TKB

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 2014 AND
INDEPENDENT AUDITORS' REPORT**

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MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

In 2014, Latvia's GDP grew by 2.4%, and this growth was mainly secured by such sectors as construction, public administration, transport and trade. Notwithstanding that this indicator is down almost twice compared to three previous years, it is still two times higher than the average figure in the European Union and 2.5 times higher than in the euro zone, the member of which Latvia has been since January 1, 2014. The unemployment rate in Latvia in 2014 dropped from 9.5% to 8.5%, and the inflation in the country was very low - 0.6%.

Latvia's budget deficit in 2014 was at about 2% of GDP (the tax revenue plan in 2014 was underperformed by 0.7%). The current account deficit reached 3% of GDP, however, in line with the initial estimates, the national debt last year fell in percentage terms to 37% of GDP. In 2014, Latvia managed to successfully attract 2 billion euros from global financial markets, thanks to the issue of 7-year government euro bonds in January and 10-year government euro bonds in April, which made it possible in March to reduce the debt to the European Commission by 1 billion euro, and in January 2015 by another 1.2 billion euro. Thus, the government finances at this point can be regarded as well balanced. In view of the above mentioned, the international rating agencies *Moody's Investors Service*, *Standard & Poor's* and *Fitch Ratings* continued to positively evaluate the potential of Latvia, and by March 2015 the country's credit ratings were upgraded to A level.

On the other hand, in 2015, none of Latvia's external trading partners are expecting a significant economic growth; consequently, the future GDP growth of Latvia is also difficult to predict. In 2015, it is projected to increase by 0.5-1%.

Despite this situation, in 2014 the Bank continued to develop its activities not only in Latvia, but also abroad, as evidenced by the fact that the Baltic-Hong Kong Trade Association awarded TKB a certificate attesting to a special membership status of the Bank in the organization. As acknowledged by the Association management, this status is granted to companies for special merits in the development of the Association. TKB is still the only bank in the Baltic States, which has its representative office in Hong Kong.

Thinking about further possibilities that can be offered to Bank's customers in the acquisition of new export markets, in 2014, the Bank continued its activities in the Latvian Chamber of Commerce and Industry (LCCI). This membership provided an opportunity to hear opinions of business people, problems and needs of export undertakings, as well as to share Bank's experience in the 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.

In 2014, the Bank began to work on increasing the range of services offered to existing and new customers. The Bank conducted a survey among its customers to find out their wants and wishes. The proposals made by customers served as impetus for the development of such new services as customer packages. In 2014, the Bank continued to work on the development of new products, especially in the Life Style segment. A special loyalty programme was created offering Bank's cardholders the opportunity to use great offers in the best places of recreation in Latvia and aboard.

In 2014, 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. It also started the process for changing the image of the Bank to update the company logo and corporate style. The Bank's new slogan "Open Private Banking" means that we are open for cooperation with a wide range of customers, and TKB is planning to further improve the quality of customer service.

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

Last year, the Bank continuously maintained high standards of customer service and quality of payments. The excellent quality of Bank's international payments was once again recognized by its business partners. The largest German banks *Deutsche Bank* and *Commerzbank* for the ninth consecutive year awarded their annual prizes *STP Award 2013* and *STP Excellence Award 2013* to the Bank. Thus, the Bank once again received the acknowledgment of the professional work of its team and excellent customer service rendered in the previous period of work.

According to the US Foreign Account Tax Compliance Act (FATCA), the Bank successfully registered with the US Internal Revenue Service Register as a member of FATCA and received special registration numbers. Bank's participation in the FATCA programme allows for making dollar payments in standard mode.

In 2014, the Bank celebrated its 25th anniversary, which is testimony to the Bank's experience, solidity and successful operation in the Latvian and foreign financial markets. The Bank will continue to develop its services, focusing on service extension, upgrading of service quality and deeper understanding of customer needs.

The Bank’s assets as at 31 December amounted to EUR 581.11 million, which is by EUR 166.0 million more than the final figure of 2013. During the reporting period the amount of attracted deposits reached EUR 500.22 million, which is an increase of 164.74 million compared to the final figure of 2013. In 2014, the Bank actively worked to recover its non-performing loans and to improve the quality of its loan portfolio, as a result of it the Bank’s loan portfolio in the reporting year shrank by EUR 14.61 million, reaching EUR 98.82 million at the end of 2014.

Taking into account that Ukraine is one of Bank’s counterparty countries; its crisis has also affected the Bank's financial position in 2014. The Bank ended the year with a loss of EUR 12.75 million as a result of provisions made for a range of loans mostly related to the Ukrainian market, as well as for real estate loans in Bulgaria. The Bank's operating profit was EUR 5.4 million. Accordingly, the Bank's capital and reserves decreased by EUR 12.63 million, and as at 31 December 2014 amounted to EUR 41.92 million. Thanks to the prudent dividend payment policy in the pre-crisis years, at the beginning of 2014, the Bank had at its disposal the retained earnings reserve in the amount of EUR 28.31 million. Thus, the current-year losses will be covered by the prior years’ undistributed profit, leaving at the Bank’s disposal the remainder of EUR 15.56 million.

The amount of Group’s assets as at the end of the reporting period was EUR 574.13 million, which is by EUR 157.44 million more than the final figure of 2013. The Group ended the reporting year with a loss of EUR 14.01 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”.

As one of the priorities of the Bank's activities in 2014 was the capital strengthening through the issue of subordinated bonds in the amount of EUR 10 million. The issue was successfully completed and the subordinated bonds were purchased by 47 investors, including 38 individuals and 9 legal entities. Based on "NASDAQ OMX Riga" Board decision, on 16 December 2014, the bonds of *AS „TRASTA KOMERCBANKA”* were included in the Baltic list of debt securities. Issue of bonds is an attractive alternative for raising of capital, and from investors’ perspective, such fixed-income assets as corporate bonds are the financial instruments that are suitable for diversification of investment portfolio by both private and institutional investors. In 2015, the Bank intends to continue the strengthening of its capital.

In 2015, the Bank is planning to pay special attention to upgrading of information systems and technologies having an enhanced focus on the development of its online banking and website, which will be not only up-to-date and comfortable but also easily adaptable to mobile devices. In parallel, internal changes have been planned in order to reduce business risks and improve staff qualifications.

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

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.

The Bank management has prepared The Corporate Governance Report for 2014, which is freely available on the internetpage of the Bank at www.tkb.eu.

This financial report has been approved by the Board of the Bank on March 26, 2015 and by the Council of the Bank on March 26, 2015. 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

26 March 2015

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 11 to 94 for the period from 1 January 2014 to 31 December 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 based on a going concern concept basis. The Management Report on pages 3 to 5 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
26 March 2015

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 28.03.2014
Alfrēds Čepānis	Vice-chairman of the Council	30.03.1999, reappointed 28.03.2014.
Artemiy Yershov	Member of the Council	28.03.2014, elected

At the shareholder meeting on March 28, 2014, the following changes to the membership of the Council were approved: Igors Buimisters, Alfreds Cepanis were re-elected, and Artemiy Yershov was elected. Accordingly, the Council member Igor Snisarevsky left the post.

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
Edgars Diure	Member of the Board	28.03.2014.

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

During the reporting period Edgars Diure was elected to the Management Board. No other changes to the membership the Board occurred in the reporting period.

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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 11 to 94. Separate financial statements comprise the separate statement of financial position as at 31 December 2014, 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 11 to 94. Consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2014, 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 qualified opinion.

Basis for Qualified Opinion

As disclosed in Note 20 to the financial statements, the Group and the Bank as at 31 December 2014 had loans due from two Ukrainian banks with the carrying amount of EUR 11.9 million. These banks became insolvent during February and March of 2015 respectively. In our view, these are conditions that indicate that the loans may be impaired. International Financial Reporting Standard IAS 39 *Financial Instruments* requires that, where such indications exist, management makes a formal estimate of the recoverable amount of loans and receivables and any impairment loss is recognized immediately. As described in Note 20, these loans due from banks were exchanged in 2015 for rights to property under construction. The Bank has prepared an impairment assessment of the above loans as at 31 December 2014, and has concluded that no further impairment to the carrying value of the assets as at 31 December 2014 has occurred. The assumptions used in the impairment assessment are sensitive to the estimates used to assess the recoverable value of property under construction, the Bank's title (ownership), the assumptions used to estimate the fair value of a completed asset and to the uncertainty associated with predicting the outcome of future events in Ukraine. We have been unable to satisfy ourselves with respect to the assumptions the Bank used and, accordingly, are unable to satisfy ourselves as to the recoverability of the amount of the loans. As a result, we were not able to determine whether any adjustments might have been found necessary in respect of loans due from banks as at 31 December 2014, and the elements making up the statements of comprehensive income, statements of changes in equity and reserves and statements of cash flows for the year then ended.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph above, the separate financial statements give a true and fair view of the financial position of TRASTA KOMERCBANKA AS as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph above, 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 2014, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without further 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 financial position as at and for the year ended 31 December 2014. The outcome of these events is uncertain. We also draw attention to Note 2 subsection 24 of the separate and consolidated financial statements which further describes assumptions of the Bank and the Group in relation to the material uncertainty in relation to the Bank's and Group's ability to continue as a going concern in the light of capital adequacy requirements and financial performance of the Bank and the Group.

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 5, 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.

Furthermore, we have reviewed the corporate management report prepared by the Bank for the year ended 31 December 2014. In our opinion, corporate management report entails the information required in section 56.[2] third paragraph clause 1 of the Law on Financial Instruments Market.

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

Inga Lipšāne
Sworn Auditor
Certificate No 112

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

In thousands of euro	Note	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Interest income	3	9 019	12 948	9 008	13 102
Interest expense	4	(2 744)	(3 359)	(2 744)	(3 359)
Net interest income		**6 275**	**9 589**	**6 264**	**9 743**
Loan impairment loss, net	12	(17 135)	(10 304)	(16 990)	(9 744)
Net interest gain after allowance for impairment		**(10 860)**	**(715)**	**(10 726)**	**(1)**
Commission income	5	12 366	15 767	12 281	15 720
Commission expense	6	(1 327)	(2 450)	(1 324)	(2 442)
Net commission income		**11 039**	**13 317**	**10 957**	**13 278**
Net gain/(loss) from trading financial assets	7	1 264	552	1 264	552
Realised gain from available-for-sale financial assets		(67)	-	(67)	-
Net gain from foreign currency trading and revaluation	8	1 381	2 905	1 798	2 888
(Loss)/gain from equity accounted investee	25, (3)	(1 429)	(319)	-	-
Other income	9	592	1 423	184	147
Other non-interest income		**1 741**	**4 561**	**3 179**	**3 587**
Salaries and benefits expenses	10	(8 777)	(8 274)	(8 416)	(7 921)
Other business administrative expenses	11	(4 711)	(4 173)	(4 897)	(4 367)
Depreciation and amortisation	24	(898)	(931)	(888)	(919)
Other expenses		(625)	(1 057)	(530)	(824)
Other impairment reversal/(loss), net		(589)	(279)	(1 194)	(238)
Other non-interest expense		**(15 600)**	**(14 714)**	**(15 925)**	**(14269)**
Profit/(loss) before corporate income tax		**(13 680)**	**2 449**	**(12 515)**	**2 595**

The notes on pages 19 to 94 are an integral part of these financial statements.

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

In thousands of euro	Note	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Income tax expense	13	(329)	(911)	(238)	(744)
Profit/(loss) for the year		**(14 009)**	**1 538**	**(12 753)**	**1 851**
Other comprehensive income:					
Available for sale financial asset revaluation		127	(94)	127	(94)
Change in foreign currency translation reserve and other reserves		(7 104)	(1 147)	-	-
Total comprehensive income/(loss)		**(20 986)**	**297**	**(12 626)**	**1757**

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Profit/(loss) for the year, incl.:	**(14 009)**	***1 538***	**(12 753)**	***1 851***
Attributable to equity holders of the Bank	*(13 660)*	*1 608*	*(13 753)*	*1 851*
Attributable to non-controlling interest	*(349)*	*(70)*	*-*	*-*
Total comprehensive income/(loss), incl.:	**(20 986)**	***297***	**(12 626)**	***1 757***
Attributable to equity holders of the Bank	*(18 818)*	*666*	*(12 626)*	*1 757*
Attributable to non-controlling interest	*(2 168)*	*(369)*	*-*	*-*

The notes on pages 19 to 94 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
26 March 2015

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

In thousands of euro	Note	The Group		The Bank	
		2014	2013	2014	2013
ASSETS					
Cash and balances due from the Bank of Latvia	15	8 817	88 927	8 817	88 927
Due from credit institutions with a maturity of less than 3 months	16	270 665	127 207	270 614	127 187
On demand		*184 375*	*112 347*	*184 324*	*112 327*
Other		*86 290*	*14 860*	*86 290*	*14 860*
Held for trading financial assets		1 557	2 244	1 557	2 244
Fixed income securities	17, (1)	*1 557*	*2 187*	*1 557*	*2 187*
Derivatives	18	-	*57*	-	*57*
Available for sale financial assets		132 999	25 484	132 999	25 484
Fixed income securities	19, (1)	*132 955*	*25 440*	*132 955*	*25 440*
Equity shares and other non-fixed income securities	19, (2)	*44*	*44*	*44*	*44*
Due from credit institutions with a maturity of more than 3 months	20	20 652	11 989	20 652	11 989
Loans	21	87 477	102 590	98 826	113 436
Income tax assets	13, (3)	9	9	9	-
Accrued income and deferred expenses	22	293	246	252	242
Other non-current assets	23	10 091	10 349	4 061	3 911
Property and equipment	24	10 369	10 946	10 314	10 905
Intangible assets	24	366	313	365	312
Investment in share capital of subsidiaries	25	-	-	14 849	15 443
Investment in equity accounted investee	25, (3)	9 755	18 559	-	-
Deferred tax assets	13, (4)	579	579	403	403
Other assets	26	20 504	17 247	17 393	14 627
TOTAL ASSETS		**574 133**	**416 689**	**581 111**	**415 110**

