Annual Report

Special Edition of the Year 2013

RIETUMU

Contents

Foreword by the President of Rietumu Bank

Alexander Pankov

Chairman of the Board, President

Dear Shareholders, Customers
and Business Partners!

2013 marked another successful and promising year for the Group and the Bank continued its reputation as one of the best managed and stable financial institutions in the Baltic States.
The Group maintained its strategy to offer a comprehensive range of banking products of the highest level for corporate customers and high net worth individuals. The Group's financial results showed record profits and the Groups managed significant improvements in returns on shareholders' investment. Our commitment to our customers was rewarded again not only by our customers' success but the Bank was also rewarded by receiving the award from SPEAR`S Russia Wealth Management Awards as the Best bank in the CIS and Baltic countries that provides the services of private banking and high money management for Russian clients for the third time year in a row.

The Group is striving to be a responsible corporation that follows and evolves together with our customers. The Group always wants to be the best in what we do and in achieving this we provide individual and tailor made services to our customers. Relationship banking is one of the keys to our success and we treat our customers like business partners. In addition, we believe that in the long term we can be more successful by employing the very latest banking technologies and employing the most professional people.

The Group has extensive experience in the EU and CIS countries and the Group sees itself as a bridge between East and West as many of its customers operate in Latvia, the Baltic States, Western Europe, Russia and other CIS countries.

The Group understands business environments in both Western and Eastern Europe.
In addition the Group maintains a close contact with our clients through an extensive network of representative offices. All customers have access to the Bank remotely through internet banking, phone banking, private bankers and regional managers and 24 h customer support service.

During 2013, much of the efforts of previous years to increase commission type of income started to show in the financial results of the Group and commission type of income reached 42% of total income. Significant structural changes to the commission structure as well as customer profile were drivers of growth in commission income. The Bank is a leader in the Baltic States in e-Commerce and revenue from e-commerce has become a core commission income component in 2013 and going forward.
In 2013, as before, the Group focused its lending activity on medium sized projects in Latvia as well as in the Baltic States, Russia and CIS countries. The Group goal is to build a profitable lending portfolio which is based on very conservatism principles and which is diversified by industries, geographies and average loan size.

The Bank also replaced its internet banking platform during 2013 with a new system that has high security levels as well a new enhanced customer service and communication levels.

In 2013, the Group also restructured its securities brokerage business which we believe will contribute much to the future growth of the Group.

On the first of January 2014 Latvia successfully joined the Euro and we believe that this new phase for the Latvian economy will also greatly benefit the Group. We are looking forward to 2014 and beyond and we firmly believe that we will continue to offer our customers the best service possible allowing the Group to continue our stable and successful development.
We owe our success to our customers and business partners and we would like to express our appreciation to our customers and business partners for the trust that they have placed in us.

Financial Markets & Treasury

97.4 %

– an increase of the net audited profit compared to 2012

Rolf Fuls

Member of the Board, senior Vice-president in charge of treasury, financial planning and control

The Group closed 2013 with record after tax profit attributable to the Bank's shareholders of LVL 43.7 m which represents an increase of 97.4% compared to 2012. The Group generated for its shareholders an after tax return on equity of 25.7% (2012: 14.6%) and an after tax return on assets of 2.5% (2012: 1.5%).

Profitability

Many of the Group's business units contributed to the increase in net profit and the income distribution was well diversified across the business units of the Group. Operating income reached LVL 98.5 m which represents an increase of 27.3% from 2012. Net interest income increased by 36.7% to LVL 46.7 m due to growth in the Group`s lending portfolio. Exceptional growth in income from e-commerce and changes in the Bank's tariff structure resulted in net fee and commission income increasing by 36.7% to LVL 26.3 m. The Group has always been cautious to keep administrative expenses under tight control and in 2013, administrative expenses slightly decreased by 1.3% mainly due to less advertisingand marketing spending compared to 2012 in which the Bank celebrated its 20th year anniversary. The Group is very proud to have reached its goal of maintaining a cost to income ratio of less than 40% and in 2013 this ratio reached 37.4%. The Group's goal is to continue to maintain a cost income ratio of less than 40%. The Groups effective tax rate was 12.7% compared to 14.7% for the previous year. The result of the above is that the Group reached a profit margin of 51.1% compared to 33.6% in 2012.

Total Assets

Total assets also reached record highs and as at 31 December 2013 the Group's total assets were LVL 2,058 m. This represents an increase of 24.7% compared to 2012. The Bank's follows a conservative approach to asset allocation and about 55% of the Group's assets invested in liquidity management portfolios. About 85% of the liquidity management portfolio is invested in short term money market placement with large mainly European banks. The tenor of these placements is between 1 day and 7 days. The remaining 15% of the liquidity management portfolios are invested in collateralized instruments with large and stable financial institutions and a short term bond portfolio. Collateralized instruments represent reverse repos or similar instruments and have a tenor of between 1 and 6 months. The bond portfolio is primarily invested in corporate investment grade securities with a tenor of not more than 18 months. Given the current low interest rate environment and low margins in the market of short dated securities, more bonds are maturing than the Bank is purchasing to renew the portfolio. The Bank expects this trend to continue until margins improve and in 2014, the Bank plans to increase collateralized reverse repos and similar instruments to partly compensate the loss of revenue in the decreasing bond portfolio.

Loans and receivables due to customers

The Group follows a conservative lending policy focusing on its strength which is create specific and tailor made products to meet customer's requirements. Loans and receivables due from customers represent about 38% of total assets. Since 2010 this ratio has not exceeded 45% and the Bank does not plan that this ratio exceeds 45% in the nearest future. The vast majority of loans have collateral and as at 31 December 2013 the average loan to value ratio of the total lending portfolio is 68%. The commercial loan portfolio represents about 85% of the total loans of LVL 790.9 m and the effective average interest rate for 2013 was 6.7%. Latvia, Russia and Belarus represent the largest commercial lending markets with real estate management, financial services and transport representing the largest industries in the commercial loan portfolio. The second largest category of lending is margin lending to customers against liquid securities as collateral and this represents about 15% of the total loan portfolio. The effective average interest rate for 2013 for margin loans was 3.6%. In 2013 the impairment losses expense decreased to LVL 11.6 m down from LVL 13.8 m in 2012 with the expense representing 1.6% (2012: 2.3%) of total loans and receivables due from customers.

Current accounts and deposits due to customers

During 2013, the funding sources of the Group remained unchanged in that the Group finances its activity through current accounts and deposits due to customers and shareholders' equity. Current accounts and deposits due to customers reached LVL 1,803 m up 25% compared to 2012. Current accounts represented LVL 1,567 or 86.9% of total current accounts and customer deposits. Current accounts represent essentially free funding for the Bank. Despite the fact that current accounts can be withdrawn at any time, they have proven to be a stable funding source as has been witnessed again in the Latvian and world financial crises of 2008 and 2009. Term deposits amounted to LVL 236 m as at 31 December 2013 and included in this are LVL 74 m of subordinated deposits. The Bank focuses on term deposits for 1 year or more and the average tenor of term deposits is 3.4 years with the average effective interest rate in 2013 of 2.6%. The average effective interest rate for subordinated deposits in 2013 was 5.66%. During 2014, the Bank plans to issue senior bonds to its customers that will be listed on the NASDAQ OMX Riga Stock Exchange partly replacing the customer term deposits.

Shareholders' equity

Group total shareholders' equity reached LVL199 m as of 31 December 2013 representing a 23% increase from 2012. Group Tier I and total capital adequacy capital adequacy ratios were 13.6% (2012: 13.8%) and 17.8% (2012: 18.8%) respectively. The Bank has always aimed to maintain high capital adequacy ratios and this has been the basis for maintaining financial stability and growth in the Group for more than 20 years. In the first quarter of 2014, the Bank issued 13.25 m preference shares for Euro 45.6 m. As opposed to subordinated debt, preference shares do not have a maturity date and these preference shares will partly replace subordinated deposits. In preceding years the Bank paid a dividend of 25% of annual profit. The Bank plans to change its dividend policy for the 2013 year and the Bank plans to pay a dividend equal to 50% of the annual profit representing a dividend per share of LVL 0.19.

Non-banking companies

The major non-banking companies represent leasing and consumer finance companies, reposed real estate and other reposed collateral maintenance companies and asset management and financial companies. It is the Bank's strategy as much as possible to fully integrate its subsidiaries into the Bank's management and control systems. The activities of Group companies are financed by the Bank via capital investments and loans. In most cases the Bank owns 100% of the shares of its subsidiaries.

The focus of leasing subsidiaries is industrial equipment leasing in Belarus. The Belarus leasing companies have a net leasing portfolio of LVL 17.5 m (2012: 17.2 m) and contributed to the net profit after tax of the Group in the amount of LVL 606 thousand (2012: 101 thousand).

The Bank partly owns and finances a consumer leasing company named InCredit Group SIA which is registered and operates in Latvia. As of 31 December 2013, the net leasing portfolio of InCredit Group SIA was LVL 15.5 m and it contributed to the net profit after tax of the Group in the amount of LVL 661 thousand (2012: LVL 335 thousand).

RB Investments Group, owns most of the significant real estate that the Bank repossessed as well as other assets that the Bank took over on defaulted loans. Most of the reposed assets are located in Riga and the Riga region. RB Investments Group is renting out a portion of these assets and plans to sell most of its portfolio of assets in the next 5 years. As of 31 December 2013 RB Investments had total assets of LVL 34.2 m (2012: LVL 29.5 m), shareholders' equity of LVL 14.7 m (2012: LVL 13.4 m). RB Investments Group contributed LVL 1.5 m (2012: LVL 1.4 m) to the net profit after tax of the Group. The Bank also owns a Latvian registered investment fund, RB Opportunity Fund I which also owns some repossessed real estate. RB Opportunity Fund I had total assets of LVL 24.7 m (2012: 23.4m). RB Opportunity Fund contributed to the net profit after tax of the Group in the amount of LVL 1.2 m in profits.

As at 31 December 2013, the Bank owned a registered Latvian asset management company. The Bank also owns various companies that operate in the financial sector but work as support companies solely for the Bank. These include a Cypriot registered financial company that offers custody services to the Bank and a Russian registered securities brokerage company that offers brokerage services and custody to the Bank.

The Bank management is always working to improve the Group structure to enable all companies in the Group to be efficiently controlled and contribute the maximum to the Group profitability. In this light the Bank plans to sell or restructure some of its non-core subsidiaries during 2014.

Customer Service/ Operations

The number of customer increased by

15 %

Ruslan Stecyuk

Member of the Board, first Vice-president in charge of customer service

Customer services strategy: Quality and Individual approach

One of the Bank's priorities in 2013 remained to continue the development and improvement of customer service. The Bank continued to make efforts to improve the quality of its customer profile by utilising fundamental instruments like tariff policy, in depth knowledge of essential customer requirements, individualised and tailored services and products, advanced technologies and other factors that ensure high quality of services and customer loyalty.

During 2013 the number of customer increased by 15% and the Bank expanded its Private banking department to continue to provide our customers with the high quality services our customers expect. Currently every customer is allocated an individual private banking manager, that has high level professionalism and that can deal with a specific question, study a problem and understand the details of the transaction or project.

Achievements and new products

The developments and improvements in customer service, increase and improvement of customers as well as the working on the fundamental aspects of customer service allowed the Group's fee and commission type of income to reach 42% of the Group's operating income in 2013. The Group plans that fee and commission type income will continue to grow and in 2014 the Group expects that this will reach 50% of Group's operating income. During 2013 the Bank changed its commission policy with the aim to further improve its costumer profile. Customers were warned about these changes 6 months in advance and the new tariffs became effective on 1 Match 2014.

In 2013 the payment card business segment reached a total increase of 17% in the number of cards issued. The fact that the Bank's clients are mainly entrepreneurs and high net worth individuals is seen by the significant increase of 37% in the number of premium class Gold and Platinum payment cards issued in 2013. This growth combined with a deeper penetration of card products into the customer base, enabled the Bank to increase the net profit from payment cards by 10% in 2013 placing it amongst the leaders in the payment card business. In 2013, the Bank issued a special platinum card "Jurmala", which allows the customer to gain significant discounts and benefits when making premium purchases in Riga and Jurmala. This card is very popular among the customers of the Bank that receive Latvian residence permit or customers who regularly visit Latvia.

E-commerce services success and events

E-commerce continued to be a priority for the Bank. Demand is continuing to grow among wide range of existing and potential customers that are developing their businesses on the internet. In 2013, the growth in volumes of e-commerce transactions resulted in the profit from e-commerce to grow by 2.5 times. As compared to 2013 we expect profitability to further double during 2014. The Bank closely cooperates with more than 20 major professional participants of the international e-commerce market (IPSP). The Bank also started preparing a new project to establish its own processing center for E-commerce services. In the last quarter of 2013 the Bank hosted the second international conference on e-commerce business named «eCom21». This conference was the largest forum in the Baltics region and there were about 500 participants from 25 countries.

Lending & Investments

Profitability of the lending portfolio has been constantly improving since the severe recession in Latvian in 2008 and 2009.

Renat Lokomet

Member of the Board, senior Vice-president in charge of lending and investments

Achievements and Financial Results

As at 31 December 2013 loans and receivables of the Group increased by 19.1% compared to 2012 and grew to LVL 790.8 m. Profitability of the lending portfolio has been constantly improving since the severe recession in Latvian in 2008 and 2009 and 2013 marked a very successful year for the Group's lending activities. The Group is proud of every project that enabled our customers' to successfully in develop their businesses. During year 2013 Group financed various large and challenging lending projects in a diversified range of industries including development of office and modern logistic centres, financing shipping and rolling stock and trade finance. The Group is focusing its lending policy to finance average size projects and as of 31 December 2013 the average outstanding amount of the commercial loan to individual groups of customers was approximately to LVL 1.25 m. The Group is systematically reducing any concentration risks on large projects and during the previous 3 years the sum of loans exceeding 10% of the Group's regulatory capital decreased twice. In addition the average weight of such loans in the total portfolio decreased from 27% to 10% resulting in the Group raising its stress resistance and readiness for various economic turbulences in its main markets of lending.

Lending strategy, objectives and markets

During 2013 the Group continued to follow a conservative lending policy but also expanded the portfolio while diversifying both the industries and geography of the lending activities. The main markets that the Group lend in still remain Russia, Latvia and Belarus. The Bank continued to focus cash flow generating liquid commercial real estate, transport and financial portfolios (leasing portfolios, mortgage portfolios etc.). In addition, the Bank is continuing to actively develop trade finance. By focusing on trade finance services the Bank also managed to penetrate its existing customer base with new products to help support our customers' international trade.

Our professional team

The Group offers to its costumers not only lending services, but in the process of lending the Group assists customer with various consulting and corporate support. The Bank is creates tailor made solutions to customers and each customer has the opportunity to find the options that suit them the best. It is not unusual for the Group to assist in the legal work, registration of all necessary documentation and finally to provide financing for the purchase of the investment.

Vision of the future

The Bank always tries to develop long-term relationship with its customers and to develop a long-term and partnership with the customer while growing to meet the customer's needs. In 2014 the Group plans to continue growing its lending portfolio and in particular the Group plans to continue to principles of lending to existing businesses that are financially stable and successful customers that have sufficient cash flow to meet their obligations against liquid and adequate collateral.

Sales / Marketing / Regional development

We believe our country is stable and successful.

Ilya Suharenko

Member of the Board, senior Vice-president in charge of sales and advertising

Basic strategy

An important component of the Bank's information strategy was the topic of Latvia, we believe our country is stable and successful, with developed financial and banking system, has good business opportunities and is a member of the European Union. This approach was a key to success and led to a significant increase in new customers of the Bank, including customers from abroad, who have translated their financial operations to Latvia from other countries which are still feeling the effects of the financial crisis.

Understanding customer needs

Bank developed and implemented the program "Rietumu Express", which allows our customers to open a current account, issue a payment card and provide access to online banking to a new customer during one day. To ensure that the system works, The Group made significant changes to legal base of relations between Bank and customers as well as improving the relevant procedures.

The Group also developed and implemented a new system of video communication with Representative offices. This allows the opportunity to hold video conferences and negotiations with the Group's customers in other countries and we can review and discuss specific transactions, projects, provide advice, etc. This capability greatly enhances the personal contact with customers of the Group, operational effectiveness of decision making and control process.

Participation in customer business development

To better understand our customer needs, representatives of the management of the Group actively participated in major international business conferences on topics such as transportation, logistics and trade. In some cases, the Group's management took role as organizer of business conferences and forums abroad. Group high level management participated in official business delegations from Latvia. This allowed to continue the development of contacts and relationships to represent the Group at the highest level and to offer services and opportunities to the Group's focused target audience. In continuing to develop the customer base another key to successful communication with our customers is that we can communicate our services to our customers not only in internationally spoken languages like English, Russian, German and French , but also in the languages of more than 20 languages of specific countries.

Customer Support & Technologies

Eugene Dugaev

Member of the Board, senior Vice-president in charge of IT and business technologies

In 2014 the Bank plans also to complete a unique mobile banking.

Strategy, basics and solutions

The Group views Information Technology as a primary tool to amplify the effect form the business and ensure business continuity. The Group is striving to make the technology be as invisible as possible to every end user, whether it is an employee or a customer. In achieving this goal, our employees servicing customers remain focused on providing the best personalized service utilizing all necessary tools to make informed decisions fast and thus, keep the Group growing successfully. The Group demonstrates significant growth from year to year and IT supports its growth. The systems that we build are built for change. In Bank IT we develop in-house everything that represents our business know-how and thus captures our business logic, customer profiling, data mining and discovery, risk management, CRM, internet and mobile banking. At the same time, we outsource systems that already became an "IT commodity", GL, credit cards, infrastructure, brokerage, clearing.

