JSC “REGIONALA INVESTICIJU BANKA”

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

Contents

JSC "Regionala investiciju banka"

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Report of the Management

In 2014, JSC “Reģionālā investīciju banka” (hereinafter “the Bank”) continued its successful development evidenced by the growth of all key financial indicators of the Bank. The Bank’s profit before corporate income tax and provisions for loan impairment of 2014 is EUR 6.2 million, and, during this year, the Bank made provisions of EUR 8 million for loan impairment which lead to net losses for the year of EUR 1.9 million.

General Economic Situation

As in the previous years, the global economic growth rate in 2014 was not pleasing and did not justify the expert prognoses regarding the improved rates of economic recovery expressed in the beginning of the year. According to the World Bank data, in 2014, the total global GDP increased by 2.6% which is slightly higher than the 2.5% growth reported last year. The protracted period of low growth rates has led to many economists being sceptical about the future perspectives, and the majority are forecasting that the growth rates that could be observed before the financial crisis in 2008 cannot be reached in the future.

Among the developed states, the most positive trends during the last year could be observed in the US and the United Kingdom. The macroeconomic indicators of these states improved due to a successfully implemented monetary policy. The growth of these states in 2015 could have a positive impact on the economic stabilisation of the Eurozone and Japan which showed weak growth indicators with uncertain future perspectives in 2014. The European Central Bank (ECB), reacting to the slow and painful recovery of the economy, introduced new economic growth and activity incentives – decreased the ECB’s interest rates and introduced a longer term bank refinancing programme and purchase programmes of asset-backed securities and covered bonds.

It will be possible to assess the efficiency and results of the measures implemented by the ECB only over the following years when, unless the geopolitical situation worsens, faster growth of economic activity rates could be expected.

Despite the global economic stagnation and the very instable geopolitical situation in the region, Latvia’s economy in 2014 showed stable growth rates. Latvia’s GDP in the fourth quarter of 2014 grew by 1.9% as compared to the same period in the previous year. The main driving forces of Latvia’s economy last year were the construction, financial and retail sectors.

Latvia’s stable growth rates and the fact that since the beginning of 2014 Latvia is one of the Eurozone states have been appreciated not only by investors whose demand for sovereign debt securities has decreased the profitability to historically the lowest level, but also by all the largest credit rating agencies which have increased Latvia’s credit rating to a level that it had before the financial crisis in 2008.

The main threats to Latvia’s economic development in 2014 were related to the military conflict in Ukraine, as a result of which the US and Western European countries, including Latvia, imposed sanctions on Russia’s citizens and restrictions on its financial institutions and corporations. Russia, on its turn, implemented countermeasures by imposing a goods import ban from the US and European Union countries.

Russia is an important trade partner to Latvia, and the escalation of the conflict has a significant impact also on the state of Latvia’s economic soundness. Although for the economic growth in 2014, the increased domestic demand was rather successfully used, it cannot be the basis for a wholesome long-term development of Latvia’s economy. Therefore, if external economic and political factors do not improve over the next years, Latvia and its economy may experience GDP stagnation.

Overall 2014 was successful and profitable for the banking sector. In the beginning of 2014, banks’ assets decreased slightly, however, in the second half of the year, they increased remarkably and reached the highest level of the last years, i.e. EUR 30.8 billion, which is an increase of 4.5% as compared to 2013. Liquidity of the banking system is still above the statutory level, and in the first three quarters of the year remained above the 60% limit. The profit indicators of banks have improved significantly as compared to the previous year. The ROE indicator of the banking sector in the third quarter of 2014 was 11.86%. For comparison – in the end of 2013, it was 8.65%. Unfortunately, the total amount of granted loans continues to have a negative trend and reduced by 6.1% last year amounting to only EUR 14.7 billion or 47.6% of the total bank assets in the end of 2014. Whereas, the requirements of the banks against monetary financial institutions (MFI) have significantly increased, which evidences the sector’s inability to efficiently grow the credit portfolio and continue improving its profit indicators.