The notes on pages 19 to 94 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
26 March 2015

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

In thousands of euro	Note	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
LIABILITIES					
Due to the Bank of Latvia		3 742	-	3 742	-
Due to credit institutions	27	6 405	5 604	6 405	5 604
On demand		*2 204*	*5 487*	*2 204*	*5 487*
Term deposits		*4 201*	*117*	*4 201*	*117*
Held for trading financial liabilities	18	5	-	5	-
Derivatives		*5*	-	*5*	-
Due to customers	28	500 203	335 459	500 223	335 481
On demand		*476 343*	*294 327*	*476 363*	*294 349*
Term deposits		*23 860*	*41 132*	*23 860*	*41 132*
Accrued expenses and deferred income	29	1 092	965	1 051	953
Income tax liabilities	13, (3)	1	37	-	14
Other liabilities	30	2 565	3 256	2 430	2 915
Liabilities before subordinated liabilities		**514 013**	**345 321**	**513 856**	**344 967**
Subordinated liabilities	31	25 334	15 596	25 334	15 596
Total liabilities		**539 347**	**360 917**	**539 190**	**360 563**
EQUITY AND RESERVES					
Share capital	32, (1)	20 642	20 642	20 642	20 642
Share premium		158	158	158	158
Reserve capital and other reserves	32, (2)	6 229	6 229	5 412	5 412
Revaluation and retranslation reserves	19	(4 832)	326	148	21
Retained earnings		10 109	23 769	15 561	28 314
Equity and reserves attributable to shareholders of the Bank		**32 306**	**51 124**	**41 921**	**54 547**
Non-controlling interest		2 480	4 648	-	-
Total equity and reserves		**34 786**	**55 772**	**41 921**	**54 547**
TOTAL LIABILITIES AND EQUITY AND RESERVES		**574 133**	**416 689**	**581 111**	**415 110**

The notes on pages 19 to 94 are an integral part of these financial statements.

On behalf of the management,

P. Buimisters

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
26 March 2015

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

(1) The Group

In thousands of euro	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 2012	**20 642**	**158**	**6 205**	**115**	**1 177**	**22 161**	**50 458**	**5 017**	**55 475**
Net profit for the year	-	-	-	-	-	*1 608*	*1 608*	*(70)*	*1 538*
Other comprehensive income (loss)	-	-	*24*	*(94)*	*(872)*	-	*(942)*	*(299)*	*(1 241)*
Total comprehensive income	-	-	24	(94)	(872)	1 608	666	(369)	297
BALANCE AS AT 31 DECEMBER 2013	**20 642**	**158**	**6 229**	**21**	**305**	**23 769**	**51 124**	**4 648**	**55 772**
Net loss for the year	-	-	-	-	-	*(13 660)*	*(13 660)*	*(349)*	*(14 009)*
Other comprehensive income (loss)	-	-	-	*127*	*(5 285)*	-	*(5 158)*	*(1 819)*	*(6 977)*
Total comprehensive income	-	-	-	127	(5 285)	(13 660)	(18 818)	(2 168)	(20 986)
BALANCE AS AT 31 DECEMBER 2014	**20 642**	**158**	**6 229**	**148**	**(4 980)**	**10 109**	**32 306**	**2 480**	**34 786**

The notes on pages 19 to 94 are an integral part of these financial statements.

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 euro	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 year	-	-	-	-	*1 851*	*1 851*
Other comprehensive income	-	-	-	*(94)*	-	*(94)*
Total comprehensive income	-	-	-	(94)	1 851	1 757
BALANCE AS AT 31 DECEMBER 2013	**20 642**	**158**	**5 412**	**21**	**28 314**	**54 547**
Net loss for the year	-	-	-	-	*(12 753)*	*(12 753)*
Other comprehensive loss	-	-	-	*127*	-	*127*
Total comprehensive income	-	-	-	127	(12 753)	(12 626)
BALANCE AS AT 31 DECEMBER 2014	**20 642**	**158**	**5 412**	**148**	**15 561**	**41 921**

The notes on pages 19 to 94 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
26 March 2015

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

In thousands of euro	**Note**	**The Group**		**The Bank**	
		2014	**2013**	**2014**	**2013**
Cash flows arising from operations:					
Profit/(loss) before corporate income tax		(13 680)	2 449	(12 515)	2 595
Depreciation and amortisation	24	898	931	888	919
Increase in allowance for impairment of loans	12	17 055	9 343	16 910	8 782
Foreign currency revaluation profit/(loss)		1 836	(797)	1 145	(820)
Changes in other provisions		530	279	594	243
Financial assets revaluation (profit)/loss		312	(1 251)	903	(1 251)
Gain on disposal of other non-current assets	9	(174)	(1 178)	-	-
Loss from investment in equity accounted investee		1 429	319	-	-
Loss on disposal of property and equipment		25	16	25	16
Net cash flows from operating activities before changes in assets and liabilities		**8 231**	**10 111**	**7 950**	**10 484**
Decrease in held for trading financial assets, net		766	223	766	223
Increase in due from credit institutions		(9 526)	(367)	(9 526)	(367)
(Increase)/decrease in loans		(3 190)	5 478	(3 548)	10 336
Decrease in accrued income and deferred expense		-	26	37	27
Increase in other assets		(2 252)	(870)	(1 825)	(1 108)
(Increase)/decrease in due to credit institutions		7 826	(340)	7 826	(340)
(Decrease)/increase in due to customers		164 744	(17 840)	164 742	(18 042)
(Decrease)/increase in accrued expenses and deferred income		127	(1 080)	98	(1 053)
Decrease in other liabilities		(515)	(1 217)	(309)	(960)
Net cash flows (used in)/from operating activities before tax		**166 211**	**(5 876)**	**166 211**	**(800)**
Income tax paid		(365)	(297)	(261)	(276)
Net cash flows from/(used in) operating activities		**165 846**	**(6 173)**	**165 950**	**(1 076)**
Cash flows arising from investing activities:					
Purchase of property and equipment and intangible assets		(374)	(470)	(350)	(452)
Decrease/(increase) in available for sale financial assets		(107 388)	10 154	(107 388)	10 154
Sale of investments in share capital of subsidiaries		-	-	3	-
Purchase of other non-current assets		(150)	(186)	(150)	(185)
Proceeds from sale of other non-current assets		582	5 117	-	-
Net cash flows (used in)/from investing activities		**(107 330)**	**14 615**	**(107 885)**	**9 517**

The notes on pages 19 to 94 are an integral part of these financial statements.

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

In thousands of euro	Note	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Cash flows arising from/(used in) financing activities:					
Subordinated debt issue		1 480	3 372	1 480	3 372
Subordinated debt repayment		(2 623)	(581)	(2 623)	(581)
Debt securities issuance		10 047	-	10 047	-
Net cash flows from/(used in) financing activities		**8 904**	**2 791**	**8 904**	**2 791**
Increase in cash and cash equivalents		**67 420**	**11 233**	**66 969**	**11 232**
Cash and cash equivalents at the beginning of the year		**210 647**	**198 789**	**210 627**	**198 772**
Foreign exchange effect		**(789)**	**625**	**(369)**	**623**
Cash and cash equivalents at the end of the year	**36**	**277 278**	**210 647**	**277 227**	**210 627**

The notes on pages 19 to 94 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
26 March 2015

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 separate and consolidated financial statements were approved by the Board of the Bank on 25 March 2015 and by the Council of the Bank on 26 March 2015. According to the legislation of the Republic of Latvia these separate and consolidated 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.

Certain new IFRSs became effective for the Group from 1 January 2014. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

***IFRS 10 Consolidated Financial Statements** (2011).* IFRS 10 (2011) requires a change in accounting policy for determining whether the Group has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2014. There are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).

IFRS 11 Joint Arrangements. Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. According to IFRS 11 the Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, is 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, is to be equity-accounted. The adoption of this standard did not have material effect on Group accounts.

IFRS 12: Disclosure of Interests in Other Entities. IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures as applicable have been expanded (refer to Note 25).

Amendments to ***IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets***. Disclosures as applicable have been expanded.

Other amendments to standards

Amendments to ***IAS 32 on Offsetting Financial Assets and Financial Liabilities*** have no material impact on these financial statements.

Amendments to ***IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting*** have no material impact on these financial statements.

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)

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. However, the Group did not complete the assessment of the impact of these standards. The Group does not plan to adopt these standards early.

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

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

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

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(3) Consolidation principles

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from is involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. The data on subsidiaries of the Bank is provided in Note 25.

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 euro**. All amounts in the financial statements are specified in **thousands of euro** 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).

The Group's interests in equity-accounted investees comprise investments in associates. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Such investments are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, these individual financial statements include the Group's share of the profit or loss and other comprehensive income of associates on an equity-accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealized gains arising from transactions with associates are eliminated against the investment to the extent Company's share in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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.

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 euro using the official European Central Bank exchange rates at the period end. Transactions denominated in foreign currencies are translated into the functional currency (euro) using the official European Central Bank exchange rate on the date of the transaction. To arrive at the exchange rates for currencies that European Central Bank 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:

		31.12.2014	31.12.2013
EUR 1 =	USD	1.2141	1.3647
	GBP	0.7789	0.8337
	RUB	72.3370	45.0515
	UAH	19.1412	11.2809

__Foreign operations__

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into EUR at exchange rates set by European Central Bank at the reporting date as described above. The income and expenses of foreign operations are translated into EUR 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 item using quoted price in an active market for that item. 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 and recievables 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

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

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(7) 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 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 and measurement 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.

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.

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

Financial assets accounting and assessment

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 (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 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 and may not decrease the value of investment below 0.

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

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.

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

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred 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 20 and 21), fair value of financial instruments (note 38), recoverability of long-term project costs (note 26), recognition of deferred tax assets (note 13), recoverability of investment in subsidiaries (note 25), consideration on going concern (note 2, section 24), effects from adverse developments in Ukraine (note 2, section 25), .

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

As part of the annual supervision program, at the end 2014 the Financial and Capital Market Commission recalculated individual capital adequacy and liquidity ratios of banks by reference to the operational directions and customer structures of these banks. According to these calculations, the Bank was required to maintain an individual capital adequacy ratio of 10.5% which jointly with the capital reserve of 2.5% of total exposures calculated according to the relevant Parliament and Council Regulation amounts to a capital adequacy ratio of 13%, and the Bank was also required to maintain an individual liquidity ratio of 60%. During 2014, the Bank maintained the individual capital adequacy ratio above 10.5% and the liquidity ratio above 60%. The average actual capital adequacy ratio of the Bank in 2014 was 14.49%, which reduced to 10.50 % as at 31 December 2014, to a significant extent due to the impact of the regulatory treatment of the exposures described in Note 41 (2), and the average liquidity ratio was 74.11%, which increased to 80.24% as at 31 December 2014. For details on the capital adequacy evaluation and the actual capital adequacy position please refer to Note 41 (2) and for the actual liquidity position to Note 41 (4).

The Bank is required to be achieve the above individual capital adequacy ratio of 13% by 1 July 2015. The Group and Bank have significant exposures to Ukraine (refer to note (25) below), which have contributed to the Group and Bank operating with a loss in 2014. Overall, these factors contributed to material going concern uncertainty. To that end, at the end of 2014 the management developed and submitted to the Financial and Capital Market Commission a plan to increase capital adequacy, which foresees a number of options, including issue of subordinated bonds in the amount of EUR 10 million and restructuring of risk-weighted assets like reinvestment of cash equivalents in correspondent banks in the amount from EUR 20 to 80 million into assets with 20% or 0% risk weight classes, e.g, government bonds of USA, Germany and France. Based on the results of the previous bond emission, the Bank's management are of the opinion that the issue of new subordinated bonds will be successful. The measures of this plan will ensure that the Bank is in compliance with the set capital adequacy ratio by 1 July 2015. In addition, the Bank plans to increase its operational activity by working pro-actively with its clients, improving its services and developing technologies as well as opening new export markets for its customers. Information on the completed and planned activities of the Bank has been provided in the Management report included in the Annual report.

As a result, these consolidated and stand-alone financial statements for the year ended 31 December 2014 were prepared on the going concern basis consistently applying the International Financial Reporting Standards as adopted by the European Union.

(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. Ukraine's political and economic situation remains tense and heavy. 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. 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.

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

2 ACCOUNTING POLICIES AND ASSESSMENT PRINCIPALS (continued)

(25) Ukrainian Business Environment note (continued)

In 2014, the economy of Ukraine fell by 6.9%, and it is expected to continue the downturn in 2015, too. However, it should be mentioned that in 2009, as a result of the world crisis, the decline was 14.8%, about the same as in Latvia (14.2%) which experienced serious problems in the financial sector and whose economy survived only because of external financing from international institutions, including the IMF. On March 11, 2015, the IMF Council approved a support programme for Ukraine in the amount of 17.5 billion. USD (Latvia received a total of EUR 4.5 billion EUR). If the ceasefire reached in the east of Ukraine on February 15, 2015 is not disrupted and the political stability (political party "Poroshenko block" is still the most popular in Ukraine) is achieved, there is hope that by 2016 Ukraine's economic problems will be solved, though partly.