Changes and improvements

Starting from 1 January 2014 along with Latvia we have successfully completed the migration to Euro. During 2013 we launched a sophisticated real-time alerting and notification system that allows our customers to set up over 30 alerting scenarios for deals, cards, current and investment accounts. In 2013 we have fully replaced our Internet Banking system with a brand new iRietumu solution that combines ease of use along with high security and rich transactional and communication abilities. The Bank does not differentiate between corporate and private features of the Internet banking systems. We believe that these are always real people on the other side of the system and we believe all our features should be accessible to all of them. Our customers can also set up deep integration of their corporate or personal accounting systems with the Bank to retrieve structured account data in real time. The new product is called Enterprise Link and is easy to configure while maintaining high security levels.

Future of our technologies

Forthcoming year 2014 is a big challenge for our IT, we are building a processing centre to support the growing processing volumes of our e-commerce customers. We also have scheduled network infrastructure upgrades of our primary and secondary data centres and we plan to make further investments into IT security. In 2014 the Bank plans also to complete a unique mobile banking development that we started to develop in 2013.

Financial Results of the Group

At year end (LVL'000)	2013	2012	2011	2010
Total assets	2,057,655	1,650,132	1,396,150	1,126,118
Loans and receivables from customers	790,850	663,852	568,795	500,536
Due to customers	1,802,485	1,440,454	1,231,508	969,947
Total shareholder's equity	198,802	161,765	141,442	140,651
For the year (LVL'000)				
Net profit before tax	50,302	25,984	12,318	10,699
Net profit after tax	43,770	22,177	9,827	6,842
Operating income	98,515	77,404	51,103	51,618
Ratios				
Earnings per share (LVL)				
After tax	0.44	0.22	0.10	0.07
Before tax	0.50	0.26	0.12	0.11
Dividend per share (LVL)	0.19	0.05	0.01	0.01
Return on equity				
Before tax	29.57%	17.12%	8.73%	7.82%
After tax	25.73%	14.61%	6.97%	5.00%
Return on assets				
Before tax	2.91%	1.71%	0.98%	1.02%
After tax	2.53%	1.46%	0.78%	0.65%
Capital adequacy ratio	17.80%	18.79%	16.79%	16.38%
Profit margin	51.06%	33.57%	24.10%	20.73%
Loan portfolio to total assets ratio	38.43%	40.23%	40.74%	44.45%
Number of employees	961	1,066	1,029	1,017

Financial Results of the Bank

At year end (LVL'000)	2013	2012	2011	2010
Total assets	2,052,572	1,638,967	1,388,401	1,116,323
Loans and receivables due from customers	826,460	704,505	605,432	535,849
Due to customers	1,812,968	1,441,730	1,234,827	971,004
Total shareholder's equity	191,304	157,619	136,057	137,909
For the year (LVL'000)				
Net profit before tax	42,664	23,700	13,057	4,887
Net profit after tax	37,631	20,257	10,613	3,187
Operating income	88,233	68,348	47,411	44,460
Ratios				
Earnings per share (LVL)				
After tax	0.38	0.20	0.11	0.03
Before tax	0.43	0.24	0.13	0.05
Dividend per share (LVL)	0.19	0.05	0.03	0.01
Return on equity				
Before tax	24.45%	16.14%	9.53%	3.61%
After tax	21.57%	13.80%	7.75%	2.35%
Return on assets				
Before tax	2.31%	1.57%	1.04%	0.47%
After tax	2.04%	1.34%	0.85%	0.30%
Capital adequacy ratio	18.49%	19.51%	17.20%	17. 82%
Profit margin	48.35%	34.68%	27.54%	10.99 %
Loan portfolio to total assets ratio	40.26%	42.98%	43.61%	48.00%
Number of employees	689	654	623	605

Statement of Management Responsibility

The Management of Rietumu Bank (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank.

The separate and consolidated financial statements on pages 20 to 100 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2013 and the results of their operations and cash flows for the year ended 31 December 2013.

The separate and consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. 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 Rietumu Bank AS is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's and the Group's assets and the prevention and detection of fraud and other irregularities in the Bank and in the Group. 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 institutions.

On behalf of the Management of Rietumu Bank AS:

Chairman of the Council
Leonid Esterkin

Member of the Board, First Vice-President
Ruslans Stecjuks

21 March 2014

The Council and the Board of Directors

During the year and as of the date of the signing of the financial statements:

The Council of Rietumu Bank / 1 January – 31 December 2013

Name	Position	Date of appointment
Leonid Esterkin	Chairman of the Council	25/09/97(25/03/11-24/03/14)
Arkady Suharenko	Deputy Chairman of the Council	25/09/97(25/03/11-24/03/14)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05(25/03/11-24/03/14)
Dermot Fachtna Desmond	Member of the Council	07/09/05(25/03/11-24/03/14)
Alexander Gafin	Member of the Council	25/03/10(25/03/11-24/03/14)
Aleksander Kalinovski	Member of the Council	05/11/10(25/03/11-24/03/14)
Valentin Bluger	Member of the Council	25/03/11(25/03/11-24/03/14)

The Board of Directors / 1 January 2013 – 10 October 2013

Name	Position	Date of appointment
Alexander Pankov	Chairman of the Board, President	18/10/10(18/10/10-18/10/13)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10(18/10/10-18/10/13)
Dmitry Pyshkin	Member of the Board, Senior Vice President	04/07/06(18/10/10-18/10/13)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10(18/10/10-18/10/13)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10(18/10/10-18/10/13)
Rolf Paul Fuls	Member of the Board, Senior Vice President	26/11/10(26/11/10-26/11/13)
Renats Lokomets	Member of the Board, Seior Vice President	10/12/12(10/12/12-09/12/15)

The Board of Directors / 10 October 2013 – 31 December 2013

Name	Position	Date of appointment
Alexander Pankov	Chairman of the Board, President	18/10/10(10/10/13-10/10/16)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10(10/10/13-10/10/16)
Dmitry Pyshkin	Member of the Board, Senior Vice President	04/07/06(10/10/13-10/10/16)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10(10/10/13-10/10/16)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10(10/10/13-10/10/16)
Rolf Paul Fuls	Member of the Board, Senior Vice President	26/11/10(10/10/13-10/10/16)
Renats Lokomets	Member of the Board, Senior Vice President	10/12/12(10/12/13-10/10/16)

Independent Auditors' Report

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To the shareholders of AS Rietumu Banka.

Report on the separate and consolidated Financial statements

We have audited the accompanying separate financial statements of AS Rietumu Banka ("the Company"), which comprise the separate statement of financial position as at 31 December 2013, the separate statements of profit and loss, 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 20 to 100. We have also audited the accompanying consolidated financial statements of AS Rietumu Banka 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, 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 20 to 100.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Independent Auditors' Report

KPMG

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the AS Rietumu Banka 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 Rietumu Banka and its subsidiaries as at 3l 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 pages 5 to 13, 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
21March2014

Valda Užāne
Sworn Auditor
Certificate No 4

Contents

Separate and Consolidated Statement of Profit or Loss

For the year ended 31 December 2013

	Note	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Interest income	6	60,669	55,073	49,116	45,483
Interest expense	6	(13,926)	(12,881)	(14,919)	(14,072)
Net interest income		**46,743**	**42,192**	**34,197**	**31,411**
Fee and commission income	7	37,311	36,688	25,863	25,597
Fee and commission expense	8	(10,969)	(11,144)	(6,579)	(6,814)
Net fee and commission income		**26,342**	**25,544**	**19,284**	**18,783**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	1,020	1,066	3,027	2,863
Net foreign exchange gain	10	15,734	16,163	12,705	12,815
Net gain/(loss) on the net monetary position		(218)	—	(210)	—
Net realised gain/(loss) on available-for-sale assets	11	1,361	734	(130)	(292)
Share of profit of equity accounted investees (net of income tax)		(31)	—	(24)	—
Other income/(expense)	12	7,564	2,534	8,555	2,768
Operating income		**98,515**	**88,233**	**77,404**	**68,348**
Impairment losses	13	(11,339)	(13,837)	(14,056)	(13,621)
General administrative expenses	14	(36,874)	(31,732)	(37,364)	(31,027)
Profit before income tax		**50,302**	**42,664**	**25,984**	**23,700**
Income tax expense	15	(6,532)	(5,033)	(3,807)	(3,443)
Profit for the period		**43,770**	**37,631**	**22,177**	**20,257**
Attributable to:					
Equity holders of the Bank		**42,793**		**21,926**	
Non-controlling interest		**977**		**251**	

The separate and consolidated statement of profit or loss is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28–100.

Chairman of the Council
Leonid Esterkin

Member of the Board, First Vice-President
Ruslans Stecjuks

21 March 2014

Separate and Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Profit / (loss) for the period		**43,770**	**37,631**	**22,177**	**20,257**
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Revaluation of property and equipment	24	423	—	134	—
Related tax		(61)	—	(23)	—
		362	**—**	**111**	**—**
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		(32)	—	(278)	—
Other reserves – net change		—	—	49	—
Available-for-sale financial assets – net change in fair value		(930)	1,315	4,658	4,658
Related tax		140	(197)	(699)	(699)
		(822)	**1,118**	**3,730**	**3,959**
Other comprehensive income for the period		**(460)**	**1,118**	**3,841**	**3,959**
Total comprehensive income for the period		**43,310**	**38,749**	**26,018**	**24,216**
Attributable to:					
Equity holders of the Group		**42,333**		**25,767**	
Non-controlling interest		**977**		**251**	

The separate and consolidated statement of comprehensive income is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28–100.

Chairman of the Council
Leonid Esterkin

Member of the Board, First Vice-President
Ruslans Stecjuks

21 March 2014

Separate and Consolidated Statement of Financial Position

As at 31 December 2013

	Note	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Assets					
Cash and balances with the central bank	16	367,286	367,261	215,790	215,757
Financial instruments at fair value through profit or loss	17	13,107	12,533	37,674	37,439
Loans and receivables due from banks	18	601,907	599,922	464,300	462,012
Loans and receivables due from customers	19	790,850	826,460	663,852	704,505
Reverse repo	37	105,637	105,637	82,780	82,780
Available-for-sale assets	20	54,300	78,153	52,196	74,487
Non-current assets held for sale	44	1	—	11,474	—
Held-to-maturity investments	21	20,085	20,085	15,373	15,373
Investments in subsidiaries	22	—	20,480	—	18,729
Equity accounted investees	23	29	—	60	—
Investment property	26	49,811	3,131	52,520	7,499
Property and equipment	24	30,526	3,892	31,356	3,629
Intangible assets	25	2,451	1,524	2,609	1,595
Current tax asset		248	—	681	402
Deferred tax asset	32	332	197	141	—
Other assets	27	21,085	13,297	19,326	14,760
Total Assets		**2,057,655**	**2,052,572**	**1,650,132**	**1,638,967**

The separate and consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28–100.

Separate and Consolidated Statement of Financial Position

As at 31 December 2013

	Note	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Liabilities and Shareholders' Equity					
Financial instruments at fair value through profit or loss	17	432	432	101	101
Deposits and balances due to banks	28	24,246	22,501	20,919	19,221
Current accounts and deposits due to customers	29	1,802,485	1,812,968	1,440,454	1,441,730
Issued debt securities	30	12,984	12,984	13,163	13,163
Current tax liability		3,313	2,836	323	—
Deferred tax liability	32	1,970	—	2,827	586
Other liabilities and accruals	31	13,423	9,547	10,580	6,547
Total Liabilities		**1,858,853**	**1,861,268**	**1,488,367**	**1,481,348**
Share capital	33	100,000	100,000	100,000	100,000
Share premium	33	4,809	4,809	4,809	4,809
Revaluation reserve	33	1,558	—	2,669	1,754
Fair value reserve	33	704	2,612	1,494	1,494
Currency translation reserve		(2,528)	—	(2,109)	—
Other reserves	33	10,072	10,016	10,074	10,016
Retained earnings		82,764	73,867	43,166	39,546
Total Equity Attributable to Equity Holders of the Bank		**197,379**	**191,304**	**160,103**	**157,619**
Non—controlling Interest		**1,423**	—	**1,662**	—
Total Shareholders' Equity		**198,802**	**191,304**	**161,765**	**157,619**
Total Liabilities and Shareholders' Equity		**2,057,655**	**2,052,572**	**1,650,132**	**1,638,967**

The separate and consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28–100.

Chairman of the Council
Leonid Esterkin

Member of the Board, First Vice-President
Ruslans Stecjuks

21 March 2014

Separate and Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Cash Flows from Operating Activities					
Profit before income tax		50,302	42,664	25,984	23,700
Amortisation and depreciation	24, 25	2,377	1,172	2,942	1,547
Profit from sale of investment property		(124)	(92)	—	(8)
Revaluation of investment property		(2,084)	(207)	(476)	—
Gain on disposal of property and equipment		(134)	—	(594)	(49)
Gain on sale of subsidiary		(32)	(188)	(19)	(20)
Share on profit of equity accounted investees		31	—	25	—
Impairment losses	13	11,339	13,837	14,056	13,621
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**61,675**	**57,186**	**41,918**	**38,791**
Decrease in financial instruments at fair value through profit or loss		24,567	24,906	20,833	15,153
(Increase)/Decrease in loans and receivables due from banks - term deposits		(22,481)	(20,641)	238,274	238,298
(Increase) in loans and receivables from customers		(138,585)	(133,178)	(109,852)	(112,707)
(Increase) in receivable under reverse repurchase agreements		(22,857)	(22,857)	(82,780)	(82,780)
(Increase)/decrease in available-for-sale assets		(2,826)	(2,830)	24,849	37,019
(Increase)/Decrease in other assets		(4,770)	(956)	(3,250)	(3,881)
Increase/(Decrease) in derivative liabilities		331	331	(85)	(85)
Decrease in term deposits due to banks		5,918	(27)	(380)	(291)
Increase in current accounts and deposits from customers		367,251	371,238	208,946	206,903
Increase in other liabilities and accruals		4,654	3,000	4,575	3,487
(Decrease)/Increase in cash and cash equivalents from operating activities before corporate income tax		**272,877**	**276,172**	**343,048**	**339,907**
Corporate income tax paid		(3,340)	(2,465)	(4,572)	(4,414)
Net cash and cash equivalents from operating activities		**269,537**	**273,707**	**338,476**	**335,493**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28–100.

Separate and Consolidated Statement of Cash Flows

For the year ended 31 December 2013	Note	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Cash Flows from Investing Activities					
Purchase of property and equipment and intangible assets	24, 25	(1,955)	(1,720)	(833)	(390)
Proceeds from sale of property, plant and equipment and other assets		546	356	1,270	553
(Increase) in consideration paid for acquisition of subsidiaries		—	(3,981)	—	—
Proceeds from sale of subsidiary		843	—	423	50
Consideration paid to purchase non-controlling interest		(1,162)	—	—	—
(Acquisition)/ sale of investment property	26	7,134	6,783	(3,950)	695
(Increase) in held-to-maturity financial assets		(4,436)	(4,436)	(102)	(102)
Cash and cash equivalents used in investing activities		**970**	**(2,998)**	**(3,192)**	**806**
Cash Flows from Financing Activities					
Increase/(decrease) in issued debt securities	30	(179)	(179)	13,163	13,163
Dividends paid		(5,111)	(5,064)	(2,654)	(2,654)
Cash and cash equivalents used in/from financing activities		**(5,290)**	**(5,243)**	**10,509**	**10,509**
Net cash flow for the period		**265,217**	**265,466**	**345,793**	**346,808**
Cash and cash equivalents at the beginning of the year		**591,311**	**591,741**	**245,518**	**244,933**
Cash and cash equivalents at the end of the year	34	**856,528**	**857,207**	**591,311**	**591,741**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28–100.

Chairman of the Council
Leonid Esterkin

Member of the Board, First Vice-President
Ruslans Stecjuks

21 March 2014

Group Consolidated Statement of Changes in the Shareholders' Equity

For the year ended 31 December 2013

	Attributable to Equity Holders of the Bank									
	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Foreign currency translation reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total '000 LVL	Non-controlling interest '000 LVL	Total Equity '000 LVL
Balance at 1January 2012	**100,000**	**4,809**	**2,626**	**(2,405)**	**(1,760)**	**10,025**	**23,490**	**136,785**	**4,657**	**141,442**
Transactions with shareholders recorded directly in equity										
Dividends paid	—	—	—	—	—	—	(2,654)	**(2,654)**	—	**(2,654)**
Change in ownership interests										
Partial disposal to third parties of units of a previously controlled fund (Note 20)	—	—	—	(60)	—	—	404	**344**	(3,385)	**(3,041)**
Total comprehensive income										
Profit for the current year	—	—	—	—	—	—	21,926	**21,926**	251	**22,177**
Other comprehensive income	—	—	43	3,959	(349)	49	—	**3,702**	139	**3,841**
Balance at 31 December 2012	**100,000**	**4,809**	**2,669**	**1,494**	**(2,109)**	**10,074**	**43,166**	**160,103**	**1,662**	**161,765**
Transactions with shareholders recorded directly in equity										
Dividends paid	—	—	—	—	—	—	(5,111)	**(5,111)**	—	**(5,111)**
Change in ownership interests										
Net result of sale or purchase of subsidiary shares to third parties	—	—	281	—	(389)	—	162	**54**	(1,216)	**(1,162)**
Total comprehensive income										
Profit for the current year	—	—	—	—	—	—	42,793	**42,793**	977	**43,770**
Other comprehensive income	—	—	362	(790)	(30)	(2)	—	**(460)**	—	**(460)**
Other										
Transfer to retained earnings	—	—	(1,754)	—	—	—	1,754	—	—	—
Balance at 31 December 2013	**100,000**	**4,809**	**1,558**	**704**	**(2,528)**	**10,072**	**82,764**	**197,379**	**1,423**	**198,802**

The Group consolidated statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28–100.

