accrued expenses	343	1 104	352	1 090
	678	**1 436**	**670**	**1 410**
30 OTHER LIABILITIES				
Suspense accounts	1 609	451	1 609	451
Spot transactions negative fair value (Note 26)	223	83	223	83
Money in transit	137	195	137	195
Unpaid dividends of previous periods	15	1 767	15	1 767
Other liabilities	304	524	65	88
	2 288	**3 020**	**2 049**	**2 584**

In thousands of lats

31 SUBORDINATED LIABILITIES

As of 31 December 2013 the balance of subordinated non-convertible liabilities was 10 961 thousand lats (2012: 9 096 thousand lats) with maturities in 2014- 2019.

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2013, Group and the Bank:

Name	Currency of contract	Principal 000'LVL	Book value 000'LVL	Date of origination	Maturity	Interest %
TUAREG HOLDINGS S.A.	USD	1 451	1 480	31.07.2008.	31.07.2015.	12
TUAREG HOLDINGS S.A.	EUR	470	480	31.07.2008.	31.07.2015.	12
PERRYCAT LIMITED	USD	1 287	1 251	01.08.2011.	02.08.2016.	5
Other [1]	USD, EUR	7 724	7 750	2008.-2013.	2014.-2019.	4.50-10
TOTAL		**10 932**	**10 961**			

[1] Other liabilities include one individual's subordinated liabilities in the amount of 1 415 thousand lats, which exceeds 10% of the total subordinated liabilities amount.

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2012, Group and the Bank:

Name	Currency of contract	Principal 000'LVL	Book value 000'LVL	Date of origination	Maturity	Interest %
TUAREG HOLDINGS S.A.	USD	1 496	1 526	31.07.2008.	31.07.2015.	12
TUAREG HOLDINGS S.A.	EUR	470	480	31.07.2008.	31.07.2015.	12
PERRYCAT LIMITED	USD	1 328	1 276	01.08.2011.	02.08.2016.	5
Other [1]	USD, EUR	5 815	5 814	2008.-2012.	2014.-2019.	4.75-10
TOTAL		**9 109**	**9 096**			

[1] Other liabilities include one individual's subordinated liabilities in the amount of 1,415 thousand lats, which exceeds 10% of the total subordinated liabilities amount.

Subordinated deposits have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims. Subordinated liabilities (subordinated capital) consist of cash assets, borrowed by the Bank for the period which is not shorter than five years. Conditions that allow demanding pre-term repayment of a loan are regulated in accordance with the regulations for calculating of capital requirements that foresee the right of lenders to demand repayment of a loan before its maturity only in case of a borrower's liquidation. In case of a borrower's liquidation the subordination regulations of subordinated liabilities (loan) determine that the lender's claims are satisfied only after claims of all other borrower's creditors are satisfied, but before satisfying the claims of shareholders of the borrower. Basic provisions for all other subordinated liabilities correspond to the afore-mentioned.

The Bank may repay such loan on its own initiative before the maturity if after such loan repayment its own equity complies with the regulation provisions and the FCMC has no objections thereof.

The concluded agreements do not foresee possibility to change subordinated liabilities into investments in equity, or other possible liabilities.

The above mentioned amount of subordinated liabilities is included in excess capital for the purposes of calculation of the capital adequacy ratio (see Note 44).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

32 SHARE CAPITAL AND RESERVES

(1) Share capital

The Bank's paid-up share capital on 31 December 2013 was 14 507 thousand lats (2012: 14 507 thousand lats). It consisted of 290 136 (2012: 290 136) ordinary shares with a nominal value of 50 lats each. The total number of shareholders is 42 (2012: 47), of which 11 (2012: 10) - corporate and 31 (2012: 37) individuals.

List of shareholders and mutually related shareholder groups which directly or indirectly control 10% or more of the paid-up share capital:

Shareholder	Country	Shareholding 2013		Shareholding 2012	
		%	LVL'000	%	LVL'000
I.Buimisters	Latvia	43.21	6 269	43.21	6 269
SIA "C&R Invest"	Latvia	14.63	2 122	14.60	2 117
C.E.G. Treherne	Great Britain	9.31	1 351	9.31	1 351
GCK Holdings Netherlands B.V.	Netherlands	7.42	1 076	7.40	1 074
Rikam S.A.H.	Luxembourg	7.29	1 058	7.29	1 058
Figon Co Limited	Cyprus	3.41	494	3.40	493

(2) Reserves

The reserve capital and other reserves of the Bank were created by the decisions of shareholders in prior years. As there are no regulatory requirements for maintaining these reserves, they could be released in future periods based on the decision of shareholders. Reserves balance amount as at the end of the year was 3 804 thousand lats (2012: 3 804 thousand lats).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

33 COMMITMENTS AND GUARANTEES

(1) Classification of commitments and guarantees

Contingent liabilities	**5 763**	**5 136**	**5 763**	**5 136**
of which guarantees	*909*	*257*	*909*	*257*
of which rent commitments [1]	*4 393*	*4 879*	*4 393*	*4 879*
of which other contingent liabilities	*461*	*-*	*461*	*-*
Commitments to clients	**9 361**	**7 890**	**10 466**	**9 290**
of which unused credit lines	*9 353*	*7 890*	*10 458*	*9 290*
of which other liabilities	*8*	*-*	*8*	*-*
Total commitments and guarantees	**15 124**	**13 026**	**16 229**	**14 426**

[1] Analysis of lease agreements according to remaining validity:				
Up to 1 year	3	9	3	9
From 1 year up to 5 years	121	74	121	74
Over 5 years	4 269	4 796	4 269	4 796
	4 393	**4 879**	**4 393**	**4 879**

Analysis of lease commitments according to the time bands:				
Up to 1 year	556	554	556	554
From 1 year up to 5 years	2 022	2 019	2 022	2 019
Over 5 years	1 815	2 306	1 815	2 306
	4 393	**4 879**	**4 393**	**4 879**

(2) Analysis of collateral of commitments and guarantees

Guarantees	758	343	758	343
Deposits placed with the Bank (Note 28)	*31*	*1*	*31*	*1*
Financial insurance	*642*	*32*	*642*	*32*
Apartments, dwelling houses, land	*85*	*229*	*85*	*229*
Current and fixed assets	*-*	*81*	*-*	*81*
	758	**343**	**758**	**343**

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012

34 ASSETS AND LIABILITIES UNDER MANAGEMENT

This item includes assets and liabilities held by the Bank under its own name on behalf of its clients. The Bank receives fees based on the amounts managed. The amount of these assets and liabilities are not recognised in the statement of financial position.

Assets and liabilities under management are composed as follows:

Assets under management

Shares and other assets	10 868	1 970	10 868	1 970
Due from corporates	50 257	25 945	50 257	25 945
Due from credit institutions	780	870	780	870
Due from individuals	77	377	77	377
	61 982	**29 162**	**61 982**	**29 162**

Customer profile on whose behalf the assets are managed

Credit institutions	48 046	23 303	48 046	23 303
Enterprises	13 936	5 859	13 936	5 859
	61 982	**29 162**	**61 982**	**29 162**

35 MORTGAGED ASSETS

Information about the Bank's mortgaged assets is provided in Notes 15, 16 and 26.

36 CASH AND CASH EQUIVALENTS

In thousands of lats	The Group		The Bank	
	2013	2012	2013	2012
Due from other credit institutions with a maturity of less than 3 months from the date of acquisition	89 402	71 007	89 388	70 995
Cash and balances due from the Bank of Latvia	62 498	71 690	62 498	71 690
Due to other credit institutions with initial maturity of less than 3 months from the date of acquisition	(3 856)	(2 987)	(3 856)	(2 987)
	148 044	**139 710**	**148 030**	**139 698**

In thousands of lats

37 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Group and the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, Group's associates, chairpersons and members of the council and management board, and employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Group and the Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, brokerage services etc. These transactions are mostly conducted on normal business terms.

(1) Presented below are the Group's transactions with related parties

In thousands of lats	Share-holders	Council and board	Subsi-diaries	Equity accounted investees	Other related parties [1]	Total
		2013				
Assets						
Loans [2]	283	277	-	1 491	735	**2 786**
Allowance for loans	*(9)*	*(5)*	-	-	(1)	***(15)***
Loans, net	274	272	-	1 491	734	2 771
Liabilities						
Deposits [3]	9	213	-	-	601	**823**
Commitments and guarantees						
Unused credit lines	38	23	-	-	1 554	**1 615**
Income statement						
Interest income	18	17	-	313	22	**370**
Fee and commission income	1	1	-	-	1	**3**
Interest expense	-	(1)	-	-	(1)	**(2)**
Release of impairment/ impairment) of loans	1	1	-	-	-	**2**
Other expenses	(31)	(41)	-	(32)	(10)	**(114)**
		2012				
Assets						
Loans [2]	319	293	-	1 722	673	**3 007**
Allowance for loans	*(10)*	*(6)*	-	-	(1)	***(17)***
Loans, net	309	287	-	1 722	672	2 990
Liabilities						
Deposits [3]	5	176	-	-	1 158	**1 339**
Commitments and guarantees						
Unused credit lines	85	26	-	-	11	**122**
Income statement						
Interest income	18	20	-	-	24	**62**
Fee and commission income	1	1	-	-	1	**3**
Interest expense	-	(2)	-	-	(13)	**(15)**
Release of impairment/ impairment) of loans	-	4	-	-	921	**925**
Other expenses	(23)	(52)	-	(4)	(42)	**(121)**

[1] Other related parties are associates, spouses and children of the shareholders and council and board members and companies in which they have a controlling interest.

[2] Related party lending rates are set from 2.79% to 11% (2012: from 2.67% to 11%).

[3] Related party deposit rates are set from 0.1% to 1.55% (2012: from 0.1% to 3.5%).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

37 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Presented below are the Bank's transactions with related parties

In thousands of lats	Share-holders	Council and board	Subsi-diaries	Equity accounted investees	Other related parties [1]	Total
		2013				
Assets						
Loans [2]	207	277	12 641	1 491	735	15 351
Allowance for loans	(9)	(5)	-	-	(1)	(15)
Loans, net	198	272	12 641	1 491	734	15 336
Liabilities						
Deposits [3]	9	213	27	-	601	**850**
Commitments and guarantees						
Unused credit lines	38	23	1 106	-	1 554	**2 721**
Income statement						
Interest income	12	17	587	313	22	**951**
Fee and commission income	1	1	3	-	1	**6**
Interest expense	-	(1)	-	-	(1)	**(2)**
Release of impairment/ impairment) of loans	1	1	(6)	-	-	**(4)**
Other expenses	(31)	(41)	(272)	(32)	(10)	**(386)**
		2012				
Assets						
Loans [2]	212	292	14 544	1 722	673	17 443
Allowance for loans	(10)	(6)	-	-	(1)	(17)
Loans, net	202	286	14 544	1 722	672	17 426
Liabilities						
Deposits [3]	5	176	158	-	1 158	**1 497**
Commitments and guarantees						
Unused credit lines	85	26	1 441	-	11	**1 563**
Income statement						
Interest income	11	20	326	-	24	**381**
Fee and commission income	1	1	3	-	1	**6**
Interest expense	-	(2)	(15)	-	(13)	**(30)**
Release of impairment/ impairment) of loans	-	4	-	-	921	**925**
Other expenses	(23)	(52)	1 085	(4)	(42)	**964**

[1] Other related parties are associates, spouses and children of the shareholders and council and board members and companies in which they have a controlling interest.
[2] Related party lending rates are set from 2.79% to 11% (2012: from 2.67% to 11%).
[3] Related party deposit rates are set from 0.1% to 1.55% (2012: from 0.1% to 3.5%).

(3) The Bank's related parties' loan and unused credit lines collateral analysis

In thousands of lats	2013	2012
Apartments, dwelling houses, land	1 176	1 281
Commercial real estate	108	114
Commercial collateral (current and fixed assets)	17 315	15 509
	18 599	**16 904**

In thousands of lats

38 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES

(1) Comparison of the Bank's financial assets and liabilities net book value to the fair value

The table below contains a comparison of the fair value of the Bank's financial assets and liabilities to their net book value. An assessment of the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to these financial statements.

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Financial instruments measured at fair value				
Held for trading financial assets	1 577	1 577	1 069	1 069
Available for sale financial assets	17 910	17 910	25 113	25 113
Financial instruments measured at amortised cost				
Cash and balances due from the Bank of Latvia	62 498	62 498	71 690	71 690
Due from credit institutions with a maturity of less than 3 months	89 388	89 388	70 995	70 995
Due from credit institutions with a maturity of more than 3 months	8 426	8 426	8 168	8 168
Loans	79 723	80 799	95 390	96 707
Other assets	2 490	2 490	2 038	2 038
Total financial assets	**262 012**	**263 088**	**274 463**	**275 780**
LIABILITIES				
Financial instruments measured at fair value				
Held for trading financial liabilities	-	-	2	2
Financial instruments measured at amortised cost				
Due to credit institutions	3 938	3 938	3 308	3 308
Due to customers	235 778	235 852	248 458	248 863
Subordinated liabilities	10 961	11 943	9 096	10 094
Other liabilities	2 049	2 049	2 584	2 584
Total financial liabilities	**252 726**	**253 782**	**263 448**	**264 851**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

38 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES (continued)

(2) Analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities

The table below contains an analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities. An assessment for the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to these financial statements.

	2013				2012			
	1. level	2. level	3. level	Total	1. level	2. level	3. level	Total
ASSETS								
Financial instruments measured at fair value								
Held for trading financial assets	-	1 577	-	**1 577**	857	212	-	**1 069**
Available for sale financial assets	7 722	9 837	351	**17 910**	14 497	10 267	349	**25 113**
Total financial assets measured at fair value	**7 722**	**11 414**	**351**	**19 487**	**15 354**	**10 479**	**349**	**26 182**
Financial instruments measured at amortised cost								
Loans	-	-	79 723	**79 723**	-	-	95 390	**95 390**
Total financial assets measured at amortised cost	**-**	**-**	**79 723**	**79 723**	**-**	**-**	**95 390**	**95 390**
LIABILITIES								
Financial instruments measured at fair value								
Held for trading financial liabilities	-	-	-	**-**	-	2	-	**2**
Total financial liabilities at fair value	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Financial instruments measured at amortised cost								
Due to customers	-	235 778	-	**235 778**	-	248 458	-	**248 458**
Subordinated liabilities	-	10 961	-	**10 961**	-	9 096	-	**9 096**
Total financial liabilities at amortised cost	**-**	**246 739**	**-**	**246 739**	**-**	**257 554**	**-**	**257 554**

During 2013 there were no reclassifications between fair value hierarchy levels.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

38 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES (continued)

(3) Reconciliation of movement for financial assets measured at Level 3 of the fair value hierarchy

The Bank	**2013**	**2012**
Balance at 1 January	**349**	**365**
Total gains or losses:	46	54
in profit or loss	*45*	*52*
in other comprehensive income	*1*	*2*
Settlements	(44)	(70)
Balance at 31 December	**351**	**349**

Total gains or losses included in profit or loss relate to securities that are in the Bank's portfolio as at 31 December 2013 and 31 December 2012.

