AS "SMP Bank"

Bank Separate and Group Consolidated
Financial Statements
for the year ended 31 December 2013

CONTENTS

MANAGEMENT REPORT

Dear customers, partners and shareholders,

With great satisfaction the Board of AS SMP Bank announces the end of the year 2013.

2013 was a particularly significant year for the Latvian financial sector and national economic growth in general, as on 1 January 2014 Latvia joined the European monetary union which will provide new economic development opportunities of a far greater scope. The expected amount of foreign investments, a business-friendly environment supported by laws and regulations harmonised with the European Union and a well-considered national tax policy form the basis of forecasts of stable long-term economic development.

At the same time, there are several economic development trends that might have an adverse impact on the macroeconomic processes in the country. Although the economic growth forecast for the Eurozone in 2014 has been increased, that for the main cooperation partners of Latvia (Russia, Estonia and Finland) has been reduced significantly. The decline of external trade was caused by the reduced external demand in the markets of our partner countries; however, export volumes from Latvia to global markets continued growing, though at a slower pace than in the previous years. Latvia's export outlook is expected to take a turn for the better as the economic situation in Europe gradually stabilizes while the ability to raise efficiency will remain one of the top challenges.

The financial services sector of the country, abandoned by a number of market players during the reporting year, has in general demonstrated stable development and profitability indices. Banks have successfully implemented the most significant part of the measures related to the adoption of euro. At the same time, competitiveness in the financial services market has dictated the need for a continuous development of the range of financial services, and regulations that have stiffened significantly after joining the Eurozone have introduced higher standards for the management of risks inherent to banking operations.

In this dynamic environment, AS "SMP Bank" consistently continued its operations, organic growth, and successfully entered the financial circulation of the Eurozone, involved in the payment systems, ensured regulatory compliance and expanded its network of correspondent relations by opening, inter alia, financial instruments accounts with Deutsche Bank AG and a current account with AS DNB banka.

These results prove the Bank's ability to work in line with the strategy. It is our familiarity with the demand on regional and international financial markets coupled with a well-considered risk management strategy, effective use of own resources and high customer service standards that allowed the Bank to achieve during the reporting period a growth of assets by 28%, an increase of the investment portfolio by 27% and an increase of the credit portfolio by 6% testifying to the Bank's ability to attract financial resources and invest them in successful projects. In addition, the Bank significantly increased the number of customers (by 15%), ranking it among top ten banks in Latvia by the number of customers.

The Bank's operating strategy is aimed at both achieving good performance indicators characterized by invariable growth and making optimum use of the opportunities presented by the current economic situation. The Bank continued increasing its service availability in Latvia and Lithuania, filling the gaps left by the credit institutions who left the financial services market. The network of customer service centres in Latvia expanded and new service centres were opened in Lithuania.

Specific attention is paid by the Bank to the implementation of financial services that are based on modern technologies in order to make the services more accessible, faster and cheaper. A good example is automatic payments that enable customers to save time and resources when they make payments for public utilities and various state duties and taxes. Payment card services now include also VISA cards, as during the reporting period the Bank qualified for the status of VISA principal member. Significant improvements were also made to the security of payment card transactions by implementing new security solutions (ACQ and ISS) that intend to strengthen the protection of customer financial resources against the possible fraudulent transactions.

On behalf of the Bank's management I would like to express gratitude to our customers for whom the Bank would always be an experienced and reliable partner. We highly appreciate the support provided by our shareholders and loyalty of our partners, which is key to a successful and long-term cooperation for growth.

On behalf of the Management of the Bank

Best regards

Svetlana Dzene
Chairperson of the Board
19 March 2014

INFORMATION ON THE BANK'S MANAGEMENT

Council members as of the date of signing these financial statements

Name, Surname	Position	Date of Appointment
Dmitry Kalantyrskiy	Chairman of the Council	12 October 2006
Artem Obolenskiy	Member of the Council	12 October 2006
Andris Dzenis	Member of the Council	12 November 2006
Arkady Rotenberg	Member of the Council	12 October 2006
Boris Rotenberg	Member of the Council	12 October 2006

There were no changes in the Council in 2013.

Board members as of the date of signing these financial statements

Name, Surname	Position	Date of Appointment
Svetlana Dzene	Chairperson of the Board	28 September 1995
Maija Treija	Board Member	18 July 2005
Natālija Prohorova	Board Member	10 March 1995
Ivars Lapiņš	Board Member	19 March 1999
Sergejs Golubčikovs	Board Member	27 June 2005
Dmitrijs Kozlovs	Board Member	22 October 2010
Irina Cibuļonoka	Board Member	8 November 2011
Ilze Pudiste	Board Member	15 February 2013

STATEMENT OF THE BANK'S MANAGEMENT RESPONSIBILITY

AS SMP Bank (hereinafter – Bank) management is responsible for preparation of the Bank's separate and consolidated financial statements of the Bank and its subsidiary AS SMP Finance (hereinafter – Group).

The financial statements on pages 8 to 65 are prepared based on source documents and present fairly the financial position of the Bank and the Group as at 31 December 2013 and the results of its operations, and cash flows for the year ended 31 December 2013.

The Consolidated and Bank financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. Appropriate accounting policies have been applied on a consistent basis. In the preparation of the financial statements the Management has made prudent and reasonable judgements and estimates.

The management of AS "SMP Bank" are responsible for the maintenance of a proper accounting system, safeguarding the Group's and Bank's assets, and prevention and detection of fraud and other irregularities in the Group and Bank. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Supervisory Council and Management Board:

D. Kalantyrskiy
Chairman of the Council

S. Dzene
Chairperson of the Board

19 March 2014

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Independent Auditors' Report

To the shareholders of AS SMP Bank

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS SMP Bank ("the Company"), which comprise the separate statement of financial position as at 31 December 2013, the separate statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 65. We have also audited the accompanying consolidated financial statements of AS SMP Bank and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 65.

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 separate and consolidated financial statements are free of material misstatement.

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

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

Opinion

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

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

Report on Other Legal and Regulatory Requirements

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

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp
KPMG Baltics SIA
Riga, Latvia
19 March 2014

Irēna Sarma
Sworn Auditor
Certificate No 151

BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Cash and balance due from the Bank of Latvia	6	36,857	36,857	23,534	23,534
Demand deposits with credit institutions	7	80,122	80,122	47,397	47,397
Held to maturity investments	8	29,477	29,477	27,375	27,375
Loans and receivables		82,712	89,770	80,355	86,340
Loans and term deposits due from credit institutions	9	*3,459*	*3,459*	*5,025*	*5,025*
Loans to customers	10	*79,253*	*86,311*	*75,330*	*81,315*
Financial assets held for trading:		15	15	26	26
Non fixed-income securities		*15*	*15*	*26*	*26*
Property and equipment	11	882	834	826	759
Investment property	12	5,536	-	4,372	-
Other assets	13	3,570	1,926	2,674	763
Total assets		**239,171**	**239,001**	**186,559**	**186,194**

The accompanying notes on pages 13 to 65 form an integral part of these Bank Separate and Group Consolidated financial statements.

The Bank Separate and Group Consolidated financial statements as set out on pages 8 to 65 were authorised for issue by Management Board and Supervisory Council on 19 March 2014.

D. Kalantyrskiy
Chairman of the Council

S. Dzene
Chairperson of the Board

BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES	Note	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Due to credit institutions on demand	14	28	28	94	94
Financial liabilities at amortized cost:		209,781	209,785	165,715	165,715
Deposits	15	*205,115*	*205,119*	*161,671*	*161,671*
Subordinated liabilities	16	*4,666*	*4,666*	*4,044*	*4,044*
Other liabilities	17	14,747	14,569	9,366	8,814
Deferred tax liability	26	24	24	24	24
Corporate income tax		-	-	105	105
Provisions	18	108	107	107	106
Total Liabilities		**224,688**	**224,513**	**175,411**	**174,858**
Capital and reserves					
Share capital	19	11,006	11,006	9,006	9,006
Share premium on share issue		182	182	182	182
Reserves	19	105	105	105	105
Retained earnings		3,275	3,195	1,921	2,043
Total equity, attributable to Group equity holders		**14,568**	**14,488**	**11,214**	**11,336**
Non controlling interest		**(85)**	**-**	**(66)**	**-**
Total capital and reserves		**14,483**	**14,488**	**11,148**	**11,336**
Total capital, reserves and liabilities		**239,171**	**239,001**	**186,559**	**186,194**
Contingent liabilities and commitments	30	**7,365**	**7,365**	**8,875**	**8,875**

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D. Kalantyrskiy
Chairman of the Council

S. Dzene
Chairperson of the Board

BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Interest income	20	4,044	3,814	3,859	3,837
Interest expense	21	(1,238)	(1,238)	(1,530)	(1,530)
Net interest income		**2,806**	**2,576**	**2,329**	**2,307**
Fee and commission income	22	3,794	3,792	3,231	3,226
Fee and commission expense	23	(800)	(800)	(620)	(620)
Net commission income		**2,994**	**2,992**	**2,611**	**2,606**
Gain on trading with financial instruments, net	24	1,979	1,983	2,015	2,028
Other operating expenses		188	13	-	-
Other operating expenses		(125)	(52)	(20)	(30)
Net operating income		**7,842**	**7,512**	**6,935**	**6,911**
Administrative expenses	25	(4,871)	(4,724)	(4,353)	(4,147)
Net impairment allowance expense	10	(1,452)	(1,452)	(1,281)	(1,282)
Profit before tax		**1,519**	**1,336**	**1,301**	**1,482**
Corporate income tax	26	(184)	(184)	(191)	(191)
Profit for the reporting period		**1,335**	**1,152**	**1,110**	**1,291**
Attributable to:					
Shareholders of the Bank		*1,354*	*1,152*	*1,202*	*1,291*
Non-controlling interest		*(19)*	-	*(92)*	-
Total comprehensive income		**1,335**	**1,152**	**1,110**	**1,291**
Attributable to:					
Shareholders of the Bank		*1,354*	*1,152*	*1,202*	*1,291*
Non-controlling interest		*(19)*	-	*(92)*	-

The accompanying notes on pages 13 to 65 form an integral part of these Bank Separate and Group Consolidated financial statements.

The Bank Separate and Group Consolidated financial statements as set out on pages 8 to 65 were authorised for issue by Management Board and Supervisory Council on 19 March 2014.

D. Kalantyrskiy
Chairman of the Council

S. Dzene
Chairperson of the Board

BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2013

Group LVL'000	Attributable to Equity Holders of the Bank						
	Share capital	Share premium on share issue	Reserves	Retained earnings	Total Equity Attributable to Equity holders of the Bank	Non controlling interest	
As at 31 December 2011	**8,006**	**182**	**105**	**719**	**9,012**	**26**	**9,038**
Total comprehensive income							
Profit for the year	-	-	-	1,202	1,202	(92)	**1,110**
Increase in share capital	1,000	-	-	-	1,000	-	**1,000**
As at 31 December 2012	**9,006**	**182**	**105**	**1,921**	**11,214**	**(66)**	**11,148**
Total comprehensive income							
Profit for the year	-	-	-	1,354	**1,354**	(19)	**1,335**
Transactions with shareholders recorded in equity							
Increase in share capital	2,000	-	-	-	2,000	-	**2,000**
As at 31 December 2013	**11,006**	**182**	**105**	**3,275**	**14,568**	**(85)**	**14,483**

Bank LVL'000	Share capital	Share premium on share issue	Reserves	Retained earnings	
As at 31 December 2011	**8,006**	**182**	**105**	**752**	**9,045**
Total comprehensive income					
Profit for the year	-	-	-	1,291	**1,291**
Increase in share capital	1,000	-	-	-	**1,000**
As at 31 December 2012	**9,006**	**182**	**105**	**2,043**	**11,336**
Total comprehensive income					
Profit for the year	-	-	-	1,152	**1,152**
Transactions with shareholders recorded in equity					
Increase in share capital	2,000	-	-	-	**2,000**
As at 31 December 2013	**11,006**	**182**	**105**	**3,195**	**14,488**

The accompanying notes on pages 13 to 65 form an integral part of these Bank Separate and Group Consolidated financial statements.

The Bank Separate and Group Consolidated financial statements as set out on pages 8 to 65 were authorised for issue by Management Board and Supervisory Council on 19 March 2014.