Whilst management believes it is taking appropriate measures to ensure 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. In addition, the Group's management, in assessing the credit portfolio exposure, has calculated that a reduction in the credit exposure cash flow by 10% may require recognition of additional provisions in the amount of EUR 706 thousand and conversely, the improvement of the situation and increase in the cash flow by 10% would allow reversing provisions already made in the amount of EUR 706 thousand.
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. These assets constitute Real estate property held for sale position in Other assets caption (See note 26).

(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 euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013

3 INTEREST INCOME

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Due from other credit institutions	1 513	1 777	1 513	1 777
Loans to customers	6 694	10 323	6 683	10 477
Incl. from impaired loans to customers	*1 776*	*3 458*	*1 776*	*3 458*
Debt securities	793	632	793	632
Incl. trading debt securities	*565*	*391*	*565*	*391*
Incl. available-for sale debt securities	*228*	*241*	*228*	*241*
Other interest income	19	216	19	216
	9 019	**12 948**	**9 008**	**13 102**

4 INTEREST EXPENSE

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Due to customers	(629)	(1 400)	(629)	(1 400)
Payments in deposit guarantee fund	(829)	(778)	(829)	(778)
Due to other credit institutions	(47)	(6)	(47)	(6)
Subordinated debt	(1 028)	(1 063)	(1 028)	(1 063)
Debt securities issued	(53)	-	(53)	-
Other interest expense	(158)	(112)	(158)	(112)
	(2 744)	**(3 359)**	**(2 744)**	**(3 359)**

5 FEE AND COMMISSION INCOME

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Money transfers	7 282	10 232	7 288	10 236
Securities operations	2 874	3 492	2 874	3 492
Management (trust) operations	1 091	931	1 091	931
Travellers cheques and credit cards	467	390	467	390
Current account servicing	379	296	379	296
Cash operations	101	138	101	138
Letters of credit	13	20	13	20
Guarantees	7	8	7	8
Other commission income	152	260	61	209
	12 366	**15 767**	**12 281**	**15 720**

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

In thousands of euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013

6 FEE AND COMMISSION EXPENSE

Money transfers	(762)	(1 487)	(762)	(1 487)
Securities operations	(25)	(569)	(25)	(569)
Credit cards	(274)	(213)	(274)	(213)
Cash operations	(74)	(91)	(74)	(91)
Other commission expense	(192)	(90)	(189)	(82)
	(1 327)	**(2 450)**	**(1 324)**	**(2 442)**

7 NET GAIN/(LOSS) FROM TRADING FINANCIAL ASSETS

(Loss)/profit from trading, net	1 117	(371)	1 117	(371)
Profit/(loss) from revaluation, net	147	923	147	923
	1 264	**552**	**1 264**	**552**

8 NET GAIN FROM FOREIGN CURRENCY TRADING AND REVALUATION

Profit from trading, net	2 170	2 281	2 167	2 265
Gain/(loss) from foreign currency revaluation, net	(789)	624	(369)	623
incl. spot revaluation, net	*(387)*	*302*	*(387)*	*302*
incl. forward revaluation, net	*(61)*	*(7)*	*(61)*	*(7)*
	1 381	**2 905**	**1 798**	**2 888**

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

9 OTHER INCOME

The other 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 euro	The Group		The Bank	
	2014	2013	2014	2013

10 SALARIES AND BENEFITS EXPENSES

Wages and salaries	(7 325)	(6 778)	(7 027)	(6 496)
Council	*(498)*	*(243)*	*(498)*	*(243)*
Board	*(782)*	*(740)*	*(737)*	*(710)*
Other	*(6 045)*	*(5 795)*	*(5 792)*	*(5 543)*
Social security contributions	(1 425)	(1 491)	(1 357)	(1 428)
Council	*(26)*	*(60)*	*(26)*	*(60)*
Board	*(75)*	*(190)*	*(65)*	*(184)*
Other	*(1 324)*	*(1 241)*	*(1 266)*	*(1 184)*
Change in provisions for unused annual holidays and bonuses	(27)	(5)	(32)	3
Board	*-*	*(16)*	*4*	*(17)*
Other	*(27)*	*11*	*(36)*	*20*
	(8 777)	**(8 274)**	**(8 416)**	**(7 921)**
Council	***(524)***	***(303)***	***(524)***	***(303)***
Board	***(857)***	***(946)***	***(798)***	***(911)***
Other	***(7 396)***	***(7 025)***	***(7 094)***	***(6 707)***

Average number of employees in the reporting period	**314**	**293**	**281**	**263**
Employee category				
Managers	71	71	63	63
Other	243	222	281	200
	314	**293**	**281**	**263**

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

In thousands of euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013

11 OTHER BUSINESS ADMINISTRATIVE EXPENSES

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Rent	(883)	(848)	(787)	(773)
Maintenance expenses	(673)	(578)	(662)	(575)
Communications	(339)	(394)	(322)	(376)
Travel and entertainment	(349)	(312)	(332)	(304)
Professional services	(341)	(267)	(291)	(260)
Advertising and representation	(378)	(263)	(373)	(258)
Insurance	(169)	(154)	(164)	(149)
Non-deductible value added tax [1]	(65)	(145)	(64)	(145)
Audit services	(100)	(134)	(70)	(115)
Security	(109)	(100)	(109)	(100)
Low - value inventory	(26)	(21)	(24)	(21)
Sponsorship	(44)	(20)	(44)	(20)
Other administrative expenses	(1 235)	(937)	(1 655)	(1 271)
	(4 711)	**(4 173)**	**(4 897)**	**(4 367)**

12 LOAN IMPAIRMENT LOSS, NET

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Allowance for loans, assessed individually	(17 240)	(10 939)	(17 087)	(10 370)
Allowance for loans, assessed collectively, net	(18)	3	(18)	3
Release of individual allowance	123	632	115	623
	(17 135)	**(10 304)**	**(16 990)**	**(9 744)**

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

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Allowance as of 1 January	**21 149**	**18 877**	**19 645**	**16 912**
Additional ***individual*** allowance	17 240	10 939	17 087	10 370
Net change in collective impairment	18	(3)	18	(3)
Release of ***individual*** allowances	(123)	(632)	(115)	(623)
Interest on loans, which are recognized as impaired	(621)	(872)	(621)	(872)
Write-off of loans	(12 881)	(7 070)	(12 864)	(6 049)
Effect of the foreign exchange	541	(90)	541	(90)
Allowance as of 31 December (Notes 20,21)	**25 323**	**21 149**	**23 691**	**19 645**
*Incl.allowance for loans, **assessed individually***	*25 265*	*21 098*	*23 633*	*19 594*
*Incl.allowance for loans, **assessed collectively***	*58*	*51*	*58*	*51*

In the reporting period the collectively assessed loans were reclassified to individual loans with the amount of allowance of 7.5 thousand euro (2013: 5.4 thousand euro.

The amount of impairment allowance for related parties is disclosed in Note 37.

In thousands of euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013

13 INCOME TAX EXPENSE

(1) Income tax expense

Corporate income tax of the reporting year	(52)	(104)	(22)	(77)
Income tax paid abroad	(277)	(243)	(216)	(212)
Change in deferred tax (Note 13, (4))	-	(564)	-	(455)
Total	**(329)**	**(911)**	**(238)**	**(744)**

(2) Reconciliation of accounting profit to tax charge

Profit/(loss) before taxation	**(13 680)**	**2 449**	**(12 515)**	**2 595**
Current tax rate	15%	15%	15%	15%
Expected tax charge	2 052	(367)	1 877	(389)
Deferred tax recoverability assessment effect	(1 719)	-	(1 730)	-
Tax effect of non-deductable expenses	(662)	(544)	(385)	(355)
Total	**(329)**	**(911)**	**(238)**	**(744)**
Effective tax rate	**(2.41%)**	**37.19%**	**(1.90%)**	**28.67%**

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

Corporate income tax (assets)/liabilities as of 1 January	**28**	**(21)**	**14**	**1**
Corporate income tax paid for previous years	(37)	(1)	(14)	-
Tax adjustment paid in the previous year	(9)	(1)	(9)	(1)
Repayment of overpaid tax	9	23	-	-
Corporate income tax of the reporting year	52	104	22	77
Corporate income tax of the reporting year paid in advance	(51)	(76)	(22)	(63)
Corporate income tax (assets)/liabilities as of 31 December	**(8)**	**28**	**(9)**	**14**
incl. tax assets	*(9)*	*(9)*	*(9)*	*-*
incl. tax liabilities	*1*	*37*	*-*	*14*

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 assessed 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 euro	2014			2013		
	Assets	Liabilities	Net value	Assets	Liabilities	Net value
Held for trading financial assets	-	(1)	(1)	-	(9)	(9)
Property and equipment	-	(436)	(436)	-	(428)	(428)
Other assets	-	(67)	(67)	-	(55)	(55)
Other liabilities	75	-	75	71	-	71
The accumulated tax losses	2 727	-	2 727	1 000	-	1 000
Not recognized tax	(1 719)	-	(1 719)	-	-	-
	1 083	**(504)**	**579**	**1 071**	**(492)**	**579**

The Bank

In thousands of euro	2014			2013		
	Assets	Liabilities	Net value	Assets	Liabilities	Net value
Held for trading financial assets	-	(1)	(1)	-	(9)	(9)
Property and equipment	-	(436)	(436)	-	(428)	(428)
Other assets	-	(67)	(67)	-	(55)	(55)
Other liabilities	70	-	70	68	-	68
The accumulated tax losses	2 567	-	2 567	827	-	827
Not recognized tax	(1 730)	-	(1 730)	-	-	-
	907	**(504)**	**403**	**895**	**(492)**	**403**

The accumulated tax losses are tax losses calculated according to corporate income tax returns. According to the Republic of Latvia legislation, the Bank is entitled to cover these losses from the profit of the future reporting years until the losses are fully settled. The Bank considers that the economic situation in the country and in the world is fairly unstable and by applying the prudence principle the Bank has decided not to recognise a deferred tax arising from current year's losses in the amount of 1,730 thousand euro. Whilst based on longer term forecasts (5 years) the Bank will be able to utilize the full tax benefits in full, management decided to leave the net deferred tax asset unchanged from prior year (403 thousand euro). Total available tax losses as of 31 December 2014 amount to 17 118 thousand euro (2013: 6 338 thousand euro)

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

In thousands of euro	The Group		The Bank	
	2014	2013	2014	2013

14 OTHER PAID TAXES AND FEES

Personal income tax of employees	1 616	1 468	1 568	1 423
Employer state social insurance obligatory payments (Note 10)	1 425	1 491	1 357	1 428
Non-deductible value added tax (Note 11)	65	145	64	145
Employees state social insurance obligatory payments	630	669	616	656
Taxes paid abroad (Note 13., (1))	277	243	216	212
	4 013	**4 016**	**3 821**	**3 864**

15 CASH AND BALANCES DUE FROM THE BANK OF LATVIA

Balances due from the Bank of Latvia	7 318	87 445	7 318	87 445
Cash	1 499	1 482	1 499	1 482
	8 817	**88 927**	**8 817**	**88 927**

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 2014 and 2013 the Bank was compliant with the requirements.

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

Due from credit institutions registered in the Republic of Latvia	13 404	2 734	13 404	2 734
Due from credit institutions registered in foreign countries	257 261	124 473	257 210	124 453
	270 665	**127 207**	**270 614**	**127 187**

[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 8 000 thousand euro, which serves as collateral for foreign exchange and securities transactions (2013: 9 468 thousand euro).

As at 31 December 2014 and 2013 the Group had 2 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 2014 and 2013 were 58 905 thousand euro and 42 666 thousand euro, respectively.

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

In thousands of euro	The Group		The Bank	
	2014	2013	2014	2013

17 HELD FOR TRADING SECURITIES

Held for trading debt securities and other fixed income securities

Investment amount of debt securities	1 520	2 286	1 520	2 286
Unrealised losses on debt securities, net	37	(99)	37	(99)
	1 557	**2 187**	**1 557**	**2 187**

All investments in debt securities and other securities with fixed income have been made in securities listed on 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)	**-**	**57**	**-**	**57**
Liabilities (negative fair value)	**(5)**	**-**	**(5)**	**-**

Notional principal value of foreign currency forwards

Assets (due from)	**590**	**845**	**590**	**845**
Liabilities (due to)	**(595)**	**(788)**	**(595)**	**(788)**

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 euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013

19 AVAILABLE FOR SALE FINANCIAL ASSETS

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

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Investment amount of government debt securities [1]	132 591	24 951	132 591	24 951
Government debt securities revaluation profit, net	224	34	224	34
	132 815	**24 985**	**132 815**	**24 985**
Investment amount of debt securities of other institutions	216	468	216	468
Revaluation losses of debt securities of other institutions, net	(76)	(13)	(76)	(13)
	140	**455**	**140**	**455**
Total	**132 955**	**25 440**	**132 955**	**25 440**

[1] The available for sale debt securities include the amount of 4,060 thousand euros (2013: none), which serves as security for Bank of Latvia refinancing transactions.