The significant assumptions used in Level 3 financial assets is based on discounted cash flows at a rate equal to the market return on similar assets.

Based on the management's assessment change in estimation inputs would not change fair value significantly, therefore the sensitivity analysis is not disclosed.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

39 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND COMMITMENTS AND GUARANTEES

The table below summarizes the Bank's geographical analysis. The Group's geographical analysis is not materially different from the Bank's geographical analysis.

31 December 2013	Latvia	EU	USA	Russia	Ukraine[2]	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	62 498	-	-	-	-	-	62 498
Due from credit institutions with a maturity of less than 3 months	1 922	63 845	8 879	2 628	2	12 112	89 388
Held for trading financial assets	-	478	-	466	-	633	1 577
Available for sale financial assets	10 157	31	7 722	-	-	-	17 910
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	8 350	76	8 426
Loans	46 814	12 472	-	2 398	8 444	9 595	79 723
Accrued income and deferred expenses	81	74	5	1	-	9	170
Long-term projects costs	2 749	-	-	-	-	-	2 749
Property and equipment	7 630	34	-	-	-	-	7 664
Intangible assets	190	29	-	-	-	-	219
Investments in share capital of subsidiaries	417	-	-	-	10 436	-	10 853
Deferred tax assets	283	-	-	-	-	-	283
Other assets	7 802	2 293	-	115	3	68	10 281
Total assets	**140 543**	**79 256**	**16 606**	**5 608**	**27 235**	**22 493**	**291 741**
LIABILITIES							
Due to credit institutions	83	-	-	93	-	3 762	3 938
Held for trading financial liabilities	-	-	-	-	-	-	-
Due to customers [1]	32 581	61 306	247	13 449	1 546	126 649	235 778
Accrued expenses and deferred income	623	47	-	-	-	-	670
Corporate income tax liabilities	-	10	-	-	-	-	10
Subordinated liabilities	2 034	2 167	-	2 745	809	3 206	10 961
Other liabilities	1 740	202	13	1	69	24	2 049
Total liabilities	**37 061**	**63 732**	**260**	**16 288**	**2 424**	**133 641**	**253 406**
COMMITMENTS AND GUARANTEES							
Contingent liabilities	4 896	782	-	85	-	-	5 763
Commitments to clients	7 114	883	-	87	238	2 144	10 466
Total commitments and guarantees	**12 010**	**1 665**	**-**	**172**	**238**	**2 144**	**16 229**
Net position as at 31 December 2013	**91 472**	**13 859**	**16 346**	**(10 852)**	**24 573**	**(113 292)**	**22 106**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Belize, Bahamas, Marshall Islands, Panama, Seychelles, New Zealand, and other countries.

[2] The Bank has made a capital adjustment on the part of the following assets. Information about the adjustment is provided in Note 25.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

39 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND COMMITMENTS AND GUARANTEES (continued)

31 December 2012	Latvia	EU	USA	Russia	Ukraine[2]	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	71 690	-	-	-	-	-	71 690
Due from credit institutions with a maturity of less than 3 months	1 817	44 137	6 404	15 102	2 130	1 405	70 995
Held for trading financial assets	-	47	-	857	-	165	1 069
Available for sale financial assets	10 585	31	14 497	-	-	-	25 113
Due from credit institutions with a maturity of more than 3 months	-	2 109	-	-	6 059	-	8 168
Loans	55 305	18 039	-	2 097	11 551	8 398	95 390
Accrued income and deferred expenses	90	50	4	1	-	5	150
Long-term projects costs	2 619	-	-	-	-	-	2 619
Property and equipment	7 940	51	-	-	-	-	7 991
Intangible assets	190	41	-	-	-	-	231
Investments in share capital of subsidiaries	417	-	-	-	10 436	-	10 853
Deferred tax assets	603	-	-	-	-	-	603
Other assets	4 975	2 003	-	25	41	44	7 088
Total assets	**156 231**	**66 508**	**20 905**	**18 082**	**30 217**	**10 017**	**301 960**
LIABILITIES							
Due to credit institutions	322	-	-	294	2	2 690	3 308
Held for trading financial liabilities	-	2	-	-	-	-	2
Due to customers [1]	43 534	86 925	95	16 886	1 082	99 936	248 458
Accrued expenses and deferred income	1 358	52	-	-	-	-	1 410
Corporate income tax liabilities	-	1	-	-	-	-	1
Subordinated liabilities	1 470	1 231	-	2 282	1 034	3 079	9 096
Other liabilities	2 118	430	-	3	-	33	2 584
Total liabilities	**48 802**	**88 641**	**95**	**19 465**	**2 118**	**105 738**	**264 859**
COMMITMENTS AND GUARANTEES							
Contingent liabilities	4 898	126	-	112	-	-	5 136
Commitments to clients	7 065	63	-	61	7	2 094	9 290
Total commitments and guarantees	**11 963**	**189**	**-**	**173**	**7**	**2 094**	**14 426**
Net position as at 31 December 2012	**95 466**	**(22 322)**	**20 810**	**(1 556)**	**28 092**	**(97 815)**	**22 675**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Belize, Bahamas, Marshall Islands, Panama, Seychelles, New Zealand and other countries.

40 RISK CONTROL AND MANAGEMENT

Since the Group's level of operational activity and transactions does not differ materially from that of the Bank, the Bank performs management of the relevant risks individually, except for the credit risk and operational risk which are managed at the Group's level. The same procedures that are described below are used for risk management at the Group's level. During the reporting period the Bank performed identification of substantial risks and assessment of internal capital adequacy. The identified risks have not changed compared to the previous period. The description of results of the identification of risks inherent to Bank's activities and assessment of internal capital adequacy is provided below.

(1) General principles

In order to manage the Bank's exposures, the Bank identifies on a regular basis the risks inherent to its activities. The Bank regularly assesses the risks that may affect its operation and performance results. For each important exposure the Bank has elaborated appropriate policies and control procedures. For the purpose of management and control of Bank's risks the Bank has the following policies in place: Risk Management Policy, Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, Country Risk Management Policy, Lending Policy, Investment Policy, Reputation Risk Management Policy, Compliance Function Risk Management Policy, Policy on Prevention of Money Laundering and Terrorist Financing and other relevant policies. These policies are developed according to the Bank's Strategic Plan and they are regularly updated taking into account development of the market and the Bank's activities.

These policies define the principles according to which the Bank defines:

- ✓ general guidelines which govern the Bank in its activities in order to minimise all kinds of risks which may result in losses;
- ✓ classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- ✓ general day-to-day control and administration of risks of the Bank.

The main purpose of the Risk Management Policy of the Bank is to describe and determine a framework for the Bank to minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not paid on time and in full amount, or the Bank incurs losses of any other kind.

The Risk Management Policy of the Bank is implemented by the Bank Council, Board, Asset-Liability Assessment Committee (hereinafter – ALCO), Loan Committee, Loan Assessment Committee and respective Bank subdivisions controlling risk transactions.

The Council has overall responsibility for the oversight of the risk management framework for the Bank. It provides general management of the Bank ensuring achievement of goals and targets set in the Articles of Association. To exercise control over the risk management system of the Bank, the Council approves internal risk management policies, ensures compliance with such policies, their efficiency analysis and improvement.

The Board provides day-to-day management of the Bank ensuring compliance with internal documents which set out risk management procedures and requirements, distribution of powers and responsibilities among subdivisions and elaboration, approval and submission of risk management reports. The Board ensures identification and management of operational risks.

ALCO Committee determines the asset-liability structure of the Bank, sets and monitors parameters controlling statement of financial position as well as commitments and guarantees exposures - limits for positions of assets and liabilities; where necessary, it determines the amount of special provisions for doubtful loans, except for the portfolio of commercial loans where reserves are set by the Loan Committee; ensures the Bank's ability to fulfil its current financial liabilities, takes charge of long-term liquidity of the Bank by forming a balanced asset-liability term-structure; takes care of ensuring the Bank contingent activities with financial resources; analyses, assesses and controls risks of the Bank on a regular basis; elaborates and revises regularly limits restricting risks of the Bank; monitors compliance with these limits; manages assets/liabilities portfolios of the Bank (commercial loans, interbank loans, securities and others) and their limits; determines administrators of portfolios and guidelines of administration; defines and conducts correspondent banking policy of the Bank; provides assessment of correspondent banks and state of correspondent accounts.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

40 RISK CONTROL AND MANAGEMENT (continued)

(1) General principles (continued)

Loan Committee is in charge of elaboration of the Bank Lending Policy; management of the loan portfolio within the framework of the Lending Policy; considers loan applications and guarantee requests; takes decisions on lending terms and conditions and interest rates of loans to be granted; on a regular basis (at least once a month) inspects the quality of loan portfolio.

Loan Assessment Committee develops certain procedures in order to timely identify impairment of loan quality, ie. main criteria for assessment and classification; revises procedures in place on a regular basis and, where necessary, amend those regularly but no less than once a quarter, provides assessment of loan quality of the Bank and classification according to the respective risk degree and based on the assessment and classification criteria.

The AML Compliance Committee assesses on a regular basis the internal control system for prevention of money laundering and terrorist financing according to the developed and approved plans, and suggests improvement to these internal control policies.

The Compliance Committee is responsible for general management and administration of compliance function. Compliance risk is the risk of the Bank to suffer losses or to become subject to legal liabilities or to sanctions, or the risk of the Bank's reputation to deteriorate due to non-compliance or breach of compliance laws by the Bank.

The main purpose of ***the Internal Audit Division*** is to provide independent and objective evaluation of effectiveness of the internal control system of the Bank and its monitoring in order to assist the Council and the Board and subdivisions of the Bank to perform their roles. The Internal Audit Division performs its work in accordance with the activities plan approved by the Council. On every audit performed by the Internal Audit Division a report is prepared and presented to the Bank's management of its findings and deficiencies in the internal control system, policies and procedures, and inadequately identified or managed risks and it provides recommendations for remedial actions.

Risk Director is a Bank official who is responsible for the performance of comprehensive risk control functions at the Bank, who monitors the risk management system and coordinates activities of all structural units at the Bank that are related to risk management.

(2) Capital Adequacy Assessment Process

For the purpose of capital adequacy assessment and in accordance with its capital adequacy maintenance strategy, the Bank has defined that capital is an aggregate of elements of capital, reserves and liabilities which are freely available to the Bank to cover contingent, not yet identified, losses related to risks of ordinary activities. To assess capital adequacy the Bank applies the "First Pillar+" approach using as a basis regulatory minimum capital requirements, set in the amount of 8% of the total of their risk-weighted exposure amounts, and including the following risks and assessment methods:

- ✓ for credit risk capital requirements – *standardised approach;*
- ✓ for market risk capital requirements - *standardised approach;*
- ✓ for operational risk capital requirements – *key figure approach.*

Within the framework of the internal capital adequacy assessment the Bank:

- ✓ evaluates whether the calculated regulatory minimum capital requirements for credit risk, operational risk and market risk are adequate and aligned with the Bank's activities;
- ✓ assesses the risks for which the regulatory minimum capital requirements are not set and calculates the amount of capital that is necessary to cover the substantial risks;
- ✓ determines the reserve of capital;
- ✓ determines the amount of internal capital that is necessary to cover overall risks;
- ✓ determines the internal early warning level of necessary capital which, if being reached, requires a plan for capital adequacy maintenance to be put in place.

40 RISK CONTROL AND MANAGEMENT (continued)

(2) Capital Adequacy Assessment Process (continued)

The purpose of assessment of the internal capital adequacy is to ensure that the Bank's capital in terms of volume, elements and their specific weight is adequate in order to cover the risks inherent to the current Bank's activities and also the contingent risks. As a result of the internal capital adequacy assessment performed by the Bank, the internal capital adequacy level from January 01 to September 30, 2013 was set at a level not lower than 13.66% (2012: 12.3%). From 01 October 2013, the Financial and Capital Market Commission determined the minimum Bank's capital adequacy ratio requirement of 12.1%. The Bank determined its internal capital adequacy level from October 01, 2013 to be not lower than 12.76%. The required capital adequacy levels in 2013 were achieved within the framework of the capital adequacy assessment performed in 2013, the Bank identified the following risks inherent to its activities:

- ✓ credit risk;
- ✓ liquidity risk;
- ✓ country risk;
- ✓ operational risk;
- ✓ concentration risk;
- ✓ reputation risk;
- ✓ money laundering risk;
- ✓ strategy and business risks.

To ensure capital adequacy the Bank has the following sources for capital increases:

- ✓ increase of capital through share issue;
- ✓ attraction of subordinated capital;
- ✓ formation of operation development reserves from profit of the Bank;
- ✓ retained earnings from the previous years;
- ✓ audited profit for the current year (by permission of the Financial and Capital Market Commission).

The Bank has developed the "Internal Capital Adequacy Maintenance Plan" which includes detailed measures for maintenance of capital adequacy in extraordinary circumstances (where threat occurs for the capital adequacy ratio to fall below a defined early warning level). In addition to the above described sources for capital increases, the plan foresees:

- ✓ improvement of asset quality;
- ✓ asset restructuring for the purpose of minimising the share of risk group assets;
- ✓ application of Tier 3 capital elements (by permission of the Financial and Capital Market Commission).

The Bank management ensures daily supervision of the capital adequacy. The relevant subdivisions regularly provide information to the ALCO Committee and the Board on compliance with the internal capital adequacy level and minimum regulatory requirements, as well as capital adequacy scenario analysis. The Board at least once a year submits a report to the Council on the state of capital.

The analysis of the actual figures is provided in the table below:

	2013	2012
	%	%
31 December	17.54	16.22
Average for the period	15.46	12.44
Highest level	17.54	16.22
Lowest level	13.77	10.13

(3) Credit Risk

Credit risks – is the risk of incurring losses if a borrower (debtor of the Bank) is unable to fulfil or refuses to fulfil its liabilities to the Bank according to the terms and conditions of the agreement.