D. Kalantyrskiy
Chairman of the Council

S. Dzene
Chairperson of the Board

BANK SEPARATE AND GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flows from operating activities	Note	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Profit before corporate income tax		1,519	1,336	1,301	1,482
Depreciation		277	258	239	218
Increase of impairment allowance		1,452	1,452	1,281	1,282
Depreciation of investment property		79	-	69	-
Increase in cash and cash equivalents used in operating activities before changes in operating assets and liabilities		**3,327**	**3,046**	**2,890**	**2,982**
Due from credit institutions (term over 3 months)		77	77	830	830
Loans to customers		(5,375)	(6,448)	(6,127)	(8,407)
Shares and other securities with non-fixed income		11	11	9	9
Latvian government bonds with fixed income		(1,192)	(1,192)	831	831
Fixed income debt securities		(910)	(910)	(22,155)	(22,155)
Decrease /(increase) in other assets		(896)	(1,163)	(2,346)	(509)
(Increase)/Decrease in other assets held for sale		-	-	373	-
Increase in deposits		43,444	43,448	31,491	31,479
(Decrease)/increase in other liabilities		5,277	5,651	6,395	6,001
Cash and its equivalents from operating activities before tax		**43,763**	**42,520**	**12,191**	**11,061**
Corporate income tax		(184)	(184)	(191)	(191)
Cash and its equivalents from operating activities after tax		**43,579**	**42,336**	**12,000**	**10,870**
Cash flow from investing activities					
Property purchased and other property, plant and equipment		(333)	(333)	(322)	(302)
Purchase of investment property		(1,243)	-	(1,110)	-
Net cash from investing activities		**(1,576)**	**(333)**	**(1,432)**	**(302)**
Cash flows from financing activities					
Issues shares		2,000	2,000	1,000	1,000
Acquisition of subordinated loans		622	622	1,265	1,265
Increase in cash and cash equivalents from financing activities		**2,622**	**2,622**	**2,265**	**2,265**
Net increase in cash and cash equivalents		**44,625**	**44,625**	**12,833**	**12,833**
Cash and cash equivalents at the beginning of reporting year		**73,287**	**73,287**	**60,454**	**60,454**
Cash and cash equivalents at the end of reporting year	27	**117,912**	**117,912**	**73,287**	**73,287**

The accompanying notes on pages 13 to 65 form an integral part of these Bank Separate and Group Consolidated financial statements.

The Bank Separate and Group Consolidated financial statements as set out on pages 8 to 65 were authorised for issue by Management Board and Supervisory Council on 19 March 2014.

D. Kalantyrskiy
Chairman of the Council

S. Dzene
Chairman of the Board

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Information on the Bank

AS "SMP Bank" (until 17 June 2008 AS "Multibanka" – the Bank) was incorporated in the Republic of Latvia as a joint stock company "Multibanka" in 1994, in Riga, and is licensed as a bank offering a wide range of financial services to enterprises and individuals. The legal address of the Bank is Elizabetes iela 57, Riga, Latvia. The Bank has a branch in Liepaja and 16 sub-branches in Riga, 3 sub-branches in Daugavpils, 2 sub-branches in Ventspils and sub-branches in Olaine, Jelgava, Sigulda, Lubana, Lielvarde, Saulkrasti, Jurmala. The Bank also has representative office in Vilnius (Lithuania) with local cash offices in Vilnius, Klaipeda, Siauliai and Kaunas, and representative offices in Moscow (Russia) and Kiev (Ukraine).

The financial statements include Group consolidated and Bank separate financial statements. Consolidated financial statements for year ended on 31 December 2013 include financial statements of the Bank and its controlled company AS "SMP Finance" (hereinafter "Group"). The legal address of the AS "SMP Finance" is Elizabetes iela 57, Riga, Latvia.

Legislation regulating the Bank's operations

The Bank's operations are governed by the law of the Republic of Latvia "On Commercial Institutions", "Commercial Law", and other laws and regulations issued by the Financial and Capital Market Commission (FCMC) of the Republic of Latvia. The above regulations govern capital adequacy, minimum equity, liquidity, foreign exchange positions, risk transaction restrictions with respect to one counterparty, group of related customers and related parties of the Bank, as well as other applicable requirements.

2 BASIS OF PREPARATION

Statement of Compliance

Group Consolidated and Bank Separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at 31 December 2013.

The Group Consolidated and Bank Separate financial statements were authorised for issue by the Management Board and Supervisory Council on 19 March 2014. The shareholders have the power to reject the Group Consolidated and Bank Separate financial statements prepared and issued by management and the right to request that new financial statements be issued.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial assets and liabilities at fair value through profit or loss are stated at fair value (including financial assets held for trading);

Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated. Lats are the Group's and Bank's functional currency.

3 PRINCIPAL ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied in the preparation of the financial statements.

Basis of consolidation

Subsidiaries

For the purpose of the Group consolidated financial statements, subsidiary is the enterprise controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The investment in AS "SMP Finance", in which the Bank holds a 48.73% interest and voting rights, is accounted for in the Bank's separate financial statements at cost less impairment.

However, the Bank still controls AS SMP Finance through its management board, which is therefore included in consolidation.

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

Currency translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate set by the Central Banks at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost or fair value are translated into the functional currency at the spot exchange rate at the date of acquisition or the date that the fair value was determined, respectively. Foreign currency differences arising on retranslation are recognized in profit or loss statements, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized directly in other comprehensive income. Non-monetary assets and liabilities denominated in foreign currency that are measured at cost are retranslated into the functional currency at the spot exchange rate at that date.

The assets and liabilities of foreign branches are translated to the presentation currency at the exchange rate at the reporting date. The income and expenses of foreign branches are translated to presentation currency (LVL) at exchange rates on the date of the transactions. Differences arising on translation to presentation currency are recgnized in other comprehensive income

Foreign exchange rates for the key currencies at the end of the reporting period were the following (LVL vs. 1 unit of foreign currency):

Currency	Reporting date	
	31.12.2013	31.12.2012
USD	0.5150	0.5310
EUR	0.7028	0.7028
LTL	0.2040	0.2040
RUB	0.0156	0.0174

Financial instruments

Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group or the Bank have the positive intention and ability to hold to maturity, and which are not classified as designated at fair value through profit or loss, or available for sale, or loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group or the Bank intends to sell immediately or in the short-term, (b) those that the Group or the Bank upon initial recognition designates as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply with these classification criteria.

Liabilities at amortised cost include deposits and balances from banks and current accounts and deposits from customers and other financial liabilities.

Financial liabilities carried at amortized cost are initially measured at fair value less directly attributable transaction costs and are subsequently re-measured to amortized cost using the effective interest rate.

Subordinated deposits have a fixed term of at least five years from the date of placement and they are repayable before maturity only in the event of termination of the Bank's operations or the Bank's bankruptcy and such deposits rank before shareholders' claims. Subordinated debt securities are repayable before maturity only in the event of termination of the Bank's operations or the Bank's bankruptcy and such deposits rank before shareholders' claims.

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

Recognition

The Group and the Bank initially recognises loans and receivables, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are recognised in the statement of financial position on the trade date when the Group or the Bank becomes a party to the contractual provisions of the instrument.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- held to maturity investments and loans and receivables that are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

All financial liabilities, other than those designated at fair value through 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 amortised 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 amortised based on the effective interest rate of the instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the profit and loss statement;
- For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the profit and loss statement when the financial asset or liability is derecognised or impaired.

Derecognition

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

The Group and Bank also derecognize certain assets when they write off balances pertaining to the assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

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

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

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

Derivatives

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recognized in the statement of financial position at their fair value. Attributable transaction costs are recognized in the profit or loss statements when incurred. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when the fair value is negative.

The Group and the Bank do not use hedge accounting.

Interest-bearing liabilities

Interest-bearing borrowings are recognized initially at fair value, less any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the profit or loss statements over the period of the borrowings, using the effective interest method. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in profit or loss in the profit and loss statements.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment. Cost includes expenses that are directly attributable to the acquisition of the asset.

Depreciation is charged to the profit and loss statements on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation methods, useful lives, and residual values are reviewed at each reporting date. The annual depreciation rates are as follows:

Buildings	5%
Furniture and cars	20%
Computers	35%
Other fixed assets	20%

Intangible assets

Intangible assets, which are acquired by the Group or the Bank, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Depreciation is charged to the profit and loss statements on a straight-line basis over the estimated useful lives of the individual assets. The estimated useful lives are 5 to 7 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes. Investment property is carried at cost less accumulated depreciation and impairment. Depreciation is charged to the profit and loss statements on a straight-line basis. The annual depreciation interest rate for all investment property, except land is 5%. No depreciation is calculated for land.

Repossessed assets

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

Recognition of income and costs

All significant income and expense categories are recognised on an accrual basis.

Interest income and expense are recognized in the profit and loss statements as they accrue, taking into account the effective interest rate of the asset/liability. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

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.

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

The Group and the Bank have an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

Specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models against observed market transactions;
- Analysis and investigation of significant daily valuation movements;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

The methods described below have been used for the determination of fair values.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by information about other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported by observable market data or the transaction is closed out.

When available, the Group and Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group and the Bank establishes fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group and the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- Verifying that equity broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of basis for fair value see Note 38.

Fair value measurement principles for non-financial assets are described in 12 note.

Impairment losses

Financial assets

At each reporting date the Group and Bank assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group and the Bank on terms that the Group and the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group and Bank consider evidence of impairment for loans and advances and held to maturity investment securities at specific asset level. All loans and receivables from customers and held to maturity investment securities are assessed for specific impairment.

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

Non financial assets

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss in the profit and loss statements. 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.

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

Loans commitments

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

Financial guarantees are contracts that require the Group and the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

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

Tax

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

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

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

A deferred tax asset is recognised in the statement of financial position to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bank of Latvia and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group and Bank in the management of its short-term commitments, less balances due to the Bank of Latvia and credit institutions with original maturity of less than 3 months.

Leases

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 the Management's 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.

Finance lease

A finance lease is lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

When assets are leased out or under a finance lease, the net investment in the finance lease is recognized as a receivable. The net investment in the finance lease represents the difference between the gross receivable and the unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease.

Assets leased out under an operating lease, are presented within property and equipment in the statement of financial position, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned Property and equipment.

Provisions

A provision is recognized in the statement of financial position when the Group and Bank have a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits that can be reliably estimated will be required to settle the obligation.

Dividends

The Group and Bank receive dividends from the equity instruments that are recorded to income when the right to receive payment is established.

Proposed dividends are recognized in the financial statements only when approved by the shareholders.

Voluntary employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis. The Group and the Bank pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and Bank will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

Adoption of new and/or changed IFRSs and IFRIC interpretations

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

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

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group and the Bank has included additional disclosures in this regards (refer to note 38. (Fair value of financial instruments)).

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

(ii) Other amendments to standards

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

- Amendment to IFRS 7 – Offsetting of financial assets and liabilities
- Amendment to IAS 19 (2011) – Employee benefits
- Amendments to IAS 12 – Deferred tax: Recovery of Underlying Assets

(a) New standards and interpretations not yet adopted

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

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

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group and the Bank may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The impact of the initial application of the amendment will depend on the specific facts and circumstances of the investees of the Group held at the date of initial application. Therefore, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

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

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

The Group and the Bank do not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 RISK MANAGEMENT

Management of the Group and Bank has developed a system for the identification, supervision and management of the Group's and the Bank's main financial risks. The Bank's Management has approved this risk management system. This system is being constantly updated to take into account market conditions and the development of the Group's and Bank's main operations. The following policies have been approved in order to achieve the Group's and the Bank's objectives related to capital adequacy, credit risk, operational risk management and anti-money laundering and terrorism financing:

1. Liquidity Risk Management policy;
2. Credit policy;
3. Risk transactions and risk control policy for large transactions;
4. Currency risk management policy;
5. Country risk management policy;
6. Interest rate risk management policy;
7. Policy on prevention of laundering of proceeds derived from criminal activity and terrorist financing;
8. Operational compliance risk management policy;
9. Capital adequacy assessment policy;
10. Operational risk management policy.

Liquidity risk

Liquidity risk is defined as the risk that the Bank and the Group may be unable to sustain its current and future cash flows and secure borrowings to prevent threats to the Bank's daily operations or overall financial position of the Bank (liquidity risk of financing) and risk that the Bank and the Group may be unable to sell its financial assets in the desired term without material losses due to a market collapse or insufficient market depth (market liquidity risk).

The Group and Bank have maintained adequate amounts of liquid assets to ensure compliance with liquidity ratio required by the normative acts of the Republic of Latvia of 30% against the Group and Bank's current liabilities as at 31 December 2013 and 31 December 2012. The Group and Bank have approved internal limits for liquidity net position of assets' and liabilities' term structures: in all currencies, LVL, EUR and USD. Internal limits for liquidity are used for risk analysis and control of liquidity and desirable structure of financing sources. An early warning system was developed in order to help identify exposure of the Bank's and the Group's liquidity position and necessity to attract additional sources. On basis of data from early notification indices the Bank and the Group identifies negative tendencies impacting liquidity and analyses the tendencies and assess necessity to perform liquidity risk hedging measures. The Risk and resources' management department of the Bank evaluates and plans the term structure of assets and liabilities on a regular basis, and accordingly prepares timely plans for attraction or sales of financial resources, as well as monitors compliance with the required liquidity norms and internal limits defined by the Group and the Bank. Liquidity stress testing is performed using 7 scenarios. Scenarios include both internal and external factors. Stress testing is performed to the following stress levels: internal and typical to the Bank unfavourable events, changes of general market conditions, banking crisis and general market crisis at the same time. Impact of various shock scenarios on the regulating liquidity ratio and the Bank's income is analysed. The Board of the Bank and the Group develops and the Council approves Business Continuity plan in case of liquidity crisis that specifies: preventive measures for reduction of likelihood of the liquidity crisis, methods of timely identification of the liquidity crisis and risk assessment, measures that have to be taken immediately in order to overcome the liquidity crisis. The plan is tested regularly.

Credit Risk

Credit risk is the risk that:

- a counterparty, or obligor, fails to meet contractual obligations to the Group and Bank;
- collateral value will not cover the claim; and
- financial loss of the Group and the Bank occurring as a result of default by a borrower or counterparty on their obligation to the Group or the Bank.

