AS "Citadele banka"

Annual report

for the year ended
31 December 2013

together with independent auditors' report

Translation from Latvian original*

* This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Citadele

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Strong income growth combined with sound cost control, contributes to a successful business result in 2013

Consistent with previous years, in 2013 Citadele Bank delivered another year of strong growth and improved performance. Operating income for the Citadele Group was up by 10.2% (the Bank: 20.7%), reaching LVL 75.6 million (the Bank: LVL 62.1 million). Growth came from both new lending and rising customer activity, supported by steady economic growth in the Baltic States. Within a year the Group's loan portfolio increased by LVL 25.7 million (the Bank: LVL 21.2 million) to LVL 742 million (the Bank: LVL 650 million).

Continued focus on new business, product driven strategies and stringent risk management form part of the Bank's core strategy, facilitating profitability and a healthy liquidity position. In 2013, the loan-to-deposit ratio of the Group decreased from 51% to 47% (the Bank: from 56% to 50%). Both the year-end and average liquidity ratio of the Bank was 56%. The Group's deposit portfolio was up by LVL 183.4 million over the year (the Bank: LVL 168.4 million), to LVL 1.6 billion (the Bank: LVL 1.3 billion), as the banking sector experienced increases in customer deposits due to growth in the economy and Euro adoption.

The Loan book continues to improve, both in quality and average margin. As in previous years, the bank continues to prudently provide for legacy loans that are being restructured or in recovery mode. The strong 2013 financial result allowed Citadele to finalise its provisioning for most major legacy cases in 2013. This has brought the Group's cost of risk ratio to 1.9%, while normalised cost of risk ratio, which excludes two largest impairment charges, is 1.0% - comparable to 2012.

The group's cost-to-income ratio improved from 68% to 66% in 2013 (the Bank: from 61% to 55%) – a commendable effort in a year of implementing major projects such as the Euro adoption and incorporating GE Money Bank's loan and deposit portfolio. A further cost-to-income ratio reduction is expected by increasing operating income, whilst leveraging existing resources.

As a result, the Net Profit of the Bank was LVL 10.7 million, with the Group at LVL 9.6 million. Consequently the Bank and Group ROE was 11.1% and 9.8% and ROA was 0.8% and 0.6% respectively.

Citadele continues to rank third by customer numbers in Latvia, while ranking fifth among all banks in Latvia in terms of total deposits (9.6% of the market). Citadele also owns the third largest ATM network in Latvia and ended the year with the second best growth in the number of issued cards among all Latvian banks.

Citadele expands co-operation and financing with SME's and Corporate clients

In 2013, Citadele Bank and its subsidiaries continued a successful strategy of developing three core business segments: retail and SME, Corporate, as well as Private Capital Management.

Citadele continued to facilitate business development in Latvia by issuing LVL 97.8 million new loans, 27% up on the prior year. The total number of Corporate and SME borrowers has risen by 96% from 2012.

Citadele's loans to new client companies included those from the agricultural sector (37%), the trade sector (17%) and the service sector (16%). In terms of contractual amounts, the manufacturing sector accounted for the largest share of the loans granted in 2013 (22%), while the agricultural and service sectors were at 20% and 16% respectively.

A number of typical deals were reported in the media: "Kotiņi", one of the largest agricultural farms of Latgale, acquired new seed cleaning equipment and reconstructed its warehouse at the beginning of the year; "Seces koks" opened a new wood chip cogeneration plant in Preiļi, while "SIA Baltic Polymers", (engaged in the production of flexible packaging) opened a new production facility in Ādaži; and "Igate", a road construction company, launched a new asphalt concrete plant in Vilce.

Citadele expands solutions and customer numbers

In Latvia, Citadele signed up more than 45,000 new private clients and over 4,000 companies; moreover almost 2,000 new customers started a relationship with our Private Capital Management business.

Citadele Bank was recognised as an important bank in Lithuania and Estonia, attracting over 8,000 new customers.

The payment card business continued to promote increased usage of payment cards by expanding co-operation with merchants; using merchant discounts and special offers is an important component of Citadele's value proposition.

As Latvia was preparing to adopt the Euro, an increase in both deposits and new customers came from a successful savings product campaign, the "Maxi account", by attracting private individuals with Lats cash savings.

In 2013, the number of payment cards issued by the Citadele Bank grew by almost 7% from the prior year, while salary card accounts increased by 17%.

Citadele Bank continues to be American Express® exclusive partner in Latvia and Lithuania, with exclusive rights to issue American Express payment cards. In the spring of 2013, Citadele started promoting and offering the international Membership Rewards program to its American Express members in Latvia. This drives user loyalty to a new level, as customers can accumulate points for all purchases made using American Express and further redeem them for valuable prizes.

Additionally, the Bank was successful expanding acceptance of American Express payment cards. In 2013, the number of merchant outlets accepting American Express in Latvia grew to a level of almost 12,000.

The Bank continued expanding its ATM network across Latvia, with 17 ATMs in new locations; most of them dual purpose (cash in-cash out) machines. Citadele currently has the third largest ATM network in Latvia, with 168 ATMs.

As GE Money Bank exited the Latvian marketplace, as of 23rd September 2013 Citadele incorporated their retail and corporate account deposits, savings accounts and loans. The transaction also covered the transfer of GE Money Asset Management’s funds and 2nd and 3rd pillar pension plans to IPAS Citadele Asset Management, which is part of the Citadele Group.

Citadele Asset Management expanded its services. In the third quarter of 2013, certificates of a new open-end investment fund, the Citadele Global Emerging Markets Bond Fund, was admitted to listing on the Mutual Fund List and included in the trading system of the NASDAQ OMX Riga stock exchange. Assets of this fund are invested in a variety of countries, sectors and currencies to ensure protection of investments against asset value fluctuations.

Citadele provides support and partnership in the Euro adoption process

The Bank started preparing for the Euro changeover as early as 2012. In August 2013, Citadele Bank joined a country-wide business initiative called the “Honest Euro Implementor", thus confirming its readiness to ensure an honest and transparent implementation of the Euro in Latvia. The Euro adoption project involved over 700 employees of the Bank and the Group.

Citadele started indicating its prices in both currencies, i.e., the Latvian lat and the Euro, before the official due date so that customers could become accustomed to the new currency in a timely fashion. For customer convenience, Citadele introduced a new section named “Euro Assistant” on its mobile application, including a function that calculated the Euro price in stores during the dual circulation period in Latvia. This application also contains a Euro calculator that allows for rapid conversion of both currencies.

To make sure that the Euro changeover would be as convenient as possible for businesses, particularly for retailers and service providers, in 2013 Citadele Bank and the Latvian Ministry of Finance organised 15 free information seminars in various Latvian towns about the Euro adoption, relevant accounting and tax guidelines, availability of the bank’s services, as well as the Euro advance delivery and collection services.

Citadele is one of the leading providers of cash collection services and one of the few banks in Latvia that supplies these services. In the Euro adoption process over 135 tonnes of the Euro were delivered by Citadele to 2,500 locations across Latvia.

On the first minutes of 1 January 2014 another Bank's milestone was reached when the first Euro banknotes in Latvia were drawn from Citadele Bank's ATM by Latvian Prime Minister Valdis Dombrovskis, Estonian Prime Minister Andrus Ansip, Latvian Finance Minister Andris Vilks, and Bank of Latvia President Ilmārs Rimšēvičs. Indeed, Citadele Bank's headquarters in Riga, was selected as the central site for the ceremonial withdrawal of the first Euro banknotes. Representatives from more than 100 domestic and foreign media sources were on hand to record the historical moment at our bank – from Belgium, China, Estonia, Finland, France, Germany, Japan, Poland, Sweden, United Kingdom, United States and Ukraine.

Citadele’s subsidiaries are on a steady development path

2013 was particularly successful for Citadele’s subsidiary IPAS Citadele Asset Management, which increased Assets under Management to LVL 390 million, thus exceeding 2012's result by 43%. In 2013, the company won a tender bid to become the new manager of investments made by the Latvian Guarantee Agency. Thus Citadele Asset Management will manage their investment portfolio worth more than LVL 100 million for a five year period.

Baltic leasing subsidiaries earned a profit of LVL 0.9 million for the year, with aggregate assets amounting to LVL 62.5 million. The Lithuanian subsidiary bank, AB Citadele, also reported positive results, generating a profit of LVL 1.3 million for the year.

In 2013, AAS Citadele Life expanded its customer portfolio by more than LVL 1.3 million, acquiring over 1,300 new customers.

Meanwhile, AS Citadele Atklātais Pensiju Fonds customer portfolio grew by LVL 3.6 million over the year, thanks to 3,000 new customers. GE Money atklātais pensiju fonds customer take-over with total assets of LVL 0.4 million was a landmark deal for the year.

As a result of their steady performance in 2013, both AAS Citadele Life and AS Citadele atklātais pensiju fonds retained their market shares in terms of new assets at the 2012 level. Meanwhile, a new IT system was introduced to ensure a more convenient and efficient administration of the pension plans.

Citadele Bank maintains high risk management standards

Citadele Bank maintains very high standards of risk management, and the Bank’s compliance and risk management system prides itself on continuous performance improvement. The Bank’s goal for risk management is to keep risk indices low and comply with all regulatory requirements, whilst maintaining a diversified asset portfolio, a steady liquidity position, hedged risks on financial markets and low operational risk. In 2013, Citadele achieved this throughout the Group by successfully implementing the latest recommendations and suggestions made by the regulators as well as introducing new requirements to enhance the risk system.

Changes in the Bank’s management

At the end of the year, the Supervisory Council of the Bank appointed Head of the Financial Division Aldis Paegle as Head of the Finance and Treasury Sector, while as of 1 January 2014 Aldis Paegle was appointed to the Management Board as Chief Financial Officer. The previous Member of the Management Board, Philip Allard, has assumed the position of Chief Divestment Officer concentrating on the ongoing process of attracting investors for the Group. His duties will include representing the Bank by managing and cooperating with relevant consultants, public authorities, regulatory authorities and potential investors. Aldis Paegle has eight years of experience in the banking sector and prior to that five years in financial audit.

Moody’s Investors Service improves Citadele’s outlook

In the third quarter of 2013, the international rating agency Moody’s Investors Service revised the Citadele Group outlook from negative to stable, leaving the existing rating of the Citadele Group (B2/NotPrime/E+) unchanged, which speaks volumes for the improvements in the Bank and the Group.

Citadele’s employee commitment grew in 2013

One of Citadele’s goals in 2013 was to continue to improve employee loyalty and motivation, as well as provide professional growth opportunities. An employee commitment survey conducted for the Citadele Group by the research agency TNS Latvia in 2013 showed that, compared to 2012, the commitment index grew by 3 percentage points during the year. This reflects the steady increase in our employees’ general satisfaction at Citadele, their willingness to recommend their employer to others, team motivation and their assessment of the Bank’s competitiveness, among others.

Citadele will continue to focus on these areas in 2014.

Citadele Bank implements social responsibility projects

The Bank’s social responsibility strategy is to expand opportunities for physically and mentally challenged people and facilitate their integration into society. Thus, in 2013 Citadele implemented several projects involving non-governmental organisations.

Citadele's commitments are based on the concept of “You are. You can.” This activity was launched in the spring of 2012 as a support programme for the Latvian paralympic team's participation in the London Paralympic Games. Throughout 2013, all over Latvia, Citadele featured a travelling photo exhibition entitled “You are. You can.” dedicated to the Paralympic Games in London. It is the first exhibition of its kind in the Baltic states. In addition, Citadele supported a racing car driver Jānis Tomsons, who had lost one leg due to illness. Jānis Tomsons was able to participate in several rounds of vintage car races known as “Amber Circle”.

As part of the movement “You are. You can.”, Citadele organised a competition called “OPEN THE DOOR!”. This was done in cooperation with SUSTENTO, a non-governmental organisation for people with special needs in Latvia, inviting organisations supporting people with disability to participate in and acquire co-funding to implement necessary and long-fostered projects. The project competition was organised to expand the opportunities for physically challenged people to enhance their integration into society. As a result, Citadele granted co-funding to seven organisations for their projects.

To further entrepreneurship in Latvia, the Bank organised various conferences and seminars focused on business development, enabling entrepreneurs to develop new cooperation networks.

The Latvian government decides to resume the process of attracting investors to Citadele

In July 2013, the Government decided to resume the process of attracting new external investors to Citadele. The international investment bank Société Générale, was selected by Latvian Privatisation Agency (LPA), in a tender process, to act as their financial advisor.

Société Générale will assist the LPA in determining the best model for attracting new investors for the Group, during 2014.

During this process, Citadele will continue to operate as usual; concentrating on implementing its existing strategies and providing services to Retail, Corporate and Private Capital Management customers.

Citadele is recognised locally and internationally

Citadele was nominated among the top 100 businesses across Europe in the European Business Award 2012/2013 competition and was one of the 10 winners in the category “The Infosys Business of the Year Award” with a turnover of EUR 26 – 150 million. The award is granted to companies which have demonstrated excellence, best practice and innovation.

EUROMONEY has recognised Citadele Bank as the best locally owned bank in Latvia. Indeed, the Citadele Group has received a total of ten awards from EUROMONEY – nine for the Bank’s activity in Latvia and one for customer relationship management in Lithuania.

In 2013, the Latvian Chamber of Commerce and the Embassy of Latvia in Lithuania recognised Citadele Bank as the most popular Latvian brand in Lithuania.

In 2013, Lipper, a global supplier of mutual fund information and fund analysis, named Citadele Krievijas Akciju Fonds managed by IPAS Citadele Asset Management as the best fund in its category among European funds delivering strong risk-adjusted performance for three years.

Morningstar, an international investment research firm, has awarded its highest five-star rating to Citadele Russian Equity Fund managed by IPAS Citadele Asset Management for delivering strong and steady performance in its category.

Citadele’s Concierge services for non-resident customers – integrated with Visa system” received the Customer Prize and the runner-up price in the “Financial Services Export” category in the “Golden Coin 2013” contest organised by the Association of Commercial Banks of Latvia.

According to a survey conducted by the SKDS market and public opinion research centre in November 2013, Citadele was named the third most recognisable bank of Latvia. Based on the survey, Citadele Bank ranks third among Latvian banks that are most frequently used in the Latvian banking sector over the last six months. The stability and reliability index of Citadele, which shows how customers evaluate the stability and reliability of a bank, continued to grow during the year.

Citadele Bank and the Group would like to thank all its customers and partners for their support in 2013. We would also like to express our gratitude to our employees for their high standards of professionalism and commitment to achieving Citadele's goals.

We shall continue developing Citadele to make it the most valuable local financial group in the Baltic states. New investors in Citadele will also help us to develop exciting new growth opportunities.

Guntis Beļavskis	Klāvs Vasks
Chairman of the Management Board	Chairman of the Supervisory Council

Riga,
18 March 2014

Supervisory Council of the Bank

Name	Position
Klāvs Vasks	Chairman of the Supervisory Council
Geoffrey Richard Dunn	Deputy Chairman of the Supervisory Council
Laurence Philip Adams	Member of the Supervisory Council
Aldis Greitāns	Member of the Supervisory Council
Baiba Anda Rubesa	Member of the Supervisory Council

Management Board of the Bank

Name	Position
Guntis Beļavskis	Chairman of the Management Board, p.p.
Valters Ābele	Member of the Management Board, p.p.
Kaspars Cikmačs	Member of the Management Board
Aldis Paegle	Member of the Management Board
Santa Purgaile	Member of the Management Board

On 26 November 2013 the Supervisory Council of the Bank elected Aldis Paegle as a Member of the Management Board, effective from 1 January 2014. Philip Nigel Allard resigned on 1 January 2014 to assume duties of head of private capital attraction.

The Management of AS “Citadele Banka” (hereinafter – the Bank) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 9 to 75 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2013 and 2012 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 3 to 6 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS “Citadele Banka” is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

Riga,
18 March 2014

Statements of Income for the years ended 31 December 2013 and 2012

	Notes	2013 Group	2012 Group	2013 Bank	2012 Bank
		LVL 000's			
Interest income	5	52,577	59,405	44,098	49,650
Interest expense	5	(13,719)	(24,774)	(12,140)	(22,500)
Net interest income		38,858	34,631	31,958	27,150
Commission and fee income	6	31,696	29,496	24,305	22,376
Commission and fee expense	6	(9,088)	(8,069)	(7,498)	(6,848)
Net commission and fee income		22,608	21,427	16,807	15,528
Gain on transactions with financial instruments, net	7	12,048	10,047	9,829	8,499
Other income		2,046	2,443	3,523	299
Other expense		(1,421)	(297)	(416)	(16)
Administrative expenses	8,9	(43,960)	(41,623)	(32,718)	(30,118)
Amortisation and depreciation charge		(4,116)	(4,407)	(967)	(1,242)
Impairment charges and reversals, net	10	(14,158)	(9,372)	(15,248)	(9,680)
Profit before taxation		11,905	12,849	12,768	10,420
Corporate income tax	11	(2,349)	(3,888)	(2,022)	(4,901)
Net profit for the period		9,556	8,961	10,746	5,519

The notes on pages 14 to 75 are an integral part of these financial statements.

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Net profit for the period	9,556	8,961	10,746	5,519
Other comprehensive income:				
Fair value revaluation reserve: held-to-maturity securities				
Amortisation	338	571	277	499
Deferred income tax charged directly to equity	(9)	(11)	-	-
Fair value revaluation reserve: available-for-sale securities				
Impairment of securities	-	(134)	-	(134)
Fair value revaluation reserve charged to statement of income	(3,242)	(1,613)	(1,734)	(1,116)
Change in fair value of available-for-sale securities	(751)	9,934	(379)	5,990
Deferred income tax charged / (credited) directly to equity	282	(515)	-	-
Other reserves				
Foreign exchange revaluation reserve	(218)	120	-	-
Restructuring reserve, net*	-	3	-	-
Other comprehensive income / (loss) for the period	(3,600)	8,355	(1,836)	5,239
Total comprehensive income for the period	5,956	17,316	8,910	10,758

The notes on pages 14 to 75 are an integral part of these financial statements.