Chairman of the Council
Leonid Esterkin

Member of the Board, First Vice-President
Ruslans Stecjuks

21 March 2014

Bank's Separate Statement of Changes in Shareholders' Equity

For the year ended 31 December 2013

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total equity '000 LVL
Balance at 1 January 2012	**100,000**	**4,809**	**1,754**	**(2,465)**	**10,016**	**21,943**	**136,057**
Transactions with shareholders recorded directly in equity							
Dividends paid	—	—	—	—	—	(2,654)	**(2,654)**
Total comprehensive income							
Profit for the period	—	—	—	—	—	20,257	**20,257**
Other comprehensive income	—	—	—	3,959	—	—	**3,959**
Balance at 31 December 2012	**100,000**	**4,809**	**1,754**	**1,494**	**10,016**	**39,546**	**157,619**
Transactions with shareholders recorded directly in equity							
Dividends paid	—	—	—	—	—	(5,064)	**(5,064)**
Total comprehensive income							
Profit for the period	—	—	—	—	—	37,631	**37,631**
Other comprehensive income	—	—	—	1,118	—	—	**1,118**
Other							
Transfer to retained earnings	—	—	(1,754)	—	—	1,754	**—**
Balance at 31 December 2013	**100,000**	**4,809**	**—**	**2,612**	**10,016**	**73,867**	**191,304**

The Bank's separate statement of changes in shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 28–100.

Chairman of the Council
Leonid Esterkin

Member of the Board, First Vice-President
Ruslans Stecjuks

21 March 2014

1 / Background

Principal activities

These separate and consolidated financial statements include the financial statements of JSC "Rietumu Bank" (the "Bank") and its subsidiaries (together referred to as the "Group").

JSC "Rietumu Bank" was established in the Republic of Latvia as a Joint Stock Company and was granted it's general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC"). The registered address of the Bank's head office is Vesetas Street 7, Riga, Latvia. The average number of people employed by the Group during the year was 961 (2012: 1,066) and by the Bank 689 (2012: 654).

Principal subsidiaries of the Group

Name	Country of incorporation	Principal activities	Ownership %	
			31 Dec 2013	31 Dec 2012
RB Securities Ltd	Stasinou Str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	Financial services	99.99%	99.99%
"RB Investments" Ltd	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
"RB Asset Management" IPS	Vesetas Str.7, Riga, Latvia	Financial services	65.1%	100%
"Westtransinvest" Ltd	Odoevskogo Str.117, 6th floor, office 9, Minsk Belarus	Leasing company	100%	50%
"Westleasing-M" Ltd	Kostjakova Str.10, Moscow, Russia	Leasing company	100%	50%
"Elektro Bizness" Ltd	Vesetas Str.7, Riga, Latvia	Electricity production company	85%	85%
RB Opportunity Fund I	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
"Vesetas 7" Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
"Overseas Estate" Ltd	Vesetas Str.7, Riga, Latvia	Juice terminal	100%	100%
"M 322" Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
"H-Blok" Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
"Aristida Briāna 9" Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
"ARMITANA PROPERTY" Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
"InCREDIT GROUP" Ltd	Krišjāņa Barona Str.130, Riga, Latvia	Customer lending	51%	51%
"KI Nekustamie īpašumi" Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
"KI Zeme" Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
"Miera 30C" Ltd	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
"Arena Riga" Ltd	Skanstes Str. 21 , Riga, Latvia	Entertainment and sports	0%	100%

In the subsidiaries with an ownership share of 50% the Group has the right to majority votes on the Board of Directors and therefore controls the operations of these subsidiaries.

2 / Basis of preparation

(a) Statement of compliance

The accompanying separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"), and regulations of the Financial and Capital Market Commission of the Republic of Latvia (the 'FCMC') in force as at the reporting date.

The Board of Directors authorised these separate and consolidated financial statements for issue on March 21, 2014. The shareholders have the power to reject the separate and consolidated financial statements prepared and issued by management and the right to request that new financial statements be issued.

(b) Basis of measurement

The separate and consolidated financial statements are prepared on the historical cost basis except for the following:
— financial instruments at fair value through profit or loss are stated at fair value;
— available-for-sale assets are stated at fair value;
— owner occupied buildings which are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation;
— investment property which is stated at fair value.

(c) Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000's). The functional currencies of the Bank and its principal subsidiaries are LVL except for the subsidiaries listed below:

"RB Securities" Ltd	USD (US dollar)
"Westtransinvest" Ltd	BYR (Belarus rouble)
"Westleasing-M" Ltd	RUB (Russian rouble)

3 / Significant accounting policies

The following significant accounting policies have been applied in the preparation of these separate and consolidated financial statements. The accounting policies have been consistently applied to all periods presented in these financial statements, except for the change in accounting policies described in Note 3(t).

(a) Foreign currency

(I) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiary companies at the spot exchange rate on the date of the transaction as determined by the Central Bank of the respective country in which each entity operates.

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 fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated into the functional currency at the spot exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in equity through other comprehensive income.

(II) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group at exchange rates set by the Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into the presentation currency of the Group at exchange rate at the date of transaction. Foreign currency differences are recognised in other comprehensive income and accumulated in a foreign currency translation reserve, except that the translation difference is allocated to non-controlling interest.

3 / Significant accounting policies

(III) Hyperinflation

In 2013 the economy of the Republic of Belarus was classified as a hyperinflationary economy under the criteria included in IAS 29.

The foreign operations that have functional currency Belarus Ruble first restated their financial data into the measuring unit current at the reporting date in accordance with requirements of IAS 29 except for comparative amounts. All financial data for the period are then translated to the Group presentation currency LVL using the exchange rate as at 31 December 2013. The comparative amounts are not adjusted for the changes in exchange rate since the relevant earlier date.

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. Therefore application of IAS 29 results in an adjustment to the statement of profit or loss for the gain or loss of purchasing power of the Belarusian Ruble under the caption "Net gain/loss on net monetary position". This gain or loss on net monetary position is calculated as a difference resulting from the restatement of non-monetary assets, non-monetary liabilities, equity and items of the statement of other comprehensive income.

The Group's net exposure to Belarus Ruble is analysed under Currency risk analysis in Note 41.

(IV) Foreign exchange rates

	31 Dec 2013	31 Dec 2012
EUR	0.7028040	0.7028040
USD	0.5150000	0.5310000
BYR	0.0000543	0.0000619
RUB	0.0156000	0.0174000

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

(b) Basis of consolidation

(I) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group 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.

(II) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of associated entity. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(III) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(IV) Non –controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

(V) Investment in subsidiaries and associates in Bank's separate financial statements

Investments in subsidiaries and associates are measured in Bank's separate financial statements at cost less impairment allowance.

(VI) Funds management

The Bank and the Group manage and administer assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these trusts and investment vehicles are not included in the separate and consolidated financial statements except when the Bank or the Group control the operations of the trust or investment vehicle.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's or the Group's interest in the fair value of the net identifiable assets and contingent liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of business operation is included in intangible assets.

The Bank and the Group measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if

3 / Significant accounting policies

events or changes in circumstances indicate that goodwill might be impaired and is measured at cost less accumulated impairment losses. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to assets sold.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

(d) Fair value measurement principles

A number of the Bank's and Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(I) Financial assets and liabilities

When available, the Bank and the Group measure the fair value of a financial instrument using quoted prices in an active market for that financial instrument. A market is regarded as active if transactions with the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active, the Bank and the Group establish fair value using a valuation technique. Valuation techniques' assumptions are based on 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 relevant financial instrument, incorporates all factors that market participants would consider in setting the price, and is consistent with accepted economic methodologies for pricing financial instruments.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank and the Group have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk.

(II) Investment property and owner occupied buildings

The fair value of property is based on internal valuations performed by the Bank and the Group that are, on a regular basis (once in two years or when market conditions significantly change), corroborated with external, independent valuations prepared by valuation companies, having appropriate professional qualifications and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which property could be exchanged on the date of the valuation between willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(III) Intangible assets

The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

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(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks 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 Bank and the Group in the management of their short-term commitments, less balances due to credit institutions with a maturity of less than 3 months.

(f) Financial instruments

(I) 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 derivatives or 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 designated to this category at initial recognition. The Bank and the Group designate financial assets and liabilities at fair value through profit or loss in the following circumstances:

— The assets or liabilities are managed, evaluated and reported internally on a fair value basis

— The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise

— The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank and the Group have the positive intention and ability to hold to maturity.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market at initial recognition.

Loans and receivables include regular loans and credit card balances, deposits and balances with Central Bank and other banks, and finance lease.

Liabilities at amortized cost include deposits and balances due to banks, current accounts and deposits from customers and issued debt securities.

(II) Recognition

The Bank and the Group initially recognise 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 Bank and the Group become a party to the contractual provisions of the instrument.

(III) Measurement

A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

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 comparison with 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 the profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Subsequent to initial recognition, financial assets other than loans and receivables, held to maturity investments and equity investments carried at cost and financial liabilities at amortised cost, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

All held to maturity investments, loans and receivables and financial liabilities at amortised cost 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. Amortised cost is calculated using the effective interest 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

(IV) 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 profit or loss;

— a gain or loss on an available-for-sale financial asset is recognised in fair value reserve through other comprehensive income (except for impairment losses and foreign exchange gains and losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in profit or

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loss calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the unwinding of interest using the effective interest rate method.

(V) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank and the Group transfer substantially all of the risks and rewards of ownership of the financial asset or when the Bank and the Group neither transfer, nor retain substantially all risks and rewards of ownership but does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank and the Group is recognised as a separate asset or liability. A financial liability is derecognised when it is extinguished.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (I) the consideration received (including any new asset obtained less any new liability assumed) and (II) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(VI) 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 profit or loss over the term of the "repo" agreement using the effective interest method.

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

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

(VII) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank and the Group classify all derivative financial instruments as financial instruments at fair value through profit and loss.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and the Group account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(VIII) Offsetting

Financial assets and liabilities are offset and the net amount reported when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(g) Leases

The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases.

The Company as lessor

Assets leased out under operating lease are carried in the statement of financial position analogously to other assets. Income is recognised on a straight-line basis over each lease term. Other payments associated with the lease are recognised in profit or loss as a component other income.

When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable before impairment allowance is recognised as unearned finance income.

The Company as lessee

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term.

Assets acquired under finance leases include equipment. Asset acquired by way of finance lease is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease plus initial direct costs of the lessee. Subsequent to initial recognition, these are measured at cost less accumulated depreciation and impairment losses.

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(h) Property and equipment

(I) Owned assets

Items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, except for land and buildings which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

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.

(II) Revaluation

Land and buildings of the Bank and the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised in equity through other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A revaluation decrease on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

(III) Depreciation

Depreciation is charged to the statement of profit or loss 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. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually.

The estimated useful lives are as follows:

Buildings	**50 years**
Equipment	**2.5 to 4 years**
Furniture	**8 years**
Vehicles	**2.5 to 5 years**

(i) 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 services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.

(j) Repossessed collateral

If the borrower fails to fulfil the contractual obligations, the Board of Directors may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Bank and the Group cannot assume formal title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Bank and the Group are assuming the de facto title to the asset, and retain no contractual obligation to the original borrower, the Bank and the Group classify the asset as other assets.

If the collateral is property and title has been transferred to the Bank and the Group, the assets are shown as investment property.

(k) Intangible assets

Intangible assets, which are acquired by the Bank and the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

(l) Impairment

(I) Financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank and the Group on terms that the Bank and the Group 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.

Significant loans and receivables due from customers, except for lease contracts, and held-to-maturity investment securities are assessed individually for impairment indication and specific impairment allowance is established if necessary.

All loans and receivables for which no objective evidence of impairment is identified on an individual basis are grouped into sub-portfolios with similar credit risk characteristics according to the Bank's and the Group's internal loan portfolio rating procedure and a collective impairment allowance is assessed using statistical modelling of historical trends of the probability of default and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

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Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses and recoveries are recognised monthly based on regular loan reviews and are recognised in profit or loss.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. If the impaired financial asset is derecognised (due to repossessing of collateral (see Note 3j) or restructuring (see Note 19)), the related impairment allowance is written off.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in fair value reserve through other comprehensive income to profit or loss. The cumulative loss that is removed from fair value reserve and recognised in profit and loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss . However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(II) Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(m) Provisions

A provision is recognised when the Bank and the Group have a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, which can be estimated reliably, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Credit related commitments

In the normal course of business, the Bank and the Group 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 Bank and the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

(o) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the

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reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Income and expense recognition

(I) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. 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 Bank and the Group estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Fees and commission income and expenses that are integral part to the effective interest rate on financial assets and liabilities are included in the measurement of the effective interest rate.

(II) Fee and commission income and expense

Fee and commission income, including mainly account servicing fees, investment management fees and credit card servicing fees, are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expressed as the services are receives.

(III) Net gain/loss on financial instrument at fair value through profit or loss

Net gain/loss on financial instrument at fair value through profit or loss comprises gains less losses related to trading assets and liabilities and derivatives held for risk management purposes, and includes realised and unrealised fair value changes, foreign exchange differences.

(q) Dividends

The Bank and the Group receive dividends from the equity instruments that are recorded to income when the right to receive payment is established. Proposed dividends are recognised in the financial statements only when approved by shareholders.

(r) Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in general administrative expenses on an accrual basis as the service is provided. The Bank and The Group 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 will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

(s) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with Group's and Bank's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, assets are no longer depreciated.

(t) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initital 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 pad to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regards (see Note 26 Investment property and Note 40 Fair value of financial instruments)).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information

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for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(II) Presentation of items of Other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items in the statement of Other Comprehensive Income, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(III) 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 and IAS 32 – Offsetting of financial assets and liabilities

— Amendment to IAS 19 (2011) – Employee benefits

— Amendments to IAS 12 – Deferred tax: Recovery of Underlying Assets

(u) 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. The Group does 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 may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

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

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

— The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted.

The Group does 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 a Group's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group does 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 Group'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 (2008) which related to associates and joint ventures held for sale and changes in interest held in associates and joint ventures. The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any significant investments in associates or joint ventures that will be impacted by the amendments.

(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 Group 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 Group entities and all counterparties. The Group does not expect the Amendments to have any impact on the financial statements since the Group does not apply offsetting to any of its financial assets and financial liabilities and have not entered into master netting arrangements. Amendments to IFRS 10, IFRS 12 and IAS 27 on Investment Entities (effective for annual periods beginning on or after 1 January 2014)

The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled

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

(V) 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 an impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal. The Group does not expect the new Standard will have a material impact on the financial statements.

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

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

4 / Risk management

The Bank and the Group have exposure to the following risks:

— market risk

— credit risk

— liquidity risks

This note presents information about the Bank's and the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

(a) Risk management policies and procedures

The Bank's and the Group's risk management policies aim to identify, analyse and manage the risks faced by the Bank and the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board of Directors of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank and the Group operate within the established risk parameters. Chief risk officer of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the President of the Bank and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Department.

Both external and internal risk factors are identified and managed throughout the Bank's and the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk

4 / Risk management

analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's and the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chairman of the Board of Directors. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department's Financial Risk Management Group.

The Bank and the Group manage their market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits, which are monitored on a regular basis and reviewed and approved by the Board of Directors.

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank and the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's and the Group's net interest margin to various standard and non-standard interest rate scenarios.

(I) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Bank's and the Group's income or the value of its portfolios of financial instruments.

The Bank and the Group are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. For further analysis of interest repricing refer to Note 42 Interest rate risk analysis.

An analysis of sensitivity of the net income for the year to changes of market interest rate impacting the interest income on variable interest rate financial instrument and the fair value of fixed interest rate financial instruments measured at fair value based on a scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves, all other variables remaining constant, is as follows:

Group	'000 LVL 2013		'000 LVL 2012	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
100bp parallel increase	5,363	—	3,279	—
100bp parallel decrease	(5,363)	—	(3,279)	—

Bank	'000 LVL 2013		'000 LVL 2012	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
100bp parallel increase	5,670	—	3,948	—
100bp parallel decrease	(5,670)	—	(3,948)	—

4 / Risk management

(II) Currency risk

The Bank and the Group have assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's and the Group's exposure to currency risk at year-end refer to Note 41 Currency analysis.

An analysis of sensitivity of the Bank's and the Group's net income and other comprehensive income for the year to changes in the foreign currency exchange rates based on positions existing as at 31 December 2013 and 2012 and a scenario of a 5% change in USD or GBP to LVL exchange rates, while the other variable remain constant, is as follows:

Group	'000 LVL 2013		'000 LVL 2012	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% appreciation of USD against LVL	(2,208)	2,642	(2,610)	2,375
5% depreciation of USD against LVL	2,208	(2,642)	2,610	(2,375)

Bank	'000 LVL 2013		'000 LVL 2012	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% appreciation of USD against LVL	(2,199)	2,642	(2,204)	2,375
5% depreciation of USD against LVL	2,199	(2,642)	2,204	(2,375)

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

(III) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank and the Group take a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's and the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2012 and 2011 and a scenario of a 5% change in all securities prices, while the other variables remain constant, is as follows:

Group	'000 LVL 2013		'000 LVL 2012	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% increase in securities prices	630	2,715	1,878	2,610
5% decrease in securities prices	(630)	(2,715)	(1,878)	(2,610)

Bank	'000 LVL 2013		'000 LVL 2012	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% increase in securities prices	601	3,908	1,867	3,724
5% decrease in securities prices	(601)	(3,908)	(1,867)	(3,724)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank and the Group. The Bank and the Group have developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Board of Directors.

The Bank's and the Group's credit policies establish:

— Procedures for review and approval of loan/credit applications;

— Methodology for the credit assessment of borrowers (corporate, SME and retail)

— Methodology for the credit assessment of counterparties, issuers and insurance companies;

— Methodology for the evaluation of collateral;

— Credit documentation requirements;

— Procedures for the ongoing monitoring of loans and other credit exposures.