To minimize the credit risk the Group and the Bank have developed policies for the management of credit exposures (both for statement of financial position and estimated and possible liability exposures) including guidelines to limit portfolio concentration. Credit Committee has been established and is operating actively monitoring the Group's and the Bank's credit risk. The Group's and Bank's liquidity policy is reviewed and approved by the Management Board.

The Group's and Bank's credit policy establishes:

- Procedure for loan application processing;
- Methodology for the credit assessment of borrowers;
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Documentation requirements for lending process;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Measurement of credit risks includes:

- risk assessment to make a decision on granting a loan;
- monitoring and management of credit risk;
- profit adjustment representing risk;
- risk analysis of credit portfolios;
- capital adequacy and capital distribution assessment;
- regular stress testing credit risk by the use of different scenarios.

The Group and Bank continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly determined by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

The Group's and the Bank's maximum exposure to financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Group and the Bank monitor concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 11 "Loans" and Note 38 "Maximum credit risk".

In order to meet the requirements defined in the policy of risk transactions and large risk transactions, the Group and the Bank perform an assessment and control of risks associated with all assets and liabilities, including contingent liabilities of the Group and Bank on a regular basis. Limits are regarded as the main tool for control of risk transactions. The Group and the Bank ensures compliance with the required capital adequacy ratio – the proportion of weighted values of the Group and Bank's equity, assets, liabilities and off-balance items, which as at 31 December 2013 and 2012 was 14% and 12%, respectively.

Capital management

The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., Bank's capital ratio against the risk weighted assets and contingent liabilities and the sum of notional risk weighted assets and contingent liabilities. The sum of notional risk weighted assets and contingent liabilities are determined as the sum of capital requirements of risks multiplied by 12.5. According to the rules of the Financial and Capital Market Commission, the Bank is required to maintain a capital adequacy ratio of 10.4% starting 1 October 2012 and a capital adequacy ratio of 10.8% starting 1 October 2013.

The assets have been weighted in accordance with pre-defined risk grades, determining risks in accordance with the amount of capital, necessary to maintain these assets. Off-balance sheet loan liabilities are weighted in accordance with lending risk adjustment grades and risk grades defined for liabilities of partners. The following risk grades are applied: 0%, 20%, 35%, 50%, 100%, 150%.

The Bank's objectives when managing capital, which complies with the term "equity" in the statement of financial position, are:

- To comply with the capital regulatory requirements.
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders.
- To maintain the strong capital base to support the development of its business.

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

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy basically agree to the recommendations under the Basel Capital Accord and amendments thereto. According to the Basel Capital Accord, the capital adequacy ratio should be at least 8%. For the calculation of capital adequacy refer to Note 37 – Capital Adequacy.

Currency risk

Currency risk represents the potential losses from revaluation of balance sheet and off-balance-sheet items denominated in foreign currencies due to movements in foreign exchange rates. Gold is regarded as foreign currency. During 2013, the Group and the Bank performed daily controls of compliance with limits defined in Currency risk management policy, for transactions with foreign currency. The Bank and the Group are subject to the Credit Institutions Law which requires that the open position in an individual currency should not exceed 10% of the Bank's capital and the total open foreign currency position should not exceed 20% of the Bank's capital. In accordance with requirements of Currency risk management policy, structural units of the Group and Bank are cooperating with department of financial operations in evaluation of currency risk component of the planned transactions and elaboration of hedging method for it.

Interest rate risk

Interest rate risk is represented by possible negative influence on the Group and Bank's income that can result from possible changes of interest rates. The GAP analysis is used for regular measurements of interest rates risk. Assets, liabilities, guarantees and contingent liabilities, subjected to interest rate risk, are divided in accordance with minimum period, left till possible repricing dates of interest rates. The Group and Bank calculate the influence on yearly net interest income, with parallel increase of interest rates for 100 base points. The Bank performed interest rate risk stress testing. In accordance with requirements of Interest rate risk management policy, interest rate risk has to be assessed whenever limits for financial instruments are determined. For the results of sensitivity analysis refer to Note 33.

Country risk

Country risk is represented by possible losses in cases, where a debtor of the Group and Bank, being non-resident, will not be able to meet its liabilities against the Group and Bank, due to political, social or economic circumstances of the country of residency of the debtor. Country risk is managed by the Board of the Bank. Based on analyses of economic, political and social conditions of each particular country, limits are determined for geographic concentration of assets, liabilities, guarantees and contingent liabilities, for purpose of management of country risk. The evaluation provided by international rating agencies is considered when assessing country risk in each separate case. Limitations have been approved for placement of assets in countries graded as non-OECD, as well as for limitations on residual balances of nostro accounts. Limits for partners and transaction types are determined based on evaluation of risks of country and partners. For purpose of monitoring of compliance with these limits, control over observation of limits is performed on regular basis.

Anti-money laundering

To avoid involvement in "money-laundering" schemes, the Bank and the Group have implemented policies and procedures to prevent AML and anti-terrorism financing. AML compliance risks may cause financial losses, arising from legal actions and eventual financial sanctions against the Bank and the Group, as well as from limitations on banking operations, loss of customers or its place on financial markets. The Group and Bank manage their AML compliance risks on regular basis, identifying legal, reputational, operational and concentration risks, as well as planning and performing necessary measures to minimise those risks based on requirements of AML strategy and Customer policy that has been developed and approved by the Group and the Bank. These requirements are based on the adequate identification of a customer and its beneficiary owner and "Know Your Customer" principle of their business, as well as identification of unusual and suspicious transactions, its control and reporting to state authorities according to requirements of applicable legislative acts. AML compliance action plan includes also AML training of staff of structural units of the Group and Bank, involved with servicing of customers and implementation of latest IT technologies and requirements of information security and data integrity principles in daily operations of the Group and Bank.

5 ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty:

Impairment of financial instruments (other than loans)

The determination of impairment indication is based on a comparison of the financial instrument's carrying value and fair value. Due to downturns in the financial and capital markets, the market price is not always a reliable source for impairment indication. The Group and the Bank uses valuation models based on quoted market prices of similar products.

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

Impairment allowance for loans and receivables

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are reviewed by the Credit Risk function.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial 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 value is estimated. 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 specificē to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

Deferred tax asset recognition

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

6 CASH AND DUE FROM THE BANK OF LATVIA

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Cash	2,296	2,296	2,807	2,807
Balance with the Bank of Latvia (including minimum reserve deposit)	34,561	34,561	20,727	20,727
Total	**36,857**	**36,857**	**23,534**	**23,534**

Due from Bank of Latvia represents the balance outstanding on correspondent account with the Bank of Latvia.

According to the regulations of the Bank of Latvia, the Bank is required to maintain obligatory reserves with the Bank of Latvia equal to 2% of monthly balances due to credit institutions with maturity of over 2 years and equal to 4% of monthly balances of all other liabilities included in the base of this reserve:

- Demand and term deposits (non credit institutions)
- Due to credit institutions (except Bank of Latvia)
- Bonds and other debt securities issued by the Bank.

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average cash and correspondent balance should exceed the compulsory reserve requirement.

As at 31 December 2013 and 31 December 2012 the Bank complied with the above requirements.

7 DEMAND DEPOSITS WITH CREDIT INSTITUTIONS

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Credit institutions of OECD countries	46,423	46,423	22,672	22,672
Latvian credit institutions	6,947	6,947	10,924	10,924
Credit institutions of non-OECD countries	26,752	26,752	13,801	13,801
	80,122	**80,122**	**47,397**	**47,397**

The Bank maintained relationship with 34 correspondent banks (2012: 33)

The main corresponding banks of the Bank and the Group:

	2013 LVL'000	2012 LVL'000
Raiffeisen Bank International AG - Vienna, Austria	8,242 (10.3%)	7,797 (16.5%)
Deutsche Bank Trust Company Americas	12,156 (15.2%)	7,726 (16.3%)
Deutsche Bank AG	12,222 (15,3%)	1,325 (2.8%)

8 HELD TO MATURITY INVESTMENTS

(a) Latvian government bonds with fixed income

	Term	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Latvian government bonds with fixed income (S&P – BB, Moody's – Baa 3)	2013	-	-	1,061	1,061
	2014	2,286	2,286	-	-
	2017	526	526	543	543
	2021	1,047	1,047	1,063	1,063
		3,859	**3,859**	**2,667**	**2,667**

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

(b) Fixed income bonds

	Term	2013 Group LVL'000	2013 Bank LVL'000	2012 Group LVL'000	2012 Bank LVL'000
Promsvjazjabanka, Russian Federation (S&P – B)	2013	-	-	1,145	1,145
Alfa Bank, Russian Federation (S&P – BB)	2013	-	-	1,083	1,083
USA government bonds with fixed income (S&P – BB, Moody's – Baa 3)	2013	-	-	21,240	21,240
USA government bonds with fixed income (S&P – BB, Moody's – Baa 3)	2014	20,600	20,600	-	-
Lithuanian government bonds with fixed income (S&P – AAA, Moody's – Aaa)	2014	312	312	316	316
Credit Bank of Moscow, Russian Federation (S&P – BB)	2014	266	266	274	274
Promsvjazjabanka, Russian Federation (S&P – B)	2015	1,432	1,432	-	-
Lithuanian government bonds with fixed income (S&P – BB, Moody's – Baa 3)	2015	432	432	440	440
Promsvjazjabanka, Russian Federation (S&P – B)	2016	597	597	-	-
Lithuanian government bonds with fixed income (S&P – BB, Moody's – Baa 3)	2016	447	447	-	-
Alfa Bank, Russian Federation (S&P – BB)	2017	1,093	1,093	-	-
Lithuanian government bonds with fixed income (S&P – BB, Moody's – Baa 3)	2017	210	210	210	210
Lithuanian government bonds with fixed income (S&P – B, Moody's – Baa 1)	2018	229	229	-	-
		25,618	25,618	24,708	24,708
Total held to maturity investments		**29,477**	**29,477**	**27,375**	**27,375**

9 LOANS AND TERM DEPOSITS DUE FROM CREDIT INSTITUTIONS

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Term deposits with credit institutions	961	961	2,450	2,450
Other balances due from credit institutions	2,498	2,498	2,575	2,575
Total loans and term deposits	**3,459**	**3,459**	**5,025**	**5,025**

As at 31 December 2013 the Group and Bank had due from credit institutions amounting to LVL 2 498 thousand (2012: LVL 2 575 thousand) that secured collaterals for the guarantees issued by the Bank.

Geographical classification:

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Residents of OECD countries	2,498	2,498	2,575	2,575
Residents of Latvia	211	211	1,700	1,700
Residents of other non-OECD countries	750	750	750	750
Total loans and term deposits	**3,459**	**3,459**	**5,025**	**5,025**

10 LOANS TO CUSTOMERS

(a) Loans by groups are comprised as follows:

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Individuals	13,467	11,347	18,334	14,791
Corporate customers	70,538	79,716	60,578	70,106
Personnel of the Bank	564	564	487	487
Total loans, gross	**84,569**	**91,627**	**79,399**	**85,384**
Impairment allowance	(5,316)	(5,316)	(4,069)	(4,069)
Total loans, net	**79,253**	**86,311**	**75,330**	**81,315**

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

(b) Loans by type

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Loans to customers	70,357	77,415	59,076	65,061
Credit lines	13,921	13,921	20,049	20,049
Overdrafts	291	291	274	274
Loans, gross	**84,569**	**91,627**	**79,399**	**85,384**
Impairment allowance	(5,316)	(5,316)	(4,069)	(4,069)
Total loans, net	**79,253**	**86,311**	**75,330**	**81,315**

(c) Loans issued by industry, gross:

		2013		2013		2012		2012
Corporate customers		**Group**		**Bank**		**Group**		**Bank**
Real estate	21,536	31%	21,536	27%	11,935	20%	11,936	17%
Construction	4,849	7%	4,849	6%	4,998	9%	4,998	7%
Electricity	10,927	15%	10,927	14%	6,828	11%	6,828	10%
Wholesale and retailing	8,604	12%	8,604	11%	16,651	27%	16,651	24%
Industrial markets	12,104	17%	12,104	15%	6,325	10%	6,325	9%
Transport, warehousing and communications	2,565	4%	2,565	3%	2,918	5%	2,918	4%
Loans issued to financial intermediaries	-	-	16,602	21%	-	-	15,492	22%
Finance lease	7,425	11%	-	-	5,965	10%	-	-
Other	2,528	3%	2,529	3%	4,958	8%	4,958	7%
Total	**70,538**	**100%**	**79,716**	**100%**	**60,578**	**100%**	**70,106**	**100%**
Individuals and personnel of the Bank								
Consumer loans	379	3%	379	3%	391	2%	391	3%
Credit card commitments	410	3%	410	4%	386	2%	386	2%
Car loans	-	-	-	-	-	-	-	-
Mortgage loans	5,952	42%	5,952	50%	6,715	35%	6,715	44%
Finance lease	2,120	15%	-	-	3,543	19%	-	-
Business loans	4,682	33%	4,682	39%	6,737	36%	6,737	44%
Other	488	4%	488	4%	1,049	6%	1,049	7%
Total	**14,031**	**100%**	**11,911**	**100%**	**18,821**	**100%**	**15,278**	**100%**

(d) Loans by geographical classification:

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Residents of Latvia	77,997	85,055	66,448	72,432
Residents of OECD countries	4,541	4,541	7,147	7,147
Residents of other non-OECD countries	2,031	2,031	5,804	5,805
Total gross loans and receivables to non-banking customers	**84,569**	**91,627**	**79,399**	**85,384**
Impairment allowance	(5,316)	(5,316)	(4,069)	(4,069)
Loans and receivables, net	**79,253**	**86,311**	**75,330**	**81,315**

(e) Analysis of movements in the impairment allowance

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Balance at the beginning of the year	**4,069**	**4,069**	**2,788**	**2,787**
Increase of provisions	2,092	2,092	1,831	1,832
Recovery of prior period loan loss allowances	(640)	(640)	(550)	(550)
Analysis of movements in the impairment allowance, net	1,452	1,452	1,281	1,282
Lost loans prior periods provision write-off	*(205)*	*(205)*	-	-
Balance at the end of the reporting period	**5,316**	**5,316**	**4,069**	**4,069**

(f) Loans and accrued interest allocation, depending on delay of payments:

Group

LVL'000 Loans to customers		Loans not overdue	Loans for which the payments have not been made in proper period					
			Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
As at 31 December 2013								
Gross loans and advances to customers	**84,569**	72,157	5,871	3,219	65	130	825	2,302
Impairment allowance	**(5,316)**	(3,739)	(168)	(52)	(7)	(3)	(55)	(1,292)
As at 31 December 2012								
Gross loans and advances to customers	**79,399**	66,602	7,856	70	37	2,123	479	2,232
Impairment allowance	**(4,069)**	(1,894)	(182)	(14)	(4)	(643)	(32)	(1,300)

Bank

LVL'000 Loans to customers		Loans not overdue	Loans for which the payments have not been made in proper period					
			Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
As at 31 December 2013								
Gross loans and advances to customers	**91,627**	79,215	5,871	3,219	65	130	825	2,302
Impairment allowance	**(5,316)**	(3,739)	(168)	(52)	(7)	(3)	(55)	(1,292)
As at 31 December 2012								
Gross loans and advances to customers	**85,384**	72,587	7,856	70	37	2,123	479	2,232
Impairment allowance	**(4,069)**	(1,894)	(182)	(14)	(4)	(643)	(32)	(1,300)

(g) Loans allocation by qualitative evaluation of collateral type:

The table below shows separate loan groups by their carrying amount. The Bank and the Group hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Loan quality by separate groups:

	2013 Group	2013 Bank	2012 Group	2012 Bank
Loans with collateral to corporate customers				
Loans without impairment allowances	52,395	52,395	43,107	43,107
Loans not overdue	*44,750*	*44,750*	*38,320*	*38,320*
Delayed payments not more than 90 days	*6,944*	*6,944*	*4,550*	*4,550*
Delayed payments over 90 days	*701*	*701*	*237*	*237*
Loans with impairment allowances	7,269	7,269	5,907	5,907
Loans not overdue	*6,255*	*6,255*	*2,766*	*2,766*
Delayed payments not more than 90 days	*217*	*217*	*515*	*515*
Delayed payments over 90 days	*797*	*797*	*2,626*	*2,626*
Impairment allowance	(2,148)	(2,148)	(1,331)	(1,331)
Total loans to corporate customers	**57,516**	**57,516**	**47,683**	**47,683**
Finance lease				
Lease without impairment allowances	9,545	-	9,507	-
Leases not overdue	*9,545*	-	*9,507*	-
Total finance lease	**9,545**	**-**	**9,507**	**-**
Mortgage loans to individuals				
Loans without impairment allowances	6,414	6,414	5,103	5,103
Loans not overdue	*5,947*	*5,947*	*4,237*	*4,237*
Delayed payments not more than 90 days	*312*	*312*	*609*	*609*
Delayed payments over 90 days	*155*	*155*	*257*	*257*
Loans with impairment allowances	4,199	4,199	1,612	1,612
Loans not overdue	*1,973*	*1,973*	*542*	*542*
Delayed payments not more than 90 days	*1,500*	*1,500*	*167*	*167*
Delayed payments over 90 days	*726*	*726*	*903*	*903*
Impairment allowance	(881)	(881)	(492)	(492)
Total mortgage loans to individuals	**9,732**	**9,732**	**6,223**	**6,223**

	2013 Group	2013 Bank	2012 Group	2012 Bank
Loans to individuals with other collateral				
Loans without impairment allowances	176	176	5,879	5,879
Loans not overdue	*176*	*176*	*3,868*	*3,868*
Delayed payments not more than 90 days	-	-	*1,875*	*1,875*
Delayed payments over 90 days	-	-	*136*	*136*
Loans with impairment allowances	449	449	1,719	1,719
Loans not overdue	*130*	*130*	*1,387*	*1,387*
Delayed payments not more than 90 days	*7*	*7*	*150*	*150*
Delayed payments over 90 days	*312*	*312*	*182*	*182*
Impairment allowance	(410)	(410)	(508)	(508)
Total loans to individuals	**215**	**215**	**7,090**	**7,090**

The amounts shown in the table below represent the gross carrying value of the loans by type of collateral and do not necessarily represent the fair value of the underlying collateral:

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

	As at 31 December 2013				As at 31 December 2012			
	Group		Bank		Group		Bank	
	LVL'000	%	LVL'000	%	LVL'000	%	LVL'000	%
Commercial buildings	35,751	42%	35,751	39%	24,706	31%	24,706	29%
Commercial assets pledge	12,530	15%	12,530	14%	16,887	21%	16,887	20%
Land mortgage	3,597	4%	3,597	4%	3,867	5%	3,867	5%
Mortgage on residential properties	17,290	20%	17,290	19%	14,796	19%	14,796	17%
Guarantee	1,265	1%	1,265	1%	2,468	3%	2,468	3%
Other	10,014	12%	469	1%	10,110	13%	603	1%
No collateral	4,122	6%	20,725	22%	6,565	8%	22,057	26%
Total	**84,569**	**100%**	**91,627**	**100%**	**79,399**	**100%**	**85,384**	**100%**

Significant credit risk concentration

As at 31 December 2013 and 2012, the Bank had 13 and 19 borrowers or groups of related borrowers, respectively, whose total loan liabilities exceeded 10% of the share capital of the Bank given in Note 37. Gross amount of the above loans as at 31 December 2013 and 2012 was LVL 40 260 thousand and LVL 35 165 thousand, respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients of more than 25% of Bank's equity. As at 31 December 2013 and 31 December 2012 the Bank complied with this requirement.

(h) Loan classification according to credit risk assessment:

To assess the credit risk, the Group and the Bank set the following categories for individual loans:

Group

2013 '000 LVL	Gross	Impairment allowance
Standard	61,797	-
Watch	14,394	1,314
Substandard	5,738	1,791
Doubtful	1,840	1,411
Lost	800	800
Total	**84,569**	**5,316**

2012 '000 LVL	Gross	Impairment allowance
Standard	51,271	-
Watch	22,696	1,410
Substandard	4,195	1,563
Doubtful	425	284
Lost	812	812
Total	**79,399**	**4,069**

Bank

2013 '000 LVL	Gross	Impairment allowance
Standard	68,855	-
Watch	14,394	1,314
Substandard	5,738	1,791
Doubtful	1,840	1,411
Lost	800	800
Total	**91,627**	**5,316**

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

2012 '000 LVL	Gross	Impairment allowance
Standard	57,256	-
Watch	22,696	1,410
Substandard	4,195	1,563
Doubtful	425	284
Lost	812	812
Total	**85,384**	**4,069**

Restructured loans

During the twelve months period ended 31 December 2013, the Group and Bank restructured loans in the total amount of:

LVL'000	31 December 2013 '000 LVL	31 December 2012 '000 LVL
Principal and interest payments waiver	3,026	8,906
Total	**3,026**	**8,906**

(i) Impaired loans

Group

	2013 '000 LVL	2012 '000 LVL
Impaired loans, gross	22, 772	22 824
Impairment allowance	(5,316)	(4,069)
Impaired loans and receivables, net:	**17,456**	**18,755**

Bank

	2013 '000 LVL	2012 '000 LVL
Impaired loans, gross	22, 772	22 824
Impairment allowance	(5,316)	(4,069)
Impaired loans and receivables, net:	**17,456**	**18,755**

(j) Finance lease receivables

Loans and advances to customers include the following finance lease receivables for leases of certain fixed assets where the Group is lessor:

LVL'000	2013	2012
Gross investment in finance leases, receivable with maturity:		
Less than one year	2,927	1,720
Between one year and five years	3,576	4,909
More than 5 years	4,778	4,290
Total gross investment in finance leases, receivables	**11,281**	**10,919**
Unearned interest income	(1,736)	(1,412)
Net investment in finance lease	**9,545**	**9,507**

Net investments in finance leases with maturity:		
Less than one year	2,638	1,595
Between one year and five years	2,755	2,120
More than 5 years	4,152	5,792
	9,545	**9,507**

11 PROPERTY AND EQUIPMENT

Group property and equipment

LVL'000	Buildings	Vehicles	Office equipment	Leasehold improvements	Total
Historical cost					
As at 31 December 2011	**380**	**120**	**710**	**116**	**1,326**
Additions	-	20	302	-	322
Disposals	-	(46)	(58)	-	(104)
As at 31 December 2012	**380**	**94**	**954**	**116**	**1,544**
Additions	130	-	203	-	333
Disposals	-	-	(283)	(116)	(399)
As at 31 December 2013	**510**	**94**	**874**	-	**1,478**
Accumulated depreciation					
As at 31 December 2011	**82**	**52**	**340**	**109**	**583**
Amortisation for the year	19	21	192	7	239
Depreciation of disposed fixed assets	-	(46)	(58)	-	(104)
As at 31 December 2012	**101**	**27**	**474**	**116**	**718**
Amortisation for the year	23	19	235	-	277
Depreciation of disposed fixed assets	-	-	(283)	(116)	(399)
As at 31 December 2013	**124**	**46**	**426**	-	**596**
Balance					
As at 31 December 2011	**298**	**68**	**370**	**7**	**743**
As at 31 December 2012	**279**	**67**	**480**	-	**826**
As at 31 December 2013	**386**	**48**	**448**	-	**882**

Bank property and equipment

LVL'000	Buildings	Vehicles	Office equipment	Leasehold improvements	Total
Historical cost					
As at 31 December 2011	**380**	**46**	**710**	**116**	**1,252**
Additions	-	-	302	-	302
Disposals	-	(10)	(58)	-	(68)
As at 31 December 2012	**380**	**36**	**954**	**116**	**1,486**
Additions	130	-	203	-	333
Disposals	-	-	(283)	(116)	(399)
As at 31 December 2013	**510**	**36**	**874**	-	**1,420**
Accumulated depreciation					
As at 31 December 2011	**82**	**46**	**340**	**109**	**577**
Amortisation for the year	19	-	192	7	218
Depreciation of fixed assets sold	-	(10)	(58)	-	(68)
As at 31 December 2012	**101**	**36**	**474**	**116**	**727**
Amortisation for the year	23	-	235	-	258
Depreciation of fixed assets sold	-	-	(283)	(116)	(399)
As at 31 December 2013	**124**	**36**	**426**	-	**586**
Balance					
As at 31 December 2011	**298**	-	**370**	**7**	**675**
As at 31 December 2012	**279**	-	**480**	-	**759**
As at 31 December 2013	**386**	-	**448**	-	**834**

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

12 INVESTMENT PROPERTY

The Group's investment property

	Land	Buildings	Total
Historical cost			
As at 31 December 2011	**858**	**2,531**	**3,389**
Acquisitions	206	904	1,110
As at 31 December 2012	**1,064**	**3,435**	**4,499**
Acquisitions	414	829	1,243
Disposals	-	(7)	(7)
As at 31 December 2013	**1,478**	**4,257**	**5,735**
Accumulated depreciation			
As at 31 December 2011	-	**58**	**58**
Amortisation for the year	-	69	69
As at 31 December 2012	-	**127**	**127**
Amortisation for the year	-	79	79
As at 31 December 2013	-	(7)	(7)
Balance	-	**199**	**199**
As at 31 December 2011			
As at 31 December 2012	**858**	**2,473**	**3,331**
As at 31 December 2013	**1,064**	**3,308**	**4,372**
	1,478	**4,058**	**5,536**

Income from investment property rent services in 2013 amounted to LVL 69 thousand (2012: LVL 97 thousand) and maintenance expenses in 2013 amounted to LVL 67 thousand (2012: LVL 92 thousand).

Investment properties are accounted applying cost model. Investment property includes land, residential properties and commercial properties.

The estimated fair value of investment property as at 31 December 2013 is specified to LVL 6,130 thousand (2012: LVL 4,582 thousand). Valuations were performed using two generally accepted methodologies in order to estimate fair value of investment properties: income approach using discounted cash flow model valuation technique and market approach using market comparables valuation method. The fair value measurement for investment property has been categorised as a Level 3 in the fair value hierarchy.

13 OTHER ASSETS

Other assets are as follows:

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Financial assets:				
Deferred expenses and accrued income	-	-	76	76
Funds in transit	1,429	1,429	389	389
Receivables	1,583	34	1,315	37
Credit card transactions in transit	263	263	210	210
Other financial assets	-	-	599	-
Non-financial assets:				
Deferred expenses and accrued income	165	163	51	51
Other non-financial assets	130	37	34	-
Total	**3,570**	**1,927**	**2,674**	**763**

Receivables represent AS SMP Finance receivable from assets sold in 2012.