** Group's policy is to reclassify any change in restructuring reserve directly to retained earnings. All other amounts presented in other comprehensive income will be subsequently reclassified to statement of income when specific conditions are met.*

		LVL 000's			
	Notes	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Assets					
Cash and deposits with central banks	12	254,053	190,960	219,644	174,708
Balances due from credit institutions	13	190,586	129,213	154,074	81,070
Securities held for trading:					
- fixed income	16	17,481	9,221	-	-
- shares and other non-fixed income	17	2,066	1,175	-	-
Derivative financial instruments	29	2,567	988	2,576	1,034
Financial assets designated at fair value through profit and loss	18	43,810	35,508	-	-
Available-for-sale securities:					
- fixed income	16	273,400	265,769	224,350	199,077
- shares and other non-fixed income	17	8,943	3,242	8,932	3,231
Loans and receivables to customers	14,15	742,106	716,443	650,033	628,804
Held-to-maturity securities	16	171,781	165,993	157,753	155,748
Current income tax assets		239	206	-	-
Non-current assets classified as held for sale		262	264	121	168
Property and equipment	21	30,098	31,020	2,391	2,093
Intangible assets	20	1,297	888	949	493
Investments in subsidiaries	19	-	-	44,165	44,545
Investment property		526	902	-	-
Deferred income tax assets	11	22,866	25,182	22,279	24,209
Other assets	22	24,111	24,450	17,596	19,715
Total assets		1,786,192	1,601,424	1,504,863	1,334,895
Liabilities					
Derivative financial instruments	29	2,855	2,722	3,232	2,766
Financial liabilities designated at fair value through profit and loss	23	11,685	10,368	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	24	18,100	25,477	38,855	47,361
- deposits from customers	25	1,579,139	1,395,697	1,301,135	1,132,728
- other financial liabilities		5,844	5,789	-	-
Current income tax liabilities		-	28	-	-
Other liabilities	26	16,044	14,469	9,012	8,016
Subordinated liabilities	27	51,709	52,014	51,709	52,014
Total liabilities		1,685,376	1,506,564	1,403,943	1,242,885
Equity					
Paid-in share capital	28	103,000	103,000	103,000	103,000
Reserves		123	3,587	1,082	2,918
Accumulated losses		(2,307)	(11,727)	(3,162)	(13,908)
Total equity		100,816	94,860	100,920	92,010
Total liabilities and equity		1,786,192	1,601,424	1,504,863	1,334,895

The notes on pages 14 to 75 are an integral part of these financial statements.

Changes in the Group's equity are as follows:

	LVL 000's						
	Attributable to equity holders of the Bank						
	Issued share capital	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Foreign exchange and other reserve	Restructuring reserve	Accumulated losses	Total equity
Balance as at 31 December 2011	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(16,916)**	**81,084**
Impact of restatement*	-	-	-	-	-	(3,540)	(3,540)
Balance as at 31 December 2011, as restated	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(20,456)**	**77,544**
Net profit for the period	-	-	-	-	-	8,961	8,961
Other comprehensive income / (loss) for the period	-	560	7,672	120	235	(232)	8,355
Balance as at 31 December 2012	**103,000**	**(143)**	**5,586**	**1,470**	**(3,326)**	**(11,727)**	**94,860**
Net profit for the period	-	-	-	-	-	9,556	9,556
Transfer to other reserve	-	-	-	120	-	(120)	-
Other comprehensive income / (loss) for the period	-	329	(3,711)	(218)	16	(16)	(3,600)
Balance as at 31 December 2013	**103,000**	**186**	**1,875**	**1,372**	**(3,310)**	**(2,307)**	**100,816**

Changes in the Bank's equity are as follows:

	LVL 000's				
	Attributable to equity holders of the Bank				
	Issued share capital	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Accumulated losses	Total equity
Balance as at 31 December 2011	**103,000**	**(1,030)**	**(1,291)**	**(15,887)**	**84,792**
Impact of restatement*	-	-	-	(3,540)	(3,540)
Balance as at 31 December 2011, as restated	**103,000**	**(1,030)**	**(1,291)**	**(19,427)**	**81,252**
Net profit for the period	-	-	-	5,519	5,519
Other comprehensive income for the period	-	499	4,740	-	5,239
Balance as at 31 December 2012	**103,000**	**(531)**	**3,449**	**(13,908)**	**92,010**
Net profit for the period	-	-	-	10,746	10,746
Other comprehensive income / (loss) for the period	-	277	(2,113)	-	(1,836)
Balance as at 31 December 2013	**103,000**	**(254)**	**1,336**	**(3,162)**	**100,920**

The notes on pages 14 to 75 are an integral part of these financial statements.

** For details on the restatement refer to the AS "Citadele banka" Annual report for the year ended 31 December 2012.*

Statements of Cash Flows for the years ended 31 December 2013 and 2012

	Notes	2013 Group	2012 Group	2013 Bank	2012 Bank
		LVL 000's			
Cash flows from operating activities					
Profit before tax		11,905	12,849	12,768	10,420
Dividends received		-	-	(2,639)	-
Amortisation of intangible assets, depreciation of property, equipment and investment properties		4,116	4,407	967	1,242
Change in impairment allowances and other provisions	10	14,158	9,372	15,248	9,680
Interest income	5	(52,577)	(59,405)	(44,098)	(49,650)
Interest expense	5	13,719	24,774	12,140	22,500
Other non-cash items		(6,196)	5,692	(6,647)	3,281
Cash flows before changes in assets and liabilities		**(14,875)**	**(2,311)**	**(12,261)**	**(2,527)**
Change in derivative financial instruments		(1,446)	4,397	(1,076)	3,464
(Increase)/ decrease in other assets		(1,047)	(21,437)	1,316	(2,848)
Increase/ (decrease) in other liabilities		1,630	(18,567)	996	(21,814)
(Increase) in trading investments		(16,136)	(33,386)	-	-
(Increase)/ decrease in balances due from credit institutions		4,785	(16,234)	(2,396)	(3,299)
(Increase) / decrease in loans and receivables to customers		(41,379)	8,662	(35,943)	3,971
Increase / (decrease) in balances due to credit institutions and central banks		(10,801)	14,712	(18,061)	17,545
Increase/ (decrease) in deposits from customers		184,549	78,950	169,407	34,700
Cash generated from operating activities before corporate income tax		**105,280**	**14,786**	**101,982**	**29,192**
Interest received during the period		52,625	59,282	44,020	49,340
Interest paid during the period		(15,155)	(26,557)	(13,513)	(24,259)
Corporate income tax paid during the period		(5)	(62)	-	(12)
Net cash flow from operating activities		**142,745**	**47,449**	**132,489**	**54,261**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(2,140)	(1,551)	(1,778)	(949)
Proceeds from disposal of property and equipment		88	93	79	24
Purchase of held-to-maturity securities, net		(5,788)	(39,632)	(2,005)	(37,306)
Purchase of available-for-sale securities		(183,898)	(291,679)	(150,019)	(222,144)
Cash inflows from available-for-sale securities		174,835	190,905	124,522	121,705
Dividends received		-	-	2,639	-
Acquisitions and investments in subsidiaries		-	-	(6)	(13,263)
Net cash flow from investing activities		**(16,903)**	**(141,864)**	**(26,568)**	**(151,933)**
Cash flows from financing activities					
Redemption/ repurchase of debt securities		-	(20,611)	-	(20,611)
Net cash flow from financing activities		**-**	**(20,611)**	**-**	**(20,611)**
Net cash flow for the period		**125,842**	**(115,026)**	**105,921**	**(118,283)**
Cash and cash equivalents at the beginning of the period		**300,019**	**415,045**	**247,491**	**365,774**
Cash and cash equivalents at the end of the period	32	**425,861**	**300,019**	**353,412**	**247,491**

The notes on pages 14 to 75 are an integral part of these financial statements.

If not mentioned otherwise, referral to Group’s policies and procedures should be also considered as referral to the respective Bank’s policies and procedures. Figures in parenthesis represent amounts as at 31 December 2012 or for the year ended 31 December 2012, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 18 March 2014 and comprise the financial information of AS “Citadele banka” (hereinafter – the Bank) and its subsidiaries (together – the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders’ meeting has the right to make the decision on the approval of the financial statements.

NOTE 2. GENERAL INFORMATION

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank’s head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2013, the Bank was operating a total of 37 (2012: 39) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2012: 4) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 23 (2012: 21) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. The ultimate controlling party of the Bank is the Republic of Latvia.

The Group’s main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Group offers its clients also trust management and private banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2013, the Group had 1,637 (2012: 1,640) employees and the Bank had 1,227 (2012: 1,175) employees.

NOTE 3. RESTRUCTURING

On 30 June 2010 AS “Citadele Banka” was registered in the commercial registry of the Republic of Latvia and on the same date it received banking licence from the Financial and Capital Market Commission (FCMC). AS “Citadele Banka” was established as a result of implementation of EC restructuring plan, which was approved by the Cabinet of Ministers in the spring of 2010 and pursuant to which AS “Citadele Banka” was to take over from AS “Parex Banka” certain assets and liabilities and other items, i.e. an undertaking.

The transfer of undertaking from AS “Parex Banka” to AS “Citadele Banka” took place on 1 August 2010. The transfer of undertaking was performed under Article 59.2 of the Latvian Law on Credit Institutions (further also – CIL). Legal definition of undertaking is given in the same Article 59.2 of CIL. Transfer of undertaking is a civil law transaction between two parties: the transferor, AS “Parex Banka”, and the transferee, AS “Citadele Banka”, whereby the transferee acquires title to the transferred undertaking. The transferred undertaking, i.e. the components thereof, is agreed by both banks and defined in the agreement on transfer of undertaking, which was entered into on 28 July 2010.

Restructuring implications

The Bank’s establishment and future operations are part of the restructuring plan of AS “Parex Banka” that was approved by European Commission (further EC). On 15 September 2010, EC adopted the decision *On the State Aid C 26/2009 (ex N 289/2009)* that the restructuring aid which Latvia implements for AS “Parex Banka” and AS “Citadele Banka” is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union. To comply with the aforementioned requirements, the Bank has undertaken certain commitments in relation to the future business operations. The commitments have been taken into account, when preparing the long-term business plan of the Bank.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2013. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

- *Fair value measurement.* IFRS 13 establishes a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regards. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group’s assets and liabilities.

- *Presentation of items of Other comprehensive income*. As per amendments to IAS 1, the Group has disclosed items in the statement of Other Comprehensive Income that would be reclassified directly to retained earnings and these that would be reclassified to statement of income.
- The following other 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), and amendments to IAS 12 (Deferred tax: Recovery of Underlying Assets).

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2013 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- *IFRS 10 Consolidated Financial Statements*. IFRS 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.
- *IFRS 11 Joint Arrangements.* Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.
- *IFRS 12 Disclosure of Interests in Other Entities (2011).* IFRS 12 brings together into a single standard all the disclosure requirements about an entity’s interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests.
- *IAS 27 (2011) Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014). IAS 27 introduces minor clarifications. 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.
- *IAS 28 (2011) Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2014). There are limited amendments to IAS 28 (2008) which related to associates and joint ventures held for sale and changes in interest held in associates and joint ventures.
- *Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014). Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.
- *Amendments to IFRS 10, IFRS 12 and IAS 27 on Investment Entities* (effective for annual periods beginning on or after 1 January 2014). The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities, as well as investments in associates and joint ventures at fair value through profit or loss, rather than consolidating them. The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity’s investing activities, must still be consolidated. An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity.
- *Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets* (effective for annual periods beginning on or after 1 January 2014). The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require additional disclosures related to fair value hierarchy when impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs of disposal.
- *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 is in the process of evaluating the potential effect if any of these new standards and interpretations.

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union on a going concern basis. The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss designated, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) Functional and Presentation Currency

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group’s presentation currency, is the national currency of the Republic of Latvia, Latvian lats (“LVL”). The accompanying financial statements are presented in thousands of Lats (LVL 000’s). On 1 January 2014 the Republic of Latvia adopted Euro as the national currency. The conversion from Lats to Euros was carried out at the official exchange rate of 0.702804 LVL/EUR. Correspondingly at that date the functional currency of the Bank and its Latvian subsidiaries, and the Group’s presentation currency changed to Euros.

c) Accounting for restructuring/ transfer of undertaking

When determining the assets and liabilities that were eligible for the transfer of undertaking that took place at the beginning of 1 August 2010, the composition of assets and the liabilities were determined on the parent bank’s, i.e. AS “Parex Banka” stand-alone accounts basis. Any differences in the carrying value of investments in subsidiaries that were transferred to AS “Citadele Banka” and their net equity as at the date of transfer are treated as restructuring reserve in the consolidated financial statements of AS “Citadele Banka”. Group’s financial statements incorporate the transferred subsidiaries’ results only from the date on which the restructuring between entities under common control occurred, i.e. 1 August 2010.

The transfer transaction was accounted using predecessor accounting i.e. the transferred assets and liabilities were initially recognised at their carrying amount as in the predecessor bank.

d) Basis of Consolidation

As at the period end, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank’s financial statements at acquisition cost. More detailed information on the Group’s subsidiaries is presented in Note 19.

The financial statements of AS “Citadele Banka” and its subsidiaries are consolidated in the Group’s financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group’s financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group’s financial statements.

e) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line “commission and fee income” or “commission and fee expense”, as appropriate.

Penalty income is recognised on cash-received basis.

f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the statement of income, with exception of available-for-sale non-monetary financial assets for which any foreign exchange gain or loss is recognised in other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group’s entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as other comprehensive income.

g) Taxation

For the year ended 31 December 2013 corporate income tax is applied at the rate of 15% (2012: 15%) on taxable income generated by the Bank for the taxation period. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Several Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, with regards to Group companies registered in these jurisdictions, income tax on profit distribution is recognised as expense at the moment dividends are declared.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

h) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

All “regular way” purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category “financial assets/ liabilities at fair value through profit or loss”. Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain assets and liabilities, which are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract term, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit and loss, potential accounting mismatch is avoided.

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the statement of income’s line “Gain on transactions with financial instruments, net”.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held-to-maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset’s carrying amount and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

When available-for-sale assets are reclassified to held-to-maturity category, the fair value of the reclassified available-for-sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset’s maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group’s available-for-sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available-for-sale securities is recognised in statement of other comprehensive income. The difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available-for-sale equity instruments are recognised in the statement of income. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available-for-sale.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the consolidated statement of income.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale 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 through the statement of income.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. All derivatives are classified as held for trading.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption “Derivative financial instruments”.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of “loans and receivables” are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

i) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group’s balance sheet and are subject to the Group’s usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Where the Group is the transferee, the assets are not included in the Group’s balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

j) Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value minus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

k) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor’s normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group’s property, plant and equipment.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into administrative expenses.

l) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers’ ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower’s financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; or
  - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan’s carrying amount and the present value of estimated future cash flows discounted at the loan’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

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

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

m) Impairment of available-for-sale and held-to-maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

n) Intangible Assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 50%. All intangible assets, except for goodwill, are with definite lives.

o) Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation less any impairment losses. Property and equipment is periodically reviewed for impairment as discussed in the note on Impairment of non-financial assets. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	1% - 10%
Transport vehicles	20%
Other	20% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

p) Inventories

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group’s real estate workout companies. Group’s inventories are accounted at individual cost. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at the lower of purchase cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as impairment charges in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

q) Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification. Non-currents assets classifies as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale in the near term, but are not expected to be sold in the ordinary course of business. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income’s line “Impairment charges and reversals, net”. In the same line of the statement of income a gain from any subsequent increase in fair value less cost to sell of an asset is recognised, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

r) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs. For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group’s property and equipment are applicable. Investment properties are periodically reviewed for impairment. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

s) Insurance business

Group’s exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is accounted at fair value and is shown in the financial statements as liabilities designated at fair value through profit and loss; insurance reserves as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance, if the Group deems this appropriate.

t) Provisions

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

u) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:

- commitment to extend loans and advances, credit card and overdraft facilities are recognised on drawdown; and
- financial guarantees and letters of credit are recognised when the related fee received as consideration is recognised.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *u)*.

v) Trust Activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes. Commission for holding assets is recognised on accrual basis and generally is dependent on the volume of assets managed.

w) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

x) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

y) Offsetting

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

z) Staff costs and related contributions

The Group's personnel expenses relate to only short term benefits and related tax expense. The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia a part of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

aa) Events after the balance sheet date

Post-year-end events that provide additional information about the Bank’s position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes if material.

bb) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities as explained in note w) above, impairment of non-financial liabilities and estimating future periods’ taxable profit in order to assess amount of deferred tax assets that can be utilised and, as such, recognised.

Impairment of loans

The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependant upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group’s experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank’s LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. LVL 1.2 million (2012: LVL 1.1 million).

Impairment of securities

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities’ spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2013, increase or decrease in credit spread delta by 200 basis points would result in no additional impairment for the Bank (2012: nil).

Impairment of other financial and non-financial assets

The Bank and the Group at the end of each reporting period assesses whether there is any indication that a non-financial asset may be impaired. If any such indication exists, the recoverable amount of the particular asset or cash generating unit is estimate. Recoverable amount estimates depend on uncertainties in future free cash flow estimates and discount rates applied. For more details on the approach and key assumptions in recoverable amount estimates of the Bank’s investments in subsidiaries and Group’s property and plant refer to note 19 and note 21 respectively.

Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset.