4 / Risk management

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Lending and Investment Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Risk Management Department's Loan Analysis Division then independently reviews the loan/credit application and the report and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan application on the basis of submissions by the Lending and Investment Department and the Risk Management Department. Individual transactions are also reviewed by the Bank's Legal and Accounting departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank and the Group 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 or the Group. Either independent appraisal companies or the Bank's and the Group's specialists regularly assess the current market value of collateral, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

The Bank's Latvian Projects' Lending division of Lending and Investment Department through the use of scoring models and application data verification procedures developed together with the Risk Management Department reviews retail loan applications.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks. The Bank and the Group 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 receivables from customers refer to Note 19"Loans and receivables due from customers".

The Bank's and the Group's maximum exposure to credit risk is set out below. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Maximum credit risk exposure	Notes	Gross maximum credit exposure			
31 December		Group LVL'000 2013	Bank LVL'000 2013	Group LVL'000 2012	Bank LVL'000 2012
Cash and balances with the central bank	16	367,286	367,261	215,790	215,757
Loans and receivables due from banks	18	601,907	599,922	464,300	462,012
Loans and receivables due from customers	19	848,018	882,990	716,471	756,702
Reverse repo	37	105,637	105,637	82,780	82,780
Fair value through profit or loss financial instruments	17	11,740	11,740	36,918	36,918
Available for sale assets	20	31,393	31,393	45,555	45,555
Held to maturity investments	21	20,085	20,085	15,373	15,373
Total financial assets		**1,986,066**	**2,019,028**	**1,577,187**	**1,615,097**
Guarantees	35	9,775	9,775	7,120	7,120
Credit card commitments	35	6,955	6,956	7,718	7,719
Overdraft facilities	35	5,605	5,605	5,766	5,766
Credit commitments	35	20,557	22,563	17,587	18,421
Total guarantees and commitments		**42,892**	**44,899**	**38,191**	**39,026**
Total maximum credit risk exposure		**2,028,958**	**2,063,927**	**1,615,378**	**1,654,123**

4 / Risk management

(d) Liquidity risk

Liquidity risk is the risk that the Bank and the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank and the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank and the Group maintain liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's and the Group's liquidity policies are reviewed and approved by the Board of Directors of the Bank.

The Bank and the Group seek to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policies of the Bank and the Group require:

— projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;

— maintaining a diverse range of funding sources;

— managing the concentration and profile of debts;

— maintaining debt financing plans;

— maintaining a portfolio of highly marketable assets that can easily be traded as protection against any interruption to cash flow;

— maintaining liquidity and funding contingency plans;

— monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and receivables from banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank and the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position of the Bank and the Group are presented to senior management on a daily basis. Decisions on the Bank's and the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The table below analyses the Bank's and the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. Both the interest and principal cash flows should be included in the analysis as this best represents the liquidity risk being faced by the entity.

4 / Risk management

The Group

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2013:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/(inflow)	Carrying amount
Non—derivative liabilities							
Deposits and balances due to financial institutions	22,064	466	1,102	616	—	24,248	24,246
Current accounts and deposits due to customers	1,571,197	20,088	65,981	147,061	24,763	1,829,090	1,802,485
Issued debt securities	—	—	—	—	18,320	18,320	12,984
Derivative liabilities							
— Inflow	(16,655)	(1,438)	(1,111)	—	—	(19,204)	—
— Outflow	17,030	1,474	1,132	—	—	19,636	432
Total	**1,593,636**	**20,590**	**67,104**	**147,677**	**43,083**	**1,872,090**	**1,840,147**
Guarantees (maximum exposure)	**163**	**178**	**5,470**	**21**	**—**	**5,832**	**9,775**
Credit related commitments	**33,117**	**—**	**—**	**—**	**—**	**33,117**	**33,117**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2012:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/(inflow)	Carrying amount
Non—derivative liabilities							
Deposits and balances due to financial institutions	18,636	160	426	1,697	—	20,919	20,919
Current accounts and deposits due to customers	1,196,569	24,227	92,544	114,460	31,198	1,458,998	1,440,454
Issued debt securities	—	—	—	—	19,474	19,474	13,163
Derivative liabilities							
— Inflow	(11,973)	(3,722)	(654)	—	—	(16,349)	—
— Outflow	12,006	3,777	667	—	—	16,450	101
Total	**1,215,238**	**24,442**	**92,983**	**116,157**	**50,672**	**1,499,492**	**1,474,637**
Guarantees (maximum exposure)	**70**	**569**	**3,080**	**423**	**—**	**4,142**	**7,120**
Credit related commitments	**31,071**	**—**	**—**	**—**	**—**	**31,071**	**31,071**

4 / Risk management

The Bank

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2013:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to financial institutions	21,943	261	298	—	—	22,502	22,501
Current accounts and deposits due to customers	1,582,921	20,075	65,851	145,963	24,763	1,839,573	1,812,968
Issued debt securities	—	—	—	—	18,320	18,320	12,984
Derivative liabilities							
— Inflow	(16,655)	(1,438)	(1,111)	—	—	(19,204)	
— Outflow	17,030	1,474	1,132	—	—	19,636	432
Total	**1,605,239**	**20,372**	**66,170**	**145,963**	**43,083**	**1,880,827**	**1,848,885**
Guarantees (maximum exposure)	**163**	**178**	**5,470**	**21**	**—**	**5,832**	**9,775**
Credit related commitments	**35,124**	**—**	**—**	**—**	**—**	**35,124**	**35,124**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2012:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/(inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to financial institutions	18,636	160	426	—	—	19,222	19,221
Current accounts and deposits due to customers	1,204,222	24,342	92,479	113,495	25,736	1,460,274	1,441,730
Issued debt securities	—	—	—	—	19,474	19,474	13,163
Derivative liabilities							
— Inflow	(11,973)	(3,722)	(654)	—	—	(16,349)	
— Outflow	12,006	3,777	667	—	—	16,450	101
Total	**1,222,891**	**24,557**	**92,918**	**113,495**	**45,210**	**1,499,071**	**1,474,215**
Guarantees (maximum exposure)	**70**	**569**	**3,080**	**423**	**—**	**4,142**	**7,120**
Credit related commitments	**31,906**	**—**	**—**	**—**	**—**	**31,906**	**31,906**

4 / Risk management

(e) Capital Management

The Bank's and the Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Bank and the Group recognise the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization. The FCMC sets and monitors capital requirements for the Bank and for the Group.

The Bank and the Group define as capital those items defined by statutory regulation as capital. Under the current capital requirements set by FCMC banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level – 17.70% for the Bank as at 31 December 2013 (2012: 16.8%). The Bank and the Group were in compliance with the statutory capital ratio as at 31 December 2013 and 31 December 2012.

The following table shows the composition of the Bank's and the Group's capital position calculated in accordance with the requirements of FCMC that is based on Basel II, as at 31 December 2013:

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Tier 1 capital				
Share capital	100,000	100,000	100,000	100,000
Share premium	4,809	4,809	4,809	4,809
Other reserves	10,072	10,016	10,074	10,016
Revaluation of investment property	(5,305)	(447)	(294)	(294)
Non controlling interest	1,423	—	1,662	—
Currency translation reserve	(2,528)	—	(2,109)	—
Retained earnings from prior years	39,971	36,236	21,240	19,289
Current year profit	42,793	37,631	21,926	20,257
Intangible assets	(2,451)	(1,524)	(2,609)	(1,595)
Other regulatory deductions from Tier 1 capital	(7,260)	(6,212)	(7,462)	(6,413)
Dividends declared or proposed	(18,816)	(18,816)	(5,064)	(5,064)
Total tier 1 capital	**162,708**	**161,693**	**142,173**	**141,005**
Tier 2 capital				
Long term deposits qualifying as regulatory capital	56,915	56,915	58,495	58,495
Other regulatory deductions from Tier 2 capital	(7,260)	(6,212)	(7,462)	(6,413)
Total tier 2 capital	**49,655**	**50,703**	**51,033**	**52,082**
Total capital	**212,363**	**212,396**	**193,206**	**193,087**
Regulatory capital requirement	**95,431**	**91,894**	**82,264**	**79,185**
Total capital adequacy ratio	**17.80%**	**18.49%**	**18.79%**	**19.51%**

The regulatory requirement represents risk-weighted assets adjusted for capital requirement related to operating risks. The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised credit commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank and the Group are subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank and the Group. The Bank and the Group have complied with all externally imposed capital requirements as at 31 December 2013 and 31 December 2012.

5 / Use of estimates and judgements

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. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

Key sources of estimation uncertainty:

(I)Allowances for credit losses on loans and receivables

The specific counterparty component of the total allowances for impairment applies to loans and receivables 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 independently approved by the Credit Risk function. The cash flows may be realised from repayment of the loan, from sale of collateral, from operating the collateral etc., depending on the specific situation and terms of the loan agreement. The estimated net realisable value of collateral is based on a combination of internal fair value assessment conducted by internal valuation specialists and independent external valuation reports and is reviewed on a regular basis. The estimated future cash flows are discounted using the financial asset's original effective interest rate.

Collectively assessed impairment allowance covers credit losses inherent in a portfolio of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentration and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the estimates of future cash flows for specific counterparty allowance and the model assumptions and parameters used in determining collective allowance.

(II)Determining fair value of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

All financial instruments that are carried at fair value were valued based on their market value, except for units in RB Opportunity Fund that are valued based on the estimated fair value of underlying assets, mostly properties. To determine fair value of the properties valuation techniques were used that are based on market prices for similar properties sold on the market or based on discounted estimated future income.

Fair value of financial instruments carried at amortised cost is stated at present value of future estimated cash flows discounted by a market interest rate. For short term financial assets and liabilities the fair value approximate amortised cost.

(III)Fair value of non-current assets held for sale

When assessing the fair value less cost to sell of the non-current assets held for sale, the management prepares several valuation models and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers). The assessment includes estimated selling expenses, the timing of the sale, and the liquidity of the market.

(IV)Impairment of held-to-maturity investments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. In the event of a significant decline and subsequent significant fluctuations in financial and capital markets or the existence of an illiquid capital market, the market price may not always represent fair value, i.e. is not the best indication of impairment of a financial asset. The Bank and the Group use valuation models based on quoted market prices of similar products.

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

(V) Determining fair value of property

Investment property is stated at its fair value with all changes in fair value recorded in profit or loss. Property used in own business operation is revaluated to fair value on regular periodic basis with changes in revaluation recognised through other comprehensive income in a revaluation reserve and subsequent amortisation is recognised in statement of profit or loss. When measuring the fair value of the property, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on

5 / Use of estimates and judgements

discounted estimated future cash flows from the property. Comparative method is based on recent market transactions with comparable property.

(VI) Impairment of assets shown under other assets

Assets assumed as collateral are valued at lower of cost and net realisable value. When assessing net realisable value of assets, management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers).

(VII) Impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying value of net assets of a subsidiary to see whether any impairment indication exists. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Discount rate is equal to the cost of financing interest rate, i.e. rate charged on deposits to customers increased by a risk margin of 2 to 6 basis points. An impairment loss is recorded when the decline in value of subsidiary is significant and prolonged.

(VIII) Impairment of goodwill

Goodwill is assessed for impairment on an annual basis by discounting estimated future cash flows for the underlying cash generating unit using a discount rate equal to return on equity expected by shareholders. The estimated future cash flows are projected based on historical experience adjusted for expected changes in the business.

(IX) Useful lives of equipment

Estimated useful lives of equipment are based on practical experience over using similar equipment in the past. Each year damaged items and technically out-of-date items are identified and their useful life or carrying value is adjusted individually.

(X) 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.

6 / Net interest income

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Interest income				
Loans and receivables due from customers	56,627	51,105	43,863	40,385
Loans and receivables due from financial institutions	2,002	1,928	1,887	1,734
Available for sale assets	1,051	1,051	1,766	1,764
Amounts receivable under reverse repurchase agreements	405	405	675	675
Held-to-maturity investments	361	361	438	438
Financial instruments at fair value through profit or loss	223	223	487	487
	60,669	**55,073**	**49,116**	**45,483**
Interest expense				
Current accounts and deposits due to customers	9,511	9,349	10,146	9,939
Deposits and balances due to financial institutions	400	12	333	33
Other interest expense	4,015	3,520	4,440	4,100
	13,926	**12,881**	**14,919**	**14,072**

Included within interest income from loans and receivables due from customers for the year ended 31 December 2013 is interest income of LVL 948 thousand (2012: LVL 967 thousand) relating to impaired loans issued by the Bank and by Group of LVL 1,119 thousand (2012: LVL 1,082 thousand).

7 / Fee and commission income

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Money transfers	13,343	13,343	9,672	9,672
Commission income from payment cards	6,124	6,124	7,656	7,656
E-commerce	7,225	7,225	505	505
Revenue from customer asset management and brokerage commissions	3,700	3,088	2,923	2,526
Commission from account servicing	1,179	1,179	783	791
Commission from documentary operations	658	658	479	479
Cash withdrawals	238	238	236	236
Remote system fee	126	126	127	127
Other	4,718	4,707	3,482	3,605
	37,311	**36,688**	**25,863**	**25,597**

8 / Fee and commission expense

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Payment card expenses	2,694	2,694	3,003	3,003
E-commerce	3,913	3,913	531	531
Agent commissions	1,972	1,972	897	1,299
On correspondent accounts	769	769	499	499
Brokerage fees	677	821	526	684
Cash withdrawal fees	22	22	15	15
Other	922	953	1,108	783
	10,969	**11,144**	**6,579**	**6,814**

9 / Net gain/(loss) on financial instruments at fair value through profit or loss

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Equity instruments	(87)	(41)	15	(2)
Debt instruments	218	218	2,437	2,290
Derivatives	889	889	575	575
	1,020	**1,066**	**3,027**	**2,863**

10 / Net foreign exchange gain

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Gain/(loss) from revaluation of financial assets and liabilities	(684)	(274)	(296)	(196)
Gain/(loss) on spot transactions and derivatives	16,418	16,437	13,001	13,011
	15,734	**16,163**	**12,705**	**12,815**

11 / Net realised gain/(loss) on available-for-sale assets

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Equity instruments	1,338	711	66	66
Debt instruments	23	23	(196)	(358)
	1,361	**734**	**(130)**	**(292)**

12 / Other income / (expense)

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Rental income from operating leases	3,530	514	4,345	509
Fair value change in investment property	2,084	207	476	—
Penalties received	864	465	1,651	1,313
Recovery of assets written off	155	155	—	—
Profit from sale of property and equipment	134	—	594	49
Profit from sale of Investment property	124	92	—	—
Dividends received	67	804	152	477
Profit from sale of subsidiaries	32	188	19	20
Other	574	109	1,318	400
	7,564	**2,534**	**8,555**	**2,768**

13 / Impairment losses

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Impairment losses				
Loans and receivables due from customers	(18,756)	(18,306)	(19,271)	(18,711)
Available-for-sale financial assets	—	(688)	(100)	(216)
Held-to-maturity investments	—	—	(37)	(37)
Investments in subsidiaries	—	(2,300)	—	—
Other non-financial assets	(268)	(188)	(130)	(26)
	(19,024)	**(21,482)**	**(19,538)**	**(18,990)**
Reversals of impairment losses				
Loans and receivables due from customers	7,169	7,083	5,436	5,077
Available-for-sale financial assets	208	208	—	229
Held-to-maturity investments	276	276	—	—
Investments in subsidiaries	—	70	—	20
Other non-financial assets	32	8	46	43
	7,685	**7,645**	**5,482**	**5,369**
Net impairment losses	**(11,339)**	**(13,837)**	**(14,056)**	**(13,621)**

13 / Impairment losses

Analysis of changes in impairment allowances:

The Group

	Loans and advances customers '000 LVL	Available for sale instruments '000 LVL	Held to maturity instruments '000 LVL	Other assets '000 LVL
Allowances as of 31 Dec 2012	52,619	1,375	207	2,039
Impairment charge	18,756	—	—	268
Recovery	(7,169)	(208)	(276)	(32)
Difference due to fluctuations in foreign exchange rates	(541)	—	3	—
Sale of subsidiary	—	—	—	(199)
Transfer to other assets	—	—	—	(1)
Investment restructuring	—	—	66	—
Amounts written-off	(6,497)	—	—	(275)
Allowances as of 31 Dec 2013	**57,168**	**1,167**	**—**	**1,800**

The Bank

	Loans and advances customers '000 LVL	Available for sale instruments '000 LVL	Held to maturity instruments '000 LVL	Other assets '000 LVL	Investments in subsidiaries
Allowances as of 31 Dec 2012	52,197	2,383	207	1,730	3,770
Impairment charge	18,306	688		188	2,300
Recovery	(7,083)	(208)	(276)	(8)	(70)
Difference due to fluctuations in foreign exchange rates	(393)	—	3	—	—
Investment restructuring	—	—	66	—	—
Amounts written-off	(6,497)	—	—	(275)	—
Allowances as of 31 Dec 2013	**56,530**	**2,863**	**—**	**1,635**	**6,000**

14 / General administrative expenses

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Employee compensation	12,570	10,315	12,108	9,740
Payroll related taxes	3,382	2,755	3,184	2,600
Provision for bonus and payroll related taxes	2,661	2,661	3,021	3,021
Depreciation and amortisation	2,377	1,172	2,942	1,547
Repairs and maintenance	1,885	556	1,886	546
Salaries to Board of Directors and Council	1,635	1,176	1,414	1,096
Taxes other than on corporate income and payroll	1,330	890	1,214	803
IT service and IT material consumption	1,286	1,286	1,162	1,161
Representative offices	1,162	857	1,242	873
Communications and information services	1,053	926	1,102	1,007
Professional services	1,013	742	883	481
Rent	976	2,415	1,065	2,176
Advertising and marketing	907	685	1,540	1,041
Travel expenses	902	865	874	819
Credit card service	835	835	649	649
Charity and sponsorship	519	1,307	470	812
Representation	311	303	174	166
Insurance	184	145	176	136
Office supplies (Stationery)	89	50	92	38
Subscription of information	77	77	66	66
Security	38	49	32	48
Other	1,682	1,665	2,068	2,201
	36,874	**31,732**	**37,364**	**31,027**