Report of the Management (continued)

Bank’s Operations in the Reporting Year

As compared to 2013, in 2014 the Bank’s deposit portfolio increased by 36% and amounted to EUR 541 million as at 31 December 2014, whereas the amount of assets increased by 35.7% and amounted to EUR 592.50 million as at 31 December 2014. The number of Customers in 2014 increased by 21.22% with the largest growth in the foreign Customers segment – specifically in the legal entities sector.

The Bank has concluded that the improvement process of the credit portfolio quality, which decreased its volumes, has entered its final stage since the lending volumes are starting to grow. As compared to 31 December 2013, the Bank’s credit portfolio has increased by 0.8% and amounts to EUR 70.4 million. In 2014 new credit agreements were signed for the total amount of EUR 19.1 million and granted to the financing of the industrial, wholesale, transport and logistics sectors.

In the end of 2014, the Bank’s securities portfolio amounted to EUR 199.94 million which is a significant increase as compared to 31 December 2013 when the securities portfolio was only EUR 23.56 million. The securities portfolio increased due to the investments in short-term government bonds with high credit ratings.

Both interest income and interest expense declined during 2014 caused by both decline in interest rates determined by the European Central Bank and decline in Bank’s interbank deal amount in CIS and Ukrainian markets. Moreover, the Finance and Capital Markets Commission (hereinafter – FCMC) has placed restrictions to the Bank’s operations in the non-resident crediting segment, which significantly affects the ability of the Bank to grow revenues.

Last year, the Bank increased its range of investment services and now offers its Customers to purchase Franklin Templeton and East Capital investment funds. To ensure remote access to the investment fund transactions, in the second half of the year, remote investment fund utilisation mechanisms were introduced, i.e. a new investment fund module in the Internetbank’s “Financial Instruments” section, as well as a new investment fund selection tool on the Bank’s website.

In the reporting period, the Bank continued the implementation process of the new “Precious Metals” service. In January 2015, having received the FCMC permit, the Bank started to offer its Customers transactions with precious metals. The Bank’s Customers can purchase precious metals as financial instruments, as additional currency in the current account and as physical precious metal ingots. In order to offer purchase of precious metal ingots to the largest possible segment of Customers, purchase of gold ingots is available in 20, 50, 100, 250, 500 and 1000 grams nominal values. In addition to gold, the Bank also offers purchase of silver, platinum and palladium.

Considering the political and economic situation in Ukraine exporters of which form the main share of the Bank’s Customers that use documentary operation services, as well as the slowdown of the economic growth in China which is the main export market of the Customers, the number of documentary operations decreased by 10% as compared to 2013. In 2014 income from the documentary operation services amounted to EUR 460.55 thousands which is 87% of income in 2013. Whereas a positive trend can be observed with respect to the increase of the issued guarantee portfolio which amounted to EUR 4.7 million as at 31 December 2014 which is by 37% more than in the first half of 2014.

As compared to 2013, in 2014 the number of active payment cards grew by 41.85%, while the turnover of payment cards grew by 19.75% and exceeded EUR 26 million as at 31 December 2014. In this year, the Bank continued its active work on improving the “e-Commerce” service in order to be able to offer its Customers the acceptance service of MasterCard, Maestro, Visa and Visa Electron payment cards at the Customers’ points of sale.

During the year, 29 new employees started work at the Bank, and, as at 31 December 2014, the Bank had 147 employees. In this period, the Bank’s organisational structure was supplemented with three new structures – Security Department, Private Banking Section and Financial Reporting Section. In November 2014, changes took place to the composition of the Bank’s Board, and, on 17 November 2014, Olexandr Kovalsky became the new Chairman of the Board. Two other Board Members – Alexander Jakovlev and Daiga Muravska – work on the Bank's Board.