NOTE 5. INTEREST INCOME AND EXPENSE

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	46,948	53,474	41,244	46,833
- interest on loans and receivables to customers	*40,993*	*44,663*	*35,649*	*38,533*
- interest on balances due from credit institutions and central banks	*337*	*809*	*340*	*655*
- interest on held-to-maturity securities	*5,618*	*8,002*	*5,255*	*7,645*
- interest on available-for-sale securities	4,241	4,934	2,854	2,747
- interest on held for trading securities	501	339	-	-
- interest income on financial assets designated at fair value through profit or loss	887	588	-	-
- other interest income	-	70	-	70
Total interest income	**52,577**	**59,405**	**44,098**	**49,650**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(13,619)	(24,704)	(12,140)	(22,500)
- interest on deposits from customers	*(9,566)*	*(18,539)*	*(7,916)*	*(15,975)*
- interest on subordinated liabilities	*(3,859)*	*(4,463)*	*(3,859)*	*(4,463)*
- interest on issued debt securities	-	*(128)*	-	*(128)*
- interest on balances due to credit institutions and central banks	*(23)*	*(65)*	*(194)*	*(430)*
- other interest expense	*(171)*	*(1,509)*	*(171)*	*(1,504)*
- interest expense on financial liabilities designated at fair value through profit or loss	(100)	(70)	-	-
Total interest expense	**(13,719)**	**(24,774)**	**(12,140)**	**(22,500)**
Net interest income	**38,858**	**34,631**	**31,958**	**27,150**

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Interest income recognised on impaired assets	2,208	3,065	1,740	2,353

NOTE 6. COMMISSION AND FEE INCOME AND EXPENSE

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Commission and fee income:				
- transactions with settlement cards	13,992	12,693	12,678	11,562
- payment transfer fee	6,285	5,238	4,891	3,984
- custody, trust and asset management fees	4,660	4,442	825	820
- service fee for account maintenance	1,410	1,237	1,061	979
- cash disbursement/ transaction commission	1,397	1,059	1,031	641
- cash collection	1,255	1,048	1,255	1,048
- review of loan applications and collateral evaluation	673	1,086	673	1,051
- securities, financial instrument brokerage fees	626	884	340	547
- letters of credit and guarantees	448	593	320	495
- other fees	950	1,216	1,231	1,249
Total commission and fee income	**31,696**	**29,496**	**24,305**	**22,376**

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Commission and fee expense:				
- fees related to settlement card operations	(6,991)	(5,974)	(6,070)	(5,356)
- fees related to correspondent accounts	(994)	(1,135)	(828)	(979)
- brokerage and custodian fees:	(442)	(549)	(370)	(456)
- securities, financial instrument brokerage fees	*(247)*	*(325)*	*(243)*	*(328)*
- custody, trust and asset management fees	*(195)*	*(224)*	*(127)*	*(128)*
- other fees	(661)	(411)	(230)	(57)
Total commission and fee expense	**(9,088)**	**(8,069)**	**(7,498)**	**(6,848)**
Net commission and fee income	**22,608**	**21,427**	**16,807**	**15,528**

NOTE 7. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Gain from trading and revaluation of securities held for trading purposes, net	(692)	(295)	-	-
Gain / (loss) from disposal of available-for-sale securities, net	3,242	1,613	1,734	1,116
Gain on financial assets measured at amortised cost, net	-	2	-	-
Gain from foreign exchange trading and revaluation of open positions, net	10,112	8,926	8,092	7,490
Loss from trading and revaluation of other derivatives, net	3	27	3	(107)
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(617)	(226)	-	-
Gain on trading with financial instruments, net	**12,048**	**10,047**	**9,829**	**8,499**

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Net gain / (loss) on financial instruments not at fair value through profit or loss	3,242	1,615	1,734	1,116
Net gain on financial instruments at fair value through profit or loss	8,806	8,432	8,095	7,383
Total gain on financial instruments, net	**12,048**	**10,047**	**9,829**	**8,499**

NOTE 8. ADMINISTRATIVE EXPENSES

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Personnel expense	27,643	26,144	20,222	18,026
Rent, utilities, maintenance	3,002	3,634	3,520	4,241
Non-refundable value added tax	2,220	2,349	1,698	1,843
IT equipment and software related expense	2,189	2,021	1,624	1,560
Consulting and professional fees	2,025	1,198	1,299	756
Advertising, marketing and sponsorship	1,856	1,171	1,562	730
Communications	480	514	307	327
Office administration expense	500	458	377	327
Other administrative expenses	4,045	4,134	2,109	2,308
Total administrative expenses	**43,960**	**41,623**	**32,718**	**30,118**

NOTE 9. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expenses. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Remuneration:				
- management	1,575	1,503	740	631
- other personnel	20,664	19,336	15,590	13,618
Total remuneration for work	**22,239**	**20,839**	**16,330**	**14,249**
Social security contributions:				
- management	350	318	186	161
- other personnel	4,752	4,706	3,499	3,422
Total social security contributions	**5,102**	**5,024**	**3,685**	**3,583**
Other personnel expense*	**302**	**281**	**207**	**194**
Total personnel expense	**27,643**	**26,144**	**20,222**	**18,026**
Number of employees at the end of the period	1,637	1,640	1,227	1,175

* Other personnel expense includes health insurance, training and education expenditure and similar.

NOTE 10. IMPAIRMENT CHANGES AND REVERSALS

Total net impairment allowance charged to statement of income:

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Loans – specifically assessed impairment	(12,460)	(11,112)	(11,859)	8,214
Loans – collectively assessed impairment	(2,416)	4,650	(2,305)	(921)
Available-for-sale securities	(91)	(3,356)	(91)	(3,356)
Due from credit institutions	-	(23)	-	(23)
Other financial and non-financial assets, net	465	(270)	(1,197)	(14,332)
Recovered written-off assets	344	739	204	738
Total allowance and reversals charged to the statement of income, net	**(14,158)**	**(9,372)**	**(15,248)**	**(9,680)**

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Total allowance for impairment at the beginning of the period, including:	**62,671**	**60,969**	**47,321**	**57,277**
- loans - specifically assessed impairment	54,846	48,493	40,096	50,972
- loans - collectively assessed impairment	7,825	12,476	7,225	6,305
Charge:	**22,365**	**17,635**	**20,376**	**10,204**
- loans - specifically assessed impairment	17,511	14,847	15,752	7,732
- loans - collectively assessed impairment	4,854	2,788	4,624	2,472
Release:	**(7,489)**	**(11,173)**	**(6,212)**	**(17,497)**
- loans - specifically assessed impairment	(5,051)	(3,735)	(3,893)	(15,946)
- loans - collectively assessed impairment	(2,438)	(7,438)	(2,319)	(1,551)
Allowance charged to the statement of income, net, including:	**14,876**	**6,462**	**14,164**	**(7,293)**
- loans - specifically assessed impairment	12,460	11,112	11,859	(8,214)
- loans - collectively assessed impairment	2,416	(4,650)	2,305	921
Change of allowance due to write-offs, net	**(12,528)**	**(4,948)**	**(10,896)**	**(2,850)**
Effect of changes in currency exchange rates:	**376**	**188**	**361**	**187**
- loans - specifically assessed impairment	376	189	361	188
- loans - collectively assessed impairment	-	(1)	-	(1)
Total allowance for impairment at the end of the period, including:	**65,395**	**62,671**	**50,950**	**47,321**
- loans - specifically assessed impairment	55,154	54,846	41,420	40,096
- loans - collectively assessed impairment	10,241	7,825	9,530	7,225

An analysis of the change in impairment of other assets is presented as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Total allowance for impairment at the beginning of the period, including:	**25,400**	**25,391**	**42,860**	**25,375**
- available-for-sale securities	6,629	3,432	6,629	3,432
- due from credit institutions	554	544	554	544
- other non-financial assets	18,217	21,415	35,677	21,399
Charge:	**1,724**	**5,954**	**1,628**	**18,190**
- available-for-sale securities	261	3,356	261	3,356
- due from credit institutions	-	23	-	23
- other non-financial assets	1,463	2,575	1,367	14,811
Release:	**(2,098)**	**(2,305)**	**(340)**	**(479)**
- available-for-sale securities	(170)	-	(170)	-
- other non-financial assets	(1,928)	(2,305)	(170)	(479)
Allowance charged to the statement of income, net, including:	**(374)**	**3,649**	**1,288**	**17,711**
- available-for-sale securities	91	3,356	91	3,356
- due from credit institutions	-	23	-	23
- other financial and non-financial assets	(465)	270	1,197	14,332
Change of allowance due to write-offs, net:	**(1,204)**	**(3,412)**	**(914)**	**-**
- available-for-sale securities	(723)	-	(723)	-
- due from credit institutions	(5)	-	(5)	-
- other non-financial assets	(476)	(3,412)	(186)	-
Effect of changes in currency exchange rates:	**(219)**	**(228)**	**(219)**	**(226)**
- available-for-sale securities	(195)	(159)	(195)	(159)
- due from credit institutions	(16)	(13)	(16)	(13)
- other non-financial assets	(8)	(56)	(8)	(54)
Total allowance for impairment at the end of the period, including:	**23,603**	**25,400**	**43,015**	**42,860**
- available-for-sale securities	5,802	6,629	5,802	6,629
- due from credit institutions	533	554	533	554
- other non-financial assets	17,268	18,217	36,680	35,677

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Current corporate income tax	28	378	-	12
Deferred income tax	2,589	3,187	1,930	4,568
Tax withheld abroad	93	321	92	321
Prior year adjustments	(361)	2	-	-
Total corporate income tax expense	**2,349**	**3,888**	**2,022**	**4,901**

The reconciliation of the Bank's and the Group's pre-tax profit for the period to the corporate income tax expense for the period may be specified as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Profit before corporate income tax	11,905	12,849	12,768	10,420
Corporate income tax (at standard rate)*	**1,786**	**1,927**	**1,915**	**1,563**
Effect of tax rates in foreign jurisdictions	(133)	8	-	-
Non deductible expense	1,052	4,070	769	3,668
Non taxable income	(1,409)	(1,183)	(777)	(214)
Other tax differences, net	1,053	(934)	115	(116)
Total effective corporate income tax	**2,349**	**3,888**	**2,022**	**4,901**

* standard domestic tax rate for the period ended 31 December 2013 was 15% (2012: 15%).

The movements in deferred corporate income tax asset / (liability) can be specified as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
As at the beginning of the year	25,182	28,895	24,209	28,777
Charge to statement of income	(2,589)	(3,187)	(1,930)	(4,568)
Charge to statement of comprehensive income**	273	(526)	-	-
Total deferred income tax asset at the end of the year, net	**22,866**	**25,182**	**22,279**	**24,209**

Recognised deferred corporate income tax assets and liabilities can be specified as follows:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	(1,832)	(1,626)	(297)	(141)
Other deferred tax liabilities	(201)	(20)	(190)	(8)
Deferred tax assets:				
Vacation pay and similar accrual	623	378	510	305
Revaluation of securities and derivatives**	441	(103)	545	260
Temporary impairment allowance differences	2,933	3,811	1,430	1,643
Recognised unutilised tax losses	20,896	22,612	20,281	21,965
Other deferred tax assets	6	130	-	185
Net deferred corporate income tax asset	**22,866**	**25,182**	**22,279**	**24,209**

** all changes in deferred tax that are charged directly to statement of comprehensive income are related to revaluation of securities at Group level.

Group's and Banks unutilised tax losses by expiry date can be specified as follows:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Expiry year:				
2013	-	3,050	-	-
2014	9,971	13,657	-	-
2015	-	8,345	-	-
Undated ***	173,451	183,719	135,207	146,434
Total unutilised tax losses	**183,422**	**208,771**	**135,207**	**146,434**

*** On 15 December 2011 amendments permitting tax loss carry forward for infinite period were passed by Latvian government. These are applicable for tax loss from accounting periods starting in 2008 or later years; amendments are effective from 1 January 2012.

NOTE 12. CASH AND DEPOSITS WITH CENTRAL BANKS

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Cash	42,596	45,956	40,423	42,251
Deposits with the Bank of Latvia	159,495	53,383	159,495	53,383
Deposits with other central banks	51,962	91,621	19,726	79,074
Total cash and deposits with central banks	**254,053**	**190,960**	**219,644**	**174,708**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia. During the reporting year, the Bank was in compliance with these requirements.

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. As at 31 December 2013 and 31 December 2012, the amounts due from central banks were not in arrears.

NOTE 13. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Due from credit institutions registered in OECD countries	162,646	118,480	113,597	66,303
Due from credit institutions registered in Latvia	17,447	1,433	16,221	79
Due from credit institutions registered in other non-OECD countries	11,026	9,854	24,789	15,242
Total gross balances due from credit institutions	**191,119**	**129,767**	**154,607**	**81,624**
Incl. impaired balances	*533*	*554*	*533*	*554*
Impairment allowance	(533)	(554)	(533)	(554)
Total net balances due from credit institutions	**190,586**	**129,213**	**154,074**	**81,070**

As at 31 December 2013 and 2012, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group's neither past due nor-impaired balances due from credit institutions refer to Credit risk section of the Note 35. The Bank's balances with its subsidiary AB “Citadele” Bankas (Lithuania) accounted for 68% (2012: 64%) of the total net balances due from credit institutions registered in other non-OECD countries. As at 31 December 2013 the Group's largest due from credit institutions exposure with single group of connected institutions was 39.6%. The exposure was with OECD registered “A rated” credit institutions.

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Correspondent accounts (nostro)	91,390	70,530	63,083	43,088
Overnight deposits	2,560	15,775	10,529	21,246
Total demand deposits	**93,950**	**86,305**	**73,612**	**64,334**
Term deposits with credit institutions:				
due within 1 month	80,999	31,220	75,027	14,491
due within 1-3 months	14,548	9,685	2,880	2,249
due within 3-6 months	-	-	2,555	-
due within 6-12 months	-	279	-	-
due within 1-5 years	1,089	817	-	-
Over 5 years and undated	533	1,461	533	550
Total term deposits	**97,169**	**43,462**	**80,995**	**17,290**
Total gross balances due from credit institutions	**191,119**	**129,767**	**154,607**	**81,624**
Impairment allowance	(533)	(554)	(533)	(554)
Total net balances due from credit institutions	**190,586**	**129,213**	**154,074**	**81,070**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively.

NOTE 14. LOANS AND RECEIVABLES TO CUSTOMERS

The following table represents the current classes of the Group’s loans:

	Group, LVL 000's 31/12/2013			Group, LVL 000's 31/12/2012		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	592,724	33,032	625,756	592,557	22,568	615,125
Utilised credit lines	92,420	22,994	115,414	71,655	20,594	92,249
Finance leases	65,176	-	65,176	48,865	-	48,865
Debit balances on settlement cards	47,157	61,420	108,577	56,682	61,559	118,241
Overdraft facilities	5,787	13,793	19,580	2,333	11,262	13,595
Factoring	319	-	319	782	-	782
Due from investment counterparties	3,918	-	3,918	6,240	-	6,240
Total loans and receivables to customers	**807,501**	**131,239**	**938,740**	**779,114**	**115,983**	**895,097**
Impairment allowance	(65,395)	-	(65,395)	(62,671)	-	(62,671)
Total net loans and receivables to customers	**742,106**	**131,239**	**873,345**	**716,443**	**115,983**	**832,426**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

The following table represents the current classes of the Bank’s loans:

	Bank, LVL 000's 31/12/2013			Bank, LVL 000's 31/12/2012		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	503,306	31,555	534,861	510,876	20,692	531,568
Utilised credit lines	146,872	42,342	189,214	107,059	36,291	143,350
Finance leases	111	-	111	-	-	-
Debit balances on settlement cards	41,729	52,614	94,343	50,067	53,429	103,496
Overdraft facilities	5,380	8,822	14,202	2,123	10,486	12,609
Due from investment counterparties	3,585	-	3,585	6,000	-	6,000
Total loans and receivables to customers	**700,983**	**135,333**	**836,316**	**676,125**	**120,898**	**797,023**
Impairment allowance	(50,950)	-	(50,950)	(47,321)	-	(47,321)
Total net loans and receivables to customers	**650,033**	**135,333**	**785,366**	**628,804**	**120,898**	**749,702**

Loans and advances by customer profile may be specified as follows:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Privately held companies	450,122	405,332	442,101	405,828
Private individuals	333,773	344,061	240,320	245,643
State owned enterprises	10,212	14,610	10,205	13,231
Public and religious institutions	6,613	8,145	3,580	5,103
Local municipalities	4,039	2,554	2,518	2,327
Municipality owned enterprises	2,689	4,372	2,206	3,962
Government	53	40	53	31
Total gross loans and receivables to customers	**807,501**	**779,114**	**700,983**	**676,125**
Impairment allowance	(65,395)	(62,671)	(50,950)	(47,321)
Total net loans and receivables to customers	**742,106**	**716,443**	**650,033**	**628,804**

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Real estate purchase and management	105,850	112,163	132,989	137,982
Transport and communications	72,498	72,820	57,210	57,276
Manufacturing	74,679	59,659	61,441	53,667
Trade	65,282	55,651	41,796	37,969
Agriculture and forestry	56,146	38,827	41,038	28,615
Electricity, gas and water supply	22,011	20,142	20,793	19,371
Construction	24,903	17,349	18,421	12,426
Hotels, restaurants	9,549	13,398	7,437	11,425
Financial intermediation	7,617	12,358	62,878	53,015
Other industries	35,193	32,686	16,660	18,736
Total gross loans and receivables to corporate customers	**473,728**	**435,053**	**460,663**	**430,482**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Latvian residents	529,108	517,840	563,642	552,215
OECD region residents	67,266	54,284	61,240	48,346
Non-OECD region residents	211,127	206,990	76,101	75,564
Total gross loans and receivables to customers	**807,501**	**779,114**	**700,983**	**676,125**
Impairment allowance	(65,395)	(62,671)	(50,950)	(47,321)
Total net loans and receivables to customers	**742,106**	**716,443**	**650,033**	**628,804**

As at 31 December 2013 and 31 December 2012 the Group's and the Bank's exposures with non-consolidated single group of connected parties did not exceeded 5% of total gross loans and receivables to customers. As at 31 December 2013 and 31 December 2012 the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

NOTE 15. LEASES

The following table represents finance leases analysed by type of assets:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Transport vehicles	39,882	34,010	111	-
Manufacturing equipment	13,171	8,106	-	-
Real estate	4,382	606	-	-
Other	7,741	6,143	-	-
Total present value of finance lease payments, excluding impairment	**65,176**	**48,865**	**111**	**-**
Impairment allowance	(7,131)	(6,586)	(2)	-
Net present value of finance lease payments	**58,045**	**42,279**	**109**	**-**

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Gross investment in finance leases receivable:				
within 1 year	17,669	16,232	36	-
later than 1 year and no later than in 5 years	50,603	35,807	81	-
later than in 5 years	2,339	436	-	-
Total gross investment in finance leases	**70,611**	**52,475**	**117**	**-**
Unearned finance income receivable:				
within 1 year	1,516	1,000	1	-
later than 1 year and no later than in 5 years	3,821	2,574	5	-
later than in 5 years	98	36	-	-
Total	**5,435**	**3,610**	**6**	**-**
Present value of minimum lease payments receivable:				
within 1 year	16,153	15,232	35	-
later than 1 year and no later than in 5 years	46,782	33,233	76	-
later than in 5 years	2,241	400	-	-
Total	**65,176**	**48,865**	**111**	**-**

NOTE 16. FIXED INCOME SECURITIES

The Group's fixed income securities which are classified as held-to-maturity, available for sale and held for trading are further split as follows:

	LVL 000's							
	31/12/2013				31/12/2012			
	Held-to-maturity	Available for sale	Held for trading	Total	Held-to-maturity	Available for sale	Held for trading	Total
Government bonds	132,521	159,430	6,580	298,531	134,479	175,831	3,234	313,544
Municipality bonds	25,701	980	-	26,681	24,733	1,494	-	26,227
Credit institution bonds	4,924	62,457	5,363	72,744	931	46,874	2,497	50,302
Corporate bonds	5,927	45,157	5,125	56,209	3,162	35,081	2,941	41,184
Other financial institution bonds	2,708	5,376	413	8,497	2,688	6,489	549	9,726
Total net fixed income securities	**171,781**	**273,400**	**17,481**	**462,662**	**165,993**	**265,769**	**9,221**	**440,983**

The above table represents the maximum credit risk exposure to the Group from fixed income securities.