15 / Income tax expense

(a) Income tax expense recognised in the profit and loss

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Current tax expense				
Current tax expense	6,704	5,703	4,110	3,461
Origination and reversal of temporary differences	(172)	(670)	(303)	(18)
Total income tax expense in the profit and loss	**6,532**	**5,033**	**3,807**	**3,443**

The tax rate applicable in countries in which group entities operate:

	2013 '000 LVL	2012 '000 LVL
Latvia	15.00%	15.00%
Belarus	18.00%	18.00%
Cyprus	10.00%	10.00%
Russia	20.00%	20.00%
Azerbaijan	20.00%	20.00%

(b) Reconciliation of effective tax rate:

The Group

	2013 '000 LVL	%	2012 '000 LVL	%
Profit before tax	50,302		25,984	
Income tax at the applicable tax rate	7,545	15.00%	3,898	15.00%
Non-deductible expenses	1,815	3.61%	41	0.16%
Tax exempt income	(804)	(1.60%)		
Tax relief on donations	(1,076)	(2.14%)	(224)	(0.86%)
Change in unrecognised deferred tax asset	(636)	(1.27%)	77	0.30%
Under/(over) provided in prior years	(320)	(0.64%)	—	—
Effect of different tax rate in other countries	8	0.02%	15	0.06%
	6,532	12.98%	3,807	14.66%

15 / Income tax expense

The Bank

	2013 '000 LVL	%	2012 '000 LVL	%
Profit before tax	**42,664**		**23,700**	
Income tax at the applicable tax rate	6,400	15.00%	3,555	15.00%
Non-deductible expenses	1,033	2.42%	312	1.32%
Tax exempt income	(958)	(2.25%)	(72)	(0.30%)
Tax relief on donations	(1,065)	(2.50%)	(649)	(2.74%)
Change in unrecognised deferred tax asset	(407)	(0.94%)	297	1.25%
	5,033	**11.80%**	**3,443**	**14.53%**

(c) Income tax recognised in other comprehensive income and directly in equity

Group

		2013 '000 LVL		2012 '000 LVL
Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Change in revaluation reserve	423	(61)	134	(23)
Change in fair value reserve	(930)	140	4,658	(699)
Total income tax recognised in other comprehensive income	**(507)**	**79**	**4,792**	**(722)**
Change in revaluation reserve (Note 33e)	(2,064)	310	—	—
Total income tax recognised directly in equity	**(2,064)**	**310**	**—**	**—**

Bank

		2013 '000 LVL		2012 '000 LVL
Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Change in fair value reserve	1,315	(197)	4,658	(699)
Total income tax recognised in other comprehensive income	**1,315**	**(197)**	**4,658**	**(699)**
Change in revaluation reserve (Note 33e)	(2,064)	310	—	—
Total income tax recognised directly in equity	**(2,064)**	**310**	**—**	**—**

16 / Cash and balances with the central bank

Cash and balances with central bank comprised of the following items:

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Grou	31 Dec 2012 '000 LVL Bank
Cash	3,999	3,974	3,763	3,730
Balances due from the Bank of Latvia	363,287	363,287	212,027	212,027
	367,286	367,261	215,790	215,757

Deposits with the Bank of Latvia represent the balance outstanding on the correspondent account with the Bank of Latvia in LVL and EUR. That consists of compulsory reserve as well as voluntary deposit.

In accordance with the Bank of Latvia's regulations, the Bank is required to maintain a compulsory reserve set based on the average monthly balance of its liabilities.

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

17 / Financial instruments at fair value through profit or loss

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Bonds				
— with rating from AAA to A	5,329	5,329	16,617	16,617
— with rating from BBB+ to BBB-	6,340	6,340	19,989	19,989
— non-investment grade	—	—	180	180
Equity investments	935	361	655	420
Derivative financial instruments	503	503	233	233
Financial assets at fair value through profit or loss	**13,107**	**12,533**	**37,674**	**37,439**
Derivative financial instruments	(432)	(432)	(101)	(101)
Financial liabilities at fair value through profit or loss	**(432)**	**(432)**	**(101)**	**(101)**

The Bank and the Group classify derivative financial instruments and trading portfolio under this category.

17 / Financial instruments at fair value through profit or loss

Derivative financial assets and liabilities

The Group

	31 Dec 2013 '000 LVL Carrying value	31 Dec 2013 '000 LVL Notional amount	31 Dec 2012 '000 LVL Carrying value	31 Dec 2013 '000 LVL Notional amount
Assets				
Forward contracts	51	4,876	107	16,947
Option premium	144	n/a	125	n/a
Swap contracts	308	7,006	1	485
Total derivative financial assets	**503**		**233**	
Liabilities				
Swap contracts	356	12,750	61	4,140
Forward contracts	76	6,887	40	12,310
Total derivative liabilities	432		101	

The Bank

	31 Dec 2013 '000 LVL Carrying value	31 Dec 2013 '000 LVL Notional amount	31 Dec 2012 '000 LVL Carrying value	31 Dec 2013 '000 LVL Notional amount
Assets				
Forward contracts	51	4,876	107	16,947
Option premium	144	n/a	125	n/a
Swap contracts	308	7,006	1	485
Total derivative financial assets	**503**		**233**	
Liabilities				
Swap contracts	356	12,750	61	4,140
Forward contracts	76	6,887	40	12,310
Total derivative liabilities	432		101	

17 / Financial instruments at fair value through profit or loss

Financial instruments reclassified to loans and receivables

Pursuant to the amendments to IAS 39 and IFRS 7, as of 1 July 2008, the Group reclassified trading assets of LVL 23,980 thousands to Loans and receivables from customers. The table below sets out the amounts that would have been recognised in the periods following reclassification during 2008 if the reclassifications had not been made:

The Group

'000LVL	2013 Profit and loss	2013 Comprehensive income	2012 Profit and loss	2012 Comprehensive income
Net gain / (loss) on financial instruments at fair value through profit and loss reclassified to loans and advances to customers	204	204	204	204

The Bank

'000LVL	2013 Profit and loss	2013 Comprehensive income	2012 Profit and loss	2012 Comprehensive income
Net gain / (loss) on financial instruments at fair value through profit and loss reclassified to loans and advances to customers	204	204	204	204

In 2011 remaining assets earlier reclassified as loans and advances to customers were transferred to held-to-maturity portfolio. As at 31 December 2013 their carrying amount stood at LVL 14,823 thousand (2012: LVL 14,704 thousand).

18 / Loans & Receivables from Banks

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Demand accounts				
Latvian commercial banks	8,383	8,161	510	37
OECD banks	460,283	460,283	382,231	382,231
Other non-OECD banks	44,264	43,445	13,114	12,352
Total Demand accounts	**512,930**	**511,889**	**395,855**	**394,620**
Deposit accounts				
Latvian commercial banks	—	—	7,966	7,966
OECD banks	83,091	83,091	53,996	53,996
Other non-OECD banks	5,886	4,942	6,483	5,430
Total loans and deposits	**88,977**	**88,033**	**68,445**	**67,392**
	601,907	**599,922**	**464,300**	**462,012**

18 / Loans and receivables due from banks

Concentration of placements with banks and other financial institutions

As at 31 December 2013 the Bank and the Group had balances with none (2012: one) bank, which exceeded 10% of total loans and receivable from banks. The gross value of these balances as of 31 December 2012 was LVL 53,100 thousand.

The largest balances due from credit institutions as of 31 December 2013 in the Bank were as follows:

	2013 '000 LVL	%
Erste Bank Vienna	51,500	8.6
Unicredit Bank DE	45,109	7.5
HSH Nordbank AG	38,625	6.4
Landesbank Berlin	36,050	6.0
Bank of Tokyo	33,475	5.6
Banco Bilbao	30,917	5.2
Mizuho Corporation	30,900	5.2
Deutsche Bank NY	28,995	4.8
NORD/LB London	25,750	4.3
Credit Mutuel	25,750	4.3
KBC Bank NV	25,750	4.3
LBBW Stuttgart	23,861	4.0
Bank of Montreal	20,600	3.4
Total	**417,282**	**69.6**

The largest balances due from credit institutions as of 31 December 2012 in the Bank were as follows:

	2012 '000 LVL	%
Erste Bank Vienna	53,100	11.5
Unicredit Bank DE	27,351	5.9
HSH Nordbank AG	26,550	5.8
NORD/LB London	26,550	5.8
Landesbank Berlin	26,550	5.8
Credit Suisse	21,382	4.6
UBS AG Zurich	18,825	4.0
LBBW Stuttgart	18,617	4.0
Raiffeisen Bank Vienna	17,113	3.7
Banco Bilbao	15,959	3.5
KBC Bank NV	15,930	3.4
WGZ Bank AG	15,930	3.4
Total	**283,857**	**61.4**

19 / Loans and receivable due from customers

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Companies				
Finance leases	24,786	—	27,005	—
Loans	727,071	804,138	618,606	698,396
Individuals				
Finance leases	16,406	—	11,635	—
Loans	79,755	78,852	59,225	58,306
Specific impairment allowance	(55,827)	(56,530)	(52,001)	(52,197)
Collective impairment allowance	(1,341)	—	(618)	—
Net Loans and receivables from customers	**790,850**	**826,460**	**663,852**	**704,505**

(a) Finance leases

Loans and receivables from customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Gross investment in finance leases, receivable				
Less than one year	24,428	—	22,005	—
Between one and five years	26,500	—	26,690	—
Total gross investment in finance leases	50,928	—	48,695	—
Unearned finance income	(9,736)	—	(10,055)	—
Net investment in finance lease before allowance	41,192	—	38,640	—
Impairment allowance	(2,621)	—	(2,093)	—
Net investment in finance lease	**38,571**	**—**	**36,547**	**—**

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
The net investment in finance leases comprises:				
Less than one year	22,695	—	15,924	—
Between one and five years	15,876	—	20,623	—
Net investment in finance lease	**38,571**	**—**	**36,547**	**—**

19 / Loans and receivable due from customers

(b) Credit quality of loan portfolio

(I) Ageing structure of loan portfolio

The Group

As at 31 Dec 2013	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms: Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying value of overdue loans
Net carrying amount	**790,850**	722,242	37,767	19,048	1,135	10,658	68,608
Out of which impaired	**84,401**	61,485	12,332	3,476	68	7,040	22,916
Assessed fair value of collateral	**1,166,013**	1,058,151	45,673	38,084	990	23,115	107,862
As at 31 Dec 2012							
Net carrying amount	**663,852**	593,553	36,499	14,541	2,829	16,430	70,299
Out of which impaired	**101,543**	79,373	1,623	7,519	1,662	11,366	22,170
Assessed fair value of collateral	**912,648**	793,834	66,368	12,449	9,553	30,444	118,814

The Bank

As at 31 Dec 2013	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms: Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying value of overdue loans
Net carrying amount	**826,460**	752,846	36,316	25,752	1,067	10,479	73,614
Out of which impaired	**71,787**	49,757	11,660	3,333	-	7,037	22,030
Assessed fair value of collateral	**1,221,298**	1,105,304	44,806	47,258	990	22,940	115,994
As at 31 Dec 2012							
Net carrying amount	**704,505**	627,350	44,522	14,063	2,788	15,782	77,155
Out of which impaired	**74,616**	54,444	897	7,402	1,621	10,252	20,172
Assessed fair value of collateral	**966,816**	839,158	76,231	12,076	9,553	29,798	127,658

19 / Loans and receivable due from customers

(II) Analysis of loan portfolio by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2013:

The Group

LVL'000	31 December 2013	% of loan portfolio	31 December 2012	% of loan portfolio
Commercial buildings	251,866	31.85	220,756	33.25
Commercial assets pledge	213,705	27.02	161,690	24.36
Traded securities	115,142	14.56	102,105	15.38
Other mortgage	69,780	8.82	53,503	8.06
Land mortgage	61,027	7.72	36,517	5.50
Mortgage on residential properties	25,255	3.19	23,906	3.60
Without collateral	22,971	2.90	46,317	6.98
Guarantee	10,913	1.38	4,926	0.74
Deposit	3,902	0.49	1,227	0.18
Not traded securities	750	0.10	1	0.00
Other	15,539	1.97	12,904	1.95
Total	**790,850**	**100.00**	**663,852**	**100.00**

The Bank

LVL'000	31 December 2013	% of loan portfolio	31 December 2012	% of loan portfolio
Commercial buildings	281,407	34.05	251,853	35.75
Commercial assets pledge	224,179	27.13	167,124	23.72
Traded securities	115,142	13.93	102,105	14.50
Other mortgage	78,005	9.44	65,401	9.28
Land mortgage	61,027	7.39	36,517	5.18
Mortgage on residential properties	27,058	3.27	23,906	3.39
Without collateral	26,718	3.23	52,499	7.45
Guarantee	8,216	0.99	3,553	0.50
Deposit	3,902	0.47	1,226	0.17
Not traded securities	750	0.09	—	—
Other	56	0.01	321	0.06
Total	**826,460**	**100.00**	**704,505**	**100.00**

The amounts shown in the table above represent the carrying value of the loans, and not the fair value of the collateral.

19 / Loans and receivable due from customers

(III) Impaired loans

	31 Dec 2013 Group	31 Dec 2013 Bank	31 Dec 2012 Group	31 Dec 2012 Bank
Impaired loans gross	124,974	128,317	124,083	126,813
Specific impairment allowance	(55,827)	(56,530)	(52,001)	(52,197)
Net loans and receivables from customers	**69,147**	**71,787**	**72,082**	**74,616**
Fair value of collateral related to impaired loans	**92,145**	**94,018**	**104,797**	**105,967**

When reviewing loans the Bank and the Group set the following categories for individual loans to assess their credit risk:

The Group

	31 Dec 2013 '000 LVL Gross	Specific impairment allowance	Collective impairment allowance	31 Dec 2012 '000 LVL Gross	Specific impairment allowance	Collective impairment allowance
Standard	728,010	(246)	(650)	597,687	(273)	(617)
Watch	29,822	(4,150)	(13)	36,323	(5,836)	(1)
Substandard	50,787	(19,803)	(56)	45,318	(14,753)	—
Doubtful	28,412	(21,173)	(99)	29,604	(23,639)	—
Lost	10,987	(10,455)	(523)	7,539	(7,500)	—
Total	**848,018**	**(55,827)**	**(1,341)**	**716,471**	**(52,001)**	**(618)**

The Bank

	31 Dec 2013 '000 LVL Gross	Specific impairment allowance	31 Dec 2012 '000 LVL Gross	Specific impairment allowance
Standard	760,656	(246)	636,180	(274)
Watch	29,226	(4,104)	35,934	(5,798)
Substandard	56,605	(22,750)	49,831	(17,227)
Doubtful	28,185	(21,118)	29,120	(23,299)
Lost	8,318	(8,312)	5,637	(5,599)
Total	**882,990**	**(56,530)**	**756,702**	**(52,197)**

19 / Loans and receivable due from customers

(IV) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2013 and 2012 are as follows:

LVL'000	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Allowance for impairment				
Balance at 1 January	52,619	52,197	42,680	42,280
Sale of subsidiary	—	—	(1)	—
Charge for the year:				
Specific impairment allowance	18,325	18,306	18,986	18,711
Collective impairment allowance	431	—	285	—
Reversal of specific impairment allowance loss				
Specific impairment allowance	(7,130)	(7,083)	(5,434)	(5,075)
Collective impairment allowance	(39)	—	(2)	(2)
Effect of foreign currency translation	(541)	(393)	(300)	(281)
Write offs	(6,497)	(6,497)	(3,595)	(3,436)
Balance at 31 December	**57,168**	**56,530**	**52,619**	**52,197**

(V) Restructured loans

As at 31 December 2013, the Group held restructured loans of LVL 64,871 thousand (2012: 115,064 thousand) and the Bank held restructured loans of LVL 69,279 thousand (2012: 119,348 thousand). Main forms of restructuring were the reduction of the interest rate, postponing of interest payments or principal payments.

19 / Loans and receivable due from customers

(c) Industry analysis of the loan portfolio

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Financial services	255,985	296,767	209,158	259,276
Real estate management	204,596	234,584	147,268	174,478
Transport and communication	86,573	89,032	52,111	49,327
Individuals	63,892	63,892	44,380	44,380
Wholesale and retailing	42,450	42,437	26,479	26,477
Investments in finance lease	38,479	—	36,505	—
Construction	24,706	24,706	82,802	83,176
Manufacturing	18,289	18,257	20,728	20,710
Food industry	7,331	7,331	8,037	8,037
Tourism	4,381	4,377	5,938	5,936
Other	44,168	45,077	30,446	32,708
	790,850	826,460	663,852	704,505

(d) Geographical analysis of the loan portfolio

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Latvia	185,151	222,713	170,813	207,975
OECD countries	73,221	73,210	69,434	69,157
Other non-OECD countries	532,478	530,537	423,605	427,373
	790,850	826,460	663,852	704,505

(e) Significant credit exposures

As at 31 December 2013 and 2012 the Bank and the Group had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at December 31, 2013 and 2012 the Bank and the Group were in compliance with this requirement.