14 DUE TO CREDIT INSTITUTIONS ON DEMAND

Due to credit institutions are comprised as follows:

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Credit institutions registered in OECD countries	16	16	20	20
Residents of other non-OECD countries	12	12	74	74
Total demand deposits	**28**	**28**	**94**	**94**

As at 31 December 2013 there were 2 accounts to correspondent banks (31 December 2013 - 3).

Concentration of Demand balances due to credit institutions

As at 31 December 2013 and 2012 the Bank had two and three credit institutions, respectively, whose account balances exceeded 10% of total Demand balances due to credit institutions. The gross value of these balances as of 31 December 2013 and 2012 was LVL 28 thousand and LVL 94 thousand, respectively.

15 DEPOSITS

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Sector profile:				
Non-banking deposits				
Corporate customers	128,456	128,460	99,390	99,390
Individuals	74,614	74,614	48,810	48,810
State institutions	2,045	2,045	13,471	13,471
Non-banking deposits total:	**205,115**	**205,119**	**161,671**	**161,671**
Total deposits	**205,115**	**205,119**	**161,671**	**161,671**
Geographical profile:				
Residents	64,127	64,131	42,953	42,953
Non-residents	140,988	140,988	118,718	118,718
Residents of OECD countries	*49,269*	*49,269*	*41,449*	*41,449*
Residents of other non-OECD countries	*91,719*	*91,719*	*77,269*	*77,269*
Total deposits	**205,115**	**205,119**	**161,671**	**161,671**
Current accounts and deposits from non-banking customers				
Demand				
Corporate customers	109,931	109,935	83,368	83,368
Private individuals	48,739	48,739	29,296	29,296
Government-related entities	2,045	2,045	13,471	13,471
Total demand deposits	**160,715**	**160,719**	**126,135**	**126,135**
Term deposits				
Corporate customers	18,525	18,525	16,022	16,022
Private individuals	25,875	25,875	19,514	19,514
Total term deposits	**44,400**	**44,400**	**35,536**	**35,536**
Total current accounts and deposits from non-banking customers	**205,115**	**205,119**	**161,671**	**161,671**

As at 31 December 2013, the Bank maintained customer deposit balances of LVL 1 147 thousand (2012: LVL 1 504 thousand) which were blocked by the Bank as collateral for loans and other contingent liabilities granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2013 and 31 December 2012 the Bank had no customers, whose deposits exceeded 10% of total customer short term deposits.

16 SUBORDINATED LIABILITIES

Subordinated liabilities as at 31 December 2013 comprise of loans received from 10 individuals and 1 private company (31 December 2012: 7 individuals and 1 private company).

			31 December 2013 '000 LVL		31 December 2012 '000 LVL	
	Maturity	Interest rate	Group	Bank	Group	Bank
Loan No. 1	02.09.2017	4%	200	200	200	200
Loan No. 2 (related party)	02.09.2017	4%	300	300	300	300
Loan No. 3 (related party)	02.09.2017	4%	200	200	200	200
Loan No. 4 (related party)	28.12.2017	4%	300	300	300	300
Loan No. 5	30.09.2016	3.2%	214	214	214	214
Loan No. 6 (related party)	26.04.2018	4%	300	300	300	300
Loan No. 7 (related party)	30.12.2016	3,5%	351	351	351	351
Loan No. 8 (related party)	25.11.2018	3.6%	914	914	914	914
Loan No. 9 (related party)	22.03.2019	3.6%	1,054	1,054	1,054	1,054
Loan No. 10	30.10.2017	3,5%	211	211	211	211
Loan No. 11	29.04.2018	2%	200	200	-	-
Loan No. 12	09.07.2018	4.25%	211	211	-	-
Loan No. 13	08.09.2018	3,75%	211	211	-	-
Total			**4,666**	**4,666**	**4,044**	**4,044**

Subordinated loans are to be satisfied after the claims of all other creditors of the Bank, but before claims of shareholders of the Bank in case of liquidation of the Bank.

17 OTHER LIABILITIES

Other liabilities are as follows:

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Financial liabilities				
Funds in transit	2,571	2,571	3,516	3,516
Unmatched funds	11,690	11,690	5,046	5,046
Other financial liabilities	259	134	545	56
Non-financial liabilities				
Accrued expenses and deferred income	163	162	184	184
Other payable	64	12	75	12
Total	**14,747**	**14,569**	**9,366**	**8,814**

Cash in transit includes amounts requested by clients for payment with a value date of 2 January 2014 and 2013 respectively.

Unmatched funds include amounts for which the Bank has not matched incoming funds to its client accounts. Unmatched accounts are matched within ten working days after they are received.

18 PROVISIONS

Provisions include provisions for unused vacations and amount to LVL 107 thousand for the Bank purposes and 108 thousand for the Group purposes (2012: LVL 106 thousand and LVL 107 thousand, respectively).

19 SHARE CAPITAL

		As at 31 December 2013		As at 31 December 2012	
	Value per share (LVL)	Number of shares	Share capital (LVL'000)	Number of shares	Share capital (LVL'000)
Ordinary shares	50	220,124	11,006	180,124	9,006

Shareholders' analysis

	2013		2012	
	Number of shares	%	Number of shares	%
Private individuals	8,478	3.86	9,229	5.12
SMP bank (Russian Federation)	211,572	96.11	170,821	94.84
Other shareholders	74	0.03	74	0.04
Total	**220,124**	**100**	**180,124**	**100**

The Bank's capital is registered and fully paid. Ordinary shares rank equally with respect to dividends, as may be declared, and entitle all holders to equal voting rights at the shareholders' meeting. All shares rank equal with respect to residual assets. As at 31 December 2013, there were 7 shareholders – 2 legal persons and 5 individuals (31 December 2012: 8 – 2 legal persons and 6 individuals). The Bank's immediate parent bank is SMP Bank (Russia). Two individuals own 37.3% each of the immediate parent.

In 2013 the general meeting of shareholders decided on the issuance of 40 000 ordinary shares at a price of LVL 50 that equals their par value. All shares are fully paid.

Reserves of LVL 105 thousand (2012: LVL 105 thousand) consist of reserves that were created upon privatization of the Bank in accordance with statutory regulatory framework requirements which were in force at privatization date.

The use of share premium is defined by applicable Latvian legislation.

20 INTEREST INCOME

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Interest income on loans and receivables				
Loans and receivables	3,281	3,051	3,335	3,313
Loans from banks	497	497	253	253
Bonds	266	266	271	271
Total	**4,044**	**3,814**	**3,859**	**3,837**

Interest recognized on impaired loans during the year period ended 31 December 2013 amounts to LVL 427 thousand (31 December 2012: LVL 315 thousand).

21 INTEREST EXPENSE

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Interest expenses on liabilities at amortized cost:				
Current accounts and deposits of customers	1,238	1,238	1,530	1,530
Total	**1,238**	**1,238**	**1,530**	**1,530**

22 FEE AND COMMISSION INCOME

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Commissions from money transfers, cash operations and servicing accounts	2,728	2,728	2,292	2,292
Fees from cards services	498	498	425	425
Commissions from guarantees	343	343	318	318
Brokerage fees	202	202	152	152
Other	23	21	44	39
Total	**3,794**	**3,792**	**3,231**	**3,226**

23 FEE AND COMMISSION EXPENSE

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Commissions paid to correspondent banks	322	322	293	293
Commissions for transactions with payment cards	418	418	301	301
Fees for operations with securities	36	36	23	23
Other	24	24	3	3
Total	**800**	**800**	**620**	**620**

24 GAIN ON TRADING WITH FINANCIAL INSTRUMENTS, NET

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Profit from foreign currency transactions	2,007	2,007	2,016	2,016
Profit/(loss) from revaluation of foreign exchange	(19)	(15)	6	19
Proceeds from trading securities with non-fixed income	(1)	(1)	1	1
Gain/(loss) on revaluation of investments	(8)	(8)	(8)	(8)
Total	**1,979**	**1,983**	**2,015**	**2,028**

25 ADMINISTRATIVE EXPENSES

Salaries, wages and related social security contributions represent the basic remuneration of the employees, social security contributions as well as other remuneration. During the years ended 31 December 2013 and 2012, the Bank and the Group employed on average 210 and 200 employees, respectively. Administrative expenses are as follows:

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Personnel salaries and wages	1,972	1,962	1,748	1,740
Rent of premises and other maintenance expenses	662	662	516	516
Compulsory state social security contributions	525	525	464	462
Professional services	700	669	633	614
Depreciation of property and equipment and investments in rented property and equipment	356	258	239	218
Salaries to Board of Directors and Council	239	239	197	197
Office supplies	36	36	30	29
Advertising and marketing	17	17	64	64
Other	364	356	462	307
Total	**4,871**	**4,724**	**4,353**	**4,147**

26 TAXES

(a) Corporate income tax

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Corporate income tax	184	184	191	191
Corporate income tax	**184**	**184**	**191**	**191**

(b) Reconciliation of effective tax rate:

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Profit before tax	1,519	1,336	1,301	1,482
Expected tax charge applying current tax rate of 15%	228	200	195	222
Non-deductible expenses and non-taxable income	(17)	11	31	4
Utilized tax relief on taxes paid abroad	(26)	(26)	(26)	(26)
Other	(1)	(1)	(9)	(9)
Corporate income tax	**184**	**184**	**191**	**191**

(c) Deferred tax assets and liabilities

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

Bank	**Assets**		**Liabilities**		**Net**	
LVL'000	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Property and equipment	-	-	(39)	(39)	(39)	(39)
Other accruals	15	15	-	-	15	15
Total deferred tax asset /(liabilities)	**15**	**15**	**(39)**	**(39)**	**(24)**	**(24)**

The rate of tax applicable for deferred taxes was 15% (2012: 15%).

Movement in temporary differences during the year ended 31 December 2013

Bank **LVL'000**	**Balance as at 1 January 2013**	**Recognized in the statement of comprehensive income**	**As at 31 December 2013**
Property and equipment	(39)	-	(39)
Provisions	15	-	15
	(24)	**-**	**(24)**

Movement in temporary differences during the year ended 31 December 2012

Bank **LVL'000**	**Balance as at 1 January 2012**	**Recognized in the statement of comprehensive income**	**As at 31 December 2012**
Property and equipment	(39)	-	(39)
Provisions	15	-	15
	(24)	**-**	**(24)**

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

Group	Assets		Liabilities		Net	
LVL'000	2013	2012	2013	2012	2013	2012
Property and equipment	-	-	(39)	(39)	(39)	(39)
Other provisions	15	15	-	-	15	15
Total deferred tax asset /(liabilities)	**15**	**15**	**(39)**	**(39)**	**(24)**	**(24)**

The rate of tax applicable for deferred taxes was 15% (2012: 15%).

Movement in temporary differences during the year ended 31 December 2013

Group LVL'000	Balance as at 1 January 2013	Recognized in the statement of comprehensive income	Balance Sheet as at 31 December 2013
Property and equipment	(39)	-	(39)
Provisions	15	-	15
	(24)	**-**	**(24)**

Movement in temporary differences during the year ended 31 December 2012

Group LVL'000	Balance as at 1 January 2012	Recognized in the statement of comprehensive income	Balance Sheet as at 31 December 2012
Property and equipment	(39)	-	(39)
Provisions	15	-	15
	(24)	**-**	**(24)**

27 CASH AND CASH EQUIVALENTS

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Cash	2,296	2,296	2,807	2,807
Current placements with the Bank of Latvia	34,561	34,561	20,727	20,727
Demand deposits and term deposits with other credit institutions with initial maturity of less than three months	81,083	81,083	49,847	49,847
Due to credit institutions with maturity of less than three months	(28)	(28)	(94)	(94)
Total	**117,912**	**117,912**	**73,287**	**73,287**

28 RELATED PARTY TRANSACTIONS

(a) Control relationships

Related parties are defined as shareholders who have significant influence over the Bank and its subsidiary, members of the Supervisory Board and Board of Management, and other related parties, i.e., key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

During 2013 and 2012, all related party transactions were performed on an arm's length basis.

Transactions with SMP Bank (Russia) for year ended 31 December are analysed as follows:

LVL'000	2013 Group/ Bank	Average rate	2012 Group/ Bank	Average rate
Due from SMP Bank (Russia)	6,215	2.62%	5,550	2.0%
Due to SMP bank (Russia)	12	0.0%	36	0.0%

The outstanding part of the liabilities received from related parties amounted to LVL 3 419 thousand as at 31 December 2013 (2012: LVL 3 419 thousand). For more detailed information refer to Note 17.