The Bank’s fixed income securities are further split as follows:

	LVL 000's							
	31/12/2013				31/12/2012			
	Held-to-maturity	Available for sale	Held for trading	Total	Held-to-maturity	Available for sale	Held for trading	Total
Government bonds	129,525	116,995	-	246,520	131,507	126,316	-	257,823
Municipality bonds	24,194	980	-	25,174	24,241	762	-	25,003
Credit institution bonds	4,034	59,154	-	63,188	-	39,151	-	39,151
Corporate bonds	-	41,845	-	41,845	-	26,359	-	26,359
Other financial institution bonds	-	5,376	-	5,376	-	6,489	-	6,489
Total net fixed income securities	**157,753**	**224,350**	**-**	**382,103**	**155,748**	**199,077**	**-**	**354,825**

The above table represents the maximum credit risk exposure to the Bank from fixed income securities.

As at 31 December 2013, there are no Group’s and Bank’s securities on which payments are past due or which were restructured during the reporting period (2012: LVL nil). No fixed income securities were impaired (2012: nil).

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Government bonds:				
Latvia	204,059	214,814	202,702	211,397
OECD	33,409	46,800	28,088	38,059
Non-OECD	61,063	51,930	15,730	8,367
Total government bonds	**298,531**	**313,544**	**246,520**	**257,823**
Municipality bonds:				
Latvia	24,193	24,241	24,193	24,241
OECD	222	733	222	-
Non-OECD	2,266	1,253	759	762
Total municipality bonds	**26,681**	**26,227**	**25,174**	**25,003**
Credit institution bonds:				
OECD	61,914	48,842	58,477	39,151
Non-OECD	10,830	1,460	4,711	-
Total credit institution bonds	**72,744**	**50,302**	**63,188**	**39,151**
Corporate bonds (OECD and non-OECD)	56,209	41,184	41,845	26,359
Other financial institution bonds (OECD and non-OECD)	8,497	9,726	5,376	6,489
Total net fixed income securities	**462,662**	**440,983**	**382,103**	**354,825**

All fixed income securities as at 31 December 2013 and 31 December 2012 are listed.

NOTE 17. SHARES AND OTHER NON-FIXED INCOME SECURITIES

The following table provides the split of the Group's and Bank’s shares and other non-fixed income securities which were classified as held for trading and available for sale securities:

	LVL 000’s			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Foreign entities’ equity shares, unlisted	69	79	58	67
Latvian entities’ equity shares, unlisted	20	-	20	-
Mutual investment funds	10,920	4,338	8,854	3,164
Total shares and other non-fixed income securities	**11,009**	**4,417**	**8,932**	**3,231**

Investments in mutual funds are not analyzed by their ultimate issuer and are classified as non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 31 December 2013, the carrying amount of the Group’s and Bank’s securities, which were impaired but not past due amounted to LVL 1,364 thousand (2012: LVL 1,465 thousand).

As at 31 December 2013 the Bank has investments in mutual investment funds with carrying amount of LVL 4.7 million which are managed by Citadele Asset Managements IPS or its subsidiaries. These exposures have been acquired only with investment intentions.

NOTE 18. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

The Group’s financial assets designated at fair value through profit and loss are further split as follows:

	LVL 000’s	
	31/12/2013 Group	31/12/2012 Group
Government bonds	6,848	3,055
Municipality bonds	-	183
Corporate bonds	17,202	16,425
Credit institution bonds	13,763	9,546
Other financial institution bonds	148	60
Mutual investment funds, equities and other	5,849	6,239
Total financial assets designated at fair value through profit and loss	**43,810**	**35,508**

All exposures in mutual investment funds, equities and other are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 31 December 2013 LVL 5,077 thousand (2012: LVL 6,957 thousand) of financial assets designated at fair value through profit and loss relate to this.

NOTE 19. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank’s investments in subsidiaries may be specified as follows:

	LVL 000’s	
	2013	2012
Balance at the beginning of the period	**44,545**	**44,195**
Establishment of new subsidiaries	6	-
Equity investments in existing subsidiaries	-	13,263
Impairment, net	(386)	(12,913)
Balance at the end of the period	**44,165**	**44,545**

In October 2013, the Bank established SIA “HORTUS MD”, SIA “HORTUS LH”, and SIA “HORTUS JU” to continue effective management of repossessed assets.

In 2013 a LVL 386 thousand impairment allowance on investment in SIA “Citadele Express Kredīts” was recorded. This was a result of LVL 360 thousand dividend payout in 2013.

In 2012 the Bank increased share capital of it’s wholly owned subsidiary SIA “Rīgas Pirmā Garāža” by LVL 13,263 thousand. The management of the Bank concluded that there is an evidence of impairment of investment and an impairment allowance of a corresponding amount was recognised.

As at 31 December 2013 and 2012 the Bank held the following direct and indirect investments in subsidiaries:

			31/12/2013			31/12/2012			Carrying value LVL 000’s	
Company	Country of registration	Business profile	Share capital LVL 000’s	The Group’s share (%)	% of total voting rights	Share capital LVL 000’s	The Group’s share (%)	% of total voting rights	31/12/2013	31/12/2012
AB “Citadele” Bankas	Lithuania	Banking	30,369	100.0	100.0	30,369	100.0	100.0	29,006	29,006
“AP Anlage & Privatbank” AG	Switzerland	Banking	5,730	100.0	100.0	5,820	100.0	100.0	9,702	9,702
AS “Citadele Atklātais Pensiju Fonds”	Latvia	Pension fund	450	100.0	100.0	450	100.0	100.0	454	454
IPAS “Citadele Asset Management”	Latvia	Finance	4,150	100.0	100.0	4,150	100.0	100.0	4,151	4,151
OOO “Citadele Asset Management Ukraina”	Ukraine	Finance	613	100.0	100.0	610	100.0	100.0	-	-
UAB “Citadele Investiciju Valdymas”	Lithuania	Finance	730	100.0	100.0	730	100.0	100.0	-	-
OU “Citadele Leasing & Factoring”	Estonia	Finance	351	100.0	100.0	351	100.0	100.0	313	313
UAB “Citadele faktoringas ir lizingas”	Lithuania	Finance	306	100.0	100.0	306	100.0	100.0	-	-
SIA “Rīgas Pirmā Garāža”	Latvia	Misc.*	13,615	100.0	100.0	13,615	100.0	100.0	-	-
SIA “Citadele Express Kredīts”	Latvia	Leasing	31	100.0	100.0	31	100.0	100.0	27	413
SIA “E&P Baltic Properties”	Latvia	Finance	20	50.0	50.0	20	50.0	50.0	-	-
SIA “Citadele Līzings un Faktorings”	Latvia	Leasing	13,600	100.0	100.0	13,600	100.0	100.0	498	498
AAS “Citadele Life”	Latvia	Life insurance	3,000	100.0	100.0	3,000	100.0	100.0	-	-
Calenia Investments Limited	Cyprus	Misc.*	-	100.0	100.0	-	100.0	100.0	-	-
OOO “Citadele Investments Ukraine” **	Ukraine	Finance	-	-	-	43	100.0	100.0	-	-
SIA “RPG Interjers”	Latvia	Misc.*	952	100.0	100.0	952	100.0	100.0	-	-
SIA “Hortus Commercial”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA “Hortus Land”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA “Hortus TC”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA “Hortus Residental”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA “Hortus LH”	Latvia	Misc.*	2	100.0	100.0	-	-	-	2	-
SIA “Hortus MD”	Latvia	Misc.*	2	100.0	100.0	-	-	-	2	-
SIA “Hortus JU”	Latvia	Misc.*	2	100.0	100.0	-	-	-	2	-
SIA “PR Speciālie Projekti”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	-	-
Total investments in subsidiaries									**44,165**	**44,545**

* Misc. – the companies are providing various support services.
** Liquidated in 2013.

Carrying value of investment in subsidiary SIA “Rīgas Pirmā Garāža” depends directly on the value of the major assets of the company, being the office building and furniture therein, which in the Group’s consolidated accounts are accounted for as property and plant. For impairment assessment methodology of Group’s property and plant refer to Note 21.

Carrying value of investment in AB “Citadele” is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate, minimum target capital adequacy ratio and future profitability of the operations of the entity. Changing applied discount rate by +/-100 basis points would result in LVL (1.3) million loss or LVL 1.8 million gain respectively (2012: LVL (1.4) million loss or LVL 1.6 million gain); adjusting minimum target capital adequacy ratio by +/-100 basis points would result in LVL (2.1) million loss or LVL 1.8 million gain (2012: LVL (1.8) million loss or LVL 1.8 million gain); fluctuation in forecasted profitability by +/-10% would result in LVL 1.8 million gain or LVL (2.1) million loss (2012: LVL 1.8 million gain or LVL (2.2) million loss).

NOTE 20. INTANGIBLE ASSETS

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Software	737	539	558	373
Other intangible assets	198	236	38	20
Total intangible assets excluding advances	935	775	596	393
Advances for intangible assets	362	113	353	100
Total net book value of intangible assets	**1,297**	**888**	**949**	**493**

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2013 and 2012 can be specified as follows:

	LVL 000's		
	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost			
As at 31 December 2011	**9,068**	**2,427**	**11,495**
Additions	1,203	3	1,206
Disposals	(3)	(4)	(7)
As at 31 December 2012	**10,268**	**2,426**	**12,694**
Additions	520	54	574
Disposals	(197)	(128)	(325)
As at 31 December 2013	**10,591**	**2,352**	**12,943**
Accumulated amortisation			
As at 31 December 2011	**8,625**	**2,120**	**10,745**
Charge for the year	322	73	395
Reversal due to disposals	(3)	(3)	(6)
As at 31 December 2012	**8,944**	**2,190**	**11,134**
Charge for the year	494	86	580
Reversal due to disposals	(194)	(122)	(316)
As at 31 December 2013	**9,244**	**2,154**	**11,398**
Impairment allowance			
As at 31 December 2011	**-**	**-**	**-**
Net impairment	(785)	-	(785)
As at 31 December 2012	**(785)**	**-**	**(785)**
Net impairment (amortisation)	175	-	175
As at 31 December 2013	**(610)**	**-**	**(610)**
Net book value (incl. impairment allowance)			
As at 31 December 2011	**443**	**307**	**750**
As at 31 December 2012	**539**	**236**	**775**
As at 31 December 2013	**737**	**198**	**935**

Movements in the Bank's intangible assets excluding advances for the year ended 31 December 2013 and 2012 can be specified as follows:

	LVL 000's		
	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost			
As at 31 December 2011	**8,108**	**5**	**8,113**
Additions	1,094	25	1,119
Disposals	(2)	-	(2)
As at 31 December 2012	**9,200**	**30**	**9,230**
Additions	402	22	424
Disposals	(5)	-	(5)
As at 31 December 2013	**9,597**	**52**	**9,649**
Accumulated amortisation			
As at 31 December 2011	**7,793**	**3**	**7,796**
Charge for the year	251	7	258
Reversal due to disposals	(2)	-	(2)
As at 31 December 2012	**8,042**	**10**	**8,052**
Charge for the year	392	4	396
Reversal due to disposals	(5)	-	(5)
As at 31 December 2013	**8,429**	**14**	**8,443**
Impairment allowance			
As at 31 December 2011	**-**	**-**	**-**
Net impairment	(785)	-	(785)
As at 31 December 2012	**(785)**	**-**	**(785)**
Net impairment (amortisation)	175	-	175
As at 31 December 2013	**(610)**	**-**	**(610)**
Net book value (incl. impairment allowance)			
As at 31 December 2011	**315**	**2**	**317**
As at 31 December 2012	**373**	**20**	**393**
As at 31 December 2013	**558**	**38**	**596**

NOTE 21. PROPERTY AND EQUIPMENT

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Leasehold improvements	267	341	267	341
Land and buildings	27,209	27,192	666	684
Transport vehicles	337	574	167	136
Other	2,278	2,873	1,284	898
Total property and equipment excluding advances	30,091	30,980	2,384	2,059
Advances for property and equipment	7	40	7	34
Total net book value of property and equipment	**30,098**	**31,020**	**2,391**	**2,093**

The following changes in the Group’s property and equipment excluding advances took place during the year ended 31 December 2013 and 2012:

	LVL 000's					
	Leasehold improve-ments	Land and buildings	Transport vehicles	Other	Construc-tion in progress	Total Property and equipment excluding advances
Historical cost						
As at 31 December 2011	**3,477**	**53,260**	**1,673**	**24,020**	**4**	**82,434**
Additions	52	71	356	619	55	1,153
Disposals	(226)	(3,345)	(307)	(2,507)	(59)	(6,444)
Transfers	301	-	-	186	-	487
As at 31 December 2012	**3,604**	**49,986**	**1,722**	**22,318**	**-**	**77,630**
Additions	108	71	131	966	-	1,276
Disposals	-	(27)	(611)	(1,012)	-	(1,650)
As at 31 December 2013	**3,712**	**50,030**	**1,242**	**22,272**	**-**	**77,256**
Accumulated depreciation						
As at 31 December 2011	**2,771**	**6,912**	**1,178**	**20,095**	**-**	**30,956**
Charge for the year	326	1,798	205	1,659	-	3,988
Reversal due to disposals	(135)	(369)	(235)	(2,486)	-	(3,225)
Transfers	301	-	-	177	-	478
As at 31 December 2012	**3,263**	**8,341**	**1,148**	**19,445**	**-**	**32,197**
Charge for the year	182	1,789	172	1,548	-	3,691
Reversal due to disposals	-	(24)	(415)	(999)	-	(1,438)
As at 31 December 2013	**3,445**	**10,106**	**905**	**19,994**	**-**	**34,450**
Impairment allowance						
As at 31 December 2011	**(100)**	**(17,906)**	**-**	**-**	-	**(18,006)**
Net reversal and write-offs	100	3,453	-	-	-	3,553
As at 31 December 2012	**-**	**(14,453)**	**-**	**-**	-	**(14,453)**
Net reversal and write-offs	-	1,738	-	-	-	1,738
As at 31 December 2013	**-**	**(12,715)**	**-**	**-**	-	**(12,715)**
Net book value (incl. impairment allowance)						
As at 31 December 2011	**606**	**28,442**	**495**	**3,925**	**4**	**33,472**
As at 31 December 2012	**341**	**27,192**	**574**	**2,873**	**-**	**30,980**
As at 31 December 2013	**267**	**27,209**	**337**	**2,278**	**-**	**30,091**

Impairment allowance for Group’s land and buildings is calculated by discounting long term capital expenditure adjusted expected future cash flows. Key assumptions are discount rate and expected net cash flows generated by the property. If discount rate would change by +/-100 basis points the carrying value of the property would change by LVL (2.7) million and LVL +3.5 million respectively (2012: LVL (3.3) million and LVL +4.5 million). If net cash flows adjusted for capital expenses would change by +/-10% the carrying value of the property would change by LVL +/-2.6 million (2012: LVL +/-2.6 million).