Report of the Management (continued)

Bank's Operations in the Reporting Year (continued)

In the IT field, the process of technology and software upgrading for user work stations, as well as modernisation of the Bank's IT infrastructure are being actively carried out. In order to improve the communication platform with Customers, the IT Department employees have developed a CRM (Customer Relationship Management) basic solution which they will keep on improving and developing in terms of functionality. In order to ensure automated execution of SEPA payments, a SEPA payment screening mechanism has been developed, as well as the Bank's accounting system's functionality has been improved which was supplemented with new service modules. Also, migration of the SWIFT system to a new system version SWIFT Alliance Access 7.80 took place, which allows for a modern system of circulation of transfers and payments. In the second half of the year, a number of important activities was implemented, which markedly improved the security of the information available to the Bank.

Introduction of the Basel III requirements in the first half of 2014 required a large contribution of human and work resources due to significant changes in terms of volume of financial reports, as well as regulatory requirements with respect to capital adequacy, liquidity, leverage ratio and large exposure restrictions laid down in Regulation No 575/2013, as well as in the Credit Institutions Law and a number of binding regulations of the Finance and Capital Market Commission.

In 2014, the Bank's internal control system was improved, and in the framework of the improvement processes, the Monitoring Section that was established in 2013, started its full-fledged operation with the principal function of daily monitoring of high risk Customers. In order to improve the work of the Money Laundering Prevention Department, reorganisation of the internal functions and system processes, as well as improvement and updating of normative documents took place in this period.

In the second half of 2013, the Bank launched implementation of the new Internetbank, which had to be completed within a very short period of time. In the beginning of 2014, the new IT platform of the Internetbank was introduced, and, in the first half of 2014, the implementation process of the new Internetbank was finalised. In the second half of 2014, the Bank continued to implement significant improvements of the Internetbank. During this period, a two-step authentication was introduced, which significantly improves the security of the Internetbank and protection of the Customer data. Improvement process of the “Financial Instruments” section was also launched. A new investment funds trade module was set up at the “Financial Instruments” section, which, since January 2015, allows the Customers to make remote transactions with investment funds. A number of other improvements was also introduced which allows a convenient submission of financial instruments orders and an opportunity to fully follow the status of securities orders and changes of the securities portfolio.

In November 2014, the FCMC determined the Bank's individual capital requirement of 13.5% which includes also a capital conservation buffer of 2.5%. As at 31 December 2014, the Bank met this FCMC's requirement. The individual liquidity ratio requirement set by the FCMC was 60%, and the Bank's liquidity ratio as at 31 December 2014 was 91.06%.

Coverage of Loss Recommended by the Board

The Board recommends covering the losses of the reporting period with the retained profit of the previous periods.

Plans and Perspective of the Next Year

In order to improve the Customer service quality, increase the number of Customers and offer banking services that correspond to the individual needs of the Customers, the Bank will improve its private banking service and increase its range of banking services, in particular by expanding the investment products segment. The Bank also continues its work on improving the e-commerce processes in order to be able to offer e-commerce services solutions suitable for Latvia's and the European market already in 2015.

In the first half of 2015, the Bank will start offering its Customers the individual safe-deposit box services which will allow the Customers to safely store important documents, valuables and other material values at a specially equipped depository of the Bank.

Report of the Management (continued)

Increasing the credit portfolio in the market of Latvia has been set as one of the main priorities of the Bank in 2015. Also, in 2015, the Bank will continue improving functionality of the Internetbank providing more convenient communication possibilities for the Customers with the Bank and new opportunities to use the Bank's products remotely.