The Bank provides assessment of its loan quality on a regular basis which allows timely identification of contingent losses and operational risks if the loan quality worsens. The loans granted by the Bank and its subsidiaries are regularly supervised and assessed in order to minimise the amount of losses that the Bank and its subsidiaries may incur in transactions with domestic and foreign customers. The loan assessment principles are described in section 11 of Note 2.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

40 RISK CONTROL AND MANAGEMENT (continued)

(3) Credit Risk (continued)

The Bank's Lending Policy specifies general guidelines according to which the Bank provides lending. It defines the general procedure for issuance of loans and guarantees, and for loan repayment; the procedure for control and supervision of risk transactions; basic principles for analysis of borrower's financial standing, criteria for assessment of loans and guarantees, procedure for implementation of security measures in case of contingent losses. The Bank controls concentration risk in order to comply with the maximum exposure limits. In order to minimise exposure to credit risks and prevent concentration of credit means the Bank manages diversification of its loan portfolio by countries, industries, loan types, currencies and collateral types, and sets limits for transactions per one customer and group of mutually related customers or counterparty.

In order to meet the limits set by the Bank's Sovereign Risk Management Policy, the Bank performs daily and monthly reviews of these limits. The limits for transaction partners and types of transactions are determined by evaluating sovereign risks and risks of transaction partners.

(4) Liquidity risk

Liquidity risk – a risk that the Bank may not be able - on a daily basis and/or in the future - to fulfil timely obligations in regard to legally sound claims without suffering substantial losses, and may not manage to overcome extraordinary stresses to Bank's resources and/or market conditions due to insufficient volume of liquid assets.

The main principles that govern the Bank in managing its liquidity risk are set in the Liquidity Risk Management Policy and Policy for Attraction of Deposits and Other Resources.
These policies define the liquidity risk assessment and management methods; liquidity risk planning and controlling system, early warning system, which helps to identify a potential vulnerability of the Bank's liquidity position; internal limits for liquidity net positions of asset-liability term-structure and liquidity net positions in lats, dollars and euros separately, procedures and frequency for assessment of the term-structure of assets and liabilities, internal limits for the concentration of funding, actions to be taken in case of non-compliance with internal limits, and also contingent action plan to deal with a potential liquidity crisis.
The Bank's Board and ALCO committee are responsible for compliance with the Liquidity Management Policy. The Financial Market Department and the Resources Management Division are responsible for compliance with the liquidity requirements on a daily basis.

The Bank monitors its liquidity in both short and long-term positions, bearing in mind the regulations on liquidity requirements for credit institutions set by FCMC. The Bank maintains liquid assets in the amount which is sufficient to fulfil its liabilities but not less than 60% of the total amount of its current liabilities (liquidity ratio). The actual liquidity ratio for the reporting period is presented in the table below:

	2013	2012
	%	%
31 December	71.95	78.44
Average for the period	72.46	69.86
Highest level	80.22	78.44
Lowest level	65.14	65.75

In case of a liquidity crisis, the Bank performs a series of measures in order to increase the liquidity indicators. Such measures include the following:

Optimization of the Bank's loan portfolio,

- ✓ reduction in the loan portfolio – negotiations with a preliminarily determined group of customers (*loyal customers*), to inquire about the possibility of an early repayment of loans;
- ✓ monitoring of unused credit lines – all the credit lines which have not been used are seen as subject to probable reduction;
- ✓ refinancing of a part of the loan portfolio in other financial institutions (loans to residents – in commercial banks of Latvia, loans to non-residents – in banks of their residence countries).

40 RISK CONTROL AND MANAGEMENT (continued)

(4) Liquidity risk (continued)

Management of the liquidity portfolio (in the current market situation the Bank considers that a liquidity portfolio is the highly-liquid part of the interbank loan portfolio and securities trade portfolio),

- ✓ Reduction in the Interbank loan portfolio with the term up to 1 week;
- ✓ Repo transactions;
- ✓ Realisation of portfolio;

Management of property and equipment, assessment of property and equipment for the purpose of further realization;

Attraction of shareholder support (increasing of subordinated capital and equity capital and other options);

Increasing of customer basis by means of term deposits,

- ✓ Attraction of term deposits offering interest rates which exceed the market rates (*loyal customers*);
- ✓ Attraction of subordinated capital (*loyal customers*);

Increasing of customer basis with deposits on demand,

- ✓ Attraction of news customer through representative offices and subsidiaries;
- ✓ Increasing of residents' balances (negotiations of TKB with customers).

Attraction of additional funding,

- ✓ Receiving of approved lines from cooperation partners;
- ✓ Receiving of different loans from banks, including syndicated, club, etc.;
- ✓ Issuing of mortgage bonds, other long-term and medium-term financial instruments;
- ✓ Finding of funding opportunity against the collateral of loan portfolio (in the Bank of Latvia, international organisations and domestic financial institutions).

Implementation of the communication action plan:

- ✓ Summarizing of information concerning the crisis situation;
- ✓ Stating of Bank's position and preparation of key information for each group of information recipients (Bank staff and representatives; Bank shareholders, Bank customers, incl. depositors and borrowers, authorities supervising Bank's activities, the entire society, mass media representatives);
- ✓ Aggregating of data confirming Bank's stability and ability to overcome temporary difficulties;
- ✓ Formulation and dissemination of messages to Bank employees, customers and mass media;
- ✓ In-depth media monitoring and research of other public space, analysis of the monitoring results.
- ✓ In order to assess the probable vulnerability of liquidity positions, the Bank regularly performs liquidity stress testing and scenario analysis. In this framework, the Bank evaluates the effectiveness of the liquidity crisis management plan. Based on such analysis results, the Bank improves the plan in accordance with changes in the Bank's operation and external factors affecting the Bank's operation.

(5) Market risk

Market risk – is a risk to incur losses due to revaluation of statement of financial position and commitments and guarantees which is related to changes of market prices of financial instruments, including derivatives, caused by fluctuation of currency rates and interest rates and wider market price movements.

Currency risk is a risk to incur losses due to revaluation of statement of financial position and commitments and guarantees denominated in foreign currency when currency exchange rates change. The Bank Currency Risk Management Policy specifies general guidelines which govern the Bank in formation of its currency asset-liability structure; in general daily control and management of currency risks of the Bank and in defining its safeguard mechanism against contingent currency risks.

To ensure control of currency risks the Bank defines limits for the currency risk to which it can be exposed and monitors whether its assets are in a balanced position in relation to liabilities in the respective currencies (i.e., the Bank maintains as minimal as possible its currency positions and the total currency position). To control its currency exposure the Bank determines restrictions for positions of each foreign currency and of the total open position and their relation against the equity capital and various types of limits. According to the Law on Credit Institutions the total open position in foreign currencies cannot exceed 20% of equity capital.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

40 RISK CONTROL AND MANAGEMENT (continued)

(5) Market risk (continued)

The analysis of the total open position in foreign currencies of the Bank is presented in the table below:

	2013	2012
	%	%
31 December	6.69	3.86
Average for the period	8.19	5.06
Highest level (worse)	11.09	7.35
Lowest level (better)	5.70	3.86

Interest rate risk is a risk that market changes of interest rates may affect financial standing of the Bank. The day-to-day activity of the Bank is related to interest rate exposure which is affected by maturity dates of the assets, liabilities and commitments and guarantees that are related to interest income and expenses and interest rate revision dates. The Bank's Interest Rate Risk Management Policy defines:

- ✓ the interest rate risk measurement methodology which covers the main sources of interest rate exposures and allows assessing the impact of interest rate exposure on earnings of the Bank and its economic value;
- ✓ internal limits of interest rate risk and measures to be taken in case of noncompliance with these limits;
- ✓ procedure for stress testing and its frequency, including assumptions of possible development scenarios;
- ✓ conditions in which the Bank may incur substantial losses due to interest rate exposure and a feasible plan of actions.

To measure the exposure to interest rate risk the Bank applies spread analysis method. This method sets the net position of interest rate risk as a spread between assets, liabilities and commitments and guarantees which are interest rate sensitive according to their remaining maturities.

The Bank assesses the size of interest rate risk by calculating the net position of interest risk, overall position of the interest risk and impact on the annual net interest income if interest rates in parallel increase (regardless of the original period) by 1 percent (or 100 basis points).

The Trade Portfolio Policy sets out the principles which the Bank applies to its investing activities. The Policy defines the conditions for acquisition of Trade Portfolio positions, and basic principles for their accounting and valuation.

As a part of implementation of the Trade Portfolio Policy, the Bank values assets in the trading portfolio on a daily basis. Thus, it allows increased efficiency for the short-term investments of the Bank. Besides, the Trade Portfolio Policy of the Bank defines different types of market risk limits and their control mechanism.

(6) Operational risk

Operational risk – is a possibility to incur losses due to irrelevant or incomplete fulfilment of internal processes, human actions or system functioning or due to the influence of external circumstances, including legal risk, except for strategic or reputation risks. The Operational Risk Management Policy sets operational risk management objectives; definition of operational risk that is intended for internal use and that corresponds to the application and experience of the Bank; the key processes and priorities of the operational risk management; approach that is to be applied to identification, assessment, supervision and control of operational risks, and methods of operational risk mitigation and basic principles for provision of continuity of operations, which include methods chosen by the Bank to handle emergency situations .

The Bank provides regular supervision of inherent operational risks in regard to all its major products, types of activities, processes and systems in order to discover and eliminate on time any discrepancies regarding the Operational Risk Management Policy and procedures and, therefore, considerably minimise the frequency of possible occurrence of operational losses and their size.

The Bank applies the following methods to operational risk mitigation:

- ✓ investments into respective data processing and information security technologies;
- ✓ investments into training of personnel;
- ✓ outsourcing in situations where service providers have more experience or higher potential in management of operational risks related to certain activities of the Bank;
- ✓ insurance (if necessary), making sure that its use for operational risk mitigation does not create other types of risk (legal risk or business partner risk);
- ✓ elaboration of a plan for provision of continuity of operations.

40 RISK CONTROL AND MANAGEMENT (continued)

(7) Internal Control System for Prevention of Laundering of Proceeds Derived From Crime and Financing of Terrorism.

The internal control system for prevention of money laundering and terrorism financing is a set of document and measures, which the Bank observes and improves on a regular basis in order to ensure rigid management of money laundering and terrorism financing risk.

Within the framework of the internal control system for prevention of money laundering and terrorism financing the Bank has defined the procedure for identification and monitoring of customers (true beneficial owners) and unusual and suspicious financial transactions, and submission of reports thereof, it has developed a risk-based approach to customer due diligence, acceptance and supervision of transactions performed by customers, it organizes training of employees on a regular basis to provide them with necessary knowledge for the prevention of money laundering and terrorism financing and to ensure practical application of this knowledge to the measures prescribed in the internal control system documents.

In order to ensure sufficient compliance with the legislation of the prevention of money laundering and terrorism financing and best international practices, the Internal Audit Division of the Bank inspects and evaluates efficiency of the internal control system regularly.

The Bank continuously develops its internal control system, including the technical equipment. The Bank has yearly drafted and approved a plan of measures for upgrading the internal control system for prevention of money laundering and terrorism financing. Within the scope of this plan the Bank improves its technical supply and conducts employee training and knowledge testing.

Employees of the Bank upgrade their knowledge on anti-money laundering and counter-terrorist financing issues on a regular basis by participating in seminars, conferences and training in Latvia and abroad.

In 2013, the Bank, taking into account the Financial and Capital Market Commission's view, performed reorganization by merging the AML Compliance Division and Customer Payments Monitoring Division and establishing the Customer Compliance Department composed of Customer Approval Division and Customer Supervisory Division. The aim of the reorganization is to enhance the non-resident customer approval and supervisory process, to establish a structural unit which is business independent and responsible for anti-money laundering and counter-terrorist financing controls at the Bank.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

40 RISK CONTROL AND MANAGEMENT (continued)

(8) Other substantial risks inherent to Bank activities

Country risk is the risk that a partner/ customer of the Bank that is a resident of another country will not be able to fulfil its obligations to the Bank due to impact of economic, social and political conditions of the country on the resident of this country. This risk is managed according to the Bank's Country Risk Management Policy which sets risk classification, limit and controlling mechanisms.

Concentration risk - any exposure or exposure group, due to which the Bank may incur such losses that may threaten Bank's solvency or ability to continue operations. Concentration risk arises from the large-scale risk transactions with customers or groups of related customers or risk transactions with customers whose creditworthiness is determined by one joint risk factor (e.g., economic sector, geographic region, currency, and etc.). For the purpose of containment and minimization of concentration risk the ALCO Committee has developed a number of concentration limits (e.g., concentration of assets in breakdown by countries, concentration of correspondent accounts, etc.). The system of management of the concentration risk is governed by appropriate risk management policies.

Reputation risk is the risk that the Bank customers, business partners, shareholders, supervisory authorities and other stakeholders may develop a negative opinion about the Bank which could adversely affect Bank's ability to maintain its existing business relationships or establish new relationships with its customers and business partners. The reputation risk management is governed by the Bank's Reputation Risk Management Policy.

Strategy and business risk is the risk that changes in business environment and Bank's failure to timely respond to such changes, or inappropriately or wrongly chosen development strategy of the Bank, or Bank's failure to provide necessary resources for implementation of the strategy may adversely affect profits, amount of capital and liquidity of the Bank. The underlying principle of risk management - regular control over Bank's compliance with the strategy (long-term) and budget plans (short-term), deviation analysis and making of timely management decisions.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

41 CREDIT RISK

As one of the Bank's subsidiaries extends finance leases and loans, credit quality management of financial assets is carried out by the Bank's management on a consolidated basis. Therefore, in the opinion of the Bank's management, presenting information in the tables analysing aging and credit quality of the financial assets only for the Group increases quality of information and provides the most realistic information about credit quality.