The following changes in the Bank's property and equipment excluding advances took place during the year ended 31 December 2013 and 2012:

	LVL 000's				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding prepayments
Historical cost less impairment allowance					
As at 31 December 2011	**3,377**	**853**	**1,041**	**17,243**	**22,514**
Additions	52	-	108	481	641
Disposals	(226)	-	(213)	(2,326)	(2,765)
Transfers	301	-	-	186	487
Impairment (charge) / reversal, net	100	-	-	-	100
As at 31 December 2012	**3,604**	**853**	**936**	**15,584**	**20,977**
Additions	108		109	855	1,072
Disposals	-	(1)	(212)	(485)	(698)
As at 31 December 2013	**3,712**	**852**	**833**	**15,954**	**21,351**
Accumulated depreciation					
As at 31 December 2011	**2,771**	**152**	**945**	**16,254**	**20,122**
Charge for the year	326	17	68	572	983
Reversal due to disposals	(135)	-	(213)	(2,317)	(2,665)
Transfers	301	-	-	177	478
As at 31 December 2012	**3,263**	**169**	**800**	**14,686**	**18,918**
Charge for the year	182	17	78	468	745
Reversal due to disposals			(212)	(484)	(696)
As at 31 December 2013	**3,445**	**186**	**666**	**14,670**	**18,967**
Net book value (incl. impairment allowance)					
As at 31 December 2011	**606**	**701**	**96**	**989**	**2,392**
As at 31 December 2012	**341**	**684**	**136**	**898**	**2,059**
As at 31 December 2013	**267**	**666**	**167**	**1,284**	**2,384**
Impairment allowance					
As at 31 December 2011	**(100)**	**-**	**-**	**-**	**(100)**
As at 31 December 2012	**-**	**-**	**-**	**-**	**-**
As at 31 December 2013	**-**	**-**	**-**	**-**	**-**

NOTE 22. OTHER ASSETS

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Deposits with card payment system companies	10,977	11,162	10,977	11,162
Money in transit	4,042	6,184	4,042	6,184
Prepayments	1,400	1,134	965	724
Other assets *	10,902	8,240	4,342	3,632
Total gross other assets	**27,321**	**26,720**	**20,326**	**21,702**
Impairment allowance	(3,210)	(2,270)	(2,730)	(1,987)
Total net other assets	**24,111**	**24,450**	**17,596**	**19,715**

* As at 31 December 2013, included in the Group’s and Bank’s other assets are gross balances amounting to LVL 190 thousand (2012: LVL 889 thousand) and LVL nil (2012: LVL nil), respectively, which are delayed. The Group has recognised LVL 168 thousand (2012: LVL 190 thousand) impairment allowance on these balances. Additionally, as at 31 December 2013, the Group’s and the Bank’s gross other assets that are not delayed but impaired amount to LVL 3,100 thousand (2012: LVL 2,080 thousand) and LVL 2,736 thousand (2012: LVL 1,987 thousand), respectively.

NOTE 23. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

	LVL 000's	
	2013 Group	2012 Group
Balance as at the beginning of the period	**10,368**	**5,289**
Premiums received	5,050	5,490
Commissions and risk charges	(378)	(309)
Benefits paid to policyholders	(3,505)	(576)
Dividends received	-	53
Securities fair value revaluation result	65	445
Income from insurance contracts	101	43
Currency revaluation result	(16)	(67)
Balance as at the end of the period	**11,685**	**10,368**

In 2013 from financial liabilities designated at fair value through profit and loss which are not unit-linked the Group has recognised net result of LVL 32 thousand in the statement of income (2012: LVL (69) thousand).

NOTE 24. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Due to credit institutions registered in OECD countries	34	17	20,431	28,845
Due to credit institutions registered in Latvia	17,826	17,930	17,826	17,930
Due to credit institutions registered in other non-OECD countries	240	7,530	598	586
Total balances due to credit institutions and central banks	**18,100**	**25,477**	**38,855**	**47,361**

The following table presents the Group’s and Bank’s balances due to credit institutions and central banks according to maturity profile:

	LVL 000’s			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Balances on demand	5,981	2,695	14,585	4,660
Overnight deposits	-	-	-	465
Total balances repayable on demand	**5,981**	**2,695**	**14,585**	**5,125**
Loans from credit institutions:				
due within 1 month	11,837	21,360	18,563	19,497
due within 1-3 months	101	134	4,065	10,024
due within 3-6 months	181	1,022	471	11,416
due within 6-12 months	-	266	1,171	817
due within 1-5 years	-	-	-	482
Total loans from credit institutions	**12,119**	**22,782**	**24,270**	**42,236**
Total due to credit institutions	**18,100**	**25,477**	**38,855**	**47,361**

NOTE 25. DEPOSITS FROM CUSTOMERS

The following table presents deposits from customers according to customer profile:

	LVL 000’s			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Privately held companies	686,893	630,022	510,327	464,961
Private individuals	616,777	550,210	525,080	468,944
State and municipality owned enterprises	109,740	80,954	109,545	80,728
Financial institutions	99,621	70,911	92,036	56,169
Government	33,000	31,135	32,304	30,520
Municipalities	26,692	26,493	26,692	26,493
Public and religious institutions	6,416	5,972	5,151	4,913
Total deposits from customers	**1,579,139**	**1,395,697**	**1,301,135**	**1,132,728**

	LVL 000’s			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Demand deposits	1,180,074	955,256	966,830	762,667
Term deposits:				
due within 1 month	99,684	87,587	83,431	70,073
due within 1-3 months	66,419	100,579	53,462	86,679
due within 3-6 months	67,526	89,009	55,882	68,346
due within 6-12 months	119,984	132,138	100,636	118,967
due within 1-5 years	44,366	29,548	39,809	25,138
due in more than 5 years	1,086	1,580	1,085	858
Total term deposits	399,065	440,441	334,305	370,061
Total deposits from customers	**1,579,139**	**1,395,697**	**1,301,135**	**1,132,728**

As at 31 December 2013 and 31 December 2012 the largest Bank’s exposure with single group of connected parties did not exceed 5% of the total deposit portfolio.

NOTE 26. OTHER LIABILITIES

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Accrued expense	8,447	6,298	6,187	4,768
Suspense liabilities	2,691	2,396	1,561	2,136
Amounts due to suppliers	788	877	460	373
Provisions for other liabilities	296	365	-	-
Deferred income	122	122	-	-
Other liabilities	3,700	4,411	804	739
Total other liabilities	**16,044**	**14,469**	**9,012**	**8,016**

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not yet transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

In 2013, the Group has accrued LVL 0.9 million of tax penalties in relation to a voluntary participation in the program approved between Swiss Federal Council and the US Department of Justice concerning a solution for Swiss banks to resolve all matters regarding their past activities with US clients and their accounts in Swiss banks. The amounts accrued relate to the clients and transactions in the past. There are no more such clients that fall under the criteria of this program. Currently, the Group's strategy does not include servicing customers related to the United States of America.

NOTE 27. SUBORDINATED DEBT

The following table represents the details of Bank's and Group's subordinated capital:

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Maturity date	Amortised cost LVL 000's 31/12/2013	Amortised cost LVL 000's 31/12/2012
Privatisation Agency	Latvia	EUR	53,128	7.342%	22/05/2009	20/12/2017	38,450	38,760
Privatisation Agency	Latvia	EUR	11,205	7.342%	02/08/2010	08/08/2016	8,109	8,120
EBRD	UK	EUR	7,195	7.342%	11/09/2009	08/08/2016	5,150	5,134
						Total	**51,709**	**52,014**

On 27 June 2013, the Bank and JSC Privatisation Agency agreed to extend the final maturity of EUR 53.1 million (LVL 38.8 million) subordinated debt agreement up to 20 December 2017.

NOTE 28. ISSUED SHARE CAPITAL

As at 31 December 2013, the Bank's registered and paid-in share capital was LVL 103,000 thousand (2012: LVL 103,000 thousand). In accordance with the Bank's statutes, the share capital consists of 103,000 thousand ordinary shares with voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2013, they all were issued and fully paid. As at 31 December 2013 and 2012, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2013 and 2012.

As at 31 December 2013, the Bank had 2 (2012: 2) shareholders. The respective shareholdings as at 31 December 2013 and 31 December 2012 may be specified as follows:

	31/12/2013 and 31/12/2012		
	Paid-in share capital (LVL)	% of total paid-in capital	% of total voting rights
Privatisation Agency	77,249,999	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	25,750,001	25% plus 1 share	25% plus 1 share
Total	**103,000,000**	**100.00**	**100.00**

NOTE 29. OFF-BALANCE SHEET ITEMS

Off-balance sheet items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2013 and 2012.

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Contingent liabilities:				
Outstanding guarantees	71,503	35,014	67,831	31,922
Outstanding letters of credit	119	611	36	611
Total contingent liabilities	**71,622**	**35,625**	**67,867**	**32,533**
Financial commitments:				
Loans granted, not fully drawn down	47,140	22,568	45,663	20,692
Unutilised credit lines and overdraft facilities	22,680	31,856	37,056	46,777
Credit card commitments	61,419	61,559	52,614	53,429
Total financial commitments	**131,239**	**115,983**	**135,333**	**120,898**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

The Group:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2013	31/12/2012	31/12/2013		31/12/2012	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	20,325	18,460	73	(92)	29	(26)
Forwards	26,312	12,380	42	(775)	35	(20)
Swaps	490,126	361,610	2,452	(1,988)	924	(2,676)
Total foreign exchange contracts	**536,763**	**392,450**	**2,567**	**(2,855)**	**988**	**(2,722)**
Derivative financial instruments	**536,763**	**392,450**	**2,567**	**(2,855)**	**988**	**(2,722)**

The Bank:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2013	31/12/2012	31/12/2013		31/12/2012	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	20,273	18,270	76	(92)	28	(26)
Forwards	26,210	14,622	42	(774)	38	(21)
Swaps	559,082	410,053	2,458	(2,366)	968	(2,719)
Total foreign exchange contracts	**605,565**	**442,945**	**2,576**	**(3,232)**	**1,034**	**(2,766)**
Derivative financial instruments	**605,565**	**442,945**	**2,576**	**(3,232)**	**1,034**	**(2,766)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2013, more than 71% (2012: 41%) of the fair value assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2013, none (2012: nil) of the payments receivable arising out of derivative transactions was past due.

NOTE 30. FUNDS UNDER TRUST MANAGEMENT

The table below provides analysis of the fair value of funds managed on behalf of customers by investment type:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Fixed income securities:				
Government bonds	119,655	43,186	-	-
Credit institution bonds	28,438	23,441	-	-
Corporate bonds	47,806	35,608	-	-
Foreign municipality bonds	1,961	2,162	-	-
Other financial institution bonds	1,299	3,709	-	-
Total investments in fixed income securities	**199,159**	**108,106**	**-**	**-**
Other investments:				
Investment funds	114,154	99,001	-	-
Deposits with credit institutions	17,320	35,050	-	-
Shares	13,492	15,522	-	-
Real estate	7,565	20,434	-	-
Loans	31,554	34,310	28,384	31,193
Other	40,186	30,154	5,589	7,071
Total other investments	**224,271**	**234,471**	**33,973**	**38,264**
Total assets under trust management agreements	**423,430**	**342,577**	**33,973**	**38,264**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Pension Plans	159,234	129,855	-	-
Insurance companies, investment and pension funds	82,210	87,099	-	-
Other companies	137,639	71,603	33,487	37,920
Private individuals	44,347	54,020	486	344
Total liabilities under trust management agreements	**423,430**	**342,577**	**33,973**	**38,264**

NOTE 31. FINANCIAL ASSETS PLEDGED

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Due from credit institutions*	5,693	12,490	4,978	11,846
Loans to customers**	1,234	19,998	1,234	19,998
Fixed income securities	-	6,821	-	-
Other assets*	11,112	11,162	11,112	11,162
Total financial assets pledged	**18,039**	**50,471**	**17,324**	**43,006**
Due to credit institutions and central banks	-	6,018	-	-
Total liabilities secured by pledged financial assets	**-**	**6,018**	**-**	**-**

* The amounts consist of several placements to secure various Bank's transactions in the ordinary course of business.

** As at 31 December 2012 the Bank and the Group had a part of the loan portfolio pledged as collateral to Ministry of Finance of Latvia to receive a guarantee. The guarantee was issued as a security to European Investment Bank's financing which was repaid ahead of the schedule in December 2012. The respective pledges as at 2012 year end formally were still registered with Commercial Register. As at the year end 2013 there were no such pledges.

NOTE 32. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2013 and 31 December 2012:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Cash and demand deposits with central banks	254,053	190,960	219,644	174,708
Deposits with other credit institutions*	177,789	111,614	148,353	77,767
Demand deposits due to other credit institutions	(5,981)	(2,555)	(14,585)	(4,984)
Total cash and cash equivalents	**425,861**	**300,019**	**353,412**	**247,491**

* Deposits include term facilities with initial agreement term of 3 months or less.

NOTE 33. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in a number of legal proceedings related to its customers in Latvia and abroad.

The management of the Bank believes that any legal proceedings pending as at 31 December 2013 will not result in material losses for the Group in addition to amounts already provided for in these financial statements.

NOTE 34. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, state and municipal institutions, members of the Supervisory Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group's companies/ Bank and their related companies are stated in one line, accordingly.

The Bank of Latvia is not considered as related party as it is operating as an independent institution according to special law.

The following table presents the outstanding balances and terms of the Group's transactions with counterparties, which were related parties at respective dated.

	LVL 000's 31/12/2013	Interest income/ expense 2013	LVL 000's 31/12/2012	Interest income/ expense 2012
Credit exposure to related parties				
Securities:	226,895	6,504	235,638	8,699
Latvian treasury bills and government bonds	*202,701*	*5,628*	*211,397*	*7,676*
Municipality bonds	*24,194*	*876*	*24,241*	*1,023*
Loans and receivables:	2,869	33	2,663	99
Management	*300*	*5*	*306*	*45*
State institutions and state controlled companies	*49*	*1*	*30*	-
Municipality institutions and municipality controlled companies	*2,520*	*27*	*2,327*	*54*
Financial commitments and outstanding guarantees:	3,278	-	3,338	4
Management	*95*	-	*133*	*4*
State institutions and state controlled companies	*3,173*	-	*3,195*	-
Municipality institutions and municipality controlled companies	*10*	-	*10*	-
Total credit exposure to related parties	**233,042**		**241,639**	
Due to related parties:	111,847	4,105	107,442	5,404
Deposits from Ministry of Finance	-	-	-	*238*
Subordinated loans from shareholders	*51,709*	*3,859*	*52,014*	*4,463*
Management	*384*	*2*	*383*	*7*
State institutions and state controlled companies	*33,484*	*222*	*28,977*	*611*
Municipality institutions and municipality controlled companies	*26,270*	*22*	*26,068*	*85*
Total amounts due to related parties	**111,847**		**107,442**	

No Group's exposures with related parties as at 31 December 2013 or for the year then ended were impaired (2012: nil).

The following table presents the outstanding balances and terms of the Bank’s transactions with counterparties, which were related parties at respective dates.

	LVL 000’s 31/12/2013	Interest income/ expense 2013	LVL 000’s 31/12/2012	Interest income/ expense 2012
Credit exposure to related parties				
Securities:	226,895	6,504	235,638	8,699
Latvian treasury bills and government bonds	*202,701*	*5,628*	*211,397*	*7,676*
Municipality bonds	*24,194*	*876*	*24,241*	*1,023*
Loans and receivables:	116,797	2,386	92,487	2,526
Management	*85*	*3*	*88*	*34*
State institutions and state controlled companies	*49*	*1*	*30*	-
Municipality institutions and municipality controlled companies	*2,520*	*27*	*2,327*	*54*
Subsidiaries	*114,143*	*2,355*	*90,042*	*2,438*
Derivatives – assets:	11	-	51	-
Subsidiaries	*11*	-	*51*	-
Financial commitments and outstanding guarantees:	32,584	-	19,910	7
Management	*59*	-	*64*	*4*
State institutions and state controlled companies	*3,173*	-	*3,195*	-
Municipality institutions and municipality controlled companies	*10*	-	*10*	-
Subsidiaries	*29,342*	-	*16,641*	*3*
Total credit exposure to related parties	**376,287**		**348,086**	
Due to related parties:	129,072	4,206	124,235	5,562
Deposits from Ministry of Finance	-	-	-	*238*
Subordinated loans from shareholders	*51,709*	*3,859*	*52,014*	*4,463*
Management	*202*	-	*172*	*3*
State institutions and state controlled companies	*33,484*	*222*	*28,977*	*611*
Municipality institutions and municipality controlled companies	*26,270*	*22*	*26,068*	*85*
Subsidiaries	*17,407*	*103*	*17,004*	*162*
Derivatives – liabilities:	519	-	46	-
Subsidiaries	*519*	-	*46*	-
Total amounts due to related parties	**129,591**		**124,281**	

In the year ended 31 December 2013 no impairment was charged or released on the Bank's loans and receivables from subsidiaries (2012: net release of impairment allowance LVL 13,262 thousand). As at 31 December 2013 no impairment allowance was recognised on loans and receivables from subsidiaries (2012: nil). No other Bank’s exposures with related parties as at 31 December 2013 or for the year period then ended were impaired (2012: nil).

The Bank’s income from dividends from subsidiaries in 2013 was LVL 2,638 thousand (2012: nil).

NOTE 35. RISK MANAGEMENT

Risk management polices

Risk management principles are set out in Group’s Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group’ business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group’s employee about and responsibility for the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks.

Risk management is an essential element of the Group’s management process. Risk management within the Group is controlled by independent unit – Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) Credit risk

Credit risk is the risk that the Group will incur a loss from debtor’s non-performance or default. The Group is exposed to credit risk in its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent unit of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer’s creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes the analysis of industry, the company, its credit history and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer’s credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank’s Management Board.