Transactions with AS SMP Finance (Latvia) for year ended 31 December 2013 are as follows:

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

LVL'000	2013 Bank	Average rate	2012 Bank	Average rate
Loans to AS SMP Finance	16,602	1.76%	15,492	1.71%
Deposits from AS SMP Finance	4	-	-	-

The total amount of related party loans and deposits at the year end:

LVL'000	2013 Bank	Average rate	2012 Bank	Average rate
Deposits from SMP Bank (Russian Federation); AS SMP Finance and other related parties	**23,478**	**0.6%**	**11,217**	**1.1%**
Loans to other related parties				
Opening balance	1,405		600	
Issued loans in current year	456		936	
Matured loans in current year	(134)		(131)	
Loans closing balance	**1,727**	**3.8%**	**1,405**	**3.8%**

Remuneration to the Supervisory Council and Management Board:

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Remuneration of the Supervisory Council and Management Board	239	239	197	197
Total	**239**	**239**	**197**	**197**

Transactions with related parties for year ended 31 December 2013 are as follows:

LVL'000	2013 Group	2013 Bank	2012 Group	2012 Bank
Interest income	175	175	263	263
Interest expense	(155)	(155)	(135)	(135)
Total	**20**	**20**	**128**	**128**

29 ASSETS AND LIABILITIES UNDER TRUST MANAGEMENT

Assets '000 LVL	2013 Group	2013 Bank	2012 Group	2012 Bank
Loans from banks	42,848	42,848	10,089	10,089
Fiduciary loan	8,854	8,854	4,183	4,183
Bonds quoted in CIS countries	6	6	8	8
Total	**51,708**	**51,708**	**14,280**	**14,280**

Liabilities '000 LVL	2012 Group	2012 Bank	2012 Group	2012 Bank
Funds received from individuals	6	6	8	8
Funds received from corporate customers	51,702	51,702	14,272	14,272
Total	**51,708**	**51,708**	**14,280**	**14,280**

Managed liabilities consist of clients' – non resident funds in total amount LVL 51.702 thousand and clients' –resident funds in total amount LVL 6 thousand.

A fiduciary loan is a transaction whereby the Bank and Group have attracted a fiduciary deposit that has been issued to a borrower specified by those depositors on behalf of the depositors and at the depositor's risk. The property owned by clients is kept under management separately from the property of the Bank and Group and is kept in separate accounts at credit institutions through which the funds are invested. Assets under management often represent a securities portfolio separated from the Bank's and the Group's assets, which is treated as a joint management object with its own structure, liquidity degree, sources of resources, yield and common risk. The Group and Bank is engaged in securities purchase and sales on behalf of their clients. These securities are not disclosed in the statement of financial position of the Group and the Bank.

30 CONTINGENT LIABILITIES

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to ten years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum exposure that would be recognised in the statement of comprehensive income date if counterparties failed completely to perform as contracted.

	2013	2013	2012	2012
LVL'000	**Group**	**Bank**	**Group**	**Bank**
Loans and credit line liabilities	3,367	3,367	3,822	3,822
Guarantees and letters of credit	3,998	3,998	5,053	5,053
Total	**7,365**	**7,365**	**8,875**	**8,875**

31 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES

The geographical segmentation of the Group's and the Bank's assets, liabilities and contingent liabilities as at 31 December 2013 was as follows:

Group

As at 31 December 2013	Latvia	OECD countries	CIS countries	Other countries	Total
Assets '000 LVL					
Cash and balance due from the Bank of Latvia	36,409	-	-	448	36,857
Held to maturity investments	3,859	20,600	3,388	1,630	29,477
Demand deposits with credit institutions	6,947	46,423	19,145	7,607	80,122
Loans and term deposits due from credit institutions	211	2,498	750	-	3,459
Loans to customers	73,856	3,404	309	1,684	79,253
Financial assets held for trading	15	-	-	-	15
Property and equipment	838	-	-	44	882
Investment property	5,536	-	-	-	5,536
Other assets	2,871	-	6	693	3,570
Total assets	**130,542**	**72,925**	**23,598**	**12,106**	**239,171**

As at 31 December 2013	Latvia	OECD countries	CIS countries	Other countries	Total
Liabilities '000 LVL					
Due to credit institutions on demand	-	16	12	-	28
Deposits	64,127	49,269	14,703	77,016	205,115
Subordinated liabilities	351	-	3,261	1,054	4,666
Other liabilities	14,299	-	-	448	14,747
Provisions	99	-	-	9	108
Deferred tax liability	24	-	-	-	24
Corporate income tax	-	-	-	-	-
Equity and reserves	3,769	-	10,714	-	14,483
Total equity, reserves and liabilities	**82,669**	**49,285**	**28,690**	**78,527**	**239,171**
Forecasted and contingent liabilities	**5,253**	**2,085**	**-**	**27**	**7,365**

31 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES (CONTINUED)

Bank

As at 31 December 2013	Latvia	OECD countries	CIS countries	Other countries	Total
Assets '000 LVL					
Cash and balance due from the Bank of Latvia	36,409	-	-	448	36,857
Held to maturity investments	3,859	20,600	3,388	1,630	29,477
Demand deposits with credit institutions	6,947	46,423	19,145	7,607	80,122
Loans and term deposits due from credit institutions	211	2,498	750	-	3,459
Loans to customers	80,914	3,404	309	1,684	86,311
Financial assets held for trading	15	-	-	-	15
Property and equipment	790	-	-	44	834
Other assets	1,227	-	6	693	1,926
Total assets	**130,372**	**72,925**	**23,598**	**12,106**	**239,001**

As at 31 December 2013	Latvia	OECD countries	CIS countries	Other countries	Total
Liabilities '000 LVL					
Due to credit institutions on demand	-	16	12	-	28
Deposits	64,131	49,269	14,703	77,016	205,119
Subordinated liabilities	351	-	3,261	1,054	4,666
Other liabilities	14,121	-	-	448	14,569
Provisions	98	-	-	9	107
Deferred tax liability	24	-	-	-	24
Equity and reserves	3,774	-	10,714	-	14,488
Total equity, reserves and liabilities	**82,499**	**49,285**	**28,690**	**78,527**	**239,001**
Forecasted and contingent liabilities	**5,253**	**2,085**	**-**	**27**	**7,365**

31 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES (CONTINUED)

The geographical segmentation of the Group's and the Bank's assets, liabilities and contingent liabilities as at 31 December 2012 was as follows:

Group

As at 31 December 2012	Latvia	OECD countries	CIS countries	Other countries	Total
Assets '000 LVL					
Cash and balance due from the Bank of Latvia	23,201	-	-	333	23,534
Held to maturity investments	2,667	21,240	2,502	966	27,375
Demand deposits with credit institutions	10,924	22,672	6,083	7,718	47,397
Loans and term deposits due from credit institutions	1,700	2,575	750	-	5,025
Loans to customers	62,616	6,948	2,948	2,818	75,330
Financial assets held for trading	26	-	-	-	26
Property and equipment	762	-	-	64	826
Investment property	4,372	-	-	-	4,372
Other assets	2,495	-	6	173	2,674
Total assets	**108,763**	**53,435**	**12,289**	**12,072**	**186,559**

As at 31 December 2012	Latvia	OECD countries	CIS countries	Other countries	Total
Liabilities '000 LVL					
Due to credit institutions on demand	-	20	74	-	94
Deposits	42,953	42,503	24,651	51,564	161,671
Subordinated liabilities	351	-	2,639	1,054	4,044
Other liabilities	9,054	-	-	312	9,366
Provisions	99	-	-	8	107
Deferred tax liability	24	-	-	-	24
Corporate income tax	105	-	-	-	105
Equity and reserves	2,472	-	8,676	-	11,148
Total equity, reserves and liabilities	**55,058**	**42,523**	**36,040**	**52,938**	**186,559**
Forecasted and contingent liabilities	**6,096**	**2,722**	**-**	**57**	**8,875**

31 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES (CONTINUED)

Bank

As at 31 December 2012	Latvia	OECD countries	CIS countries	Other countries	Total
Assets '000 LVL					
Cash and balance due from the Bank of Latvia	23,201	-	-	333	23,534
Held to maturity investments	2,667	21,240	2,502	966	27,375
Demand deposits with credit institutions	10,924	22,672	6,083	7,718	47,397
Loans and term deposits due from credit institutions	1,700	2,575	750	-	5,025
Loans to customers	68,601	6,948	2,948	2,818	81,315
Financial assets held for trading	26	-	-	-	26
Property and equipment	695	-	-	64	759
Other assets	584	-	6	173	763
Total assets	**108,398**	**53,435**	**12,289**	**12,072**	**186,194**

As at 31 December 2012	Latvia	OECD countries	CIS countries	Other countries	Total
Liabilities '000 LVL					
Due to credit institutions on demand	-	20	74	-	94
Deposits	42,953	42,503	24,651	51,564	161,671
Subordinated liabilities	351	-	2,639	1,054	4,044
Other liabilities	8,502	-	-	312	8,814
Provisions	98	-	-	8	106
Deferred tax liability	24	-	-	-	24
Corporate income tax	105	-	-	-	105
Equity and reserves	2,660	-	8,676	-	11,336
Total equity, reserves and liabilities	**54,693**	**42,523**	**36,040**	**52,938**	**186,194**
Forecasted and contingent liabilities	**6,096**	**2,722**	**-**	**57**	**8,875**

32 INTEREST RATE REPRICING ANALYSIS

The interest rate repricing analysis of the Group's and Bank's financial assets and liabilities as of 31 December 2013 was as follows:

Group

LVL'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1- 5 years	Over 5 years	Not sensitive against interest rate changes	Total
Financial assets								
Cash and balance due from the Bank of Latvia	34,561	-	-	-	-	-	2,296	36,857
Demand deposits with credit institutions	80,122	-	-	-	-	-	-	80,122
Held to maturity investments	20,600	-	1,103	1,761	4,966	1,047	-	29,477
Loans to customers	3,809	13,922	29,160	19,231	12,820	311	-	79,253
Loans and term deposits due from credit institutions	961	-	-	2,498	-	-	-	3,459
Financial assets held for trading	-	-	-	-	-	-	15	15
Other financial assets	-	-	-	-	-	-	3,275	3,275
Total financial assets	**140,053**	**13,922**	**30,263**	**23,490**	**17,786**	**1,358**	**5,586**	**232,458**
Financial liabilities								
Due to credit institutions on demand	28	-	-	-	-	-	-	28
Deposits	165,757	6,866	9,794	17,650	4,363	138	547	205,115
Subordinated liabilities	-	-	-	-	3,612	1,054	-	4,666
Other financial liabilities	-	-	-	-	-	-	14,520	14,520
Total financial liabilities	**165,785**	**6,866**	**9,794**	**17,650**	**7,975**	**1,192**	**15,067**	**224,329**
Interest rate risk	**(25,732)**	**7,056**	**20,469**	**5,840**	**9,811**	**166**	**(9,481)**	**8,129**

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32 INTEREST RATE REPRICING ANALYSIS (CONTINUED)

Bank

LVL'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1- 5 years	Over 5 years	Not sensitive against interest rate changes	Total
Financial assets								
Cash and balance due from the Bank of Latvia	34,561	-	-	-	-	-	2,296	36,857
Demand deposits with credit institutions	80,122	-	-	-	-	-	-	80,122
Held to maturity investments	20,600	-	1,103	1,761	4,966	1,047	-	29,477
Loans to customers	3,607	14,066	28,918	20,040	16,590	3,090	-	86,311
Loans and term deposits due from credit institutions	961	-	-	2,498	-	-	-	3,459
Financial assets held for trading	-	-	-	-	-	-	15	15
Other financial assets	-	-	-	-	-	-	1,726	1,726
Total financial assets	**139,851**	**14,066**	**30,021**	**24,299**	**21,556**	**4,137**	**4,037**	**237,967**
Financial liabilities								
Due to credit institutions on demand	28	-	-	-	-	-	-	28
Deposits	165,761	6,866	9,794	17,650	4,363	138	547	205,119
Subordinated liabilities	-	-	-	-	3,612	1,054	-	4,666
Other financial liabilities	-	-	-	-	-	-	14,395	14,395
Total financial liabilities	**165,789**	**6,866**	**9,794**	**17,650**	**7,975**	**1,192**	**14,942**	**224,208**
Interest rate risk	**(25,938)**	**7,200**	**20,227**	**6,649**	**13,581**	**2,945**	**(10,905)**	**13,759**

32 INTEREST RATE REPRICING ANALYSIS (CONTINUED)

The interest rate repricing analysis of the Group's and Bank's financial assets and liabilities as of 31 December 2012 was as follows:

Group

LVL'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1- 5 years	Over 5 years	Not sensitive against interest rate changes	Total
Financial assets								
Cash and balance due from the Bank of Latvia	20,727	-	-	-	-	-	2,807	23,534
Held to maturity investments	21,240	-	1,580	1,709	1,783	1,063	-	27,375
Loans to customers	3,208	1,432	6,493	24,867	26,876	12,454		75,330
Loans and term deposits due from credit institutions	200	2,250	-	2,575	-	-	-	5,025
Financial assets held for trading	-	-	-	-	-	-	26	26
Other financial assets	-	-	-	-	-	-	2,589	2,589
Total financial assets	**92,772**	**3,682**	**8,073**	**29,151**	**28,659**	**13,517**	**5,422**	**181,276**
Financial liabilities								
Due to credit institutions on demand	94	-	-	-	-	-	-	94
Deposits	130,893	6,931	10,380	9,604	3,283	76	504	161,671
Subordinated liabilities	-	-	-	-	1,776	2,268	-	4,044
Other financial liabilities	-	-	-	-	-	-	9,170	9,170
Total financial liabilities	**130,987**	**6,931**	**10,380**	**9,604**	**5,059**	**2,344**	**9,674**	**174,979**
Interest rate risk	**(38,215)**	**(3,249)**	**(2,307)**	**19,547**	**23,600**	**11,173**	**(4,252)**	**6,297**

32 INTEREST RATE REPRICING ANALYSIS (CONTINUED)

Bank

LVL'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1- 5 years	Over 5 years	Not sensitive against interest rate changes	Total
Financial assets								
Cash and balance due from the Bank of Latvia	20,727	-	-	-	-	-	2,807	23,534
Demand deposits with credit institutions	47,397	-	-	-	-	-	-	47,397
Held to maturity investments	21,240	-	1,580	1,709	1,783	1,063	-	27,375
Loans to customers	4,172	5,457	30,442	27,418	12,080	1,746	-	81,315
Loans and term deposits due from credit institutions	200	2,250	-	2,575				5,025
Financial assets held for trading	-	-	-	-	-	-	26	26
Other financial assets	-	-	-	-	-	-	712	712
Total financial assets	**93,736**	**7,707**	**32,022**	**31,702**	**13,863**	**2,809**	**3,545**	**185,384**
Financial liabilities								
Due to credit institutions on demand	94	-	-	-	-	-	-	94
Deposits	130,893	6,931	10,380	9,604	3,283	76	504	161,671
Subordinated liabilities	-	-	-	-	1,776	2,268	-	4,044
Other financial liabilities	-	-	-	-	-	-	8,618	8,618
Total financial liabilities	**130,987**	**6,931**	**10,380**	**9,604**	**5,059**	**2,344**	**9,122**	**174,427**
Interest rate risk	**(37,251)**	**776**	**21,642**	**22,098**	**8,804**	**465**	**(5,577)**	**10,957**

32 INTEREST RATE REPRICING ANALYSIS (CONTINUED)

Sensitivity analyses

The following demonstrates the sensitivity to reasonably possible changes in interest rates of the Bank's statement of comprehensive income. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The sensitivity of statement of comprehensive income is the effect of the assumed changes in the interest rates on the net interest income for one year, following the reporting period end date, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2013 and 31 December 2012.