(1) Maximum exposure to credit risk by types of financial assets

	The Group		The Bank	
	2013	2012	2013	2012
ASSETS				
Balances due from the Bank of Latvia	61 457	70 465	61 457	70 465
Due from credit institutions with a maturity of less than 3 months	89 402	71 007	89 388	70 995
Held for trading financial assets	1 577	1 069	1 577	1 069
Available for sale financial assets	17 910	25 113	17 910	25 113
Due from credit institutions with a maturity of more than 3 months	8 426	8 168	8 426	8 168
Loans	72 101	85 496	79 723	95 390
Other assets	2 490	2 038	2 490	2 038
TOTAL ASSETS	**253 363**	**263 356**	**260 971**	**273 238**
COMMITMENTS AND GUARANTEES				
Contingent liabilities	909	257	909	257
Commitments to clients	9 353	7 890	10 458	9 290
TOTAL COMMITMENTS AND GUARANTEES	**10 262**	**8 147**	**11 367**	**9 547**

The maximum exposure to credit risk reflects the value of financial assets and commitments and guarantees exposed to credit risk and is not reduced for the value of security or other factors reducing the credit.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

41 CREDIT RISK (continued)

(2) Analysis of a summary of the credit quality of the Group's financial assets and commitments and guarantees

	Assets not past due nor impaired	Assets past due but not impaired	Impaired assets	Total
		2013		
Balances due from the Bank of Latvia	61 457	-	-	61 457
Due from credit institutions with a maturity of less than 3 months	89 402	-	-	89 402
Held for trading financial assets	1 577	-	-	1 577
Available for sale financial assets	17 910	-	-	17 910
Due from credit institutions with a maturity of more than 3 months	8 426	-	-	8 426
Loans [1]	56 095	7 541	8 465	72 101
Other assets	2 490	-	-	2 490
TOTAL ASSETS	**237 357**	**7 541**	**8 465**	**253 363**
Contingent liabilities	909	-	-	909
Commitments to clients	9 353	-	-	9 353
TOTAL COMMITMENTS AND GUARANTEES	**10 262**	**-**	**-**	**10 262**
		2012		
Balances due from the Bank of Latvia	70 465	-	-	70 465
Due from credit institutions with a maturity of less than 3 months	71 007	-	-	71 007
Held for trading financial assets	1 069	-	-	1 069
Available for sale financial assets	25 113	-	-	25 113
Due from credit institutions with a maturity of more than 3 months	8 168	-	-	8 168
Loans [1]	60 399	10 322	14 775	85 496
Other assets	1 838	200	-	2 038
TOTAL ASSETS	**238 059**	**10 522**	**14 775**	**263 356**
Contingent liabilities	257	-	-	257
Commitments to clients	7 890	-	-	7 890
TOTAL COMMITMENTS AND GUARANTEES	**8 147**	**-**	**-**	**8 147**

[1] Criteria for loan evaluation are described in Note 21, (2) and 2, (7).

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 CREDIT RISK (continued)

(3) Analysis of the Group's financial assets neither past due nor impaired (Note 41, (2))

	By groups of classification	By ratings	Other	Total
		2013		
Balances due from the Bank of Latvia	-	61 457	-	61 457
Due from credit institutions with a maturity of less than 3 months	-	89 402	-	89 402
Held for trading financial assets	-	1 577	-	1 577
Available for sale financial assets	-	17 910	-	17 910
Due from credit institutions with a maturity over than 3 months	-	8 426	-	8 426
Loans [1]	56 095	-	-	56 095
Other assets	-	2 007	483	2 490
TOTAL ASSETS	**56 095**	**180 779**	**483**	**237 357**
Contingent liabilities	909	-	-	909
Commitments to clients	9 353	-	-	9 353
TOTAL COMMITMENTS AND GUARANTEES	**10 262**	**-**	**-**	**10 262**
		2012		
Balances due from the Bank of Latvia	-	70 465	-	70 465
Due from credit institutions with a maturity of less than 3 months	-	71 007	-	71 007
Held for trading financial assets	-	1 069	-	1 069
Available for sale financial assets	-	25 113	-	25 113
Due from credit institutions with a maturity over than 3 months	-	8 168	-	8 168
Loans [1]	60 399	-	-	60 399
Other assets	-	1 707	131	1 838
TOTAL ASSETS	**60 399**	**177 529**	**131**	**238 059**
Contingent liabilities	257	-	-	257
Commitments to clients	7 890	-	-	7 890
TOTAL COMMITMENTS AND GUARANTEES	**8 147**	**-**	**-**	**8 147**

[1] Loans that are assessed by classification groups incorporate the loans classified as Standard. *Standard loans* are loans for which there is no indication as at reporting date that these will not be paid, i.e. no problem is expected to occur with loan repayment, as the current and forecast cash flows are sufficient to repay the debt.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

41 CREDIT RISK (continued)

(4) Analysis of the Group's financial assets with credit quality assessed by credit ratings (Note 41, (3))

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No ratings	Total
				2013				
Balances due from the Bank of Latvia	-	61 457	-	-	-	-	-	61 457
Due from credit institutions with a maturity of less than 3 months	39 825	36 981	592	749	-	-	11 255	89 402
Held for trading financial assets	-	367	548	311	311	-	40	1 577
Available for sale financial assets	7 722	-	9 837	-	-	-	351	17 910
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	-	9	8 417	8 426
Other assets	-	33	-	611	-	-	1 363	2 007
Total assets	**47 547**	**98 838**	**10 977**	**1 671**	**311**	**9**	**21 426**	**180 779**
				2012				
Balances due from the Bank of Latvia	-	-	70 465	-	-	-	-	70 465
Due from credit institutions with a maturity of less than 3 months	36 683	9 294	605	16 495	380	-	7 550	71 007
Held for trading financial assets	-	-	165	-	-	-	904	1 069
Available for sale financial assets	14 497	-	10 267	-	-	-	349	25 113
Due from credit institutions with a maturity of more than 3 months	-	2 108	-	-	-	219	5 841	8 168
Other assets	-	21	-	711	-	-	975	1 707
Total assets	**51 180**	**11 423**	**81 502**	**17 206**	**380**	**219**	**15 619**	**177 529**

Table of Rating Summary

	Moody's Investors Service Ltd		FitchRatings		Standard&Poor's Ratings Services	
Quality grade	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**
Class 1	Aaa to Aa3	P-1	AAA to AA-	F-1+, F-1	AAA to AA-	A-1+, A-1
Class 2	A1 to A3	P-2	A+ to A-	F-2	A+ to A-	A-2
Class 3	Baa1 to Baa3	P-3	BBB+ to BBB-	F-3	BBB+ to BBB-	A-3
Class 4	Ba1 to Ba3	NP	BB+ to BB-	Lower than F3	BB+ to BB-	B-1, B-2, B-3, C
Class 5	B1 to B3		B+ to B-		B+ to B-	
Class 6	Caa1 and lower		CCC+ and lower		CCC+ and lower	

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

41 CREDIT RISK (continued)

(5) Ageing analysis of the Group's financial assets past due but not impaired (Note 41, (2))

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	Total
			2013			
Private non-financial corporations	1 817	1 650	1 263	307	1 106	6 143
Households	227	72	415	-	684	1 398
Total assets	**2 044**	**1 722**	**1 678**	**307**	**1 790**	**7 541**
Collaterals	*2 782*	*2 435*	*1 921*	*297*	*3 499*	*10 934*
			2012			
Private non-financial corporations	2 594	3 309	2 284	13	753	8 953
Households	358	302	18	41	850	1 569
Total assets	**2 952**	**3 611**	**2 302**	**54**	**1 603**	**10 522**
Collaterals	*2 999*	*6 688*	*3 511*	*169*	*4 724*	*18 091*

(6) Ageing analysis of the Group's impaired assets assessed individually (Note 41, (2))

	Without delay	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	Total
				2013			
Private non-financial corporations	8 984	-	-	2 135	2 681	2 895	16 695
Households	436	-	108	-	88	5 966	6 598
Total assets	**9 420**	**-**	**108**	**2 135**	**2 769**	**8 861**	**23 293**
Allowance for loans	**(4 397)**	**-**	**(4)**	**(1 352)**	**(2 176)**	**(6 899)**	**(14 828)**
Total assets, net	**5 023**	**-**	**104**	**783**	**593**	**1 962**	**8 465**
Collaterals	*6 251*	*-*	*138*	*497*	*1 478*	*2 557*	*10 931*
				2012			
Private non-financial corporations	11 636	-	84	-	342	8 414	20 476
Households	220	-	11	-	252	7 041	7 524
Total assets	**11 856**	**-**	**95**	**-**	**594**	**15 455**	**28 000**
Allowance for loans	**(3 585)**	**-**	**(89)**	**-**	**(411)**	**(9 140)**	**(13 225)**
Total assets, net	**8 271**	**-**	**6**	**-**	**183**	**6 315**	**14 775**
Collaterals	*12 813*	*-*	*-*	*-*	*183*	*7 968*	*20 964*

(7) Analysis of restructured loans which would otherwise be overdue and/or impaired in their value

	2013	2012
Private non-financial corporations	6 128	10 504
Households	2 337	4 271
Total assets	**8 465**	**14 775**

In thousands of lats

42 LIQUIDITY RISK

(1) The Bank's maturity analysis of assets, liabilities and commitments and guarantees

The below table summarizes the Bank's maturity analysis. The Group's maturity analysis is not materially different from Bank's maturity analysis.

According to terms of the payments to maturity

31 December 2013	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
ASSETS								
Cash and balances due from the Bank of Latvia	62 498	-	-	-	-	-	-	62 498
Due from credit institutions with a maturity of less than 3 months	88 849	539	-	-	-	-	-	89 388
Held for trading financial assets	12	10	46	-	773	736	-	1 577
Available for sale financial assets	333	321	5 304	11 787	134	-	31	17 910
Due from credit institutions with a maturity of more than 3 months	17	1 626	6 758	25	-	-	-	8 426
Loans	2 290	11 962	2 743	22 867	28 291	11 570	-	79 723
Accrued income and deferred expenses	162	-	3	5	-	-	-	170
Long-term projects costs	-	-	-	-	-	-	2 749	2 749
Property and equipment	-	-	-	-	-	-	7 664	7 664
Intangible assets	-	-	-	-	-	-	219	219
Investments in share capital of subsidiaries	-	-	-	-	-	-	10 853	10 853
Deferred tax assets	-	-	-	-	-	-	283	283
Other assets	2 490	-	-	-	-	-	7 791	10 281
Total assets	**156 651**	**14 458**	**14 854**	**34 684**	**29 198**	**12 306**	**29 590**	**291 741**
LIABILITIES								
Due to credit institutions	3 856	-	-	82	-	-	-	3 938
Held for trading financial assets	-	-	-	-	-	-	-	-
Due to customers	209 937	4 540	3 785	14 958	2 558	-	-	235 778
Accrued expenses and deferred income	670	-	-	-	-	-	-	670
Corporate income tax liabilities	-	-	10	-	-	-	-	10
Subordinated liabilities	68	-	6	53	9 428	1 406	-	10 961
Other liabilities	2 049	-	-	-	-	-	-	2 049
Total liabilities	**216 580**	**4 540**	**3 801**	**15 093**	**11 986**	**1 406**	**-**	**253 406**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and commitments and guarantees (continued)

According to terms of the payments to maturity

31 December 2013	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Commitments and guarantees								
Contingent liabilities	509	121	423	789	2 106	1 815	-	5 763
*Incl. secured by deposits, placed in the Bank **	*-*	*28*	*-*	*-*	*3*	*-*	*-*	*31*
Commitments to clients	10 458	8	-	-	-	-	-	10 466
*Incl. secured by deposits, placed in the Bank **	*246*	*-*	*-*	*-*	*-*	*-*	*-*	*246*
Total commitments and guarantees	**10 967**	**129**	**423**	**789**	**2 106**	**1 815**	**-**	**16 229**
Liquidity net position as at 31 December 2013	**(70 650)**	**9 817**	**10 630**	**18 802**	**15 109**	**9 085**	**29 590**	**22 383**

* According to the Rules for compliance with the liquidity requirements, commitments and guarantees secured by deposits are not required to be included in the net position calculation. Commitments and guarantees with possible maturity before the agreement expires are disclosed in the maturity group "Up to 1 month".

In the maturity analysis, trading and available-for-sale securities are stated according to their maturity date. Assets that do not have a definite repayment or sales date are disclosed in the "Other" category. Liabilities with an indefinite due date or which are payable on demand are disclosed in the "Up to 1 month" category.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and commitments and guarantees (continued)

According to terms of the payments to maturity

31 December 2012	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
ASSETS								
Cash and balances due from the Bank of Latvia	71 690	-	-	-	-	-	-	71 690
Due from credit institutions with a maturity of less than 3 months	67 800	3 195	-	-	-	-	-	70 995
Held for trading financial assets	51	-	-	-	161	-	857	1 069
Available for sale financial assets	8 966	1 588	6 536	5 646	2 214	132	31	25 113
Due from credit institutions with a maturity of more than 3 months	2 145	3 223	2 710	90	-	-	-	8 168
Loans	5 093	7 919	13 526	28 930	26 202	13 720	-	95 390
Accrued income and deferred expenses	-	-	3	4	143	-	-	150
Long-term projects costs	-	-	-	-	-	-	2 619	2 619
Property and equipment	-	-	-	-	-	-	7 991	7 991
Intangible assets	-	-	-	-	-	-	231	231
Investments in share capital of subsidiaries	-	-	-	-	-	-	10 853	10 853
Deferred tax assets	-	-	-	-	-	-	603	603
Other assets	2 038	-	-	-	-	-	5 050	7 088
Total assets	**157 783**	**15 925**	**22 775**	**34 670**	**28 720**	**13 852**	**28 235**	**301 960**
LIABILITIES								
Due to credit institutions	2 987	-	157	137	27	-	-	3 308
Held for trading financial assets	2	-	-	-	-	-	-	2
Due to customers	197 211	4 562	14 018	20 619	12 048	-	-	248 458
Accrued expenses and deferred income	1 410	-	-	-	-	-	-	1 410
Corporate income tax liabilities	-	-	1	-	-	-	-	1
Subordinated liabilities	66	-	6	-	7 618	1 406	-	9 096
Other liabilities	2 568	-	2	14	-	-	-	2 584
Total liabilities	**204 244**	**4 562**	**14 184**	**20 770**	**19 693**	**1 406**	**-**	**264 859**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and commitments and guarantees (continued)

According to terms of the payments to maturity

31 December 2012	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Commitments and guarantees								
Contingent liabilities	75	97	175	346	4 443	-	-	5 136
Incl. secured by deposits, placed in the Bank	*-*	*1*	*-*	*-*	*-*	*-*	*-*	*1*
Commitments to clients	9 290	-	-	-	-	-	-	9 290
Incl. secured by deposits, placed in the Bank	*303*	*-*	*-*	*-*	*-*	*-*	*-*	*303*
Total commitments and guarantees	**9 365**	**97**	**175**	**346**	**4 443**	**-**	**-**	**14 426**
Liquidity net position as at 31 December 2012	**(55 523)**	**11 267**	**8 416**	**13 554**	**4 584**	**12 446**	**28 235**	**22 979**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 LIQUIDITY RISK (continued)

(2) Analysis of the gross contractual future cash flows of the Bank's liabilities and commitments and guarantees [1]

The table below contains an analysis of the expected future cash flows of the Bank's liabilities. The analysis of the expected future cash flow of the Group's liabilities does not differ materially from that of the Bank.