After the loan is issued, customer’s financial position is monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group’s related parties, an industry limit, limit by customer type, loan product, and collateral type.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

The tables below provide details of the Group’s loan portfolio delinquencies:

	Group, LVL 000’s 31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	490,927	60,708	45,287	36,695	5,586	137	2,616	641,956
Not delayed - impaired	19,404	1,259	3,694	-	91	-	1,302	25,750
Total not delayed loans	**510,331**	**61,967**	**48,981**	**36,695**	**5,677**	**137**	**3,918**	**667,706**
Past due loans - not impaired								
Delayed days:								
=< 29	32,113	13,236	5,899	1,215	13	-	-	52,476
30-59	5,366	-	1,838	322	1	-	-	7,527
60-89	4,298	-	132	193	59	-	-	4,682
90 and more	6,934	667	178	324	37	-	-	8,140
Total past due loans - not impaired	**48,711**	**13,903**	**8,047**	**2,054**	**110**	**-**	**-**	**72,825**
Total past due loans - impaired	**33,682**	**16,550**	**8,148**	**8,408**	**-**	**182**	**-**	**66,970**
Total gross loans and receivables to customers	**592,724**	**92,420**	**65,176**	**47,157**	**5,787**	**319**	**3,918**	**807,501**
Impairment allowance	(37,728)	(9,354)	(7,131)	(9,908)	(93)	(180)	(1,001)	(65,395)
Total net loans and receivables to customers	**554,996**	**83,066**	**58,045**	**37,249**	**5,694**	**139**	**2,917**	**742,106**

	Group, LVL 000's							
	31/12/2012							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	470,846	66,644	35,918	39,800	1,792	537	2,097	617,634
Not delayed - impaired	40,774	122	614	-	71	-	4,143	45,724
Total not delayed loans	**511,620**	**66,766**	**36,532**	**39,800**	**1,863**	**537**	**6,240**	**663,358**
Past due loans - not impaired								
Delayed days:								
=< 29	25,328	141	4,921	1,036	6	-	-	31,432
30-59	10,545	-	1,021	348	-	-	-	11,914
60-89	6,999	-	119	177	-	-	-	7,295
90 and more	5,745	-	163	314	-	63	-	6,285
Total past due loans - not impaired	**48,617**	**141**	**6,224**	**1,875**	**6**	**63**	**-**	**56,926**
Total past due loans - impaired	**32,320**	**4,748**	**6,109**	**15,007**	**464**	**182**	**-**	**58,830**
Total gross loans and receivables to customers	**592,557**	**71,655**	**48,865**	**56,682**	**2,333**	**782**	**6,240**	**779,114**
Impairment allowance	(36,360)	(1,638)	(6,586)	(15,922)	(536)	(235)	(1,394)	(62,671)
Total net loans and receivables to customers	**556,197**	**70,017**	**42,279**	**40,760**	**1,797**	**547**	**4,846**	**716,443**

The tables below provide details of the Bank’s loan portfolio delinquencies:

	Bank, LVL 000’s							
	31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	420,868	116,457	108	32,999	5,188	-	2,283	577,903
Not delayed - impaired	17,976	50	-	-	91	-	1,302	19,419
Total not delayed loans	**438,844**	**116,507**	**108**	**32,999**	**5,279**	**-**	**3,585**	**597,322**
Past due loans - not impaired								
Delayed days:								
=< 29	25,334	13,158	1	728	4	-	-	39,225
30-59	4,095	-	2	272	1	-	-	4,370
60-89	3,716	-	-	174	59	-	-	3,949
90 and more	5,856	667	-	324	37	-	-	6,884
Total past due loans - not impaired	**39,001**	**13,825**	**3**	**1,498**	**101**	**-**	**-**	**54,428**
Total past due loans - impaired	**25,461**	**16,540**	**-**	**7,232**	**-**	**-**	**-**	**49,233**
Total gross loans and receivables to customers	**503,306**	**146,872**	**111**	**41,729**	**5,380**	**-**	**3,585**	**700,983**
Impairment allowance	(32,276)	(8,849)	(2)	(8,731)	(91)	-	(1,001)	(50,950)
Total net loans and receivables to customers	**471,030**	**138,023**	**109**	**32,998**	**5,289**	**-**	**2,584**	**650,033**

	Bank, LVL 000's							
	31/12/2012							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	414,767	102,198	-	35,936	1,588	-	1,857	556,346
Not delayed - impaired	34,060	-	-	-	71	-	4,143	38,274
Total not delayed loans	**448,827**	**102,198**	**-**	**35,936**	**1,659**	**-**	**6,000**	**594,620**
Past due loans - not impaired								
Delayed days:								
=< 29	19,461	141	-	564	-	-	-	20,166
30-59	9,366	-	-	296	-	-	-	9,662
60-89	6,624	-	-	147	-	-	-	6,771
90 and more	4,418	-	-	314	-	-	-	4,732
Total past due loans - not impaired	**39,869**	**141**	**-**	**1,321**	**-**	**-**	-	**41,331**
Total past due loans - impaired	**22,180**	**4,720**	**-**	**12,810**	**464**	**-**	**-**	**40,174**
Total gross loans and receivables to customers	**510,876**	**107,059**	**-**	**50,067**	**2,123**	**-**	**6,000**	**676,125**
Impairment allowance	(30,117)	(1,572)	-	(13,703)	(535)	-	(1,394)	(47,321)
Total net loans and receivables to customers	**480,759**	**105,487**	**-**	**36,364**	**1,588**	**-**	**4,606**	**628,804**

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2011	**26,454**	**25**	**6,763**	**14,466**	**-**	**241**	**544**	**48,493**
Impairment charge for the reported period - specific	7,534	1,602	1,933	2,256	535	-	987	14,847
Release of previously established impairment allowance - specific	(3,137)	(10)	(304)	(91)	-	(59)	(134)	(3,735)
Impairment charged to the statement of income, net	**4,397**	**1,592**	**1,629**	**2,165**	**535**	**(59)**	**853**	**11,112**
Change of impairment allowance due to write-offs, net	(1,345)	-	(1,969)	(1,634)	-	-	-	(4,948)
Increase/ (decrease) in impairment allowance due to currency fluctuations	194	-	-	-	-	-	(5)	189
Outstanding specific impairment as at 31/12/2012	**29,700**	**1,617**	**6,423**	**14,997**	**535**	**182**	**1,392**	**54,846**
Impairment charge for the reported period - specific	9,125	6,765	1,367	52	147	-	55	17,511
Release of previously established impairment allowance - specific	(3,812)	(33)	(273)	(541)	-	-	(392)	(5,051)
Impairment charged to the statement of income, net	**5,313**	**6,732**	**1,094**	**(489)**	**147**	**-**	**(337)**	**12,460**
Change of impairment allowance due to write-offs, net	(5,329)	-	(617)	(6,050)	(532)	-	-	(12,528)
Increase/ (decrease) in impairment allowance due to currency fluctuations	545	(1)	11	(61)	(59)	(3)	(56)	376
Outstanding specific impairment as at 31/12/2013	**30,229**	**8,348**	**6,911**	**8,397**	**91**	**179**	**999**	**55,154**

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2011	**35,962**	**-**	**-**	**14,466**	**-**	**-**	**544**	**50,972**
Impairment charge for the reported period - specific	4,614	1,572	-	24	535	-	987	7,732
Release of previously established impairment allowance - specific	(15,721)	-	-	(91)	-	-	(134)	(15,946)
Impairment charged to the statement of income, net	**(11,107)**	**1,572**	**-**	**(67)**	**535**	**-**	**853**	**(8,214)**
Change of impairment allowance due to write-offs, net	(1,262)	-	-	(1,588)	-	-	-	(2,850)
Increase/ (decrease) in impairment allowance due to currency fluctuations	193	-	-	-	-	-	(5)	188
Outstanding specific impairment as at 31/12/2012	**23,786**	**1,572**	**-**	**12,811**	**535**	**-**	**1,392**	**40,096**
Impairment charge for the reported period - specific	9,198	6,300	-	52	147	-	55	15,752
Release of previously established impairment allowance - specific	(3,029)	-	-	(472)	-	-	(392)	(3,893)
Impairment charged to the statement of income, net	**6,169**	**6,300**	**-**	**(420)**	**147**	**-**	**(337)**	**11,859**
Change of impairment allowance due to write-offs, net	(5,266)	-	-	(5,098)	(532)	-	-	(10,896)
Increase/ (decrease) in impairment allowance due to currency fluctuations	537	-	-	(61)	(59)	-	(56)	361
Outstanding specific impairment as at 31/12/2013	**25,226**	**7,872**	**-**	**7,232**	**91**	**-**	**999**	**41,420**

In the table below estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

	Group, LVL 000's							
	31/12/2013				31/12/2012			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	320,141	700,997	234,855	152,895	268,358	586,110	287,839	193,405
Utilised credit lines	56,763	146,059	26,303	13,414	33,406	76,788	36,611	22,114
Finance leases	57,023	59,905	1,022	526	40,224	41,613	2,055	1,506
Debit balances on settlement cards	25	25	37,224	-	13	45	40,747	-
Overdraft facilities	171	1,092	5,523	40	64	119	1,733	20
Factoring	137	137	2	-	-	-	547	537
Due from investment counterparties	-	-	2,917	-	-	-	4,846	-
Total net loans	**434,260**	**908,215**	**307,846**	**166,875**	**342,065**	**704,675**	**374,378**	**217,582**

	Bank, LVL 000's							
	31/12/2013				31/12/2012			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	256,286	565,613	214,744	137,999	208,461	465,210	272,298	183,527
Utilised credit lines	52,118	135,757	85,905	12,471	28,702	74,278	76,785	21,460
Finance leases	109	351	-	-	-	-	-	-
Debit balances on settlement cards	-	-	32,998	-	-	-	36,364	-
Overdraft facilities	-	-	5,289	-	-	-	1,588	-
Due from investment counterparties	-	-	2,584	-	-	-	4,606	-
Total net loans	**308,513**	**701,721**	**341,520**	**150,470**	**237,163**	**539,488**	**391,641**	**204,987**

* As at 31 December 2013 carrying value of Bank's loans without collateral or with guarantees amount to LVL 117,162 thousand (2012: LVL 121,581 thousand). Mostly, loans falling into categories “regular loans” and “utilised credit lines” are secured by collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15).

The tables below provide details of the Group's and Bank's fixed securities portfolio quality:

	Group, LVL 000's							
	31/12/2013				31/12/2012			
	Held-to-maturity	Available-for-sale	Held for trading	Total	Held-to-maturity	Available-for-sale	Held for trading	Total
Investment grade:								
AAA	2,047	64,650	2,656	69,353	24,792	85,631	2,178	112,601
AA	4,815	28,629	202	33,646	814	11,218	445	12,477
A	2,708	31,416	4,357	38,481	-	22,126	3,626	25,752
BBB/Baa	134,889	144,493	9,460	288,842	138,108	145,053	2,603	285,764
Other lower ratings	3,128	3,427	805	7,360	2,279	770	262	3,311
Not rated	24,194	785	1	24,980	-	971	107	1,078
Total net fixed income securities	**171,781**	**273,400**	**17,481**	**462,662**	**165,993**	**265,769**	**9,221**	**440,983**

	Bank, LVL 000's							
	31/12/2013				31/12/2012			
	Held-to-maturity	Available-for-sale	Held for trading	Total	Held-to-maturity	Available-for-sale	Held for trading	Total
Investment grade:								
AAA	1,521	61,275	-	62,796	24,241	78,345	-	102,586
AA	4,034	27,520	-	31,554	-	4,898	-	4,898
A	-	28,435	-	28,435	-	14,200	-	14,200
BBB/Baa	128,004	102,908	-	230,912	131,507	99,893	-	231,400
Other lower ratings	-	3,427	-	3,427	-	770	-	770
Not rated	24,194	785	-	24,979	-	971	-	971
Total net fixed income securities	**157,753**	**224,350**	**-**	**382,103**	**155,748**	**199,077**	**-**	**354,825**

GEOGRAPHICAL PROFILE

The following tables provide an analysis of the Group's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2013 and 31 December 2012 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2013, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	187,099	7,091	24,341	-	35,522	254,053
Balances due from credit institutions	17,447	2,933	98,688	7,554	63,964	190,586
Securities held for trading	2,476	241	8,613	4,646	3,571	19,547
Financial assets designated at fair value through profit or loss	3,003	-	23,534	1,166	16,107	43,810
Available-for-sale securities	81,331	48,780	71,545	4,566	76,121	282,343
Loans and receivables to customers	477,707	154,006	62,161	32,691	15,541	742,106
Held-to-maturity securities	157,753	2,997	2,785	4,114	4,132	171,781
Derivative financial instruments	123	-	975	105	1,364	2,567
Other assets	60,117	5,643	13,224	92	323	79,399
Total assets	**987,056**	**221,691**	**305,866**	**54,934**	**216,645**	**1,786,192**
Liabilities						
Financial liabilities designated at fair value through profit or loss	10,694	-	20	823	148	11,685
Financial liabilities measured at amortised cost	876,612	96,266	211,011	126,270	344,633	1,654,792
Derivative financial instruments	513	-	538	58	1,746	2,855
Other liabilities	10,122	4,314	273	166	1,169	16,044
Total liabilities	**897,941**	**100,580**	**211,842**	**127,317**	**347,696**	**1,685,376**
Equity	100,816	-	-	-	-	100,816
Total liabilities and equity	**998,757**	**100,580**	**211,842**	**127,317**	**347,696**	**1,786,192**
Off-balance sheet items						
Contingent liabilities	65,337	1,700	387	2,096	2,102	71,622
Financial commitments	89,255	30,660	2,922	7,949	453	131,239

	Group as at 31/12/2012, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	81,690	10,312	82,556	-	16,402	190,960
Balances due from credit institutions	1,433	3,279	60,495	6,010	57,996	129,213
Securities held for trading	1,415	5	6,702	1,096	1,178	10,396
Financial assets designated at fair value through profit or loss	2,702	66	15,257	1,860	15,623	35,508
Available-for-sale securities	84,165	48,162	73,363	6,462	56,859	269,011
Loans and receivables to customers	470,239	139,395	49,610	38,842	18,357	716,443
Held-to-maturity securities	155,748	2,972	-	3,220	4,053	165,993
Derivative financial instruments	335	-	117	46	490	988
Other assets	64,688	5,026	12,740	144	314	82,912
Total assets	**862,415**	**209,217**	**300,840**	**57,680**	**171,272**	**1,601,424**
Liabilities						
Financial liabilities designated at fair value through profit or loss	7,120	-	21	3,227	-	10,368
Financial liabilities measured at amortised cost	737,557	89,578	195,395	102,185	354,262	1,478,977
Derivative financial instruments	240	3	1,403	63	1,013	2,722
Other liabilities	10,069	3,433	399	61	535	14,497
Total liabilities	**754,986**	**93,014**	**197,218**	**105,536**	**355,810**	**1,506,564**
Equity	94,860	-	-	-	-	94,860
Total liabilities and equity	**849,846**	**93,014**	**197,218**	**105,536**	**355,810**	**1,601,424**
Off-balance sheet items						
Contingent liabilities	29,259	1,940	1,040	2,338	1,048	35,625
Financial commitments	90,033	15,061	3,052	7,334	503	115,983

The following tables provide an analysis of the Bank's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2013 and 31 December 2012 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Bank as at 31/12/2013, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	187,099	-	24,341	-	8,204	219,644
Balances due from credit institutions	16,221	16,881	74,119	7,369	39,484	154,074
Available-for-sale securities	80,977	7,549	66,919	4,566	73,271	233,282
Loans and receivables to customers	516,573	30,559	57,488	32,353	13,060	650,033
Held-to-maturity securities	157,753	-	-	-	-	157,753
Derivative financial instruments	123	11	975	105	1,362	2,576
Other assets	36,017	29,007	12,765	4	9,708	87,501
Total assets	**994,763**	**84,007**	**236,607**	**44,397**	**145,089**	**1,504,863**
Liabilities						
Financial liabilities measured at amortised cost	878,666	1,130	167,326	103,146	241,431	1,391,699
Derivative financial instruments	513	430	538	58	1,693	3,232
Other liabilities	8,846	18	65	71	12	9,012
Total liabilities	**888,025**	**1,578**	**167,929**	**103,275**	**243,136**	**1,403,943**
Equity	100,920	-	-	-	-	100,920
Total liabilities and equity	**988,945**	**1,578**	**167,929**	**103,275**	**243,136**	**1,504,863**
Off-balance sheet items						
Contingent liabilities	65,292	367	238	1,750	220	67,867
Financial commitments	107,384	13,809	5,739	7,949	452	135,333

	Bank as at 31/12/2012, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	81,690	-	82,556	-	10,462	174,708
Balances due from credit institutions	79	9,472	43,854	5,205	22,460	81,070
Available-for-sale securities	81,551	7,570	59,550	5,795	47,842	202,308
Loans and receivables to customers	509,396	17,956	44,573	38,522	18,357	628,804
Held-to-maturity securities	155,748	-	-	-	-	155,748
Derivative financial instruments	337	44	117	46	490	1,034
Other assets	39,956	29,007	12,545	10	9,705	91,223
Total assets	**868,757**	**64,049**	**243,195**	**49,578**	**109,316**	**1,334,895**
Liabilities						
Financial liabilities measured at amortised cost	736,908	1,226	154,850	84,743	254,376	1,232,103
Derivative financial instruments	244	46	1,403	63	1,010	2,766
Other liabilities	7,712	23	207	60	14	8,016
Total liabilities	**744,864**	**1,295**	**156,460**	**84,866**	**255,400**	**1,242,885**
Equity	92,010	-	-	-	-	92,010
Total liabilities and equity	**836,874**	**1,295**	**156,460**	**84,866**	**255,400**	**1,334,895**
Off-balance sheet items						
Contingent liabilities	29,216	-	931	2,164	222	32,533
Financial commitments	100,302	8,640	4,120	7,334	502	120,898

b) Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Group Investment Committee (GIC). The decisions of GIC are approved by the Bank's Management Board. Market risk is managed by the Group's business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by Risk and Compliance Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, as well as by setting individual limits to issuers and financial instruments, ensuring that maximum limit volumes are closely linked to the results of risk assessment. The Group puts a large emphasis on concentration risk applying a framework, where limits are set based on risk weighted exposures for every country and sector combination. To assess position risk the Group uses sensitivity analysis and scenario analysis, which identifies and quantifies negative impact of adverse events on portfolio of the Group taking into consideration regional, sector and credit rating profile.

c) Interest rate risk

Interest rate risk is related to the possible negative impact of interest rate changes on the Group's income and economic value.