The Government debt securities portfolio of 2014 includes debt securities issued by Latvian, Austrian, Finland, Poland, Italian and U.S. state governments (2013: Latvian and U.S. states). The debt securities portfolio of other institutions includes the debt securities of Latvian company (2013: 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

	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
Investments in equity shares and other non-fixed income securities	44	44	44	44
	44	**44**	**44**	**44**

By the end of the reporting year, this position represents the investment in *SWIFT* (2013: *SWIFT*).

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

In thousands of euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013

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

Due from credit institutions registered in foreign countries [2]	21 515	11 989	21 515	11 989
	21 515	**11 989**	**21 515**	**11 989**
Allowance for due from credit institutions, assessed individually (Note 12)	**(863)**	**-**	**(863)**	**-**
Net	**20 652**	**11 989**	**20 652**	**11 989**

[1]The claims on credit institutions are included in this item according to original maturity of agreements.

[2] This item includes, among others, claims on two Ukrainian banks Nadra bank and Deltabank for a total of EUR 12.8 million. In February and March 2015, the banks were found to be insolvent and their insolvency administrators were appointed. In order to ensure its claims and recover the money, the Bank carried out transactions to replace the claims on the aforementioned banks with the title to unfinished construction sites in the centre of Kiev city for a total of EUR 11.9 million. The Bank has made provisions for the difference between the amount of claims and the acquisition cost. The transactions were accounted based on the assessment of the current market value. In the management's opinion, the concluded transactions will ensure the recovery of funds and therefore assumes that the dues from credit institutions are stated at recoverable value.

According to the law of Ukraine on bankruptcy, the insolvency administrators of the mentioned banks have the right to challenge any transactions made during the year prior to insolvency. To assess the risk, the Bank has carried out an independent legal assessment according to which lawyers after examining the submitted transaction documents have concluded that there are no grounds for declaring the transactions invalid.

However, taking into account the current situation in Ukraine and keeping in mind the precautionary principle, Bank has made adjustments to the capital adequacy calculation (reduction) in the amount of 10 467 thousand EUR (2013: 0 EUR)

21 LOANS

(1) Classification of loan balance by customer groups:

Non-financial corporations	87 702	100 203	78 670	91 979
Households	16 232	18 231	15 825	17 925
Loans to financial institutions	6 251	3 066	25 446	21 054
Loans to employees	1 752	2 239	1 713	2 123
Gross loans	**111 937**	**123 739**	**121 654**	**133 081**
Allowance for loans, ***assessed individually*** (Note 12)	(24 402)	(21 098)	(22 770)	(19 594)
Allowance for loans, ***assessed collectively*** (Note 12)	(58)	(51)	(58)	(51)
Net loans	**87 477**	**102 590**	**98 826**	**113 436**

By the end of the reporting year the total amount of the Bank's doubtful loans is thousand euro 38 272 including loans which have expired – 23 450 thousand euro, restructured loans – 14 665 thousand, loans past due over 30 days – 157 thousand euro (2013: 62 477 thousand euro, including loans which have expired – 19 169 thousand euro , restructured loans – 36 162 thousand euro, loans past due over 30 days – 7 146 thousand euro). 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 12 864 thousand euro (2013: 6 049 thousand euro).

21 LOANS (continued)

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

Private non-financial corporations	16 943	15 037	15 313	13 541
Households	7 517	6 112	7 515	6 104
	24 460	**21 149**	**22 828**	**19 645**

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 2014 and 2013, 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 3 473 thousand euro (as at 31.12.2013. –4 580 thousand euro). 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 recognized impairment allowances in the amounts required by FCMC. According to the FCMC Regulations in such case the Bank had to adjust downward its capital adequacy calculation as at 31 December 2014 for this amount, less the risk-weighting factor, in the amount of 3 131 thousand euro (as at 31.12.2013. – 4 163 thousand euro) (Note 45).

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

In thousands of euro	The Group		The Bank	
	2014	2013	2014	2013

21 LOANS (continued)

(3) Loans principal classification by loan type:

Mortgage loans	32 282	39 331	31 061	39 331
Commercial loans	30 874	32 733	50 069	49 312
Industrial loans	11 470	13 569	11 470	13 569
Finance leasing	8 248	7 211	-	-
Overdrafts	12 796	11 276	12 796	11 276
Consumer loans	377	548	368	522
Factoring	2 181	581	2 181	581
Payment card loans	791	531	791	531
Other	12 918	17 959	12 918	17 959
	111 937	**123 739**	**121 654**	**133 081**

(4) Analysis of loans by industry:

Operations with real estate [1]	19 606	27 986	19 571	27 942
Wholesale and retail	21 774	17 931	19 859	15 758
Mortgage loans to individuals	6 813	7 861	6 813	7 861
Other loans to individuals	9 637	11 168	9 637	11 168
Transport, warehousing and communication	14 189	14 004	12 161	12 686
Financial services	6 251	10 676	25 446	28 662
Manufacturing	18 401	15 686	16 863	15 313
Construction	5 939	6 715	3 850	3 867
Extractive industry	2 273	2 362	2 141	2 122
Agriculture, hunting, wood processing and fishing	1 836	1 737	1 773	1 660
Hotels and restaurants	694	3 183	-	2 489
Consumer loans to individuals	1 534	1 441	1 088	1 019
Other	2 990	2 989	2 452	2 534
	111 937	**123 739**	**121 654**	**133 081**

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

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

In thousands of euro	**The Group**		**The Bank**	
	2014	**2013**	**2014**	**2013**

21 LOANS (continued)

(5) Analysis of collateral [1]:

Apartments, dwelling houses, land	26 465	44 034	26 465	44 034
Commercial real estate	56 438	52 730	56 438	52 730
Current and fixed assets	59 636	60 506	75 897	77 380
Vehicles	29 763	27 419	17 113	18 331
Securities and shares (book value)	4 947	3 416	4 947	3 416
Guarantees	13 118	14 751	13 118	14 751
Deposits placed in the other credit institutions	360	351	360	351
Deposits placed in the Bank (Note 28)	2 349	980	2 349	980
	193 076	**204 187**	**196 687**	**211 973**

[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 contingencies (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	5 481	4 868	-	-
Production equipment	2 203	1 773	-	-
Other assets	564	570	-	-
	8 248	**7 211**	**-**	**-**

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

Present value of minimum lease payments				
Up to 1 year	6 914	5 656	-	-
Over 1 year to 5 years	1 334	1 555	-	-
Over 5 years	-	-	-	-
	8 248	**7 211**	**-**	**-**
Interest income to be received under financial leasing				
Up to 1 year	359	309	-	-
Over 1 year to 5 years	236	101	-	-
Over 5 years	-	-	-	-
	595	**410**	**-**	**-**
Future value of minimum financial leasing payments				
Up to 1 year	7 273	5 965	-	-
Over 1 year to 5 years	1 570	1 656	-	-
Over 5 years	-	-	-	-
	8 843	**7 621**	-	-
Allowance for finance leases	**(1 632)**	**(1 495)**	**-**	**-**

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

In thousands of euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013

22 ACCRUED INCOME AND DEFERRED EXPENSES

Prepayments	224	220	217	216
Other accrued income	81	29	47	29
	305	**249**	**264**	**245**
Impairment allowance	(12)	(3)	(12)	(3)
	293	**246**	**252**	**242**

During the reporting year, the other accrued income was written off in the amount of 2 thousand euro (2013: 1 thousand euro).

23 OTHER NON-CURRENT ASSETS

Land parcels	2 112	2 213	272	249
Finished and unfinished construction costs	7 979	8 126	3 789	3 652
Prepayments for unfinished construction	-	10	-	10
	10 091	**10 349**	**4 061**	**3 911**

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 as a loan settlement. To increase the disposal 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 6 030 thousand euro (in 2013: 6 438 thousand) which the Bank has disposed to a subsidiary within the Group for further resale. 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 45).

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

In thousands of euro

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 2014	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2013	**9 065**	**868**	**2 970**	**2 847**	**1 666**	**17 416**
Additions	7	62	195	12	203	479
Disposals	-	(50)	(245)	-	(8)	(303)
At 31 December 2014	**9 072**	**880**	**2 920**	**2 859**	**1 861**	**17 592**
Accumulated depreciation and amortisation						
At 31 December 2013	**947**	**489**	**2 327**	**1 041**	**1 353**	**6 157**
Charge for the reporting year	191	139	203	216	149	898
Disposals	-	(6)	(185)	-	(7)	(198)
At 31 December 2014	**1 138**	**622**	**2 345**	**1 257**	**1 495**	**6 857**
Net carrying value at 31 December 2013	**8 118**	**379**	**643**	**1 806**	**313**	**11 259**
Net carrying value at 31 December 2014	**7 934**	**258**	**575**	**1 602**	**366**	**10 735**

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	**9 035**	**1 147**	**2 971**	**2 840**	**1 552**	**17 545**
Reclassification						
Additions	30	172	231	7	114	554
Disposals	-	(451)	(232)	-	-	(683)
At 31 December 2013	**9 065**	**868**	**2 970**	**2 847**	**1 666**	**17 416**
Accumulated depreciation and amortisation						
At 31 December 2012	**761**	**733**	**2 269**	**822**	**1 224**	**5 809**
Reclassification						
Charge for the reporting year	186	134	263	219	129	931
Disposals	-	(378)	(205)	-	-	(583)
At 31 December 2013	**947**	**489**	**2 327**	**1 041**	**1 353**	**6 157**
Net carrying value at 31 December 2012	**8 274**	**414**	**702**	**2 018**	**328**	**11 736**
Net carrying value at 31 December 2013	**8 118**	**379**	**643**	**1 806**	**313**	**11 259**

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

In thousands of euro

24 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (continued)

(2) The Bank

Changes in property and equipment and intangible assets in 2014	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2013	**9 065**	**841**	**2 909**	**2 847**	**1 662**	**17 324**
Additions	7	62	112	12	202	395
Disposals	-	(50)	(176)	-	(7)	(233)
At 31 December 2014	**9 072**	**853**	**2 845**	**2 859**	**1 857**	**17 486**
Accumulated depreciation and amortisation						
At 31 December 2013	**947**	**462**	**2 307**	**1 041**	**1 350**	**6 107**
Charge for the reporting year	191	139	194	216	148	888
Disposals	-	(6)	(176)	-	(6)	(188)
At 31 December 2014	**1 138**	**595**	**2 325**	**1 257**	**1 492**	**6 807**
Net carrying value at 31 December 2013	**8 118**	**379**	**602**	**1 806**	**312**	**11 217**
Net carrying value at 31 December 2014	**7 934**	**258**	**520**	**1 602**	**365**	**10 679**

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	**9 035**	**1 120**	**2 923**	**2 840**	**1 549**	**17 467**
Additions	30	172	191	7	112	513
Disposals	-	(451)	(205)	-	-	(656)
At 31 December 2013	**9 065**	**841**	**2 909**	**2 847**	**1 662**	**17 324**
Accumulated depreciation and amortisation						
At 31 December 2012	**761**	**709**	**2 255**	**822**	**1 221**	**5 768**
Charge for the reporting year	186	131	254	219	129	919
Disposals	-	(378)	(202)	-	-	(580)
At 31 December 2013	**947**	**462**	**2 307**	**1 041**	**1 350**	**6 107**
Net carrying value at 31 December 2012	**8 274**	**411**	**668**	**2 018**	**328**	**11 699**
Net carrying value at 31 December 2013	**8 118**	**379**	**602**	**1 806**	**312**	**11 217**

In the reporting period, equipment in the amount of 25 thousand euro was written off (2013: 16 thousand euro).

In thousands of euro

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

Group companies: registration number and address	2014 Investment and participation			2013 Investment and participation		
	Total carrying value of assets	Cost	Cost less impair-ment	Total carrying value of assets	Cost	Cost less impair-ment
SIA TKB Nekustāmie īpašumi	-	-	-	-	3	3
SIA TKB Līzings	18 285	996	-	17 244	996	591
Heckbert C7 Holdings Limited	21 110	14 849	14 849	20 758	14 849	14 849
	39 395	**15 845**	**14 849**	**38 002**	**15 848**	**15 443**

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. The Bank has performed recoverability assessment of investment in subsidiary SIA TKB Līzings and as a result additional impairment losses of 591 thousand EUR were recognized (2013: none).

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

In thousands of euro

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:

	2014	2013
Assets	39 395	38 002
Liabilities	(19 410)	(18 258)
Net assets	**19 985**	**19 744**
Gross income from operating activities	771	572
Loss for the period	(94)	(569)

(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 404 thousand euro which were presented in Bank's separate financial statements. The carrying amount of the remaining part of the investment at the end of 2014 was 14 849 thousand euro (2013: 14 849 thousand euro) and presented as investment in subsidiary.

The investment in Dewon 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. According to the evaluation made, the fair value of Bank's investments ranges between USD 17.3-20.5 million (EUR 14.2- 16.9 million). For the evaluation of its investments, the Bank consistently applies the average range value (which has been the Bank's policy since 2009) which is USD 18.9 million or EUR 15.6 million.

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. As stated above, independent experts' 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 13 661 thousand euro as at 31 December 2014 (as at 31.12.2013 – 13 661 thousand euro (Note 45)).