							According to terms of the payments	
31 December 2013	**Up to 1 month**	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**	**Carrying amount**
LIABILITIES								
Non derivative financial liabilities								
Due to credit institutions	3 856	-	-	83	-	-	3 939	3 938
Due to customers	209 909	4 586	3 854	15 151	2 620	-	236 120	235 778
Accrued expenses and deferred income	670	-	-	-	-	-	670	670
Subordinated liabilities	104	88	203	440	11 197	1 496	13 528	10 961
Corporate income tax liabilities	-	-	10	-	-	-	10	10
Other liabilities	1 826	-	-	-	-	-	1 826	1 826
Total non-derivative financial liabilities	**216 365**	**4 674**	**4 067**	**15 674**	**13 817**	**1496**	**256 093**	**253 183**
Derivative financial liabilities								
Spot foreign exchange								
Inflow	*(29 924)*	-	-	-	-	-	*(29 924)*	*(29 924)*
Outflow	*30 147*	-	-	-	-	-	*30 147*	*30 147*
Total derivative financial liabilities	**223**	**-**	**-**	**-**	**-**	**-**	**223**	**223**
COMMITMENTS AND GUARANTEES								
Contingent liabilities	509	121	423	789	2 106	1 815	5 763	5 763
Commitments to clients	10 458	8	-	-	-	-	10 466	10 466
Total commitments and guarantees	**10 967**	**129**	**423**	**789**	**2 106**	**1 815**	**16 229**	**16 229**
Total as at 31 December 2013	**227 555**	**4 803**	**4 490**	**16 463**	**15 923**	**3 311**	**272 545**	**269 635**

[1] This analysis is based on the undiscounted liability cash flow which includes interest payments as well as the gross value of the cash flow of derivative instruments.

In thousands of lats

42 LIQUIDITY RISK (continued)

(2) Analysis of the expected future cash flow of the Bank's liabilities and commitments and guarantees (continued)

According to terms of the payments

31 December 2012	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total	Carrying amount
LIABILITIES								
Non derivative financial liabilities								
Due to credit institutions	2 987	-	159	139	27	-	3 312	3 308
Due to customers	197 286	4 717	14 293	21 142	12 606	-	250 044	248 458
Accrued expenses and deferred income	1 410	-	-	-	-	-	1 410	1 410
Subordinated liabilities	98	73	181	344	9 649	1 637	11 982	9 096
Corporate income tax liabilities	-	-	1	-	-	-	1	1
Other liabilities	2 485	-	2	14	-	-	2 501	2 501
Total non-derivative financial liabilities	**204 266**	**4 790**	**14 636**	**21 639**	**22 282**	**1 637**	**269 250**	**264 774**
Derivative financial liabilities								
Forward foreign exchange receivable								
Inflow	*(4 567)*	-	-	-	-	-	*(4 567)*	*(4 567)*
Outflow	*4 569*	-	-	-	-	-	*4 569*	*4 569*
Spot foreign exchange								
Inflow	*(29 900)*	-	-	-	-	-	*(29 900)*	*(29 900)*
Outflow	*29 983*	-	-	-	-	-	*29 983*	*29 983*
Total derivative financial liabilities	**85**	**-**	**-**	**-**	**-**	**-**	**85**	**85**
COMMITMENTS AND GUARANTEES								
Contingent liabilities	75	97	175	346	4 443	-	5 136	5 136
Commitments to clients	9 290	-	-	-	-	-	9 290	9 290
Total commitments and guarantees	**9 365**	**97**	**175**	**346**	**4 443**	**-**	**14 426**	**14 426**
Total as at 31 December 2012	**213 716**	**4 887**	**14 811**	**21 985**	**26 725**	**1 637**	**283 761**	**279 285**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 MARKET RISK

(1) The Bank's currency analysis of assets, liabilities and commitments and guarantees

The below table summarizes the Bank's currency analysis. The Group's currency analysis is not materially different from Bank's currency analysis.

31 December 2013	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	15 666	566	46 254	12	62 498
Due from credit institutions with a maturity of less than 3 months	-	75 647	9 629	4 112	89 388
Held for trading financial assets	40	1 300	237	-	1 577
Available for sale financial assets	7 637	7 722	2 551	-	17 910
Due from credit institutions with a maturity of more than 3 months	-	8 426	-	-	8 426
Loans	2 902	30 605	46 216	-	79 723
Accrued income and deferred expenses	129	27	13	1	170
Long-term projects costs	2 749	-	-	-	2 749
Property and equipment	7 630	-	34	-	7 664
Intangible assets	190	-	29	-	219
Investments in share capital of subsidiaries	17	10 836	-	-	10 853
Deferred tax assets	283	-	-	-	283
Other assets	7 519	2 020	173	569	10 281
Total assets	**44 762**	**137 149**	**105 136**	**4 694**	**291 741**
Spot foreign exchange receivable	**-**	**56 596**	**14 109**	**18 891**	**89 596**
LIABILITIES					
Due to credit institutions	-	3 851	86	1	3 938
Held for trading financial liabilities	-	-	-	-	-
Due to customers	6 776	154 259	67 698	7 045	235 778
Accrued expenses and deferred income	571	13	83	3	670
Corporate income tax liabilities	-	-	10	-	10
Subordinated liabilities	513	4 464	5 984	-	10 961
Other liabilities	291	732	952	74	2 049
Total liabilities	**8 151**	**163 319**	**74 813**	**7 123**	**253 406**
Spot foreign exchange payable	**-**	**30 151**	**43 341**	**15 844**	**89 336**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and commitments and guarantees (continued)

31 December 2013	LVL	USD	EUR	Other currencies	Total
Net forward position	**-**	**594**	**-**	**(554)**	**40**
Net position as at 31 December 2013					
Net amount of the long/(short) position	**36 611**	**869**	**1 091**	**64**	**38 635**
Net position	**-**	**869**	**1 091**	**64**	**2 024**
% of regulatory capital	**-**	**2.87**	**3.61**	**0.21**	**6.69**
COMMITMENTS AND GUARANTEES					
Contingent liabilities	4 326	5	1 432	-	5 763
Commitments to clients	605	2 124	7 737	-	10 466
Total commitments and guarantees	**4 931**	**2 129**	**9 169**	**-**	**16 229**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and commitments and guarantees (continued)

31 December 2012	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	17 878	575	53 222	15	71 690
Due from credit institutions with a maturity of less than 3 months	33	45 398	7 584	17 980	70 995
Held for trading financial assets	47	1 022	-	-	1 069
Available for sale financial assets	7 986	14 497	2 630	-	25 113
Due from credit institutions with a maturity of more than 3 months	-	6 059	2 109	-	8 168
Loans	4 857	36 489	54 044	-	95 390
Accrued income and deferred expenses	102	23	25	-	150
Long-term projects costs	1 619	-	1 000	-	2 619
Property and equipment	7 940	-	51	-	7 991
Intangible assets	189	-	42	-	231
Investments in share capital of subsidiaries	564	10 289	-	-	10 853
Deferred tax assets	603	-	-	-	603
Other assets	5 093	1 863	68	64	7 088
Total assets	**46 911**	**116 215**	**120 775**	**18 059**	**301 960**
Amounts receivable under spot foreign exchange transactions	**3 965**	**73 191**	**14 154**	**15 531**	**106 841**
LIABILITIES					
Due to credit institutions	-	1 540	1 762	6	3 308
Held for trading financial liabilities	2	-	-	-	2
Due to customers	7 498	153 418	70 222	17 320	248 458
Accrued expenses and deferred income	1 328	19	60	3	1 410
Corporate income tax liabilities	-	-	1	-	1
Subordinated liabilities	685	4 380	4 031	-	9 096
Other liabilities	1 920	457	179	28	2 584
Total liabilities	**11 433**	**159 814**	**76 255**	**17 357**	**264 859**
Amounts payable under spot foreign exchange transactions	**2 410**	**26 660**	**61 574**	**16 149**	**106 793**

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and commitments and guarantees (continued)

31 December 2012	LVL	USD	EUR	Other currencies	Total
Net forward position	**-**	**(3 863)**	**3 908**	**-**	**45**
Net position as at 31 December 2012					
Net amount of the long/(short) position	**37 033**	**(931)**	**1 008**	**84**	**37 194**
Net position	**-**	**(931)**	**1 008**	**84**	**1 092**
% of regulatory capital	**-**	**(3.29)**	**3.56**	**0.30**	**3.86**
COMMITMENTS AND GUARANTEES					
Contingent liabilities	4 816	-	320	-	5 136
Commitments to clients	618	3 711	4 961	-	9 290
Total commitments and guarantees	**5 434**	**3 711**	**5 281**	**-**	**14 426**

In thousands of lats

43 MARKET RISK (continued)

(2) Analysis of the Bank's exposure to currency risks

	2013			2012		
Currency	Changes in basis points	Effect on profit before tax	Effect on equity	Changes in basis points	Effect on profit before tax	Effect on equity
USD	+5	43	37	+5	(50)	(43)
Other	+5	3	3	+5	4	3
		46	**40**		**(46)**	**(40)**

	2013			2012		
Currency	Changes in basis points	Effect on profit before tax	Effect on equity	Changes in basis points	Effect on profit before tax	Effect on equity
USD	-5	(43)	(37)	-5	50	43
Other	-5	(3)	(3)	-5	(4)	(3)
		(46)	**(40)**		**46**	**40**

The analysis of exposure to currency risks is calculated as the effect on pre-tax profit or loss from the currency net position As the actual market situation changes, its effect may change either positively or negatively.

(3) Analysis of the Bank's exposure to interest rate risks

	2013			2012		
Currency	Changes in basis points	Effect on profit before tax	Effect on equity	Changes in basis points	Effect on profit before tax	Effect on equity
LVL	-	-	-	-175	213	260
USD	-12.5	72	61	-12.5	75	67
EUR	-25	(69)	(49)	-25	(79)	(59)
		3	**12**		**209**	**268**

	2013			2012		
Currency	Changes in basis points	Effect on profit before tax	Effect on equity	Changes in basis points	Effect on profit before tax	Effect on equity
LVL	-	-	-	+175	(213)	(260)
USD	+12.5	(72)	(61)	+12.5	(75)	(67)
EUR	+25	69	49	+25	79	59
		(3)	**(12)**		**(209)**	**(268)**

The Bank has been assessing on a regular basis the interest rate risk for each currency for which the extent of the Bank's assets or liabilities exceeds 5 percent of the total balance, and for all currencies on the whole. The analysis of exposure to interest rate risks is calculated as the effect on the net income of interest per year (which equals the effect of pre-tax profit or loss). When calculating the effect of interest rate changes, the interest rate risk's net open position as at 31 December 2013 and 31 December 2012 is multiplied by expected change in interest rates expressed as basis points.

NOTES TO THE BANK'S FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 CALCULATION OF CAPITAL ADEQUACY

	Group		Bank	
	2013	2012	2013	2012
OWN FUNDS	**29 749**	**25 681**	**30 248**	**28 277**
Tier 1 capital	**38 666**	**37 569**	**38 102**	**36 789**
Adequate equity	**14 618**	**14 618**	**14 618**	**14 618**
Paid up capital	*14 507*	*14 507*	*14 507*	*14 507*
Share issue premium	*111*	*111*	*111*	*111*
Adequate reserves	**24 268**	**23 182**	**23 703**	**22 402**
Reserve capital and other reserves and retained profit and losses of previous years	*19 953*	*18 850*	*22 402*	*20 107*
Non-controlling interest	*3 185*	*3 246*	*-*	*-*
Audited profit/(loss) of the current year	*1 130*	*1 086*	*1 301*	*2 295*
Other elements reducing Tier 1 capital (-)	**(220)**	**(231)**	**(219)**	**(231)**
Intangible assets (Note 24)	*(220)*	*(231)*	*(219)*	**(231)**
Tier 2 capital	**6 008**	**5 952**	**6 008**	**5 952**
2 group of Tier two capital	**6 008**	**5 952**	**6 008**	**5 952**
Subordinated capital	*6 008*	*5 952*	*6 008*	*5 952*
Deductions from Tier 1 and Tier 2 capital	**(14 925)**	**(17 840)**	**(13 862)**	**(14 464)**
Deductions from Tier 1 and Tier 2 capital prescribed by the legislation [1]	*(14 925)*	*(17 840)*	*(13 862)*	*(14 464)*

Thousands of lats

44 CAPITAL ADEQUACY CALCULATION (continuation)

	Group		Bank	
	2013	2012	2013	2012
SUMMARY OF CAPITAL REQUIREMENT CALCULATIONS	**14 088**	**14 273**	**13 800**	**13 943**
Total of capital requirements for credit risk, counterparty credit risk, dilution risk and free deliveries risk according to standardized approach	**12 066**	**12 208**	**11 953**	**12 031**
Central governments or central banks	*11*	*11*	*11*	*11*
Public authorities	*50*	*51*	*50*	*51*
Institutions	*2 558*	*2 012*	*2 558*	*2 012*
Commercial companies	*5 565*	*5 716*	*6 342*	*6 656*
Secured by real estate	*21*	*34*	*21*	*34*
Past due exposures	*733*	*1 121*	*540*	*970*
Other items	*3 128*	*3 263*	*2 431*	*2 297*
Capital requirements for position, foreign exchange and commodities risks according to standardized approach	**516**	**372**	**366**	**233**
Traded debt instruments	*118*	*5*	*118*	*5*
Equity instruments	*-*	*137*	*-*	*137*
Foreign currency	*398*	*230*	*248*	*91*
Capital requirements for operational risk according to basic indicator approach	**1 506**	**1 693**	**1 481**	**1 679**
CAPITAL REQUIREMENTS COVERED BY OWN FUNDS (SURPLUS (+) OR SHORTFALL (-))	**15 661**	**11 408**	**16 448**	**14 334**
CAPITAL ADEQUACY RATIO (%)	**16.89**	**14.39**	**17.54**	**16.22**

[1] Information about this deduction for the Bank is provided in Notes 21 and 25.

45 SUBSEQUENT EVENTS

Until 1 January 2014 the Bank's functional currency and Group's presentation currency was Latvian Lats ("LVL"). These financial statements are presented in thousands of Lats (LVL 000's). On 1 January 2014 the Republic of Latvia adopted Euro as the national currency. The conversion from Lats to Euros was carried out at the official exchange rate of 0.702804 LVL/EUR. At that date all Group's and Bank's balances denominated in Lats were converted to Euros at the official exchange rate. The adoption of Euro had no direct impact on total comprehensive income of the Group and the Bank.