20 / Available-for-sale assets

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Equity investments				
Equity shares				
RB Opportunity Fund I net value	—	24,598	—	24,598
Impairment allowance through PL	—	(2,855)	—	(2,166)
Revaluation subsequent to impairment	—	2,245	—	—
Net value	—	23,988	—	22,432
RBAM Fixed Income Fund	1,716	1,716	5,561	5,561
Revaluation since acquisition	285	285	771	771
Net value	2,001	2,001	6,332	6,332
Viaduct Invest FCP SIF USD Evergreen 35 Repo Fund	20,600	20,600	—	—
Revaluation since acquisition	2	2	—	—
Net value	20,602	20,602	—	—
Corporate shares	1,463	169	1,468	168
Impairment allowance	(1,159)	—	(1,159)	—
Net value	304	169	309	168
Bonds				
– with rating from AAA to A	18,723	18,723	23,652	23,652
Revaluation since acquisition	227	227	411	411
Net value	18,950	18,950	24,063	24,063
– with rating from BBB+ to BBB-	9,624	9,624	18,196	18,196
Revaluation since acquisition	247	247	552	552
Net value	9,871	9,871	18,748	18,748
– non-investment	2,513	2,513	2,936	2,936
Revaluation since acquisition	67	67	24	24
Impairment allowance	(8)	(8)	(216)	(216)
Net value	2,572	2,572	2,744	2,744
	54,300	78,153	52,196	74,487

21 / Held-to-maturity investments

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Debt and other fixed-income instruments				
– Government and municipal bonds				
Argentina government bonds	—	—	876	876
Total government and municipal bonds			**876**	**876**
– Corporate bonds				
Latvia	5,262	5,262	—	—
Russia	12	12	14	14
USA	14,811	14,811	14,690	14,690
Total corporate bonds	**20,085**	**20,085**	**14,704**	**14,704**
Impairment allowance	—	—	(207)	(207)
	20,085	**20,085**	**15,373**	**15,373**

Analysis of movements in the impairment allowance

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Balance at the beginning of the year	207	207	176	176
Net charge/(recovery) for the year	(276)	(276)	37	37
Investment restructuring	66	66	—	—
Currency revaluation	3	3	(6)	(6)
Balance at the end of the year	**—**	**—**	**207**	**207**

22 / Investments in subsidiaries

The subsidiaries of the Bank are as follows:

	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Bank
Incorporated in		
– Latvia	15,347	12,905
– Cyprus	7,700	7,700
– Russia	1,722	1,666
– Belarus	1,708	225
– Azerbaijan	3	3
Total gross investments	**26,480**	**22,499**
Impairment allowance	(6,000)	(3,770)
Net Investments in subsidiaries	**20,480**	**18,729**

Movements in the impairment allowances

	2013 '000 LVL Bank	2012 '000 LVL Bank
Balance at the beginning of the period	3,770	3,790
Charge for the period	2,300	—
Reversal of impairment loss	(70)	(20)
Balance at the end of period	**6,000**	**3,770**

23 / Investment in associates

The Group owns a share in the following associates, both associated companies provide information services and their assets consist mainly from property and equipment for their operations. The total assets and revenues are not material to the Group

Name	Country of incorpora-tion	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 December 2013		31 December 2012	
"AED Rail Service" Ltd	Latvia	Information services for the railway	43.00%	29	43.00%	53
"Dzelzcelu Tranzits Ltd	Latvia	Information services for the railway	49.12%	—	49.12%	7
Total				**29**		**60**

24 / Property and equipment

The Group

Cost/Revalued amount '000 LVL	Land and buildings	Construction in progress	Vehicles	Office equipment	Total
At 1 January 2013	27,241	45	1,534	14,337	**43,157**
Additions	15	20	270	1,201	**1,506**
Disposals	—	—	(106)	(1,278)	**(1,384)**
Sale of subsidiary	—	(23)	—	(696)	**(719)**
Reclassification to investment property	(6)	—	—	—	**(6)**
Correction of prior year transfer to assets held for sale	477	—	—	—	**477**
Revaluation	423	—	—	—	**423**
FX translation effect	(154)	1	7	(2)	**(148)**
At 31 December 2013	**27,996**	**43**	**1,705**	**13,562**	**43,306**

Depreciation and impairment losses	Land and buildings	Construction in progress	Vehicles	Office equipment	Total
At 1 January 2013	1,173	—	1,248	9,380	**11,801**
Depreciation charge	653	—	129	989	**1,771**
Disposals depreciation	(12)	—	(57)	(937)	**(1,006)**
Sale of subsidiary	(96)	—	—	(154)	**(250)**
Correction of prior year transfer to assets held for sale	477	—	—	—	**477**
FX translation effect	(12)	—	—	(1)	**(13)**
At 31 December 2013	**2,183**	**—**	**1,320**	**9,277**	**12,780**
Carrying value					
At 31 December 2013	**25,813**	**43**	**385**	**4,285**	**30,526**
At 31 December 2012	**26,068**	**45**	**286**	**4,957**	**31,356**

24 / Property and equipment

The Group

Cost/Revalued amount '000 LVL	Land and buildings	Construction in progress	Vehicles	Office equipment	Total
At 1 January 2012	39,550	86	1,743	13,993	**55,372**
Additions	44	11	42	527	**624**
Disposals	—	(13)	(254)	(432)	**(699)**
Transfers	—	(15)	—	15	**—**
Transfers from advances	—	—	—	226	**226**
Reclassification to investment property	(147)	(24)	—	—	**(171)**
Transfers to non-current assets held for sale	(12,350)	—	—	—	**(12,350)**
Revaluation	134	—	—	—	**134**
FX translation effect	10	—	3	8	**21**
At 31 December 2012	**27,241**	**45**	**1,534**	**14,337**	**43,157**

Depreciation and impairment losses	Land and buildings	Construction in progress	Vehicles	Office equipment	Total
At 1 January 2012	1,357	—	1,306	8,390	**11,053**
Depreciation charge	726	—	193	1,227	**2,146**
Disposals	(10)	—	(253)	(240)	**(503)**
Revaluation depreciation	2	—	—	—	**2**
Transfers to non-current assets held for sale	(876)	—	—	—	**(876)**
Reclassification to investment property	(26)	—	—	—	**(26)**
FX translation effect	—	—	2	3	**5**
At 31 December 2012	**1,173**	**—**	**1,248**	**9,380**	**11,801**
Carrying value					
At 31 December 2012	**26,068**	**45**	**286**	**4,957**	**31,356**
At 31 December 2011	**38,193**	**86**	**437**	**5,603**	**44,319**

24 / Property and equipment

Revalued assets

At 31 December 2013 property consisting of office buildings and land, was revalued to its fair value as determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the property portfolio every year.

The fair value measurement for property (land and buildings) has been categorised as a Level 3 in the fair value hierarchy.

The following table shows the valuation technique used in measuring the fair value of the significant items of property, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Office premises in administrative building in the net book value of LVL 544 thousand located in Minsk, Belarus	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m² 878 LVL	The fair value would increase (decreased) if the price per m² was higher (lower).
Office premises in administrative building in the amount of LVL 1,233 thousand in Moscow, Russia	Market comparison technique: The fair value was based on results of comparable sales of similar buildings	Price per m² 4,080 LVL	The fair value would increase (decreased) if the price per m² was higher (lower).
Office building and land in the amount of LVL 23,857 thousand located in Riga, Latvia	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Rental income per m² of LVL 9-11 Discount rate of 7% Occupancy rate of 95%	The estimated fair value would increase (decrease) if: — Rental income per m² was higher (lower) — The discount rate was lower (higher) — Annual capital expense are lower (higher) — The occupancy rate was higher (lower)

The Bank

’000 LVL	Vehicles	Office equipment	Total
Cost/Revalued amount			
1 January 2013	1,495	10,307	11,802
Additions	263	1,019	1,282
Disposals	(97)	(1,204)	(1,301)
Transferred from advances	—	—	—
At 31 December 2013	**1,661**	**10,122**	**11,783**
Depreciation and impairment losses			
At 1 January 2013	1,194	6,979	8,173
Depreciation charge	127	536	663
Disposals	(50)	(895)	(945)
At 31 December 2013	**1,271**	**6,620**	**7,891**
Net book value			
At 31 December 2013	**390**	**3,502**	**3,892**
At 31 December 2012	**301**	**3,328**	**3,629**

’000 LVL	Vehicles	Office equipment	Total
Cost/Revalued amount			
1 January 2012	1,707	10,270	11,977
Additions	42	150	192
Disposals	(254)	(240)	(494)
Transferred from advances	—	127	127
At 31 December 2012	**1,495**	**10,307**	**11,802**
Depreciation and impairment losses			
At 1 January 2012	1,276	6,467	7,743
Depreciation charge	171	713	884
Disposals	(253)	(201)	(454)
At 31 December 2012	**1,194**	**6,979**	**8,173**
Net book value			
At 31 December 2012	**301**	**3,328**	**3,629**
At 31 December 2011	**431**	**3,803**	**4,234**

25 / Intangible assets

The Group

'000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2013	2,339	7,834	1,490	11,663
Additions	—	266	183	449
Disposals	—	(550)	—	(550)
Reclassification	—	165	(165)	—
Write off	(1,588)	—	—	(1,588)
Sale of subsidiary	—	—	(15)	(15)
At 31 December 2013	**751**	**7,715**	**1,493**	**9,959**
Amortisation and impairment losses				
At 1 January 2013	1,588	7,028	438	9,054
Amortisation charge	—	509	97	606
Disposals		(549)	—	(549)
Write off	(1,588)	—	—	(1,588)
Sale of subsidiary	—	—	(15)	(15)
At 31 December 2013	**—**	**6,988**	**520**	**7,508**
Carrying value				
At 31 December 2013	**751**	**727**	**973**	**2,451**
At 31 December 2012	**751**	**806**	**1,052**	**2,609**

'000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2012	2,339	7,615	1,488	11,442
Additions	—	106	103	209
Disposals	—	(1)	(16)	(17)
Transfers from advances	—	114	(85)	29
At 31 December 2012	**2,339**	**7,834**	**1,490**	**11,663**
Amortisation and impairment losses				
At 1 January 2012	1,588	6,364	307	8,259
Amortisation charge	—	664	132	796
Disposals	—	—	(1)	(1)
At 31 December 2012	**1,588**	**7,028**	**438**	**9,054**
Carrying value				
At 31 December 2012	**751**	**806**	**1,052**	**2,609**
At 31 December 2011	**751**	**1,251**	**1,181**	**3,183**

Goodwill of LVL 751 thousand (2012: LVL 751 thousand) originated on the acquisition of a payment card business unit in 2001.

The Bank

'000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2013	751	7,825	60	8,636
Disposals	—	(550)	—	(550)
Additions	—	265	173	438
Reclassification	—	165	(165)	—
At 31 December 2013	**751**	**7,705**	**68**	**8,524**
Amortisation and impairment losses				
At 1 January 2013	—	7,019	22	7,041
Amortisation charge	—	508	1	509
Disposals	—	(550)	—	(550)
At 31 December 2013	**—**	**6,977**	**23**	**7,000**
Net book value				
At 31 December 2013	**751**	**728**	**45**	**1,524**
At 31 December 2012	**751**	**806**	**38**	**1,595**

'000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2012	751	7,606	68	8,425
Additions	—	105	93	198
Reclassification	—	—	(15)	(15)
Transfers from advances		114	(86)	28
At 31 December 2012	**751**	**7,825**	**60**	**8,636**
Amortisation and impairment losses				
At 1 January 2012	—	6,358	20	6,378
Amortisation charge	—	661	2	663
At 31 December 2012	**—**	**7,019**	**22**	**7,041**
Net book value				
At 31 December 2012	**751**	**806**	**38**	**1,595**
At 31 December 2011	**751**	**1,248**	**48**	**2,047**

Goodwill of LVL 751 thousand (2012: LVL 751 thousand) originated on the acquisition of a payment card business unit in 2001.

26 / Investment property

Investment property comprises residential properties and commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy and which are leased to third parties, juice terminal and a hotel and leisure complex.

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Balance at 1 January	52,520	7,499	45,413	6,926
Collateral from loans assumed	2,208	2,208	1,260	1,260
Transferred from advances	—	—	578	—
Transferred from property	6	—	145	—
Additions	2,923	7	6,246	8
Sale of investment property	(9,939)	(6,465)	(1,702)	(695)
Revaluation of property	2,084	207	476	—
Investment in subsidiaries	—	(325)	—	—
Transfer to non-current assets for sales	(1)	—	—	—
Currency revaluation	10	—	104	—
Balance at 31 December	**49,811**	**3,131**	**52,520**	**7,499**

Rental income and operating expense for the year ended 31 December 2013, the Group

	Book value '000 LVL	Rental income '000 LVL	Operating expenses '000 LVL
Investment property rented out	27,207	1,343	784
Investment property held for value appreciation	22,604	—	261
Total	**49,811**	**1,343**	**1,045**

Rental income and operating expenses are presented under Other income (expenses) in profit or loss.

26 / Investment property

Type	Valuation technique	Significant unobservable inputs	Carrying amount
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m²	
— Riga		650 – 1,100 LVL	7,574
— Jurmala		1,100 – 2,450 LVL	4,231
— Other areas in Latvia		280 -835 LVL	3,019
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m²	
— Riga		20-70 LVL	5,303
— Jurmala		34 – 68 LVL	1,411
— Other areas in Latvia		1 – 25 LVL	6,951
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m²	
— Riga			
— Riga region		123 – 322 LVL	6,495
— Other areas in Latvia		340 – 456 LVL	852
			478
— Belarus		1,007 LVL	1,318
Commercial property			
— Hotels (Jurmala)	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Annual discount rate of 9% 60 – 200 LVL income per hotel room The occupancy rate increasing over time from 32% to 42%	3,572
— Industrial production premises for rent (Riga region)	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Annual discount rate of 6% Rental income 1.12-1.41 LVL per m²	2,515
— Juice terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Annual discount rate 10%. Discounted income determined based on income from three service positions – base cycle 60-80 USD/t, filling in barrels 0.13-11.84 Ls/t, storage 1-1.50 USD/t. EBITDA is discounted at 10%.	2,469
— Commercial premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from sales income after property reconstruction.	Annual discount rate 5-15% Sales price for m² 1,939 LVL Sales price for a car parking lot 7,000 LVL	1,615
— Warehouse (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Annual discount rate 11% Rental income 3.51 LVL per m² The occupancy rate increasing over time from 45% to 95%	1,300
— Office and shop premises (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income.	Annual discount rate 5-10% The occupancy rate increasing over time from 85% to 95% Rental income 4 LVL per m² for offices and 6 LVL per m2 for shop	708

27 / Other assets

	31 Dec 2013 ’000 LVL Group	31 Dec 2013 ’000 LVL Bank	31 Dec 2012 ’000 LVL Group	31 Dec 2012 ’000 LVL Bank
Other non-financial assets				
Collateral assumed on non-performing loans	7,037	7,037	8,595	8,595
Prepayments	1,664	508	1,386	631
Prepayments for property obtained in auctions	2,470	—	80	—
Guarantee receivable from borrower	2,502	2,502	2,502	2,502
Recoverable VAT	1,839	—	2,304	146
Tax prepayments	14	—	79	—
Other	7,359	4,885	6,419	4,616
Impairment allowance on collateral assumed	(1,800)	(1,635)	(2,039)	(1,730)
	21,085	**13,297**	**19,326**	**14,760**

Analysis of movements in the value of collateral assumed on non-performing loans

	2013 ’000 LVL Group	2013 ’000 LVL Bank	2012 ’000 LVL Group	2012 ’000 LVL Bank
Balance at the beginning of the year	8,595	8,595	9,059	9,059
Sale of collateral completed	(1,558)	(1,558)	(464)	(464)
Balance at the end of the year	**7,037**	**7,037**	**8,595**	**8,595**

Analysis of movements in the impairment allowance

	2013 ’000 LVL Group	2013 ’000 LVL Bank	2012 ’000 LVL Group	2012 ’000 LVL Bank
Balance at the beginning of the year	2,039	1,730	2,273	1,815
Charge for the year	268	188	130	26
Recovery	(32)	(8)	(46)	(43)
Sale completed	—	—	—	(68)
Transfer to other assets	2	—	73	—
Written off	(275)	(275)	(376)	—
Sale of subsidiary	(202)	—	(15)	—
Balance at the end of the year	**1,800**	**1,635**	**2,039**	**1,730**

27 / Other assets

Collateral assumed on non performing loans by type of property

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Residential property	6,062	6,062	7,579	7,579
Land	908	908	778	778
Commercial property	67	67	209	209
Production plants	—	—	29	29
	7,037	7,037	8,595	8,595

28 / Deposits and balances due to banks

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Vostro accounts	23,688	21,943	20,334	18,636
Term deposits	558	558	585	585
	24,246	**22,501**	**20,919**	**19,221**

Concentration of deposits and balances due to banks

As at 31 December 2013 the Bank and the Group had balances with two clients (three as at 31 December 2012), which exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2013 was LVL 11,042 thousand and LVL 10,953 thousand accordingly.

29 / Current accounts and deposits due to customers

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Current accounts and demand deposits				
— Private companies residents	59,983	71,682	46,833	54,304
— Individuals residents	39,112	38,831	33,471	33,471
— Government – non-residents	—	—	79	79
— Private companies non-residents	1,238,112	1,238,112	928,261	928,261
— Individuals non-residents	229,315	229,315	175,586	175,586
Total current account and demand deposits	**1,566,522**	**1,577,940**	**1,184,230**	**1,191,701**
Term deposits				
— Private companies residents	3,325	2,590	1,750	1,470
— Individuals	23,836	23,636	35,961	35,266
— Private companies non-residents	100,348	100,348	119,883	114,663
— Individuals non-residents	34,426	34,426	35,060	35,060
Subordinated deposits				
— Individuals	7,037	7,037	6,542	6,542
— Private companies non-residents	19,486	19,486	17,384	17,384
— Individuals non-residents	47,505	47,505	39,644	39,644
Total term deposits	**235,963**	**235,028**	**256,224**	**250,029**
Total current accounts and deposits due to customers	**1,802,485**	**1,812,968**	**1,440,454**	**1,441,730**

Subordinated deposits have a fixed term of at least five years from their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims.