Report on the financial position of Dewon

	2014				2013			
	100%		25.085%		100%		25.085%	
	UAH	EUR	UAH	EUR	UAH	EUR	UAH	EUR
Assets	1 034 950	54 069	259 617	13 564	1 022 380	90 628	256 464	22 735
Liabilities	(290 686)	(15 186)	(72 918)	(3 809)	(187 849)	(16 652)	(47 122)	(4 176)
Net assets	**744 264**	**38 883**	**186 699**	**9 755**	**834 531**	**73 976**	**209 342**	**18 559**
Gross income from operating activities	208 733	13 170	52 361	3 304	269 164	24 859	67 520	6 236
Profit/(loss) for the period	(90 267)	(5 696)	(22 644)	(1 429)	(13 769)	(1 272)	(3 454)	(319)

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

In thousands of euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013
26 OTHER ASSETS				
Financial assets				
Receivables from brokerage companies	3 191	2 856	3 191	2 856
Spot transactions positive fair value [3]	125	687	125	687
Non-financial assets				
Real estate property held for sale [1]	14 199	11 804	12 118	9 877
Overpaid value added tax	19	47	11	47
Other assets [2]	3 848	2 257	2 892	1 566
	21 382	**17 651**	**18 337**	**15 033**
Impairment allowance	(878)	(404)	(944)	(406)
	20 504	**17 247**	**17 393**	**14 627**

In the reporting year other assets in the amount of 45 thousand euro were written off (2013: 191 thousand euro).

[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 2014 the Group has revalued part of objects to fair value less cost to sell with loss of 454 thousand euro charged to impairment loss caption (2013: 158 thousand euro).
The carrying amount of revalued assets as of 31 December 2014 is 3 823 thousand euro (2013: 299 thousand euro). 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 833 thousand euro (2013: 807 thousand euro), 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)	**125**	**687**	**125**	**687**
Liabilities (negative fair value, Note 30)	**(141)**	**(317)**	**(141)**	**(317)**

Notional principal value of foreign spot transactions				
Assets (due from)	**24 431**	**127 484**	**24 431**	**127 484**
Liabilities (due to)	**(24 447)**	**(127 114)**	**(24 447)**	**(127 114)**

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

In thousands of euro	The Group		The Bank	
	2014	2013	2014	2013

27 DUE TO CREDIT INSTITUTIONS

Credit institutions registered in other countries	6 405	5 487	6 405	5 487
Credit institutions registered in the Republic of Latvia	-	117	-	117
	6 405	**5 604**	**6 405**	**5 604**

Deposits that serve as collateral of the following claims:

Other transactions	4 201	-	4 201	-
	4 201	**-**	**4 201**	**-**

28 DUE TO CUSTOMERS

Non-financial corporations	416 256	266 262	416 256	266 263
Households	76 967	65 205	76 967	65 205
Non-profit institutions serving households	636	659	636	659
Financial institutions	6 311	3 241	6 331	3 262
Local government	33	92	33	92
	500 203	**335 459**	**500 223**	**335 481**

Deposits which serve as collateral for the following claims:

Loans (Note 21, (5))	1 413	586	1 413	586
Unused credit lines (Note 42, (1) and Note 21, (5))	394	350	394	350
Guarantees (Note 33, (2) and 43, (1))	233	44	233	44
Letters of credit (43, (1).Note)	309	-	309	-
Other transactions (card payments)	362	212	362	212
	2 711	**1 192**	**2 711**	**1 192**

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

In thousands of euro

In thousands of euro	**The Group** 2014	**The Group** 2013	**The Bank** 2014	**The Bank** 2013
29 ACCRUED EXPENSES AND DEFERRED INCOME				
Unused holiday and premium pay	505	477	486	452
Other accrued expenses	550	488	528	501
Deferred income	37	-	37	-
	1 092	**965**	**1 051**	**953**
30 OTHER LIABILITIES				
Suspense accounts	1 102	2 289	1 102	2 289
Spot transactions negative fair value (Note 26)	141	317	141	317
Money in transit	1 083	195	1 083	195
Unpaid dividends of previous periods	21	21	21	21
Other liabilities	218	434	83	93
	2 565	**3 256**	**2 430**	**2 915**

In thousands of euro

31 SUBORDINATED LIABILITIES

(1) Subordinated loans

As of 31 December 2014 the balance of subordinated non-convertible liabilities was 15 287 thousand euro (2013: 15 596 thousand euro) with maturities in 2014- 2019.

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2014, Group and the Bank:

Name	Currency of contract	Principal 000'EUR	Book value 000'EUR	Date of origination	Maturity	Interest %
TUAREG HOLDINGS S.A.	USD	2 320	2 368	31.07.2008.	31.07.2015.	12
PERRYCAT LIMITED	USD	2 059	2 031	01.08.2011.	02.08.2016.	5
Other [1]	USD, EUR	10 810	10 888	2008.-2013.	2015.-2019.	4.50-10
TOTAL		**15 189**	**15 287**			

1

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'EUR	Book value 000'EUR	Date of origination	Maturity	Interest %
TUAREG HOLDINGS S.A.	USD	2 065	2 106	31.07.2008.	31.07.2015.	12
TUAREG HOLDINGS S.A.	EUR	669	683	31.07.2008.	31.07.2015.	12
PERRYCAT LIMITED	USD	1 831	1 780	01.08.2011.	02.08.2016.	5
Other [1]	USD, EUR	10 990	11 027	2008.-2013.	2014.-2019.	4.50-10
TOTAL		**15 555**	**15 596**			

[1] Other liabilities include one individual's subordinated liabilities in the amount of 2 013 thousand euro, which exceeds 10% of the total subordinated liabilities amount.

(2) Subordinated issued debt securities

In December 2014, the Bank completed its public offering of subordinated capital bond issued in the amount of EUR 10 million; a total of 10,000 bonds with a nominal value of one bond 1,000 euro. The maturity date of the bonds is December 04, 2021. The bond issue has been registered and included in the debt securities list of NASDAQ OMX Riga. The Bank's issued subordinated liabilities in December 2014 were 10,047 thousand euros (2013: none).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 but no sooner than five years after their issuance or borrowing, and provided that the FCMC does not object to it.

The concluded agreements and Issue prospectus do not foresee any possibility to change subordinated liabilities into investments in equity.

The above mentioned amount of subordinated liabilities is included in Tier 2 capital for the purposes of calculation of the capital adequacy ratio (see Note 45).

In thousands of euro

32 SHARE CAPITAL AND RESERVES

(1) Share capital

The Bank's paid-up share capital on 31 December 2014 was 20 642 thousand euro (2013: 20 642 thousand euro). Due to the euro changeover in Latvia and capital conversion, in March 2014, shareholders approved the capital denomination and the nominal value of new shares. On December 31, 2014, the Bank's paid up share capital consisted of 20,641,316 ordinary voting shares with the nominal value of 1 euro per share (2013: 290,136 shares with the nominal value of 71.14 EUR (50.00 LVL) per share).

The total number of shareholders is 42 (2013: 42), of which 11 (2013: 11) - corporate and 31 (2013: 31) individuals.

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

Shareholder	Country	Shareholding 2014		Shareholding 2013	
		%	EUR'000	%	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 Holding S.A.-SPF	Luxembourg	7.29	1 505	7.29	1 505
Figon Co Limited	Cyprus	3.41	703	3.41	703

(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 5 412 thousand euro (2013: 5 412 thousand euro).The supplementary reserve of EUR 817 thousand at the Group's level occurred as a result of the alienation of uncontrolled share/part in 2012.

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

In thousands of euro	The Group 2014	The Group 2013	The Bank 2014	The Bank 2013

33 COMMITMENTS AND GUARANTEES

(1) Classification of commitments and guarantees

Contingent liabilities	**5 912**	**8 200**	**5 912**	**8 200**
of which guarantees	*448*	*1 293*	*448*	*1 293*
of which rent commitments [1]	*5 464*	*6 251*	*5 464*	*6 251*
of which other contingent liabilities	*-*	*656*	*-*	*656*
Commitments to clients	**13 201**	**13 319**	**15 983**	**14 891**
letters of credit	*309*	*-*	*309*	*-*
of which unused credit lines	*12 286*	*13 308*	*15 068*	*14 880*
of which other liabilities	*606*	*11*	*606*	*11*
Total commitments and guarantees	**19 113**	**21 519**	**21 895**	**23 091**

[1] **Analysis of lease agreements according to remaining validity:**				
Up to 1 year	39	4	39	4
From 1 year up to 5 years	49	172	49	172
Over 5 years	5 376	6 075	5 376	6 075
	5 464	**6 251**	**5 464**	**6 251**
Analysis of lease commitments according to the time bands:				
Up to 1 year	765	791	765	791
From 1 year up to 5 years	2 814	2 877	2 814	2 877
Over 5 years	1 885	2 583	1 885	2 583
	5 464	**6 251**	**5 464**	**6 251**

(2) Analysis of collateral of commitments and guarantees

Guarantees	427	1 078	427	1 078
Deposits placed with the Bank (Note 28)	*233*	*44*	*233*	*44*
Financial insurance	*194*	*913*	*194*	*913*
Apartments, dwelling houses, land	*-*	*121*	*-*	*121*
Current and fixed assets	*-*	*-*	*-*	*-*
	427	**1 078**	**427**	**1 078**

In thousands of euro	The Group		The Bank	
	2014	2013	2014	2013

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	16 044	15 464	16 044	15 464
Due from corporates	40 606	71 509	40 606	71 509
Due from credit institutions	691	1 110	691	1 110
Due from individuals	3 571	110	3 571	110
	60 912	**88 193**	**60 912**	**88 193**

Customer profile on whose behalf the assets are managed

Credit institutions and financial institutions	25 172	68 364	25 172	68 364
Enterprises	35 740	19 829	35 740	19 829
	60 912	**88 193**	**60 912**	**88 193**

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 euro	The Group		The Bank	
	2014	2013	2014	2013
Due from other credit institutions with a maturity of less than 3 months from the date of acquisition	270 665	127 207	270 614	127 187
Cash and balances due from the Bank of Latvia	8 817	88 927	8 817	88 927
Due to other credit institutions with initial maturity of less than 3 months from the date of acquisition	(2 204)	(5 487)	(2 204)	(5 487)
	277 278	**210 647**	**277 227**	**210 627**

In thousands of euro

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 euro	Share-holders	Council and board	Subsi-diaries	Equity accounted investees	Other related parties [1]	Total
		2014				
Assets						
Loans [2]	327	385	-	2 141	3 205	**6 058**
Allowance for loans	*(14)*	*(6)*	-	-	*(1)*	***(21)***
Loans, net	313	379	-	2 141	3 204	**6 037**
Liabilities						
Deposits [3]	18	296	-	-	688	**1 002**
Commitments and guarantees						
Unused credit lines	101	46	-	-	14	**161**
Income statement						
Interest income	22	25	-	240	91	**378**
Fee and commission income	3	1	-	-	3	**7**
Interest expense	-	(1)	-	-	-	**(1)**
Release of impairment/ impairment) of loans	(1)	1	-	-	-	**-**
Other expenses	(91)	(60)	-	(30)	(7)	**(188)**
		2013				
Assets						
Loans [2]	403	394	-	2 122	1 046	**3 965**
Allowance for loans	*(13)*	*(7)*	-	-	(1)	**(21)**
Loans, net	390	387	-	2 122	1 045	**3 944**
Liabilities						
Deposits [3]	13	303	-	-	855	**1 171**
Commitments and guarantees						
Unused credit lines	54	33	-	-	2 211	**2 298**
Income statement						
Interest income	25	24	-	445	31	**525**
Fee and commission income	1	1	-	-	1	**3**
Interest expense	-	(1)	-	-	(1)	**(2)**
Release of impairment/ impairment) of loans	1	1	-	-	-	**2**
Other expenses	(44)	(58)	-	(46)	(14)	**(162)**

[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. 583% to 30% (2013: from 2.79% to 11%).

[3] Related party deposit rates are set from 0.1% to 1.2% (2013: from 0.1% to 1.55%).

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

In thousands of euro

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 euro	Share-holders	Council and board	Subsi-diaries	Equity accounted investees	Other related parties [1]	Total
		2014				
Assets						
Loans [2]	291	385	19 196	2 141	3 205	**25 218**
Allowance for loans	*(14)*	*(6)*	-	-	(1)	***(21)***
Loans, net	277	379	19 196	2 141	3 204	**25 197**
Liabilities						
Deposits [3]	18	296	71	-	688	**1 073**
Commitments and guarantees						
Unused credit lines	101	46	2 782	-	14	**2 943**
Income statement						
Interest income	18	25	868	240	91	**1 242**
Fee and commission income	3	1	6	-	3	**13**
Interest expense	-	(1)	-	-	-	**(1)**
Release of impairment/ impairment) of loans	(1)	1	-	-	-	**-**
Other expenses	(91)	(60)	(524)	(30)	(7)	**(712)**
		2013				
Assets						
Loans [2]	295	394	17 987	2 122	1 046	**21 844**
Allowance for loans	*(13)*	*(7)*	-	-	(1)	***(21)***
Loans, net	282	387	17 987	2 122	1 045	**21 823**
Liabilities						
Deposits [3]	13	303	38	-	855	**1 209**
Commitments and guarantees						
Unused credit lines	54	33	1 574	-	2 211	**3 872**
Income statement						
Interest income	17	24	835	445	31	**1 352**
Fee and commission income	1	1	4	-	1	**7**
Interest expense	-	(1)	-	-	(1)	**(2)**
Release of impairment/ impairment) of loans	1	1	(9)	-	-	**(7)**
Other expenses	(44)	(58)	(387)	(46)	(14)	**(549)**

[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. 583% to 30% (2013: from 2.79% to 11%).