* * * * *

TRASTA KOMERCBANKA

JSC TRASTA KOMERCBANKA
INTERIM CONDENSED FINANCIAL STATEMENTS
AND CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 MARCH 2014

(prepared according to FCMC Regulations
On the Preparation of Public Quarterly Reports of Banks)

CONTENTS **PAGE**

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

In the first quarter of 2014, the Bank gained profit of EUR 0.96 million , mainly due to increase in net interest and commission income. The Bank's capital and reserves as at 31 March 2014 were EUR 55.47 million . The Bank's assets as at 31 March amounted to EUR 440.05 million , which is by EUR 24.94 million more than the final figure of 2013. As at the end of the reporting period the amount of attracted deposits reached EUR 360.39 million , but the Bank's loan portfolio amounted to EUR 115.83 million

The Bank's consolidation group consists of the subsidiary companies: "*TKB Nekustamie īpašumi*", "*TKB Līzings*" and its subsidiary *"TKB Leasing Tajikistan"*, "TKB LU" and "Project 1"; and also *"Heckbert C7 Holdings"* and its subsidiary *„Ferrous Kereskedelmi KFT"*. The amount of Group's assets as at the end of the reporting period was EUR 435.93 million , which is by EUR 19.24 million more than the final figure of 2013. In the first quarter of 2014, the Group gained profit of EUR 0.14 million .

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 4 to 25 for the period from 1 January 2014 to 31 March 2014 have been prepared consistently applying relevant accounting methods and the management's judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared on a going concern concept basis. The purpose of the statement is to present comprehensive information regarding the financial standing of the Bank and the Group, performance results, and the Bank's activities-related risks.

This financial report for the first quarter of 2014 has not been audited and it has been prepared based on unaudited financial statements for this period.

This financial report was approved by the Board of the Bank on June 30, 2014 and it is available on the Bank's website at www.tkb.eu.

On behalf of the Bank's management:

Gundars Grieze
Chairman of the Board
Riga,
June 30, 2014

PROFIT AND LOSS STATEMENTS

EUR '000	Note	The Group 31.03.2014	The Group 31.03.2013	The Bank 31.03.2014	The Bank 31.03.2013
Interest revenue		1 775	2 480	1 819	2 544
Interest expense		(690)	(969)	(690)	(969)
Dividends		0	0	0	0
Commission income		3 048	2 817	3 029	2 816
Commission expense		(300)	(431)	(299)	(431)
Net realized profit/loss on financial assets and liabilities at amortized cost		0	0	0	0
Net realized losses on available for sale financial assets		0	0	0	0
Net gains from trading financial assets		88	16	88	16
Net profit / loss on financial assets and financial liabilities at fair value through profit or loss statement		0	0	0	0
Changes in fair value due to risk minimization accounting		0	0	0	0
Net losses/gains from foreign currency trading and revaluation		333	77	536	78
Property, plant and equipment, investment property and intangible assets derecognition profit / loss		0	0	0	0
Other income		115	446	45	13
Other expenses		(716)	(138)	(96)	(108)
Administrative expenses		(3 106)	(2 622)	(3 092)	(2 574)
Depreciation		(237)	(233)	(235)	(231)
Result of forming reserves, net	9	(90)	(778)	(90)	(778)
Impairment losses		(21)	(56)	(21)	(53)
Profit/(loss) before corporate income tax		199	609	994	323
Corporate income tax		(58)	(47)	(37)	(40)
Profit/loss for the period		**141**	**562**	**957**	**283**

BALANCE SHEET

EUR '000	Note	The Group		The Bank	
		31.03.2014	31.03.2013	31.03.2014	31.03.2013
Cash and balances due from central banks		88 525	88 927	88 525	88 927
Due from credit institutions on demand	10	108 553	112 347	108 476	112 327
Held for trading financial assets	12, (1)	2 082	2 244	2 082	2 244
Financial assets classified at fair value through profit and loss statement		0	0	0	0
Available for sale financial assets	12, (2)	38 773	25 484	38 773	25 484
Loans and receivables	13	104 040	102 590	115 826	113 436
Held to maturity investments	11	34 404	26 849	34 404	26 849
Interets risk protected portfolio share' s fair value changes		0	0	0	0
Accrued income and deferred expenses		489	246	476	242
Property and equipment		10 797	10 946	10 757	10 905
Long-term projects costs	14	10 371	10 349	3 933	3 911
Intangible assets		314	313	313	312
Investments in share capital of subsidiary	15	13 231	18 559	15 443	15 443
Corporate income tax assets		588	588	403	403
Other assets	16	23 762	17 247	20 642	14 627
TOTAL ASSETS		**435 929**	**416 689**	**440 053**	**415 110**
Due to central banks		0	0	0	0
Due to credit institutions on demand		744	5 487	744	5 487
Financial liabilities held for trading	12, (3)	499	0	499	0
Financial liabilities classified at fair value through profit and loss statement		0	0	0	0
Financial liabilities at amortised cost	17	375 012	351 172	376 387	351 194
Financial liabilities resulting from transfer of financial assets		0	0	0	0
Interest risk protected portfolio share' s fair value changes		0	0	0	0
Accrued expenses and deferred income		862	965	847	953
Reserves for potential liabilities		0	0	0	0
Corporate income tax liabilities		17	37	14	14
Other liabilities	18	7 548	3 256	6 095	2 915
TOTAL LIABILITIES		**384 682**	**360 917**	**384 586**	**360 563**
Equity and reserves		51 247	55 772	55 467	54 547
TOTAL LIABILITIES AND EQUITY AND RESERVES		**435 929**	**416 689**	**440 053**	**415 110**

OFF-BALANCE SHEET ITEMS					
Contingent liabilities	19	7 437	8 200	7 437	8 200
Commitments to customers	19	15 179	13 319	18 082	14 891

STATEMENTS OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(1) The Group

EUR '000	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Foreign exchange transalation reserve	Retained earnings	Total	Non-controlling interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2012	**20 642**	**158**	**6 205**	**115**	**1 177**	**22 161**	**50 458**	**5 017**	**55 475**
Net profit for the period	*0*	*0*	*0*	*0*	*0*	*515*	*515*	*47*	*562*
Other comprehensive loss	*0*	*0*	*24*	*(27)*	*380*	*0*	*377*	*73*	*450*
Total comprehensive income	0	0	24	(27)	380	515	892	120	1 012
BALANCE AS AT 31 MARCH 2013	**20 642**	**158**	**6 229**	**88**	**1 557**	**22 676**	**51 350**	**5 137**	**56 487**
BALANCE AS AT 31 DECEMBER 2013	**20 642**	**158**	**6 229**	**21**	**305**	**23 769**	**51 124**	**4 648**	**55 772**
Net profit for the period	*0*	*0*	*0*	*0*	*0*	*296*	*296*	*(155)*	*141*
Other comprehensive loss	*0*	*0*	*0*	*(37)*	*(3 463)*	*0*	*(3 500)*	*(1 166)*	*(4 666)*
Total comprehensive income	0	0	0	(37)	(3 463)	296	(3 204)	(1 321)	(4 525)
-									
BALANCE AS AT 31 MARCH 2014	**20 642**	**158**	**6 229**	**(16)**	**(3 158)**	**24 065**	**47 920**	**3 327**	**51 247**

(2) The Bank

EUR' 000	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2012	**20 642**	**158**	**5 412**	**115**	**26 463**	**52 790**
Net profit for the period	*0*	*0*	*0*	*0*	*283*	*283*
Other comprehensive income	*0*	*0*	*0*	*(27)*	*0*	*(27)*
Total comprehensive income	0	0	0	(27)	283	256
BALANCE AS AT 31 MARCH2013	**20 642**	**158**	**5 412**	**88**	**26 746**	**53 046**
BALANCE AS AT 31 DECEMBER 2013	**20 642**	**158**	**5 412**	**21**	**28 314**	**54 547**
Net profit for the period	*0*	*0*	*0*	*0*	*957*	*957*
Other comprehensive loss	*0*	*0*	*0*	*(37)*	*0*	*(37)*
Total comprehensive income	0	0	0	(37)	957	920
BALANCE AS AT 31 MARCH2014	**20 642**	**158**	**5 412**	**(16)**	**29 271**	**55 467**

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

	The Group		The Bank	
EUR '000	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Cash flow as a result of operating activity:				
Profit/(Loss) before corporate income tax	199	609	994	323
Amortisation and depreciation	237	233	235	231
Increase/(decrease) in allowance for impairment of loans	50	814	50	814
Other assests impairment loss /(gain)	(9)	60	(11)	61
Foreign currency revaluation (profit) loss	491	1 064	382	1 012
(Gain)/loss from revaluation of financial assets	676	333	676	333
(Gain)/loss from revaluation of other non-current assets	(54)	0	0	0
Gain on disposal of other non-current assets	0	(322)	0	0
Gain from partial disposal of subsidiary	0	0	0	0
Gain/(loss) from investment in equity accounted investee	591	(104)	0	0
Loss on disposal of fixed and intangible assets	0	0	0	0
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**2 181**	**2 687**	**2 326**	**2 774**
Decrease of held for trading financial assets	666	(1 005)	666	(1 005)
(Increase)/decrease in due from credit institutions	1 204	(5 020)	1 204	(5 020)
(Increase)/decrease in loans	(1 539)	(13 569)	(2 479)	(11 120)
(Increase)/decrease in accrued income and deferred expense	(228)	(253)	(219)	(239)
Decrease /(increase)in other assets	(6 756)	(1 507)	(6 308)	(2 506)
Decrease in due to credit institutions	(1)	13	(1)	13
(Decrease)/increase in deposits	23 551	3 923	24 904	3 835
(Decrease)/increase in accrued expenses and deferred income	(103)	(1 178)	(106)	(1 145)
Increase/(decrease) in other liabilities	3 954	(876)	2 842	(359)
(Decrease)/increase in cash and cash equivalents from operating activities before corporate income tax	**22 929**	**(16 785)**	**22 829**	**(14 772)**
Corporate income tax paid	(78)	(55)	(37)	(40)
(Decrease)/increase in cash and cash equivalents from operating activities	**22 851**	**(16 840)**	**22 792**	**(14 812)**
Cash flows from investing activities				
Purchase of tangible and intangible fixed assets, net	(89)	(11)	(88)	(6)
(Increase)/decrease in available-for-sale financial assets	(13 326)	1 867	(13 326)	1 867
Purchase of investments in share capital of subsidiary	0	0	0	0
Purchase of other non-current assets	(22)	(16)	(22)	(16)
Proceeds from sale of other non-current assets	0	2 033	0	0
Decrease in cash and cash equivalents from investing activities	**(13 437)**	**3 873**	**(13 436)**	**1 845**

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

EUR '000	The Group 31.03.2014	The Group 31.03.2013	The Bank 31.03.2014	The Bank 31.03.2013
Cash flows from financing activities				
Subordinated liabilities issue	340	599	340	599
Subordinated liabilities repayment	0	0	0	0
(Decrease)/increase in cash and cash equivalents from financing activities	**340**	**599**	**340**	**599**
(Decrease)/increase in cash and cash equivalents	**9 754**	**(12 368)**	**9 696**	**(12 368)**
Cash and cash equivalents at the beginning of the period	**210 647**	**198 790**	**210 627**	**198 772**
Foreign currency revaluation (loss)/profit	**(448)**	**(778)**	**(447)**	**(778)**
Cash and cash equivalents at the end of the period	**219 953**	**185 644**	**219 876**	**185 626**

Cash and cash equivalents are calculated as follows

EUR '000	The Group 31.03.2014	The Group 31.03.2013	The Bank 31.03.2014	The Bank 31.03.2013
Due from credit institutions with a maturity of less than 3 months	132 172	118 335	132 095	118 317
Cash and balances due from the Bank of Latvia and other Central Banks	88 525	73 157	88 525	73 157
Due to credit institutions with a maturity of less than 3 months	(744)	(5 848)	(744)	(5 848)
CASH AND CASH EQUIVALENTS	**219 953**	**185 644**	**219 876**	**185 626**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

JSC "Trasta Komercbanka" (hereinafter – the Bank) has been registered as a joint stock company, in the Latvian Register of Companies with identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

This financial statements were approved by the Board of the Bank on 30 June 2014.

2 ACCOUNTING AND ASSESSMENT PRINCIPLES

(1) General principles

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 as adopted by European Union and do not include a complete set of financial statements as required by IAS 1 „*Presentation of Financial Statements*". Therefore, to obtain a complete view of Bank' s activities, these interim condensed financial statements should be analyzed together with the Group' s and Bank's financial statements for the previous reporting year.

The monetary unit used in the financial statements is **the euro (EUR)**, the monetary unit of the Republic of Latvia. All amounts in the financial statements are reported in **thousands of euro (EUR000's)**.

The Bank maintains its accounts based on appropriate accounting methods and policies which have been applied on a consistent basis. Since the end of the previous reporting year, no other changes in accounting policies have been made.

(2) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements according to International Accounting Standard 27. The consolidation was based on control over the subsidiaries arising from the majority of voting rights in the subsidiaries.

(3) Foreign currency exchange rates

		31.03.2014.	31.12.2013	31.03.2013.
EUR 1 =	USD	1.3788	1.3647	1.2848
	GBP	0.8282	0.8337	0.8478
	RUB	48.7800	45.0515	39.7064
	LVL	0.702804	0.702804	0.702804

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

3 PERFORMANCE INDICATORS

Position	31.032014	31.03.2013
Return on equity (ROE) (%)[1]	6.91	2.11
Return on assets (ROA) (%) [2]	0.76	0.25

[1] Ratio on profit/losses (after tax) against the Bank's average amount of capital and reserves.
[2] Ratio on profit/losses (after tax) against the Bank's average amount of assets.

4 MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

(1) Paid fixed capital

In connection with the introduction of the euro in Latvia and capital recalculation, shareholders of the Bank in March 2014 approved the capital denomination and the new share nominal value. On March 31, 2014, the Bank's paid-up share capital consisted of 20,641,316 ordinary voting shares with the nominal value 1 euro (2013: 290, 136 shares with the nominal value of 71.14 euros (50.00 lats).
The total number of shareholders is 42, of which 11 are legal entities and 31 are individuals.