Olexandr Kovalsky
Chairman of the Board

Iurii Rodin
Chairman of the Council

Riga, 25 March 2015

THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK

As at 31 December 2014 and as at the date of signing the accounts:

The Council

		Date of appointment
Iurii Rodin	Chairman of the Council	Re-elected – 24.02.2012
Marks Bekkers	Deputy Chairman of the Council	Re-elected – 24.02.2012
Dmitrijs Bekkers	Member of the Council	Re-elected – 24.02.2012
Alla Vanetsyants	Member of the Council	Re-elected – 24.02.2012
Iryna Buts	Member of the Council	Re-elected – 24.02.2012

The Board

Olexandr Kovalsky	Chairman of the Board	08.01.2013
Daiga Muravska	Member of the Board	Re-elected – 28.06.2012
Aleksandrs Jakovlevs	Member of the Board	06.08.2014

During 2014 there have been the following changes in the members of the Board of Directors of AS Reģionālā investīciju banka:

On 17 November 2014 Olexandr Kovalsky was elected as the Chairman of the Board, leaving his position of the Member of the Board.

On 29 October 2014 Haralds Abolins ceased working in the Bank and therefore left his position of the Chairman of the Board of the Bank.

On 6 August 2014 Aleksandrs Jakovlevs was elected as the Member of the Board.

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Supervisory Council and the Board of Directors (hereinafter - the Management) of the Bank are responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 11 to 62 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2014 and the results of its operations and cash flows for the reporting year 2014.

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

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

Olexandr Kovalsky
Chairman of the Board

Iurii Rodin
Chairman of the Council

Riga, 25 March 2015

Auditors' Report

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Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Regionala Investiciju banka

Report on the Financial Statements

We have audited the accompanying financial statements on pages 11 to 62 of AS Regionala Investiciju banka (the Bank), which comprise the statement of financial position as at 31 December 2014 and the statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Auditors' Report

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the AS Regionala Investiciju banka as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter – Operating Environment

We draw your attention to the Note 2 to the financial statements. The operations of the Bank, and those of other entities in Ukraine, have been affected and may continue to be affected for the foreseeable future, by the continuing uncertainties in Ukraine. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We have read the Report of the Management set out on pages 3 to 6 and did not identify material inconsistencies between the financial information contained in the Report of the Management and that contained in the accompanying financial statements.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Juris Lapše
Certified auditor in charge
Certificate No. 116
Persona per procura

Riga, Latvia
25 March 2015

* This version of our report 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 our report takes precedence over this translation.

Statement of Comprehensive Income for the year ended 31 December 2014

	Notes	2014 EUR	2013 EUR
Interest income	5	11,254,166	18,802,877
Interest expense	5	(4,875,161)	(8,396,459)
Net interest income		**6,379,005**	**10,406,418**
Provisions for loan impairment	11	(7,521,689)	(8,367,100)
Net interest income after provision for loan impairment		**(1,142,684)**	**2,039,318**
Fee and commission income	6	7,267,083	6,805,805
Fee and commission expense	6	(1,418,179)	(1,561,724)
Net fee and commission income	6	**5,848,904**	**5,244,081**
Gain on securities trading, net		133,319	23,819
Loss from revaluation of securities at fair value through profit or loss		(443,761)	(286,078)
Gain on derivative financial instruments revaluation		127,511	157,112
Gain from trading in foreign currencies, net		2,519,502	1,132,129
Foreign exchange translation loss , net		(592,512)	(346,378)
Other operating income		138,056	569,048
Loss from sale of repossessed collateral	34	(1,438,130)	(102,910)
Administrative expenses	7	(6,166,695)	(5,904,278)
Amortization and depreciation charges	13, 14	(197,330)	(260,114)
Other operating expense		(98,930)	(127,165)
(Loss)/ profit before income tax		**(1,312,750)**	**2,138,584**
Corporate income tax	8	(569,490)	(1,192,783)
Net (loss)/ profit for the year		**(1,882,240)**	**945,801**
Total comprehensive (loss)/ income for the year attributable to the owners of the Bank		**(1,882,240)**	**945,801**

The financial statements on pages 11 to 62 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Olexandr Kovalsky
Chairman of the Board

Iurii Rodin
Chairman of the Council

Riga, 25 March 2015

The accompanying notes on pages 15 to 62 are an integral part of these financial statements.