[3] Related party deposit rates are set from 0.1% to 1.2% (2013: from 0.1% to1.55%).

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

In thousands of euro	2014	2013
Apartments, dwelling houses, land	4 419	1 673
Commercial real estate	130	154
Commercial collateral (current and fixed assets)	22 054	24 637
	26 603	**26 464**

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

In thousands of euro

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.

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Financial instruments measured at fair value				
Held for trading financial assets	1 557	1 557	2 244	2 244
Available for sale financial assets	132 999	132 999	25 484	25 484
Financial instruments measured at amortised cost				
Cash and balances due from the Bank of Latvia	8 817	8 817	88 927	88 927
Due from credit institutions with a maturity of less than 3 months	270 614	270 614	127 187	127 187
Due from credit institutions with a maturity of more than 3 months	20 652	20 652	11 989	11 989
Loans	98 826	98 937	113 436	114 967
Other assets	3 316	3 316	3 543	3 543
Total financial assets	**536 781**	**536 892**	**372 810**	**374 341**
LIABILITIES				
Financial instruments measured at fair value				
Held for trading financial liabilities	5	5	-	-
Financial instruments measured at amortised cost				
Due to the Bank of Latvia	3 742	3 742	-	-
Due to credit institutions	6 405	6 629	5 604	5 604
Due to customers	500 223	500 258	335 481	335 587
Subordinated liabilities	25 334	27 047	15 596	16 993
Other liabilities	2 430	2 430	2 915	2 915
Total financial liabilities	**538 139**	**540 111**	**359 596**	**361 099**

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

In thousands of euro

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.

	2014				2013			
	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	1 557	-	-	**1 557**	2 244	-	-	**2 244**
Available for sale financial assets	115 267	17 548	184	**132 999**	10 987	13 997	499	**25 484**
Total financial assets measured at fair value	**116 824**	**17 548**	**184**	**134 556**	**13 231**	**13 997**	**499**	**27 728**
Financial instruments measured at amortised cost								
Loans	-	-	98 826	**98 826**	-	-	113 436	**113 436**
Total financial assets measured at amortised cost	**-**	**-**	**98 826**	**98 826**	**-**	**-**	**113 436**	**113 436**
LIABILITIES								
Financial instruments measured at fair value								
Held for trading financial liabilities	-	5	-	**5**	-	-	-	**-**
Total financial liabilities at fair value	**-**	**5**	**-**	**5**	**-**	**-**	**-**	**-**
Financial instruments measured at amortised cost								
Due to customers	-	-	500 223	**500 223**	-	-	335 481	**335 481**
Subordinated liabilities	-	-	25 334	**25 334**	-	-	15 596	**15 596**
Total financial liabilities at amortised cost	**-**	**-**	**525 557**	**525 557**	**-**	**-**	**351 077**	**351 077**

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

During 2014 there were no reclassifications between fair value hierarchy levels.

In thousands of euro

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	**2014**	**2013**
Balance at 1 January	**499**	**497**
Total gains or losses:	(92)	65
in profit or loss	*(29)*	*64*
in other comprehensive income	*(63)*	*1*
Purchase	-	-
Settlements	(223)	(63)
Balance at 31 December	**184**	**499**

Total gains or losses included in profit or loss relate to securities that are in the Bank's portfolio as at 31 December 2014 and 31 December 2013.

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.

In thousands of euro

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

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

31 December 2014	Latvia	EU	USA	Russia	Ukraine[2]	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	8 817	-	-	-	-	-	8 817
Due from credit institutions with a maturity of less than 3 months	13 404	186 712	27 640	4 386	--	38 471	270 614
Held for trading financial assets	846	215	-	-	-	496	1 557
Available for sale financial assets	17 688	12 345	102 966	-	-	-	132 999
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	11 895	8 757	20 652
Loans	64 622	3 499	-	1 435	11 827	17 443	98 826
Accrued income and deferred expenses	126	96	8	4	1	17	252
Long-term projects costs	4 061	-	-	-	-	-	4 061
Property and equipment	10 278	36	-	-	-	-	10 314
Intangible assets	335	30	-	-	-	-	365
Investments in share capital of subsidiaries	-	-	-	-	14 849	-	14 849
Tax assets	403	9	-	-	-	-	412
Other assets	11 255	5 967	-	9	-	162	17 393
Total assets	**130 983**	**209 540**	**130 829**	**5 834**	**38 572**	**65 347**	**581 111**
LIABILITIES							
Due to the Bank of Latvia	3 742	-	-	-	-	-	3 742
Due to credit institutions	-	270	-	312	-	5 823	6 405
Held for trading financial liabilities	-	5	-	-	-	-	5
Due to customers [1]	44 914	201 040	295	26 245	7 827	219 902	500 223
Accrued expenses and deferred income	944	80	-	-	-	27	1 051
Corporate income tax liabilities	-	-	-	-	-	-	-
Subordinated liabilities	13 294	3 308	-	2 044	2 096	4 592	25 334
Other liabilities	1 155	102	1 002	2	138	31	2 430
Total liabilities	**64 049**	**204 805**	**1 297**	**28 603**	**10 061**	**230 375**	**539 190**
COMMITMENTS AND GUARANTEES							
Contingent liabilities	5 605	254	-	-	-	53	5 912
Commitments to clients	13 955	1 151	-	444	81	352	15 983
Total commitments and guarantees	**19 560**	**1 405**	**-**	**444**	**81**	**405**	**21 895**
Net position as at 31 December 2014	**47 380**	**3 330**	**129 532**	**(23 213)**	**28 430**	**(165 433)**	**20 026**

[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 euro

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

31 December 2013	Latvia	EU	USA	Russia	Ukraine[2]	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	88 927	-	-	-	-	-	88 927
Due from credit institutions with a maturity of less than 3 months	2 734	90 843	12 634	3 739	3	17 234	127 187
Held for trading financial assets	-	680	-	663	-	901	2 244
Available for sale financial assets	14 453	44	10 987	-	-	-	25 484
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	11 881	108	11 989
Loans	66 611	17 746	-	3 412	11 121	14 546	113 436
Accrued income and deferred expenses	116	105	7	1	-	13	242
Long-term projects costs	3 911	-	-	-	-	-	3 911
Property and equipment	10 857	48	-	-	-	-	10 905
Intangible assets	271	41	-	-	-	-	312
Investments in share capital of subsidiaries	594	-	-	-	14 849	-	15 443
Deferred tax assets	403	-	-	-	-	-	403
Other assets	11 099	3 263	-	164	4	97	14 627
Total assets	**199 976**	**112 770**	**23 628**	**7 979**	**37 858**	**32 899**	**415 110**
LIABILITIES							
Due to credit institutions	118	-	-	132	-	5 354	5 604
Held for trading financial liabilities	-	-	-	-	-	-	-
Due to customers [1]	46 358	87 231	351	19 136	2 200	180 205	335 481
Accrued expenses and deferred income	886	67	-	-	-	-	953
Corporate income tax liabilities	-	14	-	-	-	-	14
Subordinated liabilities	2 894	3 083	-	3 906	1 151	4 562	15 596
Other liabilities	2 477	287	18	1	98	34	2 915
Total liabilities	**52 733**	**90 682**	**369**	**23 175**	**3 449**	**190 155**	**360 563**
COMMITMENTS AND GUARANTEES							
Contingent liabilities	6 966	1 113	-	121	-	-	8 200
Commitments to clients	10 121	1 256	-	124	339	3 051	14 891
Total commitments and guarantees	**17 087**	**2 369**	**-**	**245**	**339**	**3 051**	**23 091**
Net position as at 31 December 2013	**130 156**	**19 719**	**23 259**	**(15 441)**	**34 070**	**(160 307)**	**31 456**

[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 euro

40 ANALYSIS OF SEGMENTS

The following analysis of segments is based on the Group's and the Bank's internal reporting forms. Activities of the Group and the Bank are considered as one segment and none of them is singled out separately.

(1) Balance sheet

	The Group		The Bank	
	2014	2013	2014	2013
Cash and balances due from the Bank of Latvia	8 817	88 927	8 817	88 927
Balance from credit institutions	291 778	139 004	291 727	138 984
Loans and receivables	110 826	122 616	120 104	131 515
Fixed income securities	134 261	27 456	134 261	27 456
Shares and other investments	9 799	18 603	15 484	15 487
Fixed assets and intangible assets	10 735	11 259	10 679	11 217
Other assets	34 254	30 489	25 383	21 717
Total assets	**600 470**	**438 354**	**606 455**	**435 303**
Due to the Bank of Latvia	3 740	-	3 740	-
Balances due to banks	6 404	5 602	6 404	5 602
Deposits	515 287	350 794	515 306	350 816
Issued bonds	10 004	-	10 004	-
Other liabilities	4 137	4 787	3 943	4 389
Impairment and accrued liabilities	26 112	21 399	25 137	19 949
Equity	34 786	55 772	41 921	54 547
Total equity and liabilities	**600 470**	**438 354**	**606 455**	**435 303**
Total assets per internal reporting	**600 470**	**438 354**	**606 455**	**435 303**
Reconciling items:				
Impairment[1]	*(26 112)*	*(21 399)*	*(25 137)*	*(19 949)*
Other reconciling items[2]	*(225)*	*(266)*	*(207)*	*(244)*
Total assets per IFRS statements	**574 133**	**416 689**	**581 111**	**415 110**
Total liabilities per internal reporting	**565 684**	**382 582**	**564 534**	**380 756**
Reconciling items:				
Impairment[1]	*(26 112)*	*(21 399)*	*(25 137)*	*(19 949)*
Other reconciling items[2]	*(225)*	*(266)*	*(207)*	*(244)*
Total liabilities per IFRS statements	**539 347**	**360 917**	**539 190**	**360 563**

[1] For internal reporting purposes impairment is shown as a liability and not netted with related assets.

[2] Other reconciling items mostly represent cut-off and classification required by IFRS as adopted by EU.
Information on capital expenditure is disclosed in Note 24.

In thousands of euro

40 ANALYSIS OF SEGMENTS

The following analysis of segments is based on the Group's and the Bank's internal reporting forms.

(2) Income statement

	The Group		The Bank	
	2014	2013	2014	2013
Interest revenue	8 372	11 883	8 361	12 037
Commission revenue	12 392	15 958	12 307	15 911
Profit from trading	2 604	3 459	3 020	3 440
Impairment	783	1 581	775	1 573
Other income	566	1 423	157	147
Total revenues	**24 717**	**34 304**	**24 620**	**33 108**
Interest expenses	2 744	3 359	2 744	3 359
Commission expenses	1 327	2 450	1 324	2 442
Administration expenses[1]	14 416	13 521	14 230	13 467
Tax expenses	329	911	238	744
Impairment	17 886	11 133	18 336	10 579
Other	2 024	1 392	501	666
Total expenses	**38 726**	**32 766**	**37 373**	**31 257**
Loss	**(14 009)**	**1 538**	**(12 753)**	**1 851**

[1] The Bank's administration expenses include depreciation charge in the amount of 888 thousands euro (2013: 919 thousands euro). The Group's administration expenses accordingly include depreciation charge in the amount of 898 thousands euro (2013: 931 thousands euro).

Revenue split by location of the customer

	The Group				The Bank			
	2014		2013		2014		2013	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest revenue	3 019	5 353	3 615	8 268	3 645	4 716[1]	4 177	7 860[1]
Commission revenue	582	11 810	498	15 460	571	11 736[2]	484	15 427[2]
Total income	**3 601**	**17 163**	**4 113**	**23 728**	**4 216**	**16 452**	**4 661**	**23 287**

All non-current assets other than financial instruments are located in Latvia. Additions to non-current assets during year 2014 amounted to EUR 500 thousand (2013: EUR 637 thousand).

[1] This balance sheet item includes interest income which was received from the USA, Cyprus, Bulgaria, Austria, United Kingdom and other countries (2013: the same).

[2] This balance sheet item includes commission income which was received from the United Kingdom, British Virgin Islands, New Zealand, Panama and other countries (2013: the same).

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

41 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.

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 Bank's 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.

The Audit Committee oversees the process of preparation of Bank's financial statements and consolidated financial statements of the Bank's Consolidation Group, including the procedure of audit thereof and elimination of drawbacks identified in the course of audit. The Audit Committee oversees the operational efficiency of the Bank's internal control and risk management system, as well as inspects and oversees the independence of certified auditors under the Law On Sworn Auditors.

(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.

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 from October 01, 2013 to September 30, 2014 was set at a level not lower than 12.76% (2013: 13.66%).The Financial and Capital Market Commission determined from November 01, 2014 the minimum Bank's capital adequacy ratio requirement to be 13%, wich has to be achieved till July 01, 2015. The Bank determined its internal capital adequacy level from December 01, 2014 to be not lower than 13.68%. The required capital adequacy levels in 2014 were basically achieved, with the exception of the situation at the end of December when as a result of special provisions, made for doubtful debts, the capital adequacy ratio declined, becoming below the set level. For the purpose of improving the capital adequacy level, the Bank has developed an Action Plan for strengthening its capital, which is expected to ensure that the required level of capital adequacy is achieved.

In 2014, EU Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms came into force. The provisions of the Regulation have been included in the Credit Institutions Law.