Sensitivity of the Group's profit and loss to changes in interest rates is not disclosed separately as it does not differ significantly from that of the Bank.

An increase and decrease of interest rates by 100 basis points would result in the following change to the statement of comprehensive income and equity:

	Net interest income sensitivity Interest rate increase **LVL'000**	**Net interest income sensitivity** Interest rate decrease **LVL'000**
As at 31 December 2013		
Aggregate impact	**(59)**	**59**
As at 31 December 2012		
Aggregate impact	**(158)**	**158**

33 FINANCIAL ASSETS AND LIABILITIES BY TYPES

Group, as at 31 December 2013

LVL'000	Held to maturity investments	Financial assets and liabilities designated at fair value through profit or loss;	Loans and receivables	Liabilities at amortized cost	Total
Financial assets					
Cash and balance due from the Bank of Latvia	-	-	36,857	-	**36,857**
Demand deposits with credit institutions	-	-	80,122	-	**80,122**
Held to maturity investments	29,477	-	-	-	**29,477**
Loans and receivables	-	-	82,712		**82,712**
Financial assets held for trading	-	15	-	-	**15**
Other financial assets	-	-	3,275	-	**3,275**
Total financial assets	**29,477**	**15**	**202,966**	**-**	**232,458**
Financial liabilities					
Due to credit institutions on demand	-	-	-	28	**28**
Deposits	-			205,115	**205,115**
Subordinated liabilities	-	-	-	4,666	**4,666**
Other financial liabilities	-	-	-	14,520	**14,520**
Total financial liabilities	**-**	**-**	**-**	**224,329**	**224,329**

33 FINANCIAL ASSETS AND LIABILITIES BY TYPES (CONTINUED)

Bank, as at 31 December 2013

LVL'000	Held to maturity investments	Financial assets and liabilities designated at fair value through profit or loss;	Loans and receivables	Liabilities at amortized cost	Total
Financial assets					
Cash and balance due from the Bank of Latvia	-	-	36,857	-	**36,857**
Demand deposits with credit institutions	-	-	80,122	-	**80,122**
Held to maturity investments	29,477	-	-	-	**29,477**
Loans and receivables	-	-	89,770		**89,770**
Financial assets held for trading	-	15	-	-	**15**
Other financial assets	-	-	1,726	-	**1,726**
Total financial assets	**29,477**	**15**	**208,475**	-	**237,967**
Financial liabilities					
Due to credit institutions on demand	-	-	-	28	**28**
Deposits	-	-		205,119	**205,119**
Subordinated liabilities	-	-	-	4,666	**4,666**
Other financial liabilities	-	-	-	14,395	**14,395**
Total financial liabilities	-	-	-	**224,208**	**224,208**

Group 31 December 2012

LVL'000	Held to maturity	Financial assets at fair value through profit and loss	Loans and receivables	Liabilities at amortised cost	Total
Financial assets					
Cash and balance due from the Bank of Latvia	-	-	23,534	-	**23,534**
Demand deposits with credit institutions	-	-	47,397	-	**47,397**
Held to maturity investments	27,375	-	-	-	**27,375**
Loans and receivables	-	-	80,355		**80,355**
Financial assets held for trading	-	26	-	-	**26**
Other financial assets	-	-	2,589	-	**2,589**
Total financial assets	**27,375**	**26**	**153,875**	-	**181,276**
Financial liabilities					
Due to credit institutions on demand	-	-	-	94	**94**
Deposits	-			165,715	**165,715**
Subordinated liabilities	-	-	-	4,044	**4,044**
Other financial liabilities	-	-	-	9,170	**9,170**
Total financial liabilities	-	-	-	**179,023**	**179,023**

NOTES TO THE BANK SEPARATE AND GROUP CONSOLIDATED FINANCIAL STATEMENTS

33 FINANCIAL ASSETS AND LIABILITIES BY TYPES (CONTINUED)

Bank 31 December 2012

LVL'000	Held to maturity	Financial assets at fair value through profit and loss	Loans and receivables	Liabilities at amortised cost	Total
Financial assets					
Cash and balance due from the Bank of Latvia	-	-	23,534	-	**23,534**
Demand deposits with credit institutions	-	-	47,397	-	**47,397**
Held to maturity investments	27,375	-	-	-	**27,375**
Loans and receivables	-	-	86,340		**86,340**
Financial assets held for trading	-	26	-	-	**26**
Other financial assets	-	-	712	-	**712**
Total financial assets	**27,375**	**26**	**157,983**	-	**185,384**
Financial liabilities					
Due to credit institutions on demand	-	-	-	94	**94**
Deposits	-			165,715	**165,715**
Subordinated liabilities	-	-	-	4,044	**4,044**
Other financial liabilities	-	-	-	8,618	**8,618**
Total financial liabilities	-	-	-	**178,471**	**178,471**

34 CURRENCY ANALYSIS

The Group and Bank actively controls foreign exchange open positions. The Bank operates based on the Law on Credit Institutions stating that the open position in any currency should not exceed 10% of shareholders' equity and that the total open position should not exceed 20% of the shareholders' equity.

The currency analysis of the Group's and the Bank's assets, liabilities and contingent liabilities as at 31 December 2013 was as follows:

Group

	LVL	USD	EUR	Other	Total
As at 31 December 2013	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets					
Cash and balance due from the Bank of Latvia	25,559	360	10,513	425	**36,857**
Demand deposits with credit institutions	-	53,372	4,428	22,322	**80,122**
Held to maturity investments	2,819	25,028	-	1,630	**29,477**
Loans to customers	14,544	9,203	55,506	-	**79,253**
Loans and term deposits due from credit institutions	750	2,498	211	-	**3,459**
Financial assets held for trading	15	-	-	-	**15**
Other financial assets	2,302	41	322	610	**3,275**
Total financial assets	**45,989**	**90,502**	**70,980**	**24,987**	**232,458**
Financial liabilities					
Due to credit institutions on demand	16	4	1	7	**28**
Deposits	33,697	86,406	62,316	22,696	**205,115**
Subordinated liabilities	1,300	-	3,366	-	**4,666**
Other financial liabilities	223	10,027	1,932	2,338	**14,520**
Total financial liabilities	**35,236**	**96,437**	**67,615**	**25,041**	**224,329**
Net open position in the statement of financial position	10,753	(5,935)	3,365	(54)	**8,129**
Net open position total	**10,753**	**(5,935)**	**3,365**	**(54)**	**8,129**

34 CURRENCY ANALYSIS (CONTINUED)

Bank

As at 31 December 2013	LVL LVL'000	USD LVL'000	EUR LVL'000	Other LVL'000	Total LVL'000
Financial assets					
Cash and balance due from the Bank of Latvia	25,559	360	10,513	425	36,857
Demand deposits with credit institutions	-	53,372	4,428	22,322	80,122
Held to maturity investments	2,819	25,028	-	1,630	29,477
Loans to customers	19,759	9,439	57,113	-	86,311
Loans and term deposits due from credit institutions	750	2,498	211	-	3,459
Financial assets held for trading	15	-	-	-	15
Other financial assets	753	41	322	610	1,726
Total financial assets	**49,655**	**90,738**	**72,587**	**24,987**	**237,967**
Financial liabilities					
Due to credit institutions on demand	16	4	1	7	28
Deposits	33,701	86,406	62,316	22,696	205,119
Subordinated liabilities	1,300	-	3,366	-	4,666
Other financial liabilities	98	10,027	1,932	2,338	14,395
Total financial liabilities	**35,115**	**96,437**	**67,615**	**25,041**	**224,208**
Net open position in the statement of financial position	14,540	(5,699)	4,972	(54)	13,759
Net open position total	**14,540**	**(5,699)**	**4,972**	**(54)**	**13,759**

34 CURRENCY ANALYSIS (CONTINUED)

The currency analysis of the Group's and the Bank's financial assets, liabilities and contingent liabilities as at 31 December 2012 was as follows:

Group

As at 31 December 2012	LVL LVL'000	USD LVL'000	EUR LVL'000	Other LVL'000	Total LVL'000
Financial assets					
Cash and balance due from the Bank of Latvia	18,560	291	4,250	433	23,534
Demand deposits with credit institutions	-	29,088	4,159	14,150	47,397
Held to maturity investments	1,594	24,815	-	966	27,375
Loans to customers	12,510	19,629	43,191	-	75,330
Loans and term deposits due from credit institutions	2,450	2,575	-	-	5,025
Financial assets held for trading	26	-	-	-	26
Other financial assets	2,064	8	350	167	2,589
Total financial assets	**37,204**	**76,406**	**51,950**	**15,716**	**181,276**
Financial liabilities					
Due to credit institutions on demand	20	33	41	-	94
Deposits	27,030	70,464	48,681	15,496	161,671
Subordinated liabilities	1,300	-	2,744	-	4,044
Other financial liabilities	1,441	4,791	1,849	1,026	9,107
Total financial liabilities	**29,791**	**75,288**	**53,315**	**16,522**	**174,916**
Net open position in the statement of financial position	7,413	1,118	(1,365)	(806)	6,360
Net open position total	**7,413**	**1,118**	**(1,365)**	**(806)**	**6,360**

34 CURRENCY ANALYSIS (CONTINUED)

Bank

As at 31 December 2012	LVL LVL'000	USD LVL'000	EUR LVL'000	Other LVL'000	Total LVL'000
Financial assets					
Cash and balance due from the Bank of Latvia	18,560	291	4,250	433	23,534
Demand deposits with credit institutions	-	29,088	4,159	14,150	47,397
Held to maturity investments	1,594	24,815	-	966	27,375
Loans to customers	17,796	19,533	43,986	-	81,315
Loans and term deposits due from credit institutions	2,450	2,575	-	-	5,025
Financial assets held for trading	26	-	-	-	26
Other financial assets	187	8	350	167	712
Total financial assets	**40,613**	**76,310**	**52,745**	**15,716**	**185,384**
Financial liabilities					
Due to credit institutions on demand	20	33	41	-	94
Deposits	27,030	70,464	48,681	15,496	161,671
Subordinated liabilities	1,300	-	2,744	-	4,044
Other financial liabilities	952	4,791	1,849	1,026	8,618
Total financial liabilities	**29,302**	**75,288**	**53,315**	**16,522**	**174,427**
Net open position in the statement of financial position	11,311	1,022	(570)	(806)	10,957
Net open position total	**11,311**	**1,022**	**(570)**	**(806)**	**10,957**

An analysis of sensitivity of the Group's and Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2012 and 2013 and a simplified scenario of a 10% change in USD or EUR to LVL exchange rates is as follows:

Group

'000 LVL	2013 Net profit	2012 Net profit
10% appreciation of USD against LVL	(60)	(20)
10% depreciation of USD against LVL	60	20

Bank

'000 LVL	2013 Net profit	2012 Net profit
10% appreciation of USD against LVL	(36)	(30)
10% depreciation of USD against LVL	36	30

The foreign exchange rate is LVL/EUR is pegged as at 31 December 2013 and 31 December 2012.

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The below amounts represent the financial assets and liabilities grouped by residual maturity.

The Finance Operation Department based on its liquidity management policy manages liquidity risk. All departments whose operations affect the liquidity of the Group and Bank are involved in liquidity management. The structure of assets/liabilities and the difference between them are calculated in order to carry out liquidity control. Liquidity is largely managed by using monetary instruments.