Statement of Financial Position as at 31 December 2014

	Notes	31.12.2014 EUR	31.12.2013 EUR
Assets			
Cash and balances with the Bank of Latvia	9	101,306,508	32,851,642
Balances due from banks	10	216,007,335	316,155,378
Loans and advances to customers	11	70,395,363	69,849,186
Financial assets at fair value through profit or loss	12	199,941,747	23,556,430
Derivative financial instruments	20	736,612	236,052
Intangible assets	13	237,079	231,510
Property and equipment	14	266,168	274,167
Other assets	32	3,434,550	4,475,484
Deferred expenses		154,824	92,645
Deferred income tax asset	19	19,163	19,311
Total assets		**592,499,349**	**447,741,805**
Liabilities			
Balances due to banks	16	7,365	67,878
Customer accounts	15	540,933,163	397,785,034
Derivative financial instruments	20	515,424	142,374
Other financial liabilities	17	2,345,540	618,113
Deferred income and accrued expenses	18	874,774	769,361
Subordinated loan	31	12,216,760	10,870,482
Total liabilities		**556,893,026**	**410,253,242**
Equity			
Share capital	21	32,334,762	32,334,762
Retained earnings		3,271,561	5,153,801
Total equity		**35,606,323**	**37,488,563**
Total liabilities and equity		**592,499,349**	**447,741,805**
Off balance sheet items			
Guarantees issued	22	4,694,429	3,413,977
Credit related commitments	22	26,892,521	37,037,754
Assets under management	33	129,283,269	82,754,828

The financial statements on pages 11 to 62 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Olexandr Kovalsky
Chairman of the Board

Iurii Rodin
Chairman of the Council

Riga, 25 March 2015

The accompanying notes on pages 15 to 62 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2014

	Paid-in share capital	Retained earnings	Total
	EUR	EUR	EUR
Balance as at 31 December 2012	**32,334,762**	**4,208,000**	**36,542,762**
Comprehensive income for the year	-	945,801	945,801
Balance as at 31 December 2013	**32,334,762**	**5,153,801**	**37,488,563**
Comprehensive loss for the year	-	(1,882,240)	(1,882,240)
Balance as at 31 December 2014	**32,334,762**	**3,271,561**	**35,606,323**

The accompanying notes on pages 15 to 62 are an integral part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2014

	Notes	2014 EUR	2013 EUR
Cash flows from operating activities			
Interest received		8,415,570	16,247,008
Interest paid		(5,043,382)	(8,779,540)
Fees and commission received		7,267,083	6,805,805
Fees and commission paid		(1,418,179)	(1,561,724)
Income on securities trading		133,319	23,819
Income on foreign exchange		2,519,502	1,132,129
Other operating income		1,386,344	569,048
Personnel expenses paid		(4,010,604)	(3,489,047)
Administrative and other operating expenses		(4,929,433)	(2,645,305)
Income tax paid		(569,342)	(1,221,982)
Cash flows generated from operating activities before changes in operating assets and liabilities		**3,750,878**	**7,080,211**
Changes in operating assets and liabilities			
Net increase of securities at fair value through profit or loss		(194,286,458)	(4,129,594)
Net decrease/ (increase) of balances due from banks		41,040,813	(45,977,918)
Net (increase)/ decrease of loans and advances to customers		(14,886,407)	26,330,169
Net decrease/ (increase) of other assets		978,754	(2,367,976)
Net increase/ (decrease) of customer accounts		194,183,341	(25,778,638)
Net increase/ (decrease) in other liabilities		4,652,016	(4,194,135)
Net cash and cash equivalents generated from/ (used in) operating activities		**35,432,937**	**(49,037,881)**
Cash flows from investing activities			
Purchase of intangible assets		(115,011)	(145,262)
Purchase of fixed assets		(91,894)	(88,626)
Net cash and cash equivalents used in investing activities		**(206,905)**	**(233,888)**
Cash flows from financing activities			
Subordinated loan received		-	4,992,146
Net cash and cash equivalents generated from financing activities		**-**	**4,992,146**
Effect of exchange rates on cash and cash equivalents		(18,091,335)	(4,674,228)
Net increase/ (decrease) in cash and cash equivalents		**17,134,697**	**(48,953,851)**
Cash and cash equivalents at the beginning of the year	**23**	274,091,509	323,045,360
Cash and cash equivalents at the end of the year	**23**	**291,226,206**	**274,091,509**