According to the Regulation, credit institutions have to always ensure compliance with the following capital requirements:

Tier I basic capital ratio (tier one basic capital expressed as a percentage of the total value of exposures)	4.5%
Tier I capital ratio (tier one basic capital expressed as a percentage of the total value of exposures)	6%
Total capital ratio (equity, expressed as a percentage of the total value of exposures)	8%
Capital conservation buffer	2.5%
Total individual minimum capital ratio	10.5%

Within the framework of the capital adequacy assessment performed in 2014, 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.

41 RISK CONTROL AND MANAGEMENT (continued)

(2) Capital Adequacy Assessment Process (continued)

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 for the reporting period is provided in the table below:

	2014		2013	
	%	*incl. by applying special requirements*	%	*incl. by applying special requirements*
31 December	21.04	10.50	25.57	17.54
Average for the period	22.15	14.49	23.54	15.46
Highest level	22.90	15.98	25.57	17.54
Lowest level	21.04	10.50	22.04	13.77

(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.

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.

41 RISK CONTROL AND MANAGEMENT (continued)

(4) Liquidity risk (continued)

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 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:

	2014	2013
	%	%
31 December	80.24	78.44
Average for the period	74.11	69.86
Highest level	80.24	78.44
Lowest level	69.99	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).

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 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 for the following groups:

Bank's staff and representatives, Bank's customers, including depositors and borrowers, Bank's shareholders, banking supervisory authorities – the Bank of Latvia, the Financial and Capital Market Commission, the entire society, and the media representatives.

- ✓ 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.

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:

	2014	2013
	%	%
31 December	0.29	6.69
Average for the period	1.86	8.19
Highest level (worse)	3.62	11.09
Lowest level (better)	0.29	5.70

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.

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

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. 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 2014, the Bank made changes to both the organizational structure and the customer approval and monitoring processes. At the beginning of 2014 a new department, Customer Compliance Department, was created. It comprises two subdivisions: Customer Approval Division and Customer Supervisory Division. The Customer approval and monitoring process has become more efficient, and stricter, risk-based customer monitoring methods have been introduced, including also in the bank's foreign branches.

In April 2014, a new member, E. Diure joined the Bank's Management Board. He is directly responsible for the prevention of money laundering and terrorist financing at the Bank and the supervisor of the Customer Compliance Department.

(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 euro

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	
	2014	2013	2014	2013
ASSETS				
Balances due from the Bank of Latvia	7 318	87 445	7 318	87 445
Due from credit institutions with a maturity of less than 3 months	270 665	127 207	270 614	127 187
Held for trading financial assets	1 557	2 244	1 557	2 244
Available for sale financial assets	132 999	25 484	132 999	25 484
Due from credit institutions with a maturity of more than 3 months	20 652	11 989	20 652	11 989
Loans	87 477	102 590	98 826	113 436
Other assets	3 316	3 543	3 316	3 543
TOTAL ASSETS	**523 984**	**360 502**	**536 781**	**371 328**
COMMITMENTS AND GUARANTEES				
Contingent liabilities	448	1 293	448	1 293
Commitments to clients	12 595	13 308	15 377	14 880
TOTAL COMMITMENTS AND GUARANTEES	**13 043**	**14 601**	**15 825**	**16 173**

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 euro

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
		2014		
Balances due from the Bank of Latvia	7 318	-	-	7 318
Due from credit institutions with a maturity of less than 3 months	270 665	-	-	270 665
Held for trading financial assets	1 557	-	-	1 557
Available for sale financial assets	132 999	-	-	132 999
Due from credit institutions with a maturity of more than 3 months	16 340	-	4 312	20 652
Loans [1]	63 298	12 794	11 385	87 477
Other assets	3 316	-	-	3 316
TOTAL ASSETS	**495 493**	**12 794**	**15 697**	**523 984**
Contingent liabilities	448	-	-	448
Commitments to clients	12 595	-	-	12 595
TOTAL COMMITMENTS AND GUARANTEES	**13 043**	**-**	**-**	**13 043**
		2013		
Balances due from the Bank of Latvia	87 445	-	-	87 445
Due from credit institutions with a maturity of less than 3 months	127 207	-	-	127 207
Held for trading financial assets	2 244	-	-	2 244
Available for sale financial assets	25 484	-	-	25 484
Due from credit institutions with a maturity of more than 3 months	11 989	-	-	11 989
Loans [1]	79 816	10 729	12 045	102 590
Other assets	3 543	-	-	3 543
TOTAL ASSETS	**337 728**	**10 729**	**12 045**	**360 502**
Contingent liabilities	1 293	-	-	1 293
Commitments to clients	13 308	-	-	13 308
TOTAL COMMITMENTS AND GUARANTEES	**14 601**	**-**	**-**	**14 601**

[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 euro

42 CREDIT RISK (continued)

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

	By groups of classification	By ratings	Other	Total
		2014		
Balances due from the Bank of Latvia	-	7 318	-	7 318
Due from credit institutions with a maturity of less than 3 months	-	270 665	-	270 665
Held for trading financial assets	-	1 557	-	1 557
Available for sale financial assets	-	132 999	-	132 999
Due from credit institutions with a maturity over than 3 months	-	16 340	-	16 340
Loans [1]	63 298	-	-	63 298
Other assets	-	3 191	125	3 316
TOTAL ASSETS	**63 298**	**432 070**	**125**	**495 493**
Contingent liabilities	448	-	-	448
Commitments to clients	12 595	-	-	12 595
TOTAL COMMITMENTS AND GUARANTEES	**13 043**	**-**	**-**	**13 043**
		2013		
Balances due from the Bank of Latvia	-	87 445	-	87 445
Due from credit institutions with a maturity of less than 3 months	-	127 207	-	127 207
Held for trading financial assets	-	2 244	-	2 244
Available for sale financial assets	-	25 484	-	25 484
Due from credit institutions with a maturity over than 3 months	-	11 989	-	11 989
Loans [1]	79 816	-	-	79 816
Other assets	-	2 856	687	3 543
TOTAL ASSETS	**79 816**	**257 225**	**687**	**337 728**
Contingent liabilities	1 293	-	-	1 293
Commitments to clients	13 308	-	-	13 308
TOTAL COMMITMENTS AND GUARANTEES	**14 601**	**-**	**-**	**14 601**

[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 euro

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
				2014				
Balances due from the Bank of Latvia	-	7 318	-	-	-	-	-	7 318
Due from credit institutions with a maturity of less than 3 months	16 749	152 083	22 499	26	2 457	6	76 845	270 665
Held for trading financial assets	215	772	470	100	-	-	-	1 557
Available for sale financial assets	111 336	19 272	2 207	-	-	-	184	132 999
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	2 990	4 120	9 230	16 340
Other assets	-	693	52	-	244	-	2 202	3 191
Total assets	**128 300**	**180 138**	**25 228**	**126**	**5 691**	**4 126**	**88 461**	**432 070**
				2013				
Balances due from the Bank of Latvia	-	87 445	-	-	-	-	-	87 445
Due from credit institutions with a maturity of less than 3 months	56 666	52 619	842	1 066	-	-	16 014	127 207
Held for trading financial assets	-	522	779	443	443	-	57	2 244
Available for sale financial assets	10 987	-	13 998	-	-	-	499	25 484
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	-	13	11 976	11 989
Other assets	-	47	-	869	-	-	1 940	2 856
Total assets	**67 653**	**140 633**	**15 619**	**2 378**	**443**	**13**	**30 486**	**257 225**

Table of Rating Summary

Quality grade	Moody's Investors Service Ltd		FitchRatings		Standard&Poor's Ratings Services	
	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 euro

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	Over 1 year	Total
			2014			
Private non-financial corporations	725	5 900	3 286	886	100	10 897
Households	346	46	287	373	845	1 897
Total assets	**1 071**	**5 946**	**3 573**	**1 259**	**945**	**12 794**
Collaterals	*4 445*	*10 252*	*3 754*	*2 410*	*1 223*	*22 084*
			2013			
Private non-financial corporations	2 585	2 348	1 797	437	1 574	8 741
Households	323	102	590	-	973	1 988
Total assets	**2 908**	**2 450**	**2 387**	**437**	**2 547**	**10 729**
Collaterals	*3 958*	*3 465*	*2 733*	*423*	*4 979*	*15 558*

(6) Ageing analysis of the Group's impaired assets assessed individually (Note 42, (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
				2014			
Due from credit institutions with a maturity of more than 3 months	5 175	-	-	-	-	-	5 175
Private non-financial corporations	6 304	284	-	-	10 525	7 442	24 555
Households	1 499	-	-	70	-	9 663	11 232
Total assets	**12 978**	**284**	**-**	**70**	**10 525**	**17 105**	**40 962**
Allowance for loans	**(4 559)**	**(105)**	**-**	**(15)**	**(6 843)**	**(13 743)**	**(25 265)**
Total assets, net	**8 419**	**179**	**-**	**55**	**3 682**	**3 362**	**15 697**
Collaterals	*3 435*	*337*	*-*	*74*	*9 764*	*8 912*	*22 522*
				2013			
Private non-financial corporations	12 783	-	-	3 038	3 815	4 119	23 755
Households	620	-	154	-	125	8 489	9 388
Total assets	**13 403**	**-**	**154**	**3 038**	**3 940**	**12 608**	**33 143**
Allowance for loans	**(6 256)**	**-**	**(6)**	**(1 924)**	**(3 096)**	**(9 816)**	**(21 098)**
Total assets, net	**7 147**	**-**	**148**	**1 114**	**844**	**2 792**	**12 045**
Collaterals	*8 894*	*-*	*196*	*707*	*2 103*	*3 638*	*15 538*

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

	2014	2013
Due from credit institutions with a maturity of more than 3 months	4 312	-
Private non-financial corporations	7 613	8 719
Households	3 772	3 326
Total assets	**15 697**	**12 045**

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

In thousands of euro

43 LIQUIDITY RISK

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

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore 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 2014	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	8 817	-	-	-	-	-	-	8 817
Due from credit institutions with a maturity of less than 3 months	269 789	825	-	-	-	-	-	270 614
Held for trading financial assets	11	-	5	2	943	596	-	1 557
Available for sale financial assets	4 142	1 682	79 308	22 485	25 338	-	44	132 999
Due from credit institutions with a maturity of more than 3 months	579	837	10 176	4 942	4 118	-	-	20 652
Loans	12 944	12 321	3 955	20 357	41 484	7 765	-	98 826
Accrued income and deferred expenses	241	-	3	8	-	-	-	252
Long-term projects costs	-	-	-	-	-	-	4 061	4 061
Property and equipment	-	-	-	-	-	-	10 314	10 314
Intangible assets	-	-	-	-	-	-	365	365
Investments in share capital of subsidiaries	-	-	-	-	-	-	14 849	14 849
Tax assets	9	-	-	-	-	-	403	412
Other assets	3 856	-	-	16	-	-	13 521	17 393
Total assets	**300 388**	**15 665**	**93 447**	**47 810**	**71 883**	**8 361**	**43 557**	**581 111**
LIABILITIES								
Due to the Bank of Latvia	-	-	-	-	3 742	-	-	3 742
Due to credit institutions	2 204	-	1	-	4 200	-	-	6 405
Held for trading financial assets	-	-	5	-	-	-	-	5
Due to customers	478 934	6 357	4 234	7 652	3 046	-	-	500 223
Accrued expenses and deferred income	1 014	-	-	27	10	-	-	1 051
Corporate income tax liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	127	-	52	2 955	12 196	10 004	-	25 334
Other liabilities	2 430	-	-	-	-	-	-	2 430
Total liabilities	**484 709**	**6 357**	**4 292**	**10 634**	**23 194**	**10 004**	**-**	**539 190**

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

In thousands of euro

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 2014	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	118	137	560	397	2 815	1 885	-	5 912
*Incl. secured by deposits, placed in the Bank **	*52*	*5*	*162*	*13*	*1*	-	-	*233*
Commitments to clients	15 137	356	-	-	490	-	-	15 983
*Incl. secured by deposits, placed in the Bank **	*394*	*309*	-	-	-	-	-	*703*
Total commitments and guarantees	**15 255**	**493**	**560**	**397**	**3 305**	**1 885**	**-**	**21 895**
Liquidity net position as at 31 December 2014	**(199 130)**	**9 129**	**88 757**	**36 792**	**45 385**	**(3 528**	**43 557**	**20 962**

* 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.