Interest rate risk management in the Group is carried out in accordance with the Group's Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable interest rate risk level and the Group's internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement, management and reporting are responsibilities of Treasury Sector, while Risk and Compliance Sector ensures proper oversight and prepares analytical reports to ALCO and the Bank's Management Board.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. The Group sets limits for impact of interest rate shock on economic value, net interest income and revaluation reserve. Based on the market analysis and the Group's financing structure, ALCO sets customer deposit interest rates.

The following table represents the impact of a parallel change in all interest rates by 1.0% (but not below 0%) on Group's and Bank's pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity:

Scenario: +1%	LVL 000's			
	2013 Group	2012 Group	2013 Bank	2012 Bank
Pre-tax profit / (loss)	3,807	2,311	3,877	3,606
Securities fair value revaluation reserve	(3,669)	(5,711)	(2,926)	(3,263)
Total pre-tax effect on equity	**138**	**(3,400)**	**951**	**343**
Estimated net effect on equity	**117**	**(2,890)**	**808**	**292**
Scenario: -1%, but not below 0%				
Pre-tax profit / (loss)	(2,093)	(1,860)	(2,480)	(2,886)
Securities fair value revaluation reserve	2,385	3,786	2,151	2,306
Total pre-tax effect on equity	**292**	**1,926**	**(329)**	**(580)**
Estimated net effect on equity	**248**	**1,637**	**(280)**	**(493)**

The following table represents the impact of a 2.0% parallel change in all interest rates (but not below 0%) by currencies on Bank's pre-tax profit and available-for-sale securities' fair value revaluation reserve in equity:

	LVL 000's							
Scenario: +2%	31/12/2013				31/12/2012			
	LVL	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
Pre-tax profit/ (loss)	514	3,522	3,852	(152)	989	2,178	3,481	554
Securities fair value revaluation reserve	(1,661)	(1,320)	(2,696)	(66)	(1,554)	(2,997)	(1,829)	-
Total pre-tax effect on equity	**(1,147)**	**2,202**	**1,156**	**(218)**	**(565)**	**(819)**	**1,652**	**554**
Estimated net effect on equity	**(975)**	**1,872**	**983**	**(185)**	**(480)**	**(696)**	**1,404**	**471**
Scenario: -2%, but below 0%								
Pre-tax profit/ (loss)	(175)	(1,189)	(1,162)	46	(570)	(699)	(1,508)	(109)
Securities fair value revaluation reserve	592	510	1,501	16	509	1,343	755	-
Total pre-tax effect on equity	**417**	**(679)**	**339**	**62**	**(61)**	**644**	**(753)**	**(109)**
Estimated net effect on equity	**354**	**(577)**	**288**	**53**	**(52)**	**547**	**(640)**	**(93)**

d) Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. In assessing its currency risk the Group also makes use of several widely applied methodologies: value at risk, expected shortfall and scenario analysis.

In the event of exchange rates for the following currencies in which the Group and the Bank has open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's pre-tax profit would amount approximately to the following:

	Group LVL 000's							
	31/12/2013				31/12/2012			
Scenario:	USD	CHF	LTL	Total for all currencies*	USD	CHF	LTL	Total for all currencies
2% adverse change	3	35	509	21	33	251	419	626
5% adverse change	7	88	1,273	52	83	629	1,047	1,565

	Bank LVL 000's							
	31/12/2013				31/12/2012			
Scenario:	USD	CHF	LTL	Total for all currencies*	USD	CHF	LTL	Total for all currencies
2% adverse change	21	-	1	18	2	6	18	147
5% adverse change	52	1	2	45	5	14	46	365

* Excluding adverse changes in EUR currency as on 1 January 2014 Latvia adopted EUR and the Bank's functional currency and the Group's presentation currency was changed to Euros.

In 2013 and 2012 the Bank was in compliance with currency position limits.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2013 and 2012 by currency profile:

	Group as at 31/12/2013, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	177,253	3,017	37,936	27,495	5,860	305	2,187	254,053
Balances due from credit institutions	876	146,588	27,693	456	94	5,948	8,931	190,586
Securities held for trading	1,139	3,763	11,147	3,098	-	400	-	19,547
Financial assets designated at fair value through profit or loss	-	20,361	17,944	5,328	-	-	177	43,810
Available-for-sale securities	51,705	107,781	78,240	350	36,802	-	7,465	282,343
Loans and receivables to customers	78,716	44,476	574,737	1,910	41,274	359	634	742,106
Held-to-maturity securities	114,584	5,532	48,668	-	2,997	-	-	171,781
Derivative financial instruments	2,540	-	25	2	-	-	-	2,567
Other assets	57,543	6,052	7,223	315	5,501	71	2,694	79,399
Total assets	**484,356**	**337,570**	**803,613**	**38,954**	**92,528**	**7,083**	**22,088**	**1,786,192**
Liabilities								
Financial liabilities designated at fair value through profit or loss	5,198	1,349	5,138	-	-	-	-	11,685
Financial liabilities measured at amortised cost	388,649	486,670	634,052	11,688	65,053	28,012	40,668	1,654,792
Derivative financial instruments	2,714	-	-	141	-	-	-	2,855
Other liabilities	8,522	2,184	1,930	1,161	2,022	81	144	16,044
Total liabilities	**405,083**	**490,203**	**641,120**	**12,990**	**67,075**	**28,093**	**40,812**	**1,685,376**
Equity	100,816	-	-	-	-	-	-	100,816
Total liabilities and equity	**505,899**	**490,203**	**641,120**	**12,990**	**67,075**	**28,093**	**40,812**	**1,786,192**
Net long/ (short) position for balance sheet items	(21,543)	(152,633)	162,493	25,964	25,453	(21,010)	(18,724)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	-	(1,947)	2,140	-	-	(313)	100	(20)
Forward foreign exchange contracts	-	15,078	(15,825)	-	-	-	-	(747)
Swap exchange contracts	-	139,637	(155,547)	(24,195)	-	21,471	19,098	464
Net long/ (short) positions on foreign exchange	-	*152,768*	*(169,232)*	*(24,195)*	-	*21,158*	*19,198*	*(303)*
Net long/ (short) position as at 31 December 2013	**(21,543)**	**135**	**(6,739)**	**1,769**	**25,453**	**148**	**474**	**(303)**
Exchange rates applied as at 31 December 2013 (LVL for 1 foreign currency unit)	-	0.515	0.702804	0.573	0.204	0.0156	-	-

As at 31 December 2013 and 31 December 2012 LVL and LTL currencies are pegged to the EUR at a fixed rate. On 1 January 2014 the Republic of Latvia adopted Euro as the national currency. At that date all Group's and Bank's balances denominated in Lats were converted to Euros at the official exchange rate of 0.702804 LVL/EUR. Group's presentation currency was changed to EUR.

	Group as at 31/12/2012, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	75,423	3,491	93,626	6,172	8,142	684	3,422	190,960
Balances due from credit institutions	1,341	95,777	17,450	3,634	187	5,142	5,682	129,213
Securities held for trading	611	863	7,579	1,272	-	71	-	10,396
Financial assets designated at fair value through profit or loss	-	18,156	11,057	6,295	-	-	-	35,508
Available-for-sale securities	55,410	81,053	95,556	2,745	34,146	-	101	269,011
Loans and receivables to customers	74,056	62,778	538,142	2,500	36,073	455	2,439	716,443
Held-to-maturity securities	127,530	5,349	30,142	-	2,972	-	-	165,993
Derivative financial instruments	984	-	-	4	-	-	-	988
Other assets	63,830	6,292	7,492	292	4,827	34	145	82,912
Total assets	**399,185**	**273,759**	**801,044**	**22,914**	**86,347**	**6,386**	**11,789**	**1,601,424**
Liabilities								
Financial liabilities designated at fair value through profit or loss	3,338	3,467	3,563	-	-	-	-	10,368
Financial liabilities measured at amortised cost	378,572	431,823	537,920	11,394	63,393	21,279	34,596	1,478,977
Derivative financial instruments	2,719	-	-	-	3	-	-	2,722
Other liabilities	7,005	1,909	2,362	513	2,011	355	342	14,497
Total liabilities	**391,634**	**437,199**	**543,845**	**11,907**	**65,407**	**21,634**	**34,938**	**1,506,564**
Equity	94,860	-	-	-	-	-	-	94,860
Total liabilities and equity	**486,494**	**437,199**	**543,845**	**11,907**	**65,407**	**21,634**	**34,938**	**1,601,424**
Net long/ (short) position for balance sheet items	(87,309)	(163,440)	257,199	11,007	20,940	(15,248)	(23,149)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	994	(4,965)	4,919	212	(4)	(608)	(544)	4
Forward foreign exchange contracts	524	(1,232)	703	-	-	-	24	19
Swap exchange contracts	18,833	171,288	(233,172)	1,354	-	16,045	23,921	(1,731)
Net long/ (short) positions on foreign exchange	*20,351*	*165,091*	*(227,550)*	*1,566*	*(4)*	*15,437*	*23,401*	*(1,708)*
Net long/ (short) position as at 31 December 2012	**(66,958)**	**1,651**	**29,649**	**12,573**	**20,936**	**189**	**252**	**(1,708)**
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	-	0.531	0.702804	0.582	0.204	0.0174	-	-

	Bank as at 31/12/2013, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	177,253	2,535	37,174	166	138	305	2,073	219,644
Balances due from credit institutions	1	123,987	17,480	126	41	5,770	6,669	154,074
Available-for-sale securities	51,705	99,158	74,953	-	-	-	7,466	233,282
Loans and receivables to customers	117,943	42,055	487,658	1,910	-	359	108	650,033
Held-to-maturity securities	114,585	-	43,168	-	-	-	-	157,753
Derivative financial instruments	2,551	-	25	-	-	-	-	2,576
Other assets	34,015	6,003	6,091	9,703	29,007	42	2,640	87,501
Total assets	**498,053**	**273,738**	**666,549**	**11,905**	**29,186**	**6,476**	**18,956**	**1,504,863**
Liabilities								
Financial liabilities measured at amortised cost	390,600	369,451	562,746	6,503	480	25,626	36,293	1,391,699
Derivative financial instruments	3,232	-	-	-	-	-	-	3,232
Other liabilities	7,359	954	516	3	3	79	98	9,012
Total liabilities	**401,191**	**370,405**	**563,262**	**6,506**	**483**	**25,705**	**36,391**	**1,403,943**
Equity	100,920	-	-	-	-	-	-	100,920
Total liabilities and equity	**502,111**	**370,405**	**563,262**	**6,506**	**483**	**25,705**	**36,391**	**1,504,863**
Net long/ (short) position for balance sheet items	(4,058	(96,667)	103,287	5,399	28,703	(19,229)	(17,435)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	-	(1,561)	1,729	-	-	(305)	122	(15)
Forward foreign exchange contracts	-	15,180	(15,927)	-	-	-	-	(747)
Swap exchange contracts	-	82,010	(85,138)	(5,388)	(28,662)	19,604	17,663	89
Net long/ (short) positions on foreign exchange	-	*95,629*	*(99,336)*	*(5,388)*	*(28,662)*	*19,299*	*17,785*	*(673)*
Net long/ (short) position as at 31 December 2013	**(4,058**	**(1,038)**	**3,951**	**11**	**41**	**70**	**350**	**(673)**
Exchange rates applied as at 31 December 2013 (LVL for 1 foreign currency unit)	-	0.515	0.702804	0.573	0.204	0.0156	-	-

	Bank as at 31/12/2012, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	75,39	2,914	92,486	205	149	586	2,972	174,708
Balances due from credit institutions	79	60,148	9,504	2,935	1,231	4,775	2,398	81,070
Available-for-sale securities	55,41	65,187	81,609	-	-	-	101	202,308
Loans and receivables to customers	112,16	61,046	450,176	2,500	-	455	2,464	628,804
Held-to-maturity securities	127,53	-	28,217	-	-	-	-	155,748
Derivative financial instruments	1,03	-	-	-	-	-	-	1,034
Other assets	78,70	6,232	6,230	1	2	6	46	91,223
Total assets	**450,32**	**195,527**	**668,222**	**5,641**	**1,382**	**5,822**	**7,981**	**1,334,895**
Liabilities								
Financial liabilities measured at amortised cost	381,50	322,427	470,222	7,210	109	19,568	31,061	1,232,103
Derivative financial instruments	2,76	-	-	-	-	-	-	2,766
Other liabilities	4,91	1,319	1,329	3	3	328	120	8,016
Total liabilities	**389,18**	**323,746**	**471,551**	**7,213**	**112**	**19,896**	**31,181**	**1,242,885**
Equity	92,01	-	-	-	-	-	-	92,010
Total liabilities and equity	**481,19**	**323,746**	**471,551**	**7,213**	**112**	**19,896**	**31,181**	**1,334,895**
Net long/ (short) position for balance sheet items	(30,876	(128,219)	196,671	(1,572)	1,270	(14,074)	(23,200)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	994	(4,785)	4,730	212	-	(637)	(513)	1
Forward foreign exchange contracts	2,63	(1,233)	(1,405)	-	-	-	24	18
Swap exchange contracts	18,83	134,133	(194,001)	1,354	(347)	14,745	23,556	(1,727)
Net long/ (short) positions on foreign exchange	*22,45*	*128,115*	*(190,676)*	*1,566*	*(347)*	*14,108*	*23,067*	*(1,708)*
Net long/ (short) position as at 31 December 2012	**(8,417**	**(104)**	**5,995**	**(6)**	**923**	**34**	**(133)**	**(1,708)**
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	-	0.531	0.702804	0.582	0.204	0.0174	-	-

e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group’s Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank’s Management Board. ALCO sets the acceptable liquidity risk level, the Group’s internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Daily liquidity management, as well as control is ensured by the Treasury Sector. Liquidity risk management and reporting in the Group is coordinated by the Risk and Compliance Sector.

The Bank evaluates liquidity risk by using scenario analysis. For this purpose several scenarios of Bank’s operations under a variety of conditions are developed: gentle crisis (base case scenario), bank's crisis, general market crisis and a combined scenario. The Bank evaluates its liquidity position for each of the scenarios for a variety of periods (ranging from 1 week to 3 months). System of liquidity risk limits and early warning indicators has been implemented in the Bank. The Bank also estimates costs it could suffer under conditions of prolonged liquidity crisis. In addition to scenarios analysis, the Bank also prepares yearly cash flows, which incorporate assumptions about the most likely flows of funds. For general assessment of asset and liability gaps the Bank regularly prepares and analyses liquidity term structure.

In 2013 and 2012 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

The following table contains Bank’s liquidity ratios calculated in accordance with FCMC requirements:

Year	*Highest*	*Lowest*	*Average*	*Year-end*
2013	58%	53%	56%	56%
2012	70%	52%	61%	56%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

Group’s assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Group as at 31/12/2013, LVL 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	254,053	-	-	-	-	-	254,053
Balances due from credit institutions	174,949	14,548	-	-	1,089	-	190,586
Securities held for trading	-	737	919	2,115	12,747	3,029	19,547
Financial assets designated at fair value through profit or loss	1,276	3,727	3,930	2,278	25,198	7,401	43,810
Available-for-sale securities	5,431	10,255	31,354	36,945	180,008	18,350	282,343
Loans and receivables to customers	7,514	22,863	57,833	74,605	418,252	161,039	742,106
Held-to-maturity securities	-	631	23,479	29,891	116,682	1,098	171,781
Derivative financial instruments	2,479	32	5	21	30	-	2,567
Other assets	17,042	75	177	387	127	61,591	79,399
Total assets	**462,744**	**52,868**	**117,697**	**146,242**	**754,133**	**252,508**	**1,786,192**
Liabilities							
Financial liabilities designated at fair value through profit or loss	60	36	381	243	9,361	1,604	11,685
Financial liabilities measured at amortised cost	1,297,763	66,905	67,708	122,580	98,591	1,245	1,654,792
Derivative financial instruments	1,564	840	404	47	-	-	2,855
Other liabilities	15,060	156	52	14	762	-	16,044
Total liabilities	**1,314,447**	**67,937**	**68,545**	**122,884**	**108,714**	**2,849**	**1,685,376**
Equity	-	-	-	-	-	100,816	100,816
Total liabilities and equity	**1,314,447**	**67,937**	**68,545**	**122,884**	**108,714**	**103,665**	**1,786,192**
Net balance sheet position – long/ (short)	(851,703)	(15,069)	49,152	23,358	645,419	148,843	-
Off-balance sheet items							
Contingent liabilities	71,622	-	-	-	-	-	71,622
Financial commitments	131,239	-	-	-	-	-	131,239

Group’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	LVL 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	60	36	381	243	9,643	1,672	12,035
Financial liabilities measured at amortised cost	1,297,982	69,280	69,140	124,881	112,445	1,087	1,674,815
Off-balance sheet items							
Contingent liabilities	71,622	-	-	-	-	-	71,622
Financial commitments	131,239	-	-	-	-	-	131,239