The accompanying notes on pages 15 to 62 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 INCORPORATION AND PRINCIPAL ACTIVITIES

JSC “Regionala investiciju banka” (hereinafter – the Bank) provides financial services to corporate clients and individuals. The Bank established its representative office in Odessa, Ukraine in 2005 and representative office in Dnepropetrovsk, Ukraine in 2007. In the beginning of 2009 the Bank has established new representative office in Kiev, Ukraine. Furthermore, in 2010 the Bank has established its representative office in the capital of Belgium – Brussels. The Bank has no subsidiaries and branches apart from the mentioned above.

The Bank is a joint-stock company incorporated and domiciled in Riga, Republic of Latvia. It was registered within Commercial Register on 28 September 2001.

The legal and basic address of the Bank is:
2 J. Alunana Street,
LV-1010, Riga,
Latvia

These financial statements have been approved for issue by the Council and the Board of Directors on 25 March 2015.

NOTE 2 OPERATING ENVIRONMENT OF THE BANK

Operations of the Bank are affected by tendencies in Ukrainian market, as largest shareholder of the Bank is Ukrainian public joint stock company bank “Pivdennij”, as well as significant portion of the loans issued by the Bank have been issued to the Ukrainian companies and companies with significant share of their revenues being generated from the operations in Ukraine.

The following table indicates total exposure of the Bank in Ukraine as at 31 December 2014 and as at 31 December 2013:

	31.12.2014 thousand EUR	31.12.2013 thousand EUR
Balance sheet assets subject to the country risk:		
Balances due from banks	8,009	98,645
Loans issued	22,772	38,232
Financial assets at fair value through profit or loss	30	2,895
Total	**30,811**	**140,021**
Off-balance sheet items subject to country risk:		
Off-balance sheet commitments to clients	7,265	13,179
Total	**7,265**	**13,179**

Taking into account current geopolitical situation in Ukraine it is hard to compare and to analyse current economic and political situation in Ukraine, as well as hard to make predictions as to economy development tendencies both in short and medium term. Ukrainian GDP during 2014 experienced significant fall and in accordance with statistical data of the Ukrainian bureau of statistics, in 4th quarter of the year was 15.2% lower than during prior year.

Under current conditions health of Ukrainian national economy is hardly determinable and rate of increase in economy incorporates a significant potential for error, it is obvious that in order to recover and return to positive tendencies the country needs to overcome numerous obstacles. The major tasks to do are related to stabilisation of the national currency rate, which during 2014 experienced decline against US dollar from 8.25 at the beginning of the year to 15.8 at the end of the year. Prognosis for stabilisation of prices is hardly made, as inflation in the country being 25% does not facilitate predictability.

All largest credit rating agencies in 2014 have decreased credit rating of the country, indicating negative GDP tendencies, increase in central government debt and high inflation rate. Global financial markets are closed to the country, thus restructuring and prolongation of government debt will be complex process and its implementation will require help from the International Monetary Fund.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 OPERATING ENVIRONMENT OF THE BANK (continued)

Similarly to the economy as a whole Ukrainian financial sector is experiencing crisis. Quality of banks' assets is low and hardly determinable. Currency exchange rate drop has negatively impacted capital adequacy ratios. With the escalation of military and political conflict, financial system experienced willingness of customers to take out their deposits and monetary means started to leave the financial sector of the country. A number of Ukrainian commercial banks are not able to fulfil their liabilities in this respect and were forced to start insolvency process.