(a) Blocked accounts

As of 31 December 2013, the Bank maintained customer deposit balances of LVL 8,419 thousand (2012: LVL 3,813 thousand) which were blocked by the Bank as collateral for loans and financial guarantees and letters of credit granted by the Bank.

(b) Concentrations of current accounts and customer deposits

As of 31 December 2013 and 2012, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

30 / Issued debt securities

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Subordinated bonds				
— Individuals residents	2,268	2,268	2,295	2,295
— Private companies non-residents	4,142	4,142	3,355	3,355
— Individuals non-residents	6,574	6,574	7,513	7,513
Total	**12,984**	**12,984**	**13,163**	**13,163**

Subordinated bonds have a fixed term of seven years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims. Bonds are listed on the Nasdaq OMX Riga exchange with the following maturitiesand carrying amounts:

Name	Rietumu Banka EURSB-1	Rietumu Banka USDSB-1	Rietumu Banka USDSB-2
ISIN	LV0000800993	LV0000801009	LV0000801025
Maturity	7 September 2019	7 September 2019	14 September 2019
Carrying amount, LVL '000	7,184	3,158	2,642

There were no defaults on interest or other breaches with respect to issued debt securities.

31 / Other liabilities and accruals

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Annual leave accrual	822	729	886	790
Deferred income	841	837	535	79
Management bonus accrual	5,222	5,201	3,213	3,204
Deposits guarantee fund	920	907	1,008	1,007
VAT payable	526	75	121	—
Dividends payable	10	4	4	4
Prepayments	1,548	79	1,662	37
Accounts payable to suppliers and other	3,534	1,715	3,151	1,426
	13,423	**9,547**	**10,580**	**6,547**

32 / Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2013 and 2012.

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

The Group

	Assets		Liabilities		Net	
’000 LVL	2013	2012	2013	2012	2013	2012
Financial instruments at fair value through profit or loss	39	15	—	—	39	15
Loans and advances to customers	174	128	—	—	174	128
Available-for-sale financial assets	—	252	(124)	(264)	(124)	(12)
Property and equipment	8	453	(1,040)	(911)	(1,032)	(458)
Intangible assets	—	—	(138)	(150)	(138)	(150)
Investment property	73	163	(1,719)	(1,840)	(1,646)	(1,677)
Other assets	738	—	(2)	(426)	736	(426)
Due to financial institutions	—	348	—	—	—	348
Other liabilities	941	604	(384)	(218)	557	386
Total recognised deferred tax assets/(liabilities)	**1,973**	**1,963**	**(3,407)**	**(3,809)**	**(1,434)**	**(1,846)**
Unrecognised deferred tax assets					**(204)**	**(840)**
Recognised deferred tax liabilities					**(1,638)**	**(2,686)**

The rate of tax applicable for deferred taxes was equals to the tax rate applicable in countries in which subsidiaries operate, as disclosed in Note 15.

Movement in temporary differences during the year ended 31 December 2013

	2013 ’000 LVL	2012 ’000 LVL
Balance at 1 January — deferred tax liability	(2,827)	(2,358)
Balance at 1 January — deferred tax asset	141	67
Prior year adjustment	16	393
Charge to profit for the year	156	(100)
Transfer to retained earnings	310	—
Sale of subsidiary	462	—
Release / charge in other comprehensive income	79	(722)
Currency revaluation	25	34
Balance at 31 December	**(1,638)**	**(2,686)**
Deferred tax asset	**332**	**141**
Deferred tax liability	**(1,970)**	**(2,827)**

Deferred tax asset and liability are shown net on individual subsidiaries level, but are not netted on Group level.

32 / Deferred tax asset and liability

The Bank

	Assets		Liabilities		Net	
'000 LVL	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Financial instruments at fair value through profit or loss	39	15	—	—	39	15
Loans and advances to customers	30	71	—	—	30	71
Available—for—sale financial assets	428	252	(461)	(264)	(33)	(12)
Investments in subsidiaries	555	566	—	—	555	566
Property and equipment	—	—	(595)	(581)	(595)	(581)
Investment property	—	—	(65)	(340)	(65)	(340)
Other assets	135	262	—	—	135	262
Other liabilities	890	599	—	—	890	599
Total recognised deferred tax assets/(liabilities)	**2,077**	**1,765**	**(1,121)**	**(1,185)**	**956**	**580**
Unrecognised deferred tax assets					**(759)**	**(1,166)**
Recognised deferred tax assets/(liabilities)					**197**	**(586)**

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

33 / Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and fully paid share capital comprises 100,000,000 ordinary shares (2012:100,000,000). All shares have a par value of LVL 1. The share premium represents amount that were paid by shareholders in excess to the par value of ordinary shares.

The largest shareholders of the Bank as of December 31, 2013 and December 31, 2012 are as follows:

	2013 '000 LVL	%	2012 '000 LVL	%
Companies non-residents, total	**33,110**		**33,110**	
Boswell (International) Consulting Limited	33,110	33.11%	33,110	33.11%
Private persons, total	**66,890**		**66,890**	
Leonid Esterkin	33,120	33.12%	33,120	33.12%
Arkady Suharenko	17,335	17.34%	17,335	17.34%
Others	16,435	16.43%	16,435	16.43%
Issued capital	**100,000**	**100%**	**100,000**	**100%**
Share premium	**4,809**		**4,809**	

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

(b) Dividends

As at reporting date dividends in the amount of LVL 18,816 thousand were proposed.

(c) Other reserves

Other reserves amounting to LVL 10,016 thousand at the Group and the Bank (2012: LVL 10,016 thousand) represent contributions made by shareholders in previous years. These reserves are not subject to any restrictions and can be distributed to the shareholders based on their decision.

(d) Fair value reserve

The fair value reserve represents the changes in fair value of available for sale assets and is reduced by deferred tax charged on unrealised gains or losses on revaluation of the available for sale financial instruments.

(e) Revaluation reserve

A revaluation reserve represents the increase in the fair value of real estate properties classified under Property and equipment.

	2013 '000 LVL Group	2013 '000 LVL Bank	2012 '000 LVL Group	2012 '000 LVL Bank
Revaluation reserve as at 1 January	2,669	1,754	2,626	1,754
Revaluation of property and equipment	423	—	134	—
Release of revaluation reserve due to sale of investment property	(2,064)	(2,064)	—	—
Deferred tax on change in revaluation reserve	249	310	(23)	—
Increase of revaluation reserve due to sale or purchase of subsidiary shares to third parties	281	—	—	—
Non controlling interest share on change in revaluation reserve	—	—	(29)	—
FX translation	—	—	(39)	—
	1,558	—	2,669	1,754

The balance of LVL 1,754 thousand recognised in the Bank and the Group as at 31 December 2012 was related to the revaluation of the office building recognised prior to reclassification as investment property. In 2013 this property was sold.

34 / Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Cash	3,999	3,974	3,763	3,730
Balances due from the Bank of Latvia	363,287	363,287	212,027	212,027
	367,286	367,261	215,790	215,757
Demand Loans and receivables from banks	512,930	511,889	395,855	394,620
Demand deposits from banks	(23,688)	(21,943)	(20,334)	(18,636)
Total	**856,528**	**857,207**	**591,311**	**591,741**

35 / Commitments and guarantees

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and 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 five 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 credit exposure that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Contracted amount				
Loan and credit line commitments	20,557	22,563	17,587	18,421
Credit card commitments	6,955	6,956	7,718	7,719
Undrawn overdraft facilities	5,605	5,605	5,766	5,766
Guarantees and letters of credit	9,775	9,775	7,120	7,120
Total	**42,892**	**44,899**	**38,191**	**39,026**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

36 / Litigations

In the ordinary course of business, the Bank is subject to legal actions and complaints. As at 31 December 2013 there were 18 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 3,155 thousand.

No provisions were recognised as at 31 December 2013 and 2012, as the management based on the professional advice to the Bank considers that the loss is not likely to eventuate.

37 / Reverse repo

	31 Dec 2013 '000 LVL Group	31 Dec 2013 '000 LVL Bank	31 Dec 2012 '000 LVL Group	31 Dec 2012 '000 LVL Bank
Natixis	35,794	35,794	—	—
Nomura International plc	24,648	24,648	28,902	28,902
KBC Bank NV	24,599	24,599	—	—
Merrill Lynch International	20,596	20,596	—	—
Commerzbank AG	—	—	53,878	53,878
Total	**105,637**	**105,637**	**82,780**	**82,780**

38 / Trust and custody activities

(a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers. The Bank and the Group earn commission income for holding such securities.

The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2013 the total assets held by the Group on behalf of customers and assets under management were LVL 424,708 thousand (2012: LVL 383,681 thousand) and by the Bank LVL 363,266 thousand (2012: LVL 319,609 thousand) accordingly.

39 / Related party transactions

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies.

(a) Shareholders, Members of the Council and Board (the Bank)

Loans and receivables:	2013 '000 LVL	2012 '000 LVL
Loans and receivables at the beginning of the year	606	686
Loans issued during the year	267	42
Forex translation effect	(1)	(1)
Due to changes in the structure of related parties	(96)	—
Loan repayment during the year	(112)	(121)
Loans and receivables at the end of the year	**664**	**606**
Interest income earned during the year	15	19

Deposits	2013 '000 LVL	2012 '000 LVL
Deposits at the beginning of the year	10,459	5,984
Deposits received during the year	2,508	6,803
Forex translation effect	(4)	(3)
Due to changes in the structure of related parties	(35)	20
Deposits repaid during the year	(3,182)	(2,345)
Deposits at the end of the year	**9,746**	**10,459**
Interest expense on deposits charged during the year	798	759

Total remuneration included in General administrative expenses (Note 14):

	2013 '000 LVL	2012 '000 LVL
Members of the Council	165	163
Members of the Board of Directors	1,011	933
	1,176	**1,096**

(b) Subsidiaries and associated companies (the Bank)

Loans and receivables:	2013 '000 LVL	2012 '000 LVL
Loans and receivables at the beginning of the year	82,420	60,478
Loans issued during the year	36,513	61,989
Due to changes in the structure of related parties	(4)	—
Forex translation effect	(915)	(85)
Loan repayment during the year	(39,384)	(39,962)
Loans and receivables at the end of the year	**78,630**	**82,420**
Interest income earned	4,858	4,505

39 / Related party transactions

Deposits	2013 '000 LVL	2012 '000 LVL
Deposits at the beginning of the year	130	1
Deposits received during the year	703	776
Forex translation effect	—	—
Deposits repaid during the year	(800)	(647)
Deposits at the end of the year	**33**	**130**
Interest expense on deposits	—	2

During the year 2013, the Bank paid rent to its subsidiary SIA Vesetas 7 in the amount of LVL 1,438 thousand (2012: LVL 1,239 thousand).

(c) Transactions with members of the Council and the Board of Directors (the Group)

The outstanding balances as of 31 December 2013 and 31 December 2012 with members of the Council and the Board are as follows:	2013 '000 LVL	2012 '000 LVL
Loans and receivables		
Shareholders, Members of Council and Board	1,081	507
Key management personnel and relatives	79	198
Companies controlled by Shareholders, Members of Council and Board	12,722	16,524
Term deposits		
Shareholders, Members of Council and Board	8,232	7,602
Key management personnel and relatives	1,940	2,049
Companies controlled by Shareholders, Members of Council and Board	7,681	8,926

Total remuneration included in administrative expenses (Note 14):

	2013 '000 LVL	2012 '000 LVL
Members of the Council	165	218
Members of Board of Directors	1,470	1,196
	1,635	**1,414**

40 / Fair value of financial instruments

(a) Financial instruments measured at fair value

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

The Group

31 Dec 2013	Level (1)	Level (2)	Total
Financial assets			
Available for sale assets	31,119	23,181	54,300
Financial assets at fair value through profit or loss	12,030	1,077	13,107
Financial liabilities			
Financial investments at fair value through profit or loss	—	432	432

31 Dec 2012	Level (1)	Level (2)	Total
Financial assets			
Available for sale assets	45,470	6,726	52,196
Financial assets at fair value through profit or loss	37,206	468	37,674
Financial liabilities			
Financial investments at fair value through profit or loss	—	101	101

The Bank

31 Dec 2013	Level (1)	Level (2)	Total
Financial assets			
Available for sale assets	31,119	47,034	78,153
Financial assets at fair value through profit or loss	12,030	503	12,533
Financial liabilities			
Financial investments at fair value through profit or loss	—	432	432

31 Dec 2012	Level (1)	Level (2)	Total
Financial assets			
Available for sale assets	45,470	29,017	74,487
Financial assets at fair value through profit or loss	37,206	233	37,439
Financial liabilities			
Financial investments at fair value through profit or loss	—	101	101

The following table shows the valuation techniques used in measuring Level 2 fair values:

Type	Valuation technique
Financial assets and liabilities at fair value through profit or loss	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.
Available for sale assets	Unit funds value calculation: The fair value of units in funds is calculated based on fair value of underlying assets that is based on either quoted prices in active market when underlying assets are securities or comparable deals with real estate when underlying assets are real estate properties.

40 / Fair value of financial instruments

(b) Financial instruments not measured at fair value

The table below analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised.

The Group

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 balances with central banks	—	367,286	—	367,286	367,286
Loans and receivables from banks	—	601,907	—	601,907	601,907
Loans and receivables from customers	—	790,850	—	790,850	790,850
Reverse repo	—	105,637	—	105,637	105,637
Held to maturity instruments	20,128	—	—	20,128	20,085
Financial liabilities					
Deposits and balances due to banks	—	24,246	—	24,246	24,246
Deposits and balances due to customers	—	1,802,485	—	1,802,485	1,802,485
Issued debt securities	—	12,984	—	12,984	12,984
31 December 2012					
Financial assets					
Cash and balances with central banks	—	215,790	—	215,790	215,790
Loans and receivables from banks	—	464,300	—	464,300	464,300
Loans and receivables from customers	—	663,852	—	663,852	663,852
Reverse repo	—	82,780	—	82,780	82,780
Held to maturity instruments	15,941	—	—	15,941	15,373
Financial liabilities					
Deposits and balances due to banks	—	20,919	—	20,919	20,919
Deposits and balances due to customers	—	1,440,454	—	1,440,454	1,440,454
Issued debt securities	—	13,163	—	13,163	13,163

40 / Fair value of financial instruments

The Bank

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 balances with central banks	—	367,261	—	367,261	367,261
Loans and receivables from banks	—	599,922	—	599,922	599,922
Loans and receivables from customers	—	826,460	—	826,460	826,460
Reverse repo	—	105,637	—	105,637	105,637
Held to maturity instruments	20,128	—	—	20,128	20,085
Financial liabilities					
Deposits and balances due to banks	—	22,501	—	22,501	22,501
Deposits and balances due to customers	—	1,812,968	—	1,812,968	1,812,968
Issued debt securities	—	12,984	—	12,984	12,984

31 December 2012					
Financial assets					
Cash and balances with central banks	—	215,757	—	215,757	215,757
Loans and receivables from banks	—	462,012	—	462,012	462,012
Loans and receivables from customers	—	704,505	—	704,505	704,505
Reverse repo	—	82,780	—	82,780	82,780
Held to maturity instruments	15,941	—	—	15,941	15,373
Financial liabilities					
Deposits and balances due to banks	—	19,221	—	19,221	19,221
Deposits and balances due to customers	—	1,441,730	—	1,441,730	1,441,730
Issued debt securities	—	13,163	—	13,163	13,163

41 / Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2013:

The Group

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	BYR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Financial assets						
Cash and balances with central bank	124,406	513	242,202	—	165	367,286
Financial instruments at fair value through profit or loss	622	4,003	2,300	—	6,182	13,107
Loans and receivables due from banks	689	498,358	38,126	1,632	63,102	601,907
Loans and receivables due from customers	35,508	496,214	251,974	—	7,154	790,850
Reverse repo	—	81,038	24,599	—	—	105,637
Available-for-sale assets	178	52,831	1,290	—	1	54,300
Held-to-maturity investments	—	7,836	12,249	—	—	20,085
Total financial assets	**161,403**	**1,140,793**	**572,740**	**1,632**	**76,604**	**1,953,172**
Financial liabilities						
Financial instruments at fair value through profit or loss	432	—	—	—	—	432
Deposits and balances from banks	480	17,544	2,793	—	3,429	24,246
Current accounts and deposits from customers	22,031	1,108,783	597,132	124	74,415	1,802,485
Issued debt securities	—	5,800	7,184	—	—	12,984
Total financial liabilities	**22,943**	**1,132,127**	**607,109**	**124**	**77,844**	**1,840,147**
Net position as of 31 December 2013	**138,460**	**8,666**	**(34,369)**	**1,508**	**(1,240)**	
Net off balance sheet position as of 31 December 2013	**(29,042)**	**22,229**	**2,513**	**33**	**4,267**	
Net total positions as of 31 December 2013	**109,418**	**30,895**	**(31,856)**	**1,541**	**3,027**	
Net total positions as of 31 December 2012	**93,303**	**(16,447)**	**(19,965)**	**490**	**(53)**	

41 / Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2012:

The Group

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	BYR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Financial assets						
Cash and balances with central bank	63,762	653	151,086	—	289	215,790
Financial instruments at fair value through profit or loss	3,403	6,602	22,520	—	5,149	37,674
Loans and receivables due from banks	1,225	363,404	48,269	869	50,533	464,300
Loans and receivables due from customers	38,980	394,206	220,565	268	9,833	663,852
Reverse repo	—	82,780	—	—	—	82,780
Available-for-sale assets	182	47,494	4,517	—	3	52,196
Held-to-maturity investments	—	3,313	12,060	—	—	15,373
Total financial assets	**107,552**	**898,452**	**459,017**	**1,137**	**65,807**	**1,531,965**
Financial liabilities						
Financial instruments at fair value through profit or loss	101	—	—	—	—	101
Deposits and balances from banks	397	13,010	2,811	95	4,606	20,919
Current accounts and deposits from customers	20,423	884,179	467,897	521	67,434	1,440,454
Issued debt securities	—	5,980	7,183	—	—	13,163
Total financial liabilities	**20,921**	**903,169**	**477,891**	**616**	**72,040**	**1,474,637**
Net position as of 31 December 2012	**86,631**	**(4,717)**	**(18,874)**	**521**	**(6,233)**	
Net off balance sheet position as of 31 December 2012	**6,672**	**(11,730)**	**(1,091)**	**(31)**	**6,180**	
Net total positions as of 31 December 2012	**93,303**	**(16,447)**	**(19,965)**	**490**	**(53)**	
Net total positions as of 31 December 2011	**73,483**	**3,382**	**(32,075)**	**(1,865)**	**(2,625)**	

41 / Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2013:

The Bank

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	BYR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Financial assets						
Cash and balances with central bank	124,397	513	242,202	—	149	367,261
Financial instruments at fair value through profit or loss	622	3,429	2,300	—	6,182	12,533
Loans and receivables from banks	537	498,262	37,870	155	63,098	599,922
Loans and receivables from customers	58,860	497,094	262,311	—	8,195	826,460
Reverse repo	—	81,038	24,599	—	—	105,637
Available-for-sale assets	44	52,831	25,278	—	—	78,153
Held-to-maturity investments	—	7,836	12,249	—	—	20,085
Total financial assets	**184,460**	**1,141,003**	**606,809**	**155**	**77,624**	**2,010,051**
Financial liabilities						
Financial instruments at fair value through profit or loss	432	—	—	—	—	432
Deposits and balances from banks	480	16,848	1,948	—	3,225	22,501
Current accounts and deposits from customers	23,794	1,109,502	605,197	124	74,351	1,812,968
Issued debt securities	—	5,800	7,184	—	—	12,984
Total financial liabilities	**24,706**	**1,132,150**	**614,329**	**124**	**77,576**	**1,848,885**
Net position as of 31 December 2013	**159,754**	**8,853**	**(7,520)**	**31**	**48**	
Net off balance sheet position as of 31 December 2013	**(29,042)**	**22,229**	**2,513**	**33**	**4,267**	
Net total positions as of 31 December 2013	**130,712**	**31,082**	**(5,007)**	**64**	**4,315**	
Net total positions as of 31 December 2012	**117,282**	**(8,322)**	**9,142**	**76**	**(40)**	

41 / Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2012:

The Bank

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	BYR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Financial assets						
Cash and balances with central bank	63,731	653	151,086	—	287	215,757
Financial instruments at fair value through profit or loss	3,403	6,370	22,517	—	5,149	37,439
Loans and receivables from banks	752	363,390	47,999	625	49,246	462,012
Loans and receivables from customers	65,189	403,563	224,768	3	10,982	704,505
Reverse repo	—	82,780	—	—	—	82,780
Available-for-sale assets	44	47,494	26,949	—	—	74,487
Held-to-maturity investments	—	3,313	12,060	—	—	15,373
Total financial assets	**133,119**	**907,563**	**485,379**	**628**	**65,664**	**1,592,353**
Financial liabilities						
Financial instruments at fair value through profit or loss	101	—	—	—	—	101
Deposits and balances from banks	397	12,515	1,703	—	4,606	19,221
Current accounts and deposits from customers	22,011	885,660	466,260	521	67,278	1,441,730
Issued debt securities	—	5,980	7,183	—	—	13,163
Total financial liabilities	**22,509**	**904,155**	**475,146**	**521**	**71,884**	**1,474,215**
Net position as of 31 December 2012	**110,610**	**3,408**	**10,233**	**107**	**(6,220)**	
Net off balance sheet position as of 31 December 2012	**6,672**	**(11,730)**	**(1,091)**	**(31)**	**6,180**	
Net total positions as of 31 December 2012	**117,282**	**(8,322)**	**9,142**	**76**	**(40)**	
Net total positions as of 31 December 2011	**3,312**	**(565)**	**(536)**	**(29)**	**(2,082)**	

42 / Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at December 31, 2013, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Non-interest bearing '000 LVL	Total '000 LVL
Financial assets							
Cash and balances with central bank	—	—	—	—	—	367,286	**367,286**
Financial instruments at fair value through profit or loss	—	3,220	7,900	549	—	1,438	**13,107**
Loans and receivables from banks	87,330	686	944	—	—	512,947	**601,907**
Loans and receivables from customers	121,332	307,105	76,002	111,617	15,530	159,264	**790,850**
Reverse repo	96,264	9,373	—	—	—	—	**105,637**
Available-for-sale assets	8,435	61	21,374	1,089	—	23,341	**54,300**
Held-to-maturity investments	2,572	4,216	8,135	5,150	12	—	**20,085**
Total financial assets	**315,933**	**324,661**	**114,355**	**118,405**	**15,542**	**1,064,276**	**1,953,172**
Financial liabilities							
Financial instruments at fair value through profit or loss	—	—	—	—	—	432	**432**
Deposits and balances from banks	121	503	1,064	615	—	21,943	**24,246**
Current accounts and deposits from customers	4,906	19,756	64,344	130,983	16,254	1,566,242	**1,802,485**
Issued debt securities	—	—	—	—	12,984	—	**12,984**
Total financial liabilities	**5,027**	**20,259**	**65,408**	**131,598**	**29,238**	**1,588,617**	**1,840,147**
Net position as at 31 December 2013	**310,906**	**304,402**	**48,947**	**(13,193)**	**(13,696)**	**(524,341)**	
Net position as at 31 December 2012	**510,127**	**218,228**	**5,478**	**20,262**	**(2,013)**	**(694,754)**	

42 / Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at December 31, 2012, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Non-interest bearing '000 LVL	Total '000 LVL
Financial assets							
Cash and balances with central bank	—	—	—	—	—	215,790	**215,790**
Financial instruments at fair value through profit or loss	6,910	10,498	19,100	106	172	888	**37,674**
Loans and receivables from banks	346,782	834	1,053	—	—	115,631	**464,300**
Loans and receivables from customers	114,189	198,727	69,613	78,546	33,638	169,139	**663,852**
Reverse repo	53,878	28,902	—	—	—	—	**82,780**
Available-for-sale assets	693	3,337	7,421	33,127	977	6,641	**52,196**
Held-to-maturity investments	8	5	1	14,817	542	—	**15,373**
Total financial assets	**522,460**	**242,303**	**97,188**	**126,596**	**35,329**	**508,089**	**1,531,965**
Financial liabilities							
Financial instruments at fair value through profit or loss	—	—	—	—	—	101	**101**
Deposits and balances from banks	—	159	426	1,698	—	18,636	**20,919**
Current accounts and deposits from customers	12,333	23,916	91,284	104,636	24,179	1,184,106	**1,440,454**
Issued debt securities	—	—	—	—	13,163	—	**13,163**
Total financial liabilities	**12,333**	**24,075**	**91,710**	**106,334**	**37,342**	**1,202,843**	**1,474,637**
Net position as at 31 December 2012	**510,127**	**218,228**	**5,478**	**20,262**	**(2,013)**	**(694,754)**	
Net position as at 31 December 2011	**482,363**	**154,064**	**(25,574)**	**20,068**	**7,782**	**(598,403)**	

42 / Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2013, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Non-interest bearing '000 LVL	Total '000 LVL
Financial assets							
Cash and balances with central bank	—	—	—	—	—	367,261	**367,261**
Financial instruments at fair value through profit or loss	—	3,220	7,900	549	—	864	**12,533**
Loans and receivables from banks	87,330	686	—	—	—	511,906	**599,922**
Loans and receivables from customers	127,478	338,425	71,741	108,929	22,335	157,552	**826,460**
Reverse repo	96,264	9,373	—	—	—	—	**105,637**
Available-for-sale assets	8,435	61	21,374	1,089	—	47,194	**78,153**
Held-to-maturity investments	2,572	4,216	8,135	5,150	12	—	**20,085**
Total financial assets	**322,079**	**355,981**	**109,150**	**115,717**	**22,347**	**1,084,777**	**2,010,051**
Financial liabilities							
Financial instruments at fair value through profit or loss	—	—	—	—	—	432	**432**
Deposits and balances from banks	—	298	260	—	—	21,943	**22,501**
Current accounts and deposits from customers	4,932	19,743	64,214	129,885	16,254	1,577,940	**1,812,968**
Issued debt securities	—	—	—	—	12,984	—	**12,984**
Total financial liabilities	**4,932**	**20,041**	**64,474**	**129,885**	**29,238**	**1,600,315**	**1,848,885**
Net position as at 31 December 2013	**317,147**	**335,940**	**44,676**	**(14,168)**	**(6,891)**	**(515,538)**	
Net position as at 31 December 2012	**513,323**	**251,649**	**(1,331)**	**32,597**	**3,390**	**(681,490)**	

42 / Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2012, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Non-interest bearing '000 LVL	Total '000 LVL
Financial assets							
Cash and balances with central bank	—	—	—	—	—	215,757	**215,757**
Financial instruments at fair value through profit or loss	6,910	10,498	19,100	106	172	653	**37,439**
Loans and receivables from banks	346,782	834	—	—	—	114,396	**462,012**
Loans and receivables from customers	117,385	232,263	63,793	88,218	33,636	169,210	**704,505**
Reverse repo	53,878	28,902	—	—	—	—	**82,780**
Available-for-sale assets	693	3,337	7,421	33,127	977	28,932	**74,487**
Held-to-maturity investments	8	5	1	14,817	542	—	**15,373**
Total financial assets	**525,656**	**275,839**	**90,315**	**136,268**	**35,327**	**528,948**	**1,592,353**
Financial liabilities							
Financial instruments at fair value through profit or loss	—	—	—	—	—	101	**101**
Deposits and balances from banks	—	159	426	—	—	18,636	**19,221**
Current accounts and deposits from customers	12,333	24,031	91,220	103,671	18,774	1,191,701	**1,441,730**
Issued debt securities	—	—	—	—	13,163	—	**13,163**
Total financial liabilities	**12,333**	**24,190**	**91,646**	**103,671**	**31,937**	**1,210,438**	**1,474,215**
Net position as at 31 December 2012	**513,323**	**251,649**	**(1,331)**	**32,597**	**3,390**	**(681,490)**	
Net position as at 31 December 2011	**482,515**	**186,723**	**(24,372)**	**32,307**	**2,022**	**(584,300)**	

43 / Operating segments

The Group has four reportable segments, as described below, which are the Group`s strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

For each of the strategic business units, the Group upper level management reviews internal management reports on at least monthly basis.

The following summary describes the operations in each of the Group`s reportable segments:

Lending & Investment	Includes commercial loans to customers, trade finance, private mortgages and other financing products and investments.
Customer services	Includes general banking operations, customer payments, credit card transactions and other transactions with all customers.
Financial markets & Treasury	Includes customer asset management products such as funds as well as customer securities brokerage, customer repurchase financing and includes funding of the bank's activities though customer deposits, liquidity management, foreign exchange, issues of debt securities, investing in liquid assets such as short term placements and corporate and government securities.
Investments and non-banking segments	Includes business activities of Group subsidiaries and non-banking income including real estate rental and leasing businesses.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group upper level management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is based on resources cost compensation, calculation based on management`s assessment of the level of risk.

43 / Operating segments

The following table shows the operating segment structure of gross revenue and financial assets and liabilities of the Group as at 31 December 2013:

`000 LVL External revenue	Lending &investment	Customer services	Financial markets & Treasury	Investment and non-banking segments	Total
Net interest income	41,879	270	(4,990)	9,584	**46,743**
Net fee and commission income	473	21,345	3,741	783	**26,342**
Net gain/(loss) on financial instruments at fair value through profit or loss	—	—	1,066	(46)	**1,020**
Net foreign exchange income	—	3,476	12,687	(429)	**15,734**
Net gain/(loss) on the net monetary position	—	—	—	(218)	**(218)**
Net recognised gain on available-for-sale assets	—	—	734	627	**1,361**
Share of profit of equity accounted investees (net of income tax)	—	—	—	(31)	**(31)**
Other income/(expense)	982	18	(210)	6,774	**7,564**
Inter segment revenue	**(17,512)**	**39**	**17,473**	**—**	**—**
Total segment revenue	**25,822**	**25,148**	**30,501**	**17,044**	**98,515**
Impairment losses on financial assets	(11,304)	(4)	418	(449)	**(11,339)**
Reportable segment profit before income tax	**14,966**	**14,295**	**19,375**	**1,666**	**50,302**
Reportable segment assets	**645,452**	**46,000**	**1,248,278**	**63,253**	**2,002,983**
Reportable segment liabilities	**—**	**1,424,453**	**412,489**	**3,205**	**1,840,147**

43 / Operating segments

The following table shows the operating segment structure of gross revenue and financial assets and liabilities of the Group as at 31 December 2012:

`000 LVL External revenue	Lending &investment	Customer services	Financial markets & Treasury	Investment and non-banking segments	Total
Net interest income	32,075	300	(5,732)	7,554	**34,197**
Net fee and commission income	345	15,885	2,565	489	**19,284**
Net gain/(loss) on financial instruments at fair value through profit or loss	—	—	2,863	164	**3,027**
Net foreign exchange income	—	3,187	9,628	(110)	**12,705**
Net gain/(loss) on the net monetary position	—	—	—	(210)	**(210)**
Net recognised gain on available-for-sale assets	—	—	(291)	161	**(130)**
Share of profit of equity accounted investees (net of income tax)	—	—	—	(24)	**(24)**
Other income/(expense)	1,173	(27)	(112)	7,521	**8,555**
Inter segment revenue	**(17,153)**	**7**	**17,146**	—	—
Total segment revenue	**16,440**	**19,352**	**26,067**	**15,545**	**77,404**
Impairment losses on financial assets	(13,883)	20	72	(265)	**(14,056)**
Reportable segment profit before income tax	**2,982**	**9,243**	**11,486**	**2,273**	**25,984**
Reportable segment assets	**496,061**	**107,526**	**900,334**	**89,219**	**1,593,140**
Reportable segment liabilities	—	**1,200,905**	**265,419**	**8,313**	**1,474,637**

	2013 '000 LVL	2012 '000 LVL
Revenues		
Total revenue for reportable segments	98,515	77,404
Unallocated amounts	—	—
Consolidated revenue	98,515	77,404
Profit or loss		
Total profit or loss for reportable segments	50,302	25,984
Unallocated amounts	—	—
Consolidates profit before income tax	50,302	25,984
Assets		
Total assets for reportable segments	2,003,065	1,593,140
Other unallocated amounts	54,590	56,992
Consolidated total amounts	2,057,655	1,650,132

Other unallocated amounts to assets: Property and equipment, Intangible assets, Non-current assets held for sale, Current tax asset, Deferred tax asset and Other assets (excluding collateral assumed on non -performing loans).

Liabilities		
Total liabilities for reportable segments	1,840,147	1,474,637
Other unallocated amounts	18,706	13,332
Consolidated total amounts	1,858,853	1,487,969

Other unallocated amounts to liabilities: Current tax liability, Deferred tax liability and Other liabilities.

44 / Disposal of subsidiary

On 30 September 2013 the Group disposed of its investment in AR Entertainment Group, part of which was Arēna Rīga SIA. The Group contributed LVL 229 thousand to the net profit for the year, including the gain on disposal of LVL 32 thousand. The Group obtained AR Entertainment Group as part of a restructuring and recovery of another non-performing loan. The Group had full management and shareholding control of the AR Entertainment Group but this was never intended to be a core asset of the Group. The Group views the disposal of AR Entertainment Group as the finalization of the restructuring and recovery of another non-performing loan.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

'000 LVL	Carrying amount at date of disposal
Assets	
Cash and due from central banks	16
Loans and advances due from financial institutions	1,949
Non-current assets held for sale	11,474
Property and equipment	469
Other assets	341
Deferred tax asset	6
Liabilities	
Deposits and balances due to financial institutions	(5,945)
Current accounts and deposits due to customers	(5,220)
Other liabilities	(1,811)
Deferred tax liability	(468)
Net identifiable assets and liabilities	**811**
Consideration received	843

45 / Transactions with non-controlling interest without impact on control

During the year 2013, the Group entered into several transactions with shareholders of non-controlling interests of the Group's subsidiaries. The result of the transactions is summarized below:

'000 LVL	Westtransinvest Ltd	Westleasing Ltd	Westleasing-M Ltd	RB Asset Management IPS	SBD Ltd
Non-controlling interest purchased / (sold)	**50%**	**50%**	**50%**	**(34.9%)**	**(33.1%)**
Net assets at the date of the purchase / (sale)	**1,448**	**23**	**50**	**(198)**	**(107)**
Consideration (paid) / received	**(1,277)**	**(20)**	**(56)**	**190**	**1**
Impact on individual items of equity					
Increase in revaluation reserve	22	—	259	—	—
Increase / (decrease) in foreign currency translation reserve	(158)	(79)	(152)	—	—
Increase / (decrease) in retained earnings	307	82	(117)	(8)	(106)

46 / Subsequent events

(a) Euro introduction

On 1 January 2014 the Republic of Latvia joined the euro-zone and the Latvian Lat was replaced by the euro. As a result, the Bank and the Group converted its financial accounting to euros as from 1 January 2014 and the financial statements 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.

(b) Preference shares issue

After reporting period the Bank increased its capital by issuing 13.25 million preference shares with par value of 1.40 EUR and share premium of 2.04 EUR.

Preference shares are shares which have preference over ordinary shares for payment of dividend. Those are cumulative preferred shares for which dividends must be paid including skipped dividends.

Preference share shareholders do not have voting rights unless dividends are not received or are partly received for two consecutive years.