List of shareholders:

Shareholder	Country	Shareholding 31 March 2014 %	Shareholding 31 March 2014 EUR'000	Shareholding 31 December 2013 %	Shareholding 31 December 2013 EUR'000
I.Buimisters	Latvia	43.21	8 920	43.21	8 920
SIA "C&R Invest"	Latvia	14.63	3 019	14.63	3 019
C.E.G. Treherne	Great Britain	9.31	1 922	9.31	1 922
GCK Holdings Netherlands B.V.	Netherlands	7.42	1 531	7.42	1 531
Rikam S.A.H.	Luxembourg	7.29	1 505	7.29	1 505
Figon Co Limited	Cyprus	3.41	703	3.41	703
Another shareholders		14.73	3 042	14.73	3 042

4 MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY) (continued)

(2) Composition of the board and council of the Bank (Group Holding Company)

Supervisory Council

Name, surname	Positions	Election date
Igors Buimisters	Chairman of the Council	24.03.2006, reelected 11.10.2013.
Alfrēds Čepānis	Member of the Council	30.03.1999, reelected 11.10.2013.
Artemiy Yershov	Member of the Council	28.03.2014

At the meeting on 28 March 2014, shareholders approved changes in the composition of the Council. Igors Buimisters and Alfeds Cepanis were reelected, and a new member Artemiy Yershov was elected. Igor Snisarevskiy left the office.

Management Board

Name, surname	Positions	Election date
Gundars Grieze	Chairman of the Board	28.06.1999, reelected 29.03.2012
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reelected 29.03.2012
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reelected 29.03.2012
Svetlana Krasovska	Member of the Board	24.10.1995, reelected 29.03.2012
Tatjana Konnova	Member of the Board	23.03.2006, reelected 29.03.2012
Edgars Diure	Member of the Board	28.03.2014.

During the reporting period Edgars Diure was elected as a member of the Board. Other changes in the composition of the Board did not occur.

4 MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY) (continued)

(3) Structure of the Bank (Group Holding Company)

JSC Trasta komercbanka

Internal Audit Division
Head of Division Olga Lomaša

Financial Market Department
Head of Department Marina Krutiļina

Securities Market and Bank Investments Department
Deputy Head of Department Aleksejs Popovs

Lending Department
Head of Department Tatjana Konnova

Customer Service Department
Head of Department Diāna Gērica

Foreign Customer Service and Regions Development Department
Deputy Head of Department Inga Ratkeviča

Bank Operation Accounting and Statistics Department
Head of Department – Chief Accountant Svetlana Krasovska

Correspondent Relations and Payments Department
Head of Department Nataļja Nikolajenko

Risk Analysis and Control Department
Head of Department – Deputy Chief Accountant Tatjana Paļcina

Information System Department
Head of Department Timofejs Djubins

Administrative Department
Head of Department Māris Jaunozols

Security Department
Head of Department Jevgeņijs Fokins

Cyprus branch
Head of the Btanch Constantinos Constantinou

Liepaja Branch
Head of the Btanch Guntis Brūders

Daugavpils Branch
Head of the Btanch Marija Rimvide-Mickeviča

Representative Office in Ukraine
Head of Representative Office Aleksandrs Bikovecs

Representative Office in Kazakhstan
Head of Representative Office Tatjana Coja

Representative Office in Tajikistan
Head of Representative Office Mustafo Davljatbekov

Representative Office in Belarus
Head of Representative Office Marija Okuloviča

Representative Office in Hong Kong
Head of Representative Office Vadim Levitskis

Strategy Implementation Department
Department Head Jelena Ignatjeva

Customer Compliance Department
Department Head Vija Arseņjeva

4 MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY) (continued)

(4) Strategy and Objectives of the Bank (Group Holding Company)

The Bank has positioned itself as an international private bank for chosen clientele whom the Bank provide with exclusive and high-quality financial services using the most advanced modern tehnologies.

The Bank chooses conservative development strategy that does not pursue maximum profit, which in its turn requires risky investments, thus the Bank achieves its main purpose, retains shareholders equity and profitability.

The Bank is an international bank providing services to its customers thorough a network of its international representative offices and branches.

Objectives of the Bank:

- ✓ To regain Bank's profitability and to strive to achieve the return on assets (ROA) not less than 1%.
- ✓ To maintain the Bank's capital at a proper level for operation and to secure the internal capital adequacy ratio as from 30 September 2013 not less than 12.76%.
- ✓ The Bank will seek to increase revenue diversification, giving priority to operation with lower capital requirements.
- ✓ To increase the number of customers and offer of new products, which would allow to attract selected clientele with high demands.
- ✓ To facilitate highly professional customer service.
- ✓ To develop the funding of measures that promote export. To participate in co-financing of projects of the EU structural funds and Latvia's Guarantee Agency.
- ✓ To continue upgrading of qualification of the existing staff and to recruit new high-quality specialists.
- ✓ To follow and be aware of IT novelties and to facilitate their timely implementation in the Bank's activities; to modernize the Bank's remote communication tools and service systems.
- ✓ To secure 100% of Trastnet functioning at all times. To focus on speed and simplicity as main objectives in development of the information technology.
- ✓ To ensure the highest standards in the Bank's compliance monitoring, continuing staff training and implementation of necessary technologies.
- ✓ To continue developing of the Bank's service network, opening of Bank's branches and representative offices in regions of prime importance for cutsomers.
- ✓ To enhance the Bank's current image of a customer oriented and international bank (to promote developing of goodwill in the target audience, meanwhile contributing to attraction of quality customers, and increasing of loyalty of the existing customers.

Values of the Bank:

- ✓ Customers are the Bank's core value. Developing of profitable cuistomers' business is the basis for successfiul operation of the Bank.
- ✓ The Bank's reputation is in the focus of its attention. The Bank closely follows requirements.The Bank does not cooperate with the customers and does not perform transactions that cause doubts as far as the said requirements are considered. The Bank does not provide services to high-risk customers who do not have their business history.
- ✓ Conservative approach is at the basis of the Bank's development concept.
- ✓ The Bank considers its personnel to be the main factor for achieving the Bank's mission. The Bank caters for professional growth of its personnel and takes care of its employees.

5 COMPOSITION OF THE CONSOLIDATED GROUP

The consolidation group of the Bank consists of the Bank, and its subsidiaries *TKB Nekustamie īpašumi* , *TKB Līzings and its subsidiary* TKB Leasing Tajikistan and „TKB LU" and its subsidiary „Project 1"; and "Heckbert C7 Holdings" and its subsidiary "Ferrous Kereskedelmi KFT". The description of "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" is provided in Note 15 herein. Services provided by the above mentioned companies of the Group extend the range of services offered by the Bank.

No	Name of commercial company	Registration place code , registration address	Type of activity of commercial company *	Share in the fixed capital (%)	Voting share in commercial company (%)	Grounds for inclusion in the Group**
1	TKB nekustamie īpašumi, Ltd., LV-40003723143	9 Miesnieku, Riga, LV	AC	100	100	SC
2	TKB līzings, Ltd., LV-40003591059	9 Miesnieku, Riga, LV	LC	100	100	SC
3	CJSC TKB Leasing Tajikistan TJ-0210013797	TJ, Dushanbe, Pr.Rudaki 100, Tajikistan	LC	75.10	75.10	SSC
4	TKB LU LLC UA-15561020000043994	UA, Odesa, Genuezka 24a-321	AC	100	100	SSC
5	Project 1 LLC UA-15561020000044353	UA, Odesa, Genuezka 24a-321	AC	100	100	SSC
6	Heckbert C7 Holdings Limited CY-HE134861	CY, Nicosia, Kritonos 21, Cyprus	AFI	75.36	75.36	SC
7	Ferrous Kereskedelmi KFT HU-01-09-717395	HU, Budapest, 3 Szegedi street, Hungary	AFI	100	100	SSC

* - CI –credit institutions , EMI - electronic money institution, , IBC – investment brokerage company, IMC- investment management company , PF – pension fund, LC – leasing company , AFI – another financial institution, ASC – ancillary services company, AC - auxiliary company, FMC – financial management company.

** - SC – subsidiary company, SSC – subsidiary of the subsidiary company , PC – parent company, SPC – subsidiary of the parent company , OC – other company.

6 RISK CONTROL AND MANAGEMENT

Information on the Bank's risk management policies is provided in the audited financial statements 2013 of *AS TRASTA KOMERCBANKA*, posted on the Bank's website (www.tkb.eu), Note 40 of the statements (pp.64-71), and in the Information Disclosure Statement of 2013 (pp. 2 to 8), and since this publication of information it has not changed significantly.

7 SUMMARY REPORT OF EQUITY AND MINIMUM CAPITAL REQUIREMENTS

ID	Item	COREP ID	31.03.2014. The Group	The Bank
1.	**Own funds** (1.1.+1.2.)	C 01.00 1	53 691	61 753
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	C 01.00 1.1.	46 135	54 197
1.1.1.	Common equity tier 1 capital	C 01.00 1.1.1.	46 135	54 197
1.1.2.	Additional tier 1 capital	C 01.00 1.1.2.	0	0
1.2.	Tier 2 capital	C 01.00 1.2.	7 556	7 556
2.	Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	C 02.00 1.	270 044	277 468
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	C 02.00 1.1.	231 591	240 279
2.2.	Total risk exposure amount for settlement/delivery	C 02.00 1.2.	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	C 02.00 1.3.	3 037	2 097
2.4.	Total risk exposure amount for operational risk	C 02.00 1.4.	35 415	35 091
2.5.	Total risk exposure amount for credit valuation adjustment	C 02.00 1.6.	1	1
2.6.	Total risk exposure amount related to large exposures in the trading book	C 02.00 1.7.	0	0
2.7.	Other risk exposure amounts	C 02.00 1.8.	0	0
3.	**Capital ratios and capital levels**			
3.1.	CET 1 capital ratio (1.1.1./2.*100)	C 03.00 1.	17.08	19.53
3.2.	Surplus (+)/Deficit (-) of CET 1 capital (1.1.1.-2.*4.5%)	C 03.00 2.	33 983	41 711
3.3.	Tier 1 capital ratio (1.1./2.*100)	C 03.00 3.	17.08	19.53
3.4.	Surplus (+)/ deficit (-) of Tier1 capital (1.1.-2.*6%)	C 03.00 4.	29 932	37 549
3.5.	Total capital ratio (1./2.*100)	C 03.00 5.	19.88	22.26

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	C 03.00 6.	32 087	39 556
4.	**Combined buffer requirement** (4.1.+4.2.+4.3.+4.4.+4.5.)	C 04.00 27.	0	0
4.1.	Capital conservation buffer (%)		0	0
4.2.	Institution specific countercyclical capital buffer (%)		0	0
4.3.	Systemic risk buffer (%)		0	0
4.4.	Systemical important institution buffer (%)		0	0
4.5.	Other Systemically Important Institution buffer (%)		0	0
5.	**Capital ratios due to Pillar II adjustments**			
5.1.	Own funds requirements related to Pillar II adjustments	C 04.00 28.	(13 180)	(20 709)
5.2.	CET1 capital ratio including Pillar II adjustments	C 03.00 7.	14.64	14.79
5.3.	Tier 1 capital ratio including Pillar II adjustments	C 03.00 9.	14.64	14.79
5.4.	Total capital ratio including Pillar II adjustments	C 03.00 11."	15.00	14.79

* Information about this decrease is provided in Notes 13, 14 and 15.

8 LIQUIDITY RATIO

ID	Position	**31.03.2014**.
1.	**Liquid assets** (1.1.+1.2.+1.3.+1.4.)	251 585
1.1.	Cash	1 192
1.2.	Claims on demand on Central Bank	87 333
1.3.	Claims on demand on solvent credit institutions	122 731
1.4.	Liquid securities	40 329
2.	**Current liabilities (with remaining maturity up to 30 days)** (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)	349 860
2.1.	Liabilities to credit institutions	744
2.2.	Deposits	324 238
2.3.	Issued debt securities	0
2.4.	Cash in transit	3 080
2.5.	Other current liabilities	4 028
2.6.	Off-balance liabilities	17 770
3.	**Liquidity ratio** (1.:2.) (%)	71.91%
4.	**Minimum liquidity ratio**	30%"

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

9 RESULT OF FORMING RESERVES, NET

EUR '000	The Group 31.03.2014	The Group 31.03.2013	The Bank 31.03.2014	The Bank 31.03.2013
Balance as at 1 January	**21 149**	**18 877**	**19 645**	**16 912**
incl. for due from credit institutions	*0*	*0*	*0*	*0*
incl. for loans	*21 149*	*18 877*	*19 645*	*16 912*
Additional ***individual*** allowance	204	1 246	204	1 245
Change in ***collective*** allowance	(2)	(3)	(2)	(3)
Release of ***individual*** allowances	(112)	(465)	(112)	(464)
Interest on loans, which are recognized as impaired	0	0	0	0
Write-off credits	(745)	0	(745)	0
Effect of changes in currency exchange rates	(40)	36	(40)	36
Balance as at 31 December	**20 454**	**19 691**	**18 950**	**17 726**
incl. for due from credit institutions	*0*	*0*	*0*	*0*
incl. for loans	*20 454*	*19 691*	*18 950*	*17 726*

10 DUE FROM CREDIT INSTITUTIONS ON DEMAND

EUR '000	The Group 31.03.2014	The Group 31.12.2013	The Bank 31.03.2014	The Bank 31.12.2013
Due from credit institutions registered in the Republic of Latvia	1 083	1 269	1 083	1 269
Due from credit institutions registered in the foreign countries	107 470	111 078	107 393	111 058
	108 553	**112 347**	**108 476**	**112 327**

11 HELD TO MATURITY INVESTMENTS

EUR '000	The Group 31.03.2014	The Group 31.12.2013	The Bank 31.03.2014	The Bank 31.12.2013
Other claims on credit institutions -				
- With a maturity of up to 3 months -				
Due from credit institutions registered in the Republic of Latvia	1 451	1 465	1 451	1 465
Due from credit institutions registered in the foreign countries	22 168	13 395	22 168	13 395
- With a maturity of more than 3 months -				
Due from credit institutions registered in the foreign countries	10 785	11 989	10 785	11 989
	34 404	**26 849**	**34 404**	**26 849**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

12, (1) HELD FOR TRADING FINANCIAL ASSETS

EUR '000	The Group		The Bank	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Fixed income securities				
- Government debt securities -				
Investment amount of government debt securities	**2 061**	**2 187**	**2 061**	**2 187**
Government debt securities revaluation profit/(losses), net				
	559	*792*	*559*	*792*
- Debt securities of other institutions -	*(20)*	*(31)*	*(20)*	*(31)*
Investment amount of debt securities of other institutions	*539*	*761*	*539*	*761*
Revaluation losses of debt securities of other institutions, net				
	1 560	*1 494*	*1 560*	*1 494*
	(38)	*(68)*	*(38)*	*(68)*
Equity shares and other non-fixed income securities	*1 522*	*1 426*	*1 522*	*1 426*
Investments in equity shares				
Changes on revaluation of equity investments, net	**0**	**0**	**0**	**0**
	0	0	0	0
Derivatives	0	0	0	0
	21	**57**	**21**	**57**
	2 082	**2 244**	**2 082**	**2 244**