In thousands of euro

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 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	88 927	-	-	-	-	-	-	88 927
Due from credit institutions with a maturity of less than 3 months	126 420	767	-	-	-	-	-	127 187
Held for trading financial assets	18	14	65	-	1 100	1 047	-	2 244
Available for sale financial assets	474	457	7 547	16 771	191	-	44	25 484
Due from credit institutions with a maturity of more than 3 months	23	2 314	9 616	36	-	-	-	11 989
Loans	3 259	17 020	3 903	32 537	40 254	16 463	-	113 436
Accrued income and deferred expenses	231	-	4	7	-	-	-	242
Long-term projects costs	-	-	-	-	-	-	3 911	3 911
Property and equipment	-	-	-	-	-	-	10 905	10 905
Intangible assets	-	-	-	-	-	-	312	312
Investments in share capital of subsidiaries	-	-	-	-	-	-	15 443	15 443
Deferred tax assets	-	-	-	-	-	-	403	403
Other assets	3 543	-	-	-	-	-	11 084	14 627
Total assets	**222 895**	**20 572**	**21 135**	**49 351**	**41 545**	**17 510**	**42 102**	**415 110**
LIABILITIES								
Due to credit institutions	5 487	-	-	117	-	-	-	5 604
Held for trading financial assets	-	-	-	-	-	-	-	-
Due to customers	298 712	6 460	5 3876	21 283	3 640	-	-	335 481
Accrued expenses and deferred income	953	-	-	-	-	-	-	953
Corporate income tax liabilities	-	-	14	-	-	-	-	14
Subordinated liabilities	96	-	9	75	13 415	2 001	-	15 596
Other liabilities	2 915	-	-	-	-	-	-	2 915
Total liabilities	**308 163**	**6 460**	**5 409**	**21 475**	**17 055**	**2 001**	**-**	**360 563**

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

In thousands of euro

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 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	723	172	602	1 123	2 997	2 583	-	8 200
Incl. secured by deposits, placed in the Bank	*-*	*40*	*-*	*-*	*4*	*-*	*-*	*44*
Commitments to clients	14 880	11	-	-	-	-	-	14 891
Incl. secured by deposits, placed in the Bank	*350*	*-*	*-*	*-*	*-*	*-*	*-*	*350*
Total commitments and guarantees	**15 603**	**183**	**602**	**1 123**	**2 997**	**2 583**	**-**	**23 091**
Liquidity net position as at 31 December 2012	**(100 521)**	**13 969**	**15 124**	**26 753**	**21 497**	**12 926**	**42 102**	**31 850**

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

In thousands of euro

43 LIQUIDITY RISK (continued)

The cash flow of each subsidiary company of the Bank is managed individually by the Bank management. Therefore the table given below contains an analysis of the expected future cash flow 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.

(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 2014	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 the Bank of Latvia	-	-	-	-	3 763	-	3 763	3 742
Due to credit institutions	2 204	42	43	85	4 321	-	6 695	6 405
Due to customers	478 895	6 484	4 383	7 966	3 271	-	500 999	500 223
Accrued expenses and deferred income	1 051	-	-	-	-	-	1 051	1 051
Subordinated liabilities	243	109	597	4 079	16 815	11 300	33 143	25 334
Corporate income tax liabilities	-	-	-	-	-	-	-	-
Other liabilities	2 289	-	-	-	-	-	2 289	2 289
Total non-derivative financial liabilities	**484 682**	**6 635**	**5 023**	**12 130**	**28 170**	**11 300**	**547 940**	**539 044**
Derivative financial liabilities								
Forward foreign exchange receivable								
Inflow	-	-	*(590)*	-	-	-	*(590)*	*(590)*
Outflow	-	-	*595*	-	-	-	*595*	*595*
Spot foreign exchange								
Inflow	*(11 815)*	-	-	-	-	-	*(11 815)*	*(11 815)*
Outflow	*11 956*	-	-	-	-	-	*11 956*	*11 956*
Total derivative financial liabilities	141	-	5	-	-	-	146	146
COMMITMENTS AND GUARANTEES								
Contingent liabilities	118	137	560	397	2 815	1 885	5 912	5 912
Commitments to clients	15 137	356	-	-	490	-	15 983	15 983
Total commitments and guarantees	**15 255**	**493**	**560**	**397**	**3 305**	**1 885**	**21 895**	**21 895**
Total as at 31 December 2014	**500 078**	**7 128**	**5 588**	**12 527**	**31 475**	**13 185**	**569 981**	**561 085**

[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 euro

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 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	5 487	-	-	118	-	-	5 605	5 604
Due to customers	298 674	6 525	5 484	21 558	3 728	-	335 969	335 481
Accrued expenses and deferred income	953	-	-	-	-	-	953	953
Subordinated liabilities	148	125	289	626	15 932	2 129	19 249	15 596
Corporate income tax liabilities	-	-	14	-	-	-	14	14
Other liabilities	2 598	-	-	-	-	-	2 598	2 598
Total non-derivative financial liabilities	**307 860**	**6 650**	**5 787**	**22 302**	**19 660**	**2 129**	**364 388**	**360 246**
Derivative financial liabilities								
Forward foreign exchange receivable								
Inflow	-	-	-	-	-	-	-	-
Outflow	-	-	-	-	-	-	-	-
Spot foreign exchange								
Inflow	*(42 578)*	-	-	-	-	-	*(42 578)*	*(42 578)*
Outflow	*42 895*	-	-	-	-	-	*42 895*	*42 895*
Total derivative financial liabilities	**317**	**-**	**-**	**-**	**-**	**-**	**317**	**317**
COMMITMENTS AND GUARANTEES								
Contingent liabilities	723	172	602	1 123	2 997	2 583	8 200	8 200
Commitments to clients	14 880	11	-	-	-	-	14 891	14 891
Total commitments and guarantees	**15 603**	**183**	**602**	**1 123**	**2 997**	**2 583**	**23 091**	**23 091**
Total as at 31 December 2013	**323 780**	**6 833**	**6 389**	**23 425**	**22 657**	**4 712**	**387 796**	**383 654**

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

In thousands of euro

44 MARKET RISK

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

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

31 December 2014	EUR	USD	Other currencies	Total
ASSETS				
Cash and balances due from the Bank of Latvia	8 226	576	15	8 817
Due from credit institutions with a maturity of less than 3 months	82 672	181 469	6 473	270 614
Held for trading financial assets	599	958	-	1 557
Available for sale financial assets	14 529	118 470	-	132 999
Due from credit institutions with a maturity of more than 3 months	2 990	17 662	-	20 652
Loans	60 283	38 542	1	98 826
Accrued income and deferred expenses	228	24	-	252
Long-term projects costs	4 061	-	-	4 061
Property and equipment	10 314	-	-	10 314
Intangible assets	365	-	-	365
Investments in share capital of subsidiaries	14 849	-	-	14 849
Tax assets	412	-	-	412
Other assets	12 789	2 985	1 619	17 393
Total assets	**212 317**	**360 686**	**8 108**	**581 111**
Spot foreign exchange receivable	**6 328**	**10 210**	**7 893**	**24 431**
LIABILITIES				
Due to the bank of Latvia	3 742	-	-	3 742
Due to credit institutions	4 508	1 623	274	6 405
Held for trading financial liabilities	5	-	-	5
Due to customers	147 455	346 695	6 073	500 223
Accrued expenses and deferred income	1 016	35	-	1 051
Corporate income tax liabilities	-	-	-	-
Subordinated liabilities	18 179	7 155	-	25 334
Other liabilities	388	1 830	212	2 430
Total liabilities	**175 293**	**357 338**	**6 559**	**539 190**
Spot foreign exchange payable	**1 281**	**14 330**	**8 836**	**24 447**

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

In thousands of euro

44 MARKET RISK (continued)

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

31 December 2014	EUR	USD	Other currencies	Total
Net forward position	**-**	**590**	**(595)**	**(5)**
Net position as at 31 December 2013				
Net amount of the long/(short) position	**42 071**	**(182)**	**11**	**41 900**
Net position	**-**	**(182)**	**11**	**(171)**
% of regulatory capital	**-**	**(0.31)**	**0.02**	**(0.29)**
COMMITMENTS AND GUARANTEES				
Contingent liabilities	5 912	-	-	5 912
Commitments to clients	12 230	3 753	-	15 983
Total commitments and guarantees	**18 142**	**3 753**	**-**	**21 895**

In thousands of euro

44 MARKET RISK (continued)

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

31 December 2013	LVL	EUR	USD	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	22 291	65 814	805	17	88 927
Due from credit institutions with a maturity of less than 3 months	-	13 701	107 636	5 850	127 187
Held for trading financial assets	57	337	1 850	-	2 244
Available for sale financial assets	10 867	3 630	10 987	-	25 484
Due from credit institutions with a maturity of more than 3 months	-	-	11 989	-	11 989
Loans	4 130	65 759	43 547	-	113 436
Accrued income and deferred expenses	185	18	38	1	242
Long-term projects costs	3 911	-	-	-	3 911
Property and equipment	10 857	48	-	-	10 905
Intangible assets	271	41	-	-	312
Investments in share capital of subsidiaries	25	-	15 418	-	15 443
Deferred tax assets	403	-	-	-	403
Other assets	10 697	246	2 874	810	14 627
Total assets	**63 694**	**149 594**	**195 144**	**6 678**	**415 110**
Amounts receivable under spot foreign exchange transactions	**-**	**20 075**	**80 529**	**26 880**	**127 484**
LIABILITIES					
Due to credit institutions	-	122	5 480	2	5 604
Held for trading financial liabilities	-	-	-	-	-
Due to customers	9 640	96 326	219 491	10 024	335 481
Accrued expenses and deferred income	813	118	18	4	953
Corporate income tax liabilities	-	14	-	-	14
Subordinated liabilities	730	8 514	6 352	-	15 596
Other liabilities	414	1 355	1 042	104	2 915
Total liabilities	**11 597**	**106 449**	**232 383**	**10 134**	**360 563**
Amounts payable under spot foreign exchange transactions	**-**	**61 669**	**42 901**	**22 544**	**127 114**

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

In thousands of euro

44 MARKET RISK (continued)

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

31 December 2013	LVL	EUR	USD	Other currencies	Total
Net forward position	**-**	**-**	**845**	**(788)**	**57**
Net position as at 31 December 2012					
Net amount of the long/(short) position	**52 097**	**1 551**	**1 234**	**92**	**54 974**
Net position	**-**	**1 551**	**1 234**	**92**	**2 877**
% of regulatory capital	**-**	**3.61**	**2.87**	**0.21**	**6.69**
COMMITMENTS AND GUARANTEES					
Contingent liabilities	6 155	2 038	7	-	8 200
Commitments to clients	860	11 009	3 022	-	14 891
Total commitments and guarantees	**7 015**	**13 047**	**3 029**	**-**	**23 091**

In thousands of euro

44 MARKET RISK (continued)

(2) Analysis of the Bank's exposure to currency risks

	2014			2013		
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	(9)	(8)	+5	61	53
Other	+5	1	1	+5	4	4
		(8)	**(7)**		**65**	**57**

	2014			2013		
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	9	(8)	-5	(61)	(53)
Other	-5	(1)	(1)	-5	(4)	(4)
		(8)	**(7)**		**(65)**	**(57)**

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

	2014			2013		
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	-50	630	172	-12.5	102	87
EUR	-5	7	(9)	-25	(98)	(70)
		637	**163**		**4**	**17**

	2014			2013		
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	+50	(630)	(172)	+12.5	(102)	(87)
EUR	+5	(7)	9	+25	98	70
		(637)	**(163)**		**(4)**	**(17)**

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 2014 and 31 December 2013 is multiplied by expected change in interest rates expressed as basis points.

In thousands of euro

45 CALCULATION OF CAPITAL ADEQUACY

		Group		Bank	
		2014	2013	2014	2013
NR	**Title of position**				
1.	**Own funds** (1.1.+1.2.)	**49 130**	**63 566**	**58 192**	**62 763**
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	32 346	55 017	41 408	54 214
1.1.1.	Common equity tier 1 capital	32 346	55 017	41 408	54 214
1.1.2.	Additional tier 1 capital	-	-	-	-
1.2.	Tier 2 capital	16 784	8 549	16 784	8 549
2.	Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	**269 790**	**250 576**	**276 579**	**245 439**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	231 243	214 613	239 538	212 588
2.2.	Total risk exposure amount for settlement/delivery	-	-	-	-
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	3 132	9 175	1 950	6 513
2.4.	Total risk exposure amount for operational risk	35 415	26 788	35 091	26 338
2.5.	Total risk exposure amount for credit valuation adjustment	-	-	-	-
2.6.	Total risk exposure amount related to large exposures in the trading book	-	-	-	-
2.7.	Other risk exposure amounts	-	-	-	-
3.	**Capital ratios and capital levels**	-	-	-	-
3.1.	CET 1 capital ratio (1.1.1./2.*100)	11.99	21.96	14.97	22.09
3.2.	Surplus (+)/Deficit (-) of CET 1 capital (1.1.1.-2.*4.5%)	20 205	43 741	28 962	43 169
3.3.	Tier 1 capital ratio (1.1./2.*100)	11.99	21.96	14.97	22.09
3.4.	Surplus (+)/ deficit (-) of Tier1 capital (1.1.-2.*6%)	16 159	39 982	24 813	39 488
3.5.	Total capital ratio (1./2.*100)	18.21	25.37	21.04	25.57
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	27 547	43 520	36 066	43 128
4.	**Combined buffer requirement**				
4.1.	Capital conservation buffer (%)	2.5		2.5	
4.2.	Institution specific countercyclical capital buffer (%)	-	-	-	-
4.3.	Systemic risk buffer (%)	-	-	-	-
4.4.	Systemical important institution buffer (%)	-	-	-	-
4.5.	Other Systemically Important Institution buffer (%)	-	-	-	-

Thousands of euro

45 CAPITAL ADEQUACY CALCULATION (continuation)

		Group		Bank	
		2014	2013	2014	2013
5.	**Capital ratios due to Pillar II adjustments**				
5.1.	Own funds requirements related to Pillar II adjustments	(20 282)	(21 236)	(29 159)	(19 724)
5.2.	CET1 capital ratio including Pillar II adjustments	8.23	16.89	9.70	17.54
5.3.	Tier 1 capital ratio including Pillar II adjustments	8.23	16.89	9.70	17.54
5.4.	Total capital ratio including Pillar II adjustments	10.69	16.89	10.50	17.54

[1] Information about this deduction for the Bank is provided in Notes 20, 21,23 and 25.

46 SUBSEQUENT EVENTS

After the end of the reporting period until the publication date of this report no significant events occurred that would affect the information reflected in this report except as disclosed in Note 21.

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