Group’s assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2012

	Group as at 31/12/2012, LVL 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	190,960	-	-	-	-	-	190,960
Balances due from credit institutions	117,521	9,685	-	279	817	911	129,213
Securities held for trading	-	366	71	854	6,929	2,176	10,396
Financial assets designated at fair value through profit or loss	-	1,775	5,055	2,762	19,502	6,414	35,508
Available-for-sale securities	9,178	21,583	17,352	23,374	153,220	44,304	269,011
Loans and receivables to customers	8,554	18,561	29,233	69,808	407,403	182,884	716,443
Held-to-maturity securities	-	52,748	-	5,691	69,883	37,671	165,993
Derivative financial instruments	882	97	9	-	-	-	988
Other assets	19,315	90	773	1,201	1,784	59,749	82,912
Total assets	**346,410**	**104,905**	**52,493**	**103,969**	**659,538**	**334,109**	**1,601,424**
Liabilities							
Financial liabilities designated at fair value through profit or loss	65	49	210	992	7,860	1,192	10,368
Financial liabilities measured at amortised cost	1,059,400	100,959	89,683	137,501	83,390	8,044	1,478,977
Derivative financial instruments	1,403	1,319	-	-	-	-	2,722
Other liabilities	12,405	521	44	164	-	1,363	14,497
Total liabilities	**1,073,273**	**102,848**	**89,937**	**138,657**	**91,250**	**10,599**	**1,506,564**
Equity	-	-	-	-	-	94,860	94,860
Total liabilities and equity	**1,073,273**	**102,848**	**89,937**	**138,657**	**91,250**	**105,459**	**1,601,424**
Net balance sheet position – long/ (short)	(726,863)	2,057	(37,444)	(34,688)	568,288	228,650	-
Off-balance sheet items							
Contingent liabilities	35,625	-	-	-	-	-	35,625
Financial commitments	115,983	-	-	-	-	-	115,983

Group’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2012

	LVL 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	65	49	210	993	8,053	1,251	10,621
Financial liabilities measured at amortised cost	1,059,831	103,370	90,553	142,405	96,367	8,133	1,500,659
Off-balance sheet items							
Contingent liabilities	35,625	-	-	-	-	-	35,625
Financial commitments	115,983	-	-	-	-	-	115,983

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Bank as at 31/12/2013, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	219,644	-	-	-	-	-	219,644
Balances due from credit institutions	148,639	2,880	2,555	-	-	-	154,074
Available-for-sale securities	5,431	8,272	28,128	36,791	136,322	18,338	233,282
Loans and receivables to customers	6,873	77,969	53,281	66,419	336,689	108,802	650,033
Held-to-maturity securities	-	-	22,956	28,852	105,945	-	157,753
Derivative financial instruments	2,490	30	5	21	30	-	2,576
Other assets	15,624	-	-	-	-	71,877	87,501
Total assets	**398,701**	**89,151**	**106,925**	**132,083**	**578,986**	**199,017**	**1,504,863**
Liabilities							
Financial liabilities measured at amortised cost	1,083,409	57,912	56,353	101,807	91,133	1,085	1,391,699
Derivative financial instruments	2,082	699	404	47	-	-	3,232
Other liabilities	9,012	-	-	-	-	-	9,012
Total liabilities	**1,094,503**	**58,611**	**56,757**	**101,854**	**91,133**	**1,085**	**1,403,943**
Equity	-	-	-	-	-	100,920	100,920
Total liabilities and equity	**1,094,503**	**58,611**	**56,757**	**101,854**	**91,133**	**102,005**	**1,504,863**
Net balance sheet position – long/ (short)	(695,802)	30,540	50,168	30,229	487,853	97,012	-
Off-balance sheet items							
Contingent liabilities	67,867	-	-	-	-	-	67,867
Financial commitments	135,333	-	-	-	-	-	135,333

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	1,083,518	59,630	56,789	104,686	102,722	1,087	1 408,432
Off-balance sheet items							
Contingent liabilities	67,867	-	-	-	-	-	67,867
Financial commitments	135,333	-	-	-	-	-	135,333

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2012

	Bank as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	174,708	-	-	-	-	-	174,708
Balances due from credit institutions	78,821	2,249	-	-	-	-	81,070
Available-for-sale securities	7,789	17,413	15,381	16,463	118,270	26,992	202,308
Loans and receivables to customers	8,659	51,692	31,312	62,187	341,256	133,698	628,804
Held-to-maturity securities	-	52,196	-	4,978	60,902	37,672	155,748
Derivative financial instruments	921	100	13	-	-	-	1,034
Other assets	18,202	-	-	-	-	73,021	91,223
Total assets	**289,100**	**123,650**	**46,706**	**83,628**	**520,428**	**271,383**	**1,334,895**
Liabilities							
Financial liabilities measured at amortised cost	855,855	96,949	79,414	119,644	79,463	778	1,232,103
Derivative financial instruments	1,449	1,317	-	-	-	-	2,766
Other liabilities	8,016	-	-	-	-	-	8,016
Total liabilities	**865,320**	**98,266**	**79,414**	**119,644**	**79,463**	**778**	**1,242,885**
Equity	-	-	-	-	-	92,010	92,010
Total liabilities and equity	**865,320**	**98,266**	**79,414**	**119,644**	**79,463**	**92,788**	**1,334,895**
Net balance sheet position – long/ (short)	(576,220)	25,384	(32,708)	(36,016)	440,965	178,595	-
Off-balance sheet items							
Contingent liabilities	32,533	-	-	-	-	-	32,533
Financial commitments	120,898	-	-	-	-	-	120,898

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	856,128	99,249	80,154	124,205	90,925	856	1,251,517
Off-balance sheet items							
Contingent liabilities	32,533	-	-	-	-	-	32,533
Financial commitments	120,898	-	-	-	-	-	120,898

Derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from derivatives settled on a gross basis.

	Group, 31/12/2013 LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	804	(57)	(404)	-	-	-	343
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(16,451)	(44,460)	(2,086)	(8,441)	(2,288)	-	(73,726)
inflow	16,563	43,679	2,119	8,415	2,319	-	73,095

	Group, 31/12/2012 LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(510)	(1,199)	-	-	-	-	(1,709)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(2,551)	(8,920)	(2,176)	-	-	-	(13,647)
inflow	2,540	8,898	2,194	-	-	-	13,632

	Bank, 31/12/2013 LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	383	(57)	(404)	-	-	-	(78)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(23,977)	(33,059)	(2,086)	(8,441)	(2,288)	-	(69,851)
inflow	24,002	32,419	2,119	8,415	2,318	-	69,273

	Bank, 31/12/2012 LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(494)	(1,195)	-	-	-	-	(1,689)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,143)	(8,877)	(2,176)	-	-	-	(19,196)
inflow	8,111	8,858	2,194	-	-	-	19,163

FAIR VALUES OF 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.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks
The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions/ Balances due to credit institutions and central banks
The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles and low interest rates.

Loans and receivables to customers
The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by 7.4 million (2012: LVL 7.3 million).

Held-to-maturity securities
Held-to-maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs. One of the non-observable market input is CDS rate of certain municipality. If the CDS rate would change by +20 basis points the fair value would change by LVL (212) thousand.

Available-for-sale securities
The fair value for certain available-for-sale securities is calculated using valuation techniques with non-market observable inputs. Fair value of these available-for-sale securities is estimated based on specific real estate prices. If market price for similar real estate properties would change by +/-10%, the fair value of these available-for-sale securities would change by LVL +/-136 thousand.

Customer deposits
The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by LVL 0.05 million (2012: LVL 0.04 million).

Subordinated liabilities
The fair value of subordinated liabilities approximates the carrying amount.

Financial liabilities designated at fair value through profit or loss
The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by LVL +0.04 million and LVL (0.02) million respectively.

Fair value hierarchy

Quoted market prices (Level 1)
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2013.

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	254,053	254,053	-	-	-
Balances due from credit institution	190,586	190,586	-	-	-
Held for trading securities	19,547	19,547	19,547	-	-
Financial assets designated at fair value through profit or loss	43,810	43,810	43,810	-	-
Derivatives	2,567	2,567	-	2,567	-
Available-for-sale securities	282,343	282,343	280,959	-	1,384
Loans and receivables to customers	742,106	734,133	-	-	734,133
Held to maturity securities	171,781	175,507	153,092	-	22,415
Total financial assets	**1,706,793**	**1,702,546**	**497,408**	**2,567**	**757,932**
Derivatives	2,855	2,855	-	2,855	-
Financial liabilities designated at fair value through profit or loss	11,685	11,685	6,091	-	5,594
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	18,100	18,100	-	-	-
Customer deposits	1,579,139	1,580,410	-	-	1,580,410
Subordinated liabilities	51,709	51,709	-	-	51,709
Other financial liabilities	5,844	5,666	-	-	5,666
Total financial liabilities	**1,669,332**	**1,670,425**	**6,091**	**2,855**	**1,643,379**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2012.

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	190,960	190,960	-	-	-
Balances due from credit institution	129,213	129,213	-	-	-
Held for trading securities	10,396	10,396	10,396	-	-
Financial assets designated at fair value through profit or loss	35,508	35,508	35,508	-	-
Derivatives	988	988	-	988	-
Available-for-sale securities	269,011	269,011	267,546	101	1,364
Loans and receivables to customers	716,443	704,609	-	-	-
Held to maturity securities	165,993	166,367	-	-	-
Total financial assets	**1,518,512**	**1,507,052**	**313,450**	**1,089**	**1,364**
Derivatives	2,722	2,722	-	2,722	-
Financial liabilities designated at fair value through profit or loss	10,368	10,368	6,957	-	3,411
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,477	25,477	-	-	-
Customer deposits	1,395,697	1,394,657	-	-	-
Subordinated liabilities	52,014	52,014	-	-	-
Other financial liabilities	5,789	5,677	-	-	-
Total financial liabilities	**1,492,067**	**1,490,915**	**6,957**	**2,722**	**3,411**

The following table presents fair values of Bank’s financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	219,644	219,644	-	-	-
Balances due from credit institution	154,074	154,074	-	-	-
Derivatives	2,576	2,576	-	2,576	-
Available-for-sale securities	233,282	233,282	231,898	-	1,384
Loans and receivables to customers	650,033	638,444	-	-	638,444
Held to maturity securities	157,753	161,190	138,775	-	22,415
Total financial assets	**1,417,362**	**1,409,210**	**370,673**	**2,576**	**662,243**
Derivatives	3,232	3,232	-	3,232	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	38,855	38,855	-	-	-
Customer deposits	1,301,135	1,302,154	-	-	1,302,154
Subordinated liabilities	51,709	51,709	-	-	51,709
Total financial liabilities	**1,394,931**	**1,395,950**	**-**	**3,232**	**1,353,863**

The following table presents fair values of Bank’s financial assets and liabilities as at 31 December 2012.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	174,708	174,708	-	-	-
Balances due from credit institution	81,070	81,070	-	-	-
Derivatives	1,034	1,034	-	1,034	-
Available-for-sale securities	202,308	202,308	200,843	101	1,364
Loans and receivables to customers	628,804	618,975	-	-	-
Held to maturity securities	155,748	160,929	-	-	-
Total financial assets	**1,243,672**	**1,239,024**	**200,843**	**1,135**	**1,364**
Derivatives	2,766	2,766	-	2,766	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	47,361	47,361	-	-	-
Customer deposits	1,132,728	1,131,617	-	-	-
Subordinated liabilities	52,014	52,014	-	-	-
Total financial liabilities	**1,234,869**	**1,233,758**	**-**	**2,766**	**-**

In 2013 the Bank and the Group has acquired equity shares which are classified as available for sale with a fair value of LVL 20 thousand and which fair value is calculated based on non-market observable inputs. No other changes in available for sale securities for which fair value is calculated based on non-market observable inputs took place during 2013. The fair value is categorised as Level 3 as these shares are not listed on an exchange and there are no recent observable transitions on the market. For this investment in equity shares no gain or loss in profit or loss or other comprehensive income was recognised in 2013.

f) Operational risk

The Group defines operational risk as the risk of losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues and with probability of occurrence at least once per ten years or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk – the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;
- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- Business continuity planning;
- Risk assessment within development projects.

g) Capital management

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of a minimum of 8% of risk weighted assets. In second half of 2011, for the first time ever FCMC calculated Bank's capital adequacy ratio based on FCMC policies and guidelines. From then on, the calculation is performed once a year. The 2013 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 8.4% (2012: 8.4%). The increase in ratio is related to the non-resident business of the Bank. At the same time, FCMC's guidelines stipulate that well capitalised banks in 2014 will have to have at least 10.5% (2013: 10.0%) minimum capital adequacy ratio. As a result, FCMC has requested that the Bank and the Group has to maintain the capital adequacy ratio above 10.5%. The management believes that the continuous profitability as well as the anticipated restructuring of the subordinated debt loans will ensure the Group's compliance with the aforementioned target in 2014.

Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity.

The Capital Requirements Directive (CRD), which implements Basel II capital regulations in the EU, came into full force on 1 January 2008. In Latvia the directive was implemented through FCMC regulations. Among the options provided in the regulations, the Bank and Group has chosen to use standardized approach in credit risk calculations and basic indicators approach in calculating operational risk charge. On 17 July, the so-called CRD IV package which transposes – via a regulation (575/2013) and a directive (2013/36/EU) – the new global standards on bank capital (the Basel III agreement) into EU law, entered into force. The new rules apply from 1 January 2014. The capital adequacy ratios in these financial statements are calculated under Basel II framework. According to management estimates, except for the gradual deduction of the deferred tax asset from the common equity tier 1 during the next several years, there will a limited impact on the Bank's and Group's capital adequacy arising from the new Basel III framework requirements.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements.

The Bank implements the internal capital adequacy assessment process (ICAAP) by estimating individual capital charges for every significant risk type inherent to the Bank. The internal modelling takes account of a greater number of risks than is provided for in minimum capital requirements (e.g. interest rate risk in the banking book, concentration risk, reputation risk etc). Furthermore, to ensure sustainability even at times of distress, the Bank plans its capital adequacy strategy under assumptions of the adverse macroeconomic scenario. The following represents the assessment summary of risk profile:

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	High	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (counterparty credit risk in derivatives, participations etc)	Low	Standardized approach	n/a
Market risk	Position risk	High	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Moderate	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Moderate	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Moderate	Part of reputation risk	n/a

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel II* framework, Pillar I) can be disclosed as follows:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Bank	31/12/2012 Bank
Tier 1				
- paid-in share capital	103,000	103,000	103,000	103,000
- audited retained earnings/ (accumulated loss) (not subject to dividend distribution)	(2,159)	(11,860)	(3,161)	(13,908)
Less				
- intangible assets	(1,284)	(859)	(949)	(493)
- restructuring reserve and other reserves	(3,137)	(3,153)	-	-
- Investments in subsidiaries – insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 1	**94,920**	**85,628**	**97,390**	**87,099**
Tier 2				
- subordinated debt	50,270	50,270	50,270	50,270
- amortisation of subordinated debt **	(27,867)	(20,108)	(27,866)	(20,108)
- eligible securities fair value revaluation reserve	669	-	211	-
- investments in subsidiaries – insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 2	**21,572**	**28,662**	**21,115**	**28,662**
Equity to be utilised in the capital adequacy ratio	**116,492**	**114,290**	**118,505**	**115,761**
Credit risk and counterparty risk capital charge by regulatory asset classes:				
Central governments and banks	1,239	893	1,159	494
Municipalities	2,196	2,105	2,040	2,037
Government institutions	58	51	58	51
International development banks	14	-	14	-
Credit institutions	4,912	3,993	7,118	5,141
Companies	40,088	38,578	39,900	38,833
Assets qualifying for "retail" definition	6,205	5,562	3,826	4,000
Qualifying residential mortgage loans	10,241	7,878	8,588	6,112
Assets qualifying for "past due" definition	2,183	1,561	1,910	1,179
Investment funds	708	253	708	253
Other assets	10,706	11,145	6,950	7,315
Other risk capital charges:				
Foreign currency open positions subject to capital charge	940	5,068	371	604
Debt securities and derivatives position risk capital charge	961	399	338	233
Equities position risk capital charge	47	-	-	-
Commodities risk capital charge	1	14	1	14
Operational risk capital charge	10,084	9,981	7,999	7,713
Total capital charges	**90,583**	**87,481**	**80,980**	**73,979**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	**10.3%**	**10.5%**	**11.7%**	**12.5%**

* AAS "Citadele Life" is not included in consolidation group for capital adequacy purposes. The investment value directly reduces the equity eligible for the capital adequacy ratio calculation purposes.

** As at year end the bank has initiated discussions about early repayment of part of the subordinated debt. Therefore, part of the subordinated debt is not eligible for Tier 2 capital as at 31 December 2013. Repayment of LVL 13 million and an extension of maturity till 2018 for the remainder is expected.

NOTE 36. EVENTS AFTER THE BALANCE SHEET DATE

Until 1 January 2014 the Bank's functional currency and Group's presentation currency was Latvian Lats ("LVL"). These financial statements are presented in thousands of Lats (LVL 000's). On 1 January 2014 the Republic of Latvia adopted Euro as the national currency. The conversion from Lats to Euros was carried out at the official exchange rate of 0.702804 LVL/EUR. At that date all Group's and Bank's balances denominated in Lats were converted to Euros at the official exchange rate. The adoption of Euro had no direct impact on total comprehensive income of the Group and the Bank.

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Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" (the "Bank"), which comprise the separate balance sheet as at 31 December 2013, the separate statements of income and comprehensive income, changes in shareholders' 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 9 to 75. We have also audited the accompanying consolidated financial statements of AS "Citadele banka" and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2013, the consolidated statements of income and comprehensive income, changes in shareholders' 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 9 to 75.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other matters

The comparative information of the prior periods disclosed in these separate and consolidated financial statements is based on the financial statements of the Bank and the Group as at and for the year ended 31 December 2012 which were audited by another auditor who expressed an unmodified opinion on those statements on 8 March 2013.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 6, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Group. In our opinion, the Management Report is consistent with the consolidated financial statements.

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

Inga Lipšāne
Sworn Auditor
Certificate No 112