The maturity analysis of the Group' s and Bank's financial assets and liabilities as at 31 December 2013 was as follows:

Group

As at 31 December 2013	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 to 12 months LVL'000	Over 1 year LVL'000	Over 5 years or not determined LVL'000	Total LVL'000
Financial assets							
Cash and balance due from the Bank of Latvia	36,857	-	-	-	-	-	36,857
Demand deposits with credit institutions	80,122	-	-	-	-	-	80,122
Held to maturity investment	20,600	-	1,103	1,761	4,966	1,047	29,477
Loans and term deposits due from credit institutions	961	-	-	2,498	-	-	3,459
Loans to customers	2,405	2,585	8,408	17,148	44,244	4,463	79,253
Financial assets held for trading	-	-	-	-	15	-	15
Other financial assets	3,275	-	-	-	-	-	3,275
Total financial assets	**144,220**	**2,585**	**9,511**	**21,407**	**49,225**	**5,510**	**232,458**
Financial liabilities							
Due to credit institutions on demand	28	-	-	-	-	-	28
Deposits	164,938	7,022	10,069	18,371	4,715	-	205,115
Subordinated liabilities	-	-	-	-	3,612	1,054	4,666
Other financial liabilities	14,520	-	-	-	-	-	14,520
Total financial liabilities	**179,486**	**7,022**	**10,069**	**18,371**	**8,327**	**1,054**	**224,329**
Liquidity risk	**(35,266)**	**(4,437)**	**(558)**	**3,036**	**40,898**	**4,456**	**8,129**

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

Bank

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Over 5 years or not determined	Total
As at 31 December 2013	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets							
Cash and balance due from the Bank of Latvia	36,857	-	-	-	-	-	36,857
Demand deposits with credit institutions	80,122	-	-	-	-	-	80,122
Held to maturity investment	20,600	-	1,103	1,761	4,966	1,047	29,477
Loans and term deposits due from credit institutions	961	-	-	2,498	-	-	3,459
Loans to customers	2,203	2,729	8,166	24,779	45,344	3,090	86,311
Financial assets held for trading	-	-	-	-	15	-	15
Other financial assets	1,726	-	-	-	-	-	1,726
Total financial assets	**142,469**	**2,729**	**9,269**	**29,038**	**50,325**	**4,137**	**237,967**
Financial liabilities							
Due to credit institutions on demand	28	-	-	-	-	-	28
Deposits	164,942	7,022	10,069	18,371	4,715	-	205,119
Subordinated liabilities	-	-	-	-	3,612	1,054	4,666
Other financial liabilities	14,395	-	-	-	-	-	14,395
Total financial liabilities	**179,365**	**7,022**	**10,069**	**18,371**	**8,327**	**1,054**	**224,208**
Liquidity risk	**(36,896)**	**(4,293)**	**(800)**	**10,667**	**41,998**	**3,083**	**13,759**

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

The maturity analysis of the Bank's assets and liabilities as of 31 December 2012 was as follows:

Group

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Over 5 years or not determined	Total
As at 31 December 2012	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets							
Cash and balance due from the Bank of Latvia	23,534	-	-	-	-	-	23,534
Demand deposits with credit institutions	47,397	-	-	-	-	-	47,397
Held to maturity investments	21,240	-	1,580	1,709	1,783	1,063	27,375
Loans and term deposits due from credit institutions	200	2,250	-	2,575	-	-	5,025
Loans to customers	3,208	1,432	6,493	24,867	27,247	12,083	75,330
Financial assets held for trading	-	-	-	-	26	-	26
Other financial assets	2,589	-	-	-	-	-	2,589
Total financial assets	**98,168**	**3,682**	**8,073**	**29,151**	**29,056**	**13,146**	**181,276**
Financial liabilities							
Due to credit institutions on demand	94	-	-	-	-	-	94
Deposits	131,027	7,018	10,487	9,674	3,465	-	161,671
Subordinated liabilities	-	-	-	-	1,779	2,265	4,044
Other financial liabilities	9,107	-	-	-	-	-	9,107
Total financial liabilities	**140,228**	**7,018**	**10,487**	**9,674**	**5,244**	**2,265**	**174,916**
Liquidity risk	**(42,060)**	**(3,336)**	**(2,414)**	**19,477**	**23,812**	**10,881**	**6,360**

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

Bank

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Over 5 years or not determined	Total
As at 31 December 2012	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets							
Cash and balance due from the Bank of Latvia	23,534	-	-	-	-	-	23,534
Demand deposits with credit institutions	47,397	-	-	-	-	-	47,397
Held to maturity investments	21,240	-	1,580	1,709	1,783	1,063	27,375
Loans and term deposits due from credit institutions	200	2,250	-	2,575	-	-	5,025
Loans to customers	3,211	1,815	5,723	32,416	29,335	8,815	81,315
Financial assets held for trading	-	-	-	-	26	-	26
Other financial assets	712	-	-	-	-	-	712
Total financial assets	**96,294**	**4,065**	**7,303**	**36,700**	**31,144**	**9,878**	**185,384**
Financial liabilities							
Due to credit institutions on demand	94	-	-	-	-	-	94
Deposits	131,027	7,018	10,487	9,674	3,465	-	161,671
Subordinated liabilities	-	-	-	-	1,779	2,265	4,044
Other financial liabilities	8,618	-	-	-	-	-	8,618
Total financial liabilities	**139,739**	**7,018**	**10,487**	**9,674**	**5,244**	**2,265**	**174,427**
Liquidity risk	**(43,445)**	**(2,953)**	**(3,184)**	**27,026**	**25,900**	**7,613**	**10,957**

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

Analysis of financial liabilities' contractual undiscounted cash flows.

The table below presents the cash flows payable by the Bank under both non-derivative and derivative financial liabilities by remaining contractual maturities as at 31 December 2013 and 2012.

The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The Group analysis of financial liabilities' contractual undiscounted cash flows has not been presented as the differences to the Bank analysis are insignificant.

As at 31 December 2013	Carrying amount	Gross nominal out flow	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Non-derivative financial liabilities							
Due to credit institutions on demand	(28)	(28)	(28)	-	-	-	-
Deposits	(205,119)	(205,515)	(164,938)	(7,042)	(28,820)	(4,715)	-
Subordinated liabilities	(4,666)	(5,489)	(3)	(44)	(88)	(4,262)	(1,092)
Other financial liabilities	(14,395)	(14,395)	(14,395)	-	-	-	-
Total non-derivative financial liabilities	**(224,208)**	**(225,427)**	**(179,364)**	**(7,086)**	**(28,908)**	**(8,977)**	**(1,092)**
Loans and credit line liabilities	(3,367)	(3,367)	(3,367)	-	-	-	-
Guarantees and letters of credit	(3,998)	(3,998)	-	(3,998)	-	-	-
Total financial liabilities	**(231,573)**	**(232,792)**	**(182,731)**	**(11,084)**	**(28,908)**	**(8,977)**	**(1,092)**

As at 31 December 2012	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Non-derivative financial liabilities							
Due to credit institutions on demand	(94)	(94)	(94)	-	-	-	-
Deposits	(161,671)	(162,670)	(131,038)	(7,157)	(20,800)	(3,675)	-
Subordinated liabilities	(4,044)	(4,911)	(3)	(44)	(84)	(2,321)	(2,459)
Other liabilities	(8,618)	(8,618)	(8,618)	-	-	-	-
Total non-derivative financial liabilities	**(174,427)**	**(176,293)**	**(139,753)**	**(7,201)**	**(20,884)**	**(5,996)**	**(2,459)**
Loans and credit line liabilities	(5,053)	(5,053)	(5,053)	-	-	-	-
Guarantees and letters of credit	(3,822)	(3,822)	-	(3,822)	-	-	-
Total financial liabilities	**(183,302)**	**(185,168)**	**(144,806)**	**(11,023)**	**(20,884)**	**(5,996)**	**(2,459)**

36 CAPITAL ADEQUACY

The legislation of Latvia requires Latvian banks to maintain a minimum capital adequacy ratio of 8%. According to the rules of the Financial and Capital Market Commission, the Bank is required to maintain a capital adequacy ratio of 10.4% starting 1 October 2012 and a capital adequacy ratio of 10.8% starting 1 October 2013. As at 31 December 2013 and 2012 the Bank's activity complies with the requirements of the capital adequacy ratio and equity minimum prescribed by the Law on Credit Institutions and by the Financial and Capital Market Commission requirements.

The Financial and Capital Market Commission requirements are principally consistent with the Basel Committee guidelines and the European Union directives for the calculation of equity to be utilised in the capital adequacy ratio. Based on these requirements set by the Financial and Capital Market Commission, the Bank's equity to be utilised in the capital adequacy ratio as at 31 December 2013 has been calculated as follows below:

	2013 LVL'000	2012 LVL'000
Tier 1		
Paid-in share capital	11,006	9,006
Share premium on share issue	182	182
Reserves	105	105
Retained earnings for the previous periods	2,043	752
(Loss) / profit for the year	1,152	1,291
Reduction of Tier 1 capital	(575)	(790)
Total Tier 1	**13,913**	**10,546**
Tier 2 capital		
Subordinated capital	4,012	3,879
Reduction of Tier 2 capital	(575)	(790)
Total Tier 2 capital	**3,437**	**3,089**
Equity to be utilised in the adequacy ratio per FCMC	**17,350**	**13,635**
Summary		
Credit risk capital requirement	8,841	7,876
Currency risk capital requirement	62	59
Operational risk capital requirement	982	806
Total	**9,885**	**8,741**
Cover of capital requirement	**7,465**	**4,894**
Capital adequacy rate according to FCMC requirements	**14%**	**12%**
Minimal capital adequacy rate according to the requirements of Basel Capital Accord	**8%**	**8%**

37 MAXIMUM CREDIT RISK EXPOSURE

The table below shows the maximum credit risk for the components of the statement of the financial position, including derivatives. Credit risk exposure is disclosed based on subjected to credit risk net carrying amount of statement of financial position items less doubtful loans and receivables.

The maximum credit exposures are shown gross, i.e. without taking into account any pledges and collaterals. Detailed information on the type and amount of collateral is presented in the respective notes.

The maximum credit risk exposure for the Group is not disclosed as it does not differ significantly from that of the Bank.

	Maximum credit exposure	
	2013	**2012**
Balances with the Bank of Latvia	34,561	20,727
Demand deposits with credit institutions	80,122	47,397
Held to maturity investments	29,477	27,375
Loans and term deposits due from credit institutions	3,459	5,025
Loans and receivables	86,311	81,315
Financial assets held for trading	15	26
Other assets	1,726	712
Total items of the statement of financial position subjected to credit risk	**235,671**	**182,577**
Loans and credit line liabilities	3,367	3,822
Guarantees and letters of credit	3,998	5,053
Forecasted and contingent liabilities	**7,365**	**8,875**
Maximum credit risk in total	**243,036**	**191,452**

As it is shown above, 35 % from total gross maximum credit risk amount refers to loans and receivables (2012: 42%).

38 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Financial instruments measured at fair value

The table below analyses financial instruments of the Group and the Bank measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

2013	Level 1 '000 LVL	Level 2 '000 LVL	Level 3 '000 LVL	Total '000 LVL
Financial assets				
Available for sale instruments	15	-	-	15
2012				
Financial assets				
Available for sale instruments	26	-	-	26

(b) Financial instruments not measured at fair value

The table below analyses the fair values of the Bank financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised. The Group fair values Of financial instruments not measured at fair value is not disclosed and the Group's values do not significantly differ from the Bank's values:

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31 December 2013	Level 1 '000 LVL	Level 2 '000 LVL	Level 3 '000 LVL	Total fair values '000 LVL	Total carrying amount '000 LVL
Financial assets					
Cash and balance due from the Bank of Latvia	-	36,857	-	36,857	36,857
Demand deposits with credit institutions	-	80,122	-	80,122	80,122
Loans	-	89,770	-	89,770	89,770
Held to maturity investments	29,679	-	-	29,679	29,477
Other financial assets	-	1,726	-	1,726	1,726
Financial liabilities					
Due to credit institutions on demand	-	28	-	28	28
Deposits	-	205,119	-	205,119	205,119
Subordinated liabilities	-	4,666	-	4,666	4,666
Other financial liabilities	-	14,395	-	14,395	14,395

31 December 2012					
Cash and balance due from the Bank of Latvia	-	23,534	-	23,534	23,534
Demand deposits with credit institutions	-	47,397	-	47,397	47,397
Loans	-	86,340	-	86,340	86,340
Held to maturity investments	27,503	-	-	27,503	27,375
Other financial assets	-	712	-	712	712
Financial liabilities					
Due to credit institutions on demand	-	94	-	94	94
Deposits	-	161,671	-	161,671	161,671
Subordinated liabilities	-	4,044	-	4,044	4,044
Other financial liabilities	-	8,618	-	8,618	8,618

39 LITIGATION

In the ordinary course of business the Group and Bank are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group or the Bank.

40 SUBSEQUENT EVENTS

On 1 January 2014 the Republic of Latvia joined the euro-zone and the Latvian Lat was replaced by the euro.

As a result, SMP Bank AS converted its financial accounting to euros as from 1 January 2014 and the financial statements for subsequent years will be prepared and presented in euros.

Future comparative information will be translated into Euros using the official exchange rate of LVL 0.702804 to EUR 1.