12, (2) AVAILABLE FOR FINANCIAL ASSETS

EUR'000	'The Group		The Bank	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Fixed income securities	**38 729**	**25 440**	**38 729**	**25 440**
- Government debt securities -				
Investment amount of government debt securities	*38 281*	*24 952*	*38 281*	*24 952*
Government debt securities revaluation profit/(losses), net	*(13)*	*33*	*(13)*	*33*
	38 268	*24 985*	*38 268*	*24 985*
- Debt securities of other institutions -				
Investment amount of debt securities of other institutions	*465*	*468*	*465*	*468*
Revaluation losses of debt securities of other institutions, net	*(4)*	*(13)*	*(4)*	*(13)*
	461	*455*	*461*	*455*
Equity shares and other non-fixed income securities	***44***	***44***	***44***	***44***
Investments in equity shares and other non-fixed income securities	*44*	*44*	*44*	*44*
Changes on revaluation of equity investments, net	*0*	*0*	*0*	*0*
	38 773	**25 484**	**38 773**	**25 484**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

12, (3) FINANCIAL LIABILITIES HELD FOR TRADING

EUR'000	Grupa		Banka	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Debt securities and other fixed income securities - short positions	**499**	**0**	**499**	**0**
- Government debt securities-				
Borrowed amount of government debt securities	*499*	*0*	*499*	*0*
	499	*0*	*499*	*0*
Financial derivatives	**0**	**0**	**0**	**0**
	499	**0**	**499**	**0**

12, (4) Presented below is the analysis of geographic concentration of financial instruments items:

31 March 2014	Latvia	EU*	USA	Russia	Other countries	Total
Fixed income securities	20 595	1 009	18 338	395	453	40 790
- Government debt securities -	*20 134*	*291*	*18 134*	*0*	*248*	*38 807*
- Debt securities of other institutions -	*461*	*718*	*204*	*395*	*205*	*1 983*
Equity shares and other non-fixed income securities	0	44	0	0	0	44
Fixed income securities – short positions	0	0	0	0	0	0
- Government debt securities -	*0*	*0*	*0*	*0*	*(499)*	*(499)*
	20 595	**1 053**	**18 338**	**395**	**(46)**	**40 335**

* The government debt securities portfolio includes debt securities of different EU (Poland and Slovakia) countries. None of the items of financial instruments of national positions, except Latvia and the USA, exceeds 10% of the Bank's equity.

31 December 2013	Latvia	EU*	USA	Russia	Other countries	Total
Fixed income securities	14 452	624	10 987	665	899	27 627
- Government debt securities –	*13 997*	*288*	*10 987*	*0*	*474*	*25 746*
- Debt securities of other institutions -	*455*	*336*	*0*	*665*	*425*	*1 881*
Equity shares and other non-fixed income securities	0	44	0	0	0	44
Fixed income securities – short positions	0	0	0	0	0	0
- Government debt securities -	*0*	*0*	*0*	*0*	*0*	*0*
	14 452	**668**	**10 987**	**665**	**899**	**27 671**

* The government debt securities portfolio includes debt securities of different EU countries (Poland and Slovakia). None of the items of financial instruments of national positions, except Latvia and the USA, exceeds 10% of the Bank's equity.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

13 LOANS AND RECEIVABLES

EUR '000	The Group 31.03.2014	The Group 31.12.2013	The Bank 31.03.2014	The Bank 31.12.2013
Private non-financial corporations	97 165	100 203	89 252	91 979
Households	17 582	18 231	17 188	17 925
Financial institutions	7 720	3 066	26 415	21 054
Employees	2 027	2 239	1 921	2 123
Total gross loans	**124 494**	**123 739**	**134 776**	**133 081**
Impairment allowances, ***individually assessed*** *	(20 405)	(21 098)	(18 901)	(19 594)
Impairment allowances, ***collectively assessed***	(49)	(51)	(49)	(51)
	104 040	**102 590**	**115 826**	**113 436**

* According to the Bank's loan assessment, made by the Financial and Capital Market Commission, the Bank has to make additional provisions in the amount of EUR 5 792 thousand (on 31.12.2013. – EUR 4 859 thousand). In performing its loan assessment, the Bank applies the FCMC Regulations On Assets Quality Assessment and Provisioning which provides for making additional provisions in accordance with international accounting standards. Given that the Bank's assessment of the respective loans does not show any impairment in value, the Bank does not agree with the assessment of the FCMC. According to the FCMC Regulations in such a case the Bank has to perform its capital adequacy calculation adjustment (reduction) for this amount, less the risk-weighting factor that is EUR 5 149 thousand (on 31.12.2013. – EUR 4 421 thousand (Note 7)).

Loans by types of loans may be specified as follows:

	The Group 31.03.2014	The Group 31.12.2013	The Bank 31.03.2014	The Bank 31.12.2013
Mortgage loans	40 435	39 331	39 099	39 331
Commercial loans	35 824	32 733	54 519	49 312
Industrial loans	13 111	13 569	13 111	13 569
Finance lease	7 058	7 211	0	0
Overdrafts	10 538	11 276	10 539	11 276
Reverse REPO	0	0	0	0
Consumer loans	496	548	476	522
Factoring	1 301	581	1 301	581
Payment card loans	561	531	561	531
Other	15 170	17 959	15 170	17 959
	124 494	**123 739**	**134 776**	**133 081**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

EUR '000	The Group		The Bank	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013

14 LONG-TERM PROJECTS COSTS

Land parcels	2 213	2 213	249	249
Finished and unfinished construction costs	8 152	8 126	3 678	3 652
Prepayments for unfinished construction	6	10	6	10
	10 371	**10 349**	**3 933**	**3 911**

The investment property mentioned in this Note is associated with the facility which served as loan collateral and consisted of land and unfinished construction. To increase the realization options and value of the facility, the Bank has made additional investments to finish the construction of the facility.

This Note includes also the object (including the related land plot) in the amount of EUR 6 438 thousand (in 2013: EUR 6 438 thousand) which the Bank has sold to a subsidiary within the Group for further sale. As a result of the sale transcation the Bank received income of EUR 1 899 thousand. Given the fact that this income was gained within the Group, the Group's profit and loss account was adjusted for this income amount and it was excluded from the consolidation. The Bank's equity capital was reduced for the income amount gained from this transaction. (Note 7).

15 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY

The Bank has the following investments in the share capital of related companies and associates:

SIA TKB Nekustāmie īpašumi				
Investment amount	0	0	3	3
Changes on revaluation of investments, net	*0*	*0*	*0*	*0*
SIA TKB Līzings				
Investment amount	0	0	996	996
Changes on revaluation of investments, net	*0*	*0*	*(405)*	*(405)*
SAS Dewon *				
Investment amount	13 231	18 559	14 849	14 849
Changes on revaluation of investments, net	*0*	*0*	*0*	*0*
	13 231	**18 559**	**15 443**	**15 443**

* At the end of the 2009 the Bank purchased 100% of the share capital of Cyprus Company "Heckbert C7 Holdings", which owns 100% of the share capital of the company "Ferrous Kereskedelmi KFT" (Hungary), which is the owner of 25.085% of the Ukrainian gas company "Dewon" shares. The purpose of this transaction was to obtain control over 25.085% of the share capital of "Dewon". "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" do not perform any other commercial activities, except the holding of "Dewon" shares.

According to the Financial and Capital Market Commission's assessment of this investment, the Bank has to make capital adjustment for the book value of this investment. In 2014 and 2013, independent experts performed fair share assessment of the company "Dewon". The assessment did not show impairment in the fair value which is below the balance sheet value of the investment. Taking into account the independent experts' assessment, the Bank disagrees with the assessment of the FCMC. According to the FCMC assessment, the Bank has to perform its capital adequacy calculation adjustment (reduction) for this amount, less the risk-weighting factor - by EUR 13 661 thousand (on 31.12.2013 – EUR 13 661 thousand (Note 7)).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

16 OTHER ASSETS

EUR '000	The Group		The Bank	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Receivables from financial institutions	3 032	2 856	3 032	2 856
Real property hold for sale [1]	12 071	11 804	9 846	9 877
Spot foreign exchange assets [2]	344	687	344	687
Overpaid value added tax	73	47	72	47
Money in transit [3]	6 269	108	6 269	108
Other assets [4]	2 314	2 149	1 474	1 458
	24 103	**17 651**	**21 037**	**15 033**
Impairment loss	(341)	(404)	(395)	(406)
	23 762	**17 247**	**20 642**	**14 627**

[1] A real property hold for sale is the real property whose possession is taken by the Bank (as a result of takeover or acquisition) and which served as collateral for granted loans. The acquisition cost of this real property is measured at fair value. As a result of this transaction the amount received is channeled to settle customer's obligations to the Bank.

[2] The fair value of *spot* foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the value of basis asset underlying the agreement whose changes in fair value are estimated and the due and payable amounts of cash flow.

[3] The funds, transferred from other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit.

[4] Other assets include various claims on debtors in relation to operating activities of the Bank.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

17 INANCIAL LIABILITIES AT AMORTISED COST

EUR '000	The Group		The Bank	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Due to credit institutions	116	117	116	117
Due to customers	359 010	335 459	360 385	335 481
Subordinated liabilities	15 886	15 596	15 886	15 596
Debt securities issued	0	0	0	0
	375 012	**351 172**	**376 387**	**351 194**

18 OTHER LIABILITIES

EUR '000	The Group		The Bank	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Suspense accounts[1]	2 200	2 289	2 200	2 289
Spot foreign exchange liabilities (Note 16)	655	317	655	317
Money in transit [2]	3 082	195	3 080	195
Unpaid dividends of previous periods	21	21	21	21
Other liabilities	1 590	434	139	93
	7 548	**3 256**	**6 095**	**2 915**

[1] Suspense accounts represent payments received by the Bank where the beneficiary is not clearly identified. After clarification they are credited to customer accounts.

[2] The funds, transferred from other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit.

19 OFF-BALANCE SHEET ITEMS

Off-balance liabilities

EUR'000	The Group		The Bank	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Contingent liabilities	**7 437**	**8 200**	**7 437**	**8 200**
including guarantees	*1 379*	*1 293*	*1 379*	*1 293*
including rent commitments	*6 058*	*6 251*	*6 058*	*6 251*
Including other contingent liabilities [1]	*0*	*656*	*0*	*656*
Commitments to customers	**15 179**	**13 319**	**18 082**	**14 891**
including unused credit limits	*10 666*	*13 308*	*13 569*	*14 880*
including other liabilities [2]	*4 513*	*11*	*4 513*	*11*
	22 616	**21 519**	**25 519**	**23 091**

[1] Other contingent liabilities include Bank's liabilities to *Latvijas Banka* for the preliminary supply of euro banknotes in connection with the joining of Latvia to the Euro Zone on 01.01.2014.

[2] Other liabilities include Bank's liabilities for the acquisition of fixed assets and acquisition of securities as well as future costs related to long-term projects.

20 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, chairpersons and members of the council and management board, internal service manager and members and other employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, and brokerage etc. These transactions are conducted on normal business terms.

(1) Amount of the Group transactions with related persons is presented below

EUR ' 000	Share-holders	Council and board	Subsi-diaries	Equity accounted investees	Other related parties [1]	Total
			31.03.2014			
Assets						
Loans	363	421	0	2 059	1 048	**3 891**
Allowance for loans	*(13)*	*(6)*	0	0	(1)	***(20)***
Loans, net	350	415	0	2 059	1 047	**3 871**
Liabilities						
Deposits	9	273	0	48	542	**872**
Commitments and guarantees						
Unused credit lines	78	38	0	0	2 204	**2 320**
			31.03.2014			
Income statement						
Interest income	6	6	0	61	9	**82**
Fee and commission income	0	0	0	0	1	**1**
Interest expense	0	0	0	0	0	**0**
Release of impairment/ impairment) of loans	0	1	0	0	0	**1**
Other expenses	(19)	(14)	0	(6)	(1)	**(40)**
			31.12.2013			
Assets						
Loans	403	394	0	2 122	1 046	**3 965**
Allowance for loans	*(13)*	*(7)*	0	0	(1)	***(21)***
Loans, net	390	387	0	2 122	1 045	**3 944**
Liabilities						
Deposits	13	303	0	0	855	**1 171**
Commitments and guarantees						
Unused credit lines	54	33	0	0	2 211	**2 298**
			31.03.2013			
Income statement						
Interest income	6	6	0	48	7	**67**
Fee and commission income	0	0	0	0	0	**0**
Interest expense	0	(1)	0	0	0	**(1)**
Release of impairment/ impairment) of loans	1	0	0	0	0	**1**
Other expenses	(13)	(17)	0	(6)	0	**(36)**

[1] Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

20 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Amount of the Bank transactions with related persons is presented below

EUR '000	Share-holders	Council and board	Subsi-diaries	Equity accounted investees	Other related parties [1]	Total
			31.03.2014			
Assets						
Loans	265	421	18 696	2 059	1 048	**22 489**
Allowance for loans	*(13)*	*(6)*	0	0	(1)	***(20)***
Loans, net	252	415	18 696	2 059	1 047	**22 469**
Liabilities						
Deposits	9	273	174	48	542	**1 046**
Commitments and guarantees						
Unused credit lines	78	38	2 904	0	2 204	**5 224**
			31.03.2014			
Income statement						
Interest income	4	6	195	61	9	**275**
Fee and commission income	0	0	1	0	1	**2**
Interest expense	0	0	0	0	0	**0**
Release of impairment/ impairment) of loans	0	1	0	0	0	**1**
Other expenses	(19)	(14)	(139)	(6)	(1)	**(179)**
			31.12.2013			
Assets						
Loans	295	394	17 987	2 122	1 046	**21 844**
Allowance for loans	*(13)*	*(7)*	*0*	*0*	*(1)*	***(21)***
Loans, net	282	387	17 987	2 122	1 045	**21 823**
Liabilities						
Deposits	13	303	38	0	855	**1 209**
Commitments and guarantees						
Unused credit lines	54	33	1 574	0	2 211	**3 872**
			31.03.2013			
Income statement						
Interest income	4	6	213	48	7	**278**
Fee and commission income	0	0	0	0	0	**0**
Interest expense	0	(1)	0	0	0	**(1)**
Release of impairment/ impairment) of loans	1	0	0	0	0	**1**
Other expenses	(13)	(17)	(74)	(6)	0	**(110)**

[1] Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

21 EVENTS AFTER BALANCE SHEET DATE

During the period from the last day of the reporting period until the publication date of these financial statements there have not been any subsequent events that could materially affect these statements or notes thereto.

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