In February 2015 second fragile and partially complied with peace treaty was signed in Ukraine, however, the economic situation continues to deteriorate, which is indicated by recent currency rate drops. Positive is the fact that International monetary fund has provided Ukraine with new loan subject to implementation of reforms. Currency reserves of the country have decreased to the amount of one month import, while minimum amount required to ensure stability would be three months import. As a result, currency exchange rate dropped below 30 hryvnias for one euro. In order to ensure that reforms lead to stable economy growth, long time will be required.

Despite negative development tendencies of macroeconomic indicators, overall transformation process of Ukrainian economy can be viewed positively, as Ukraine experienced need for economic transformation already for a long time. Moreover, with the financial and in non-financial support received from USA and Western Europe, we expect rebirth of Ukrainian economy in new shape, being able to provide for balanced, long-term and stable growth.

Impact on borrowers

Borrowers of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Impact on collateral

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. As a result of possible economy downturn, the actual realizable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, all of which have been applied consistently throughout the years 2014 and 2013, are set out below:

(a) Reporting currency

The tabular amounts in the accompanying financial statements are reported in Euros (EUR), unless otherwise stated.

(b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter - IFRS), on a going concern basis. In preparation of the financial statements on a going concern basis the management considered the Bank's financial position, access to financial resources and analysed the impact of the recent financial crisis on the future operations of the Bank.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held at fair value through profit or loss and derivative financial instruments.

The preparation of financial statements in conformity with IFRS 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation (continued)
The accounting policies used in the preparation of the financial statements for the year ended 31 December 2014 are consistent with those used in the annual financial statements for the year ended 31 December 2013, except as referred to in Note 3 (bb) *Adoption of New or Revised Standards and Interpretations.*

(c) Income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on trading securities.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect of origination of financial assets or funding are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other fees and commissions, including those related to trust activities, are credited and/or charged to the statement of comprehensive income as earned / incurred.

(d) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The financial statements are presented in euros (‘EUR’), which is the Bank’s functional and presentation currency.

In accordance with the requirements of the „Law on the Procedure for Introduction of Euro” all amounts in these financial statements are expressed in the Latvian national currency – euro (EUR). The comparative figures as at 31 December 2013 have been translated from lats to euro in accordance with the rate set by the European Union Council 1 EUR = 0.702804 LVL and the clause 6 of the „Law on the Procedure for Introduction of Euro” on conversion principles.

Transactions and balances
Foreign currency transactions until 31 December 2013 were translated into lats applying the official exchange rate established by the Bank of Latvia at the transaction date. Starting from 1 January 2014 the foreign currency transactions have been translated into euro applying the rate determined by the conversation procedure between central banks of the European System of Central Banks and other central banks and which is published on the European Central Bank's website. 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 comprehensive income as a profit or loss from revaluation of foreign currency positions.

During the preparation of the balance sheet of the Bank, the following currency exchanges rates were most commonly used (EUR against foreign currency unit):

Reporting date	USD	*UAH
As at 31 December 2014	1. 2141	19.2349
As at 31 December 2013	1.3791	11.2810

*Due to the fact that ECB does not publish EUR/UAH rate on its official website, the Bank uses Bloomberg L.P. currency rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income taxes

Income tax is calculated in accordance with Latvian tax regulations and is based on the taxable income reported for the taxation period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is calculated based on currently enacted tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from different rates of accounting and tax amortisation and depreciation on intangible and fixed assets, as well as accruals for employee vacation expenses. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, due to and from other credit institutions with original maturity of 3 months or less.

(g) Loans and provisions for loan impairment

Loans and advances to customers are accounted for as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

Loans and receivables are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition of financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. All loans and receivables are recognised when cash is advanced to borrowers and derecognised on repayments.

The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. If any such evidence exists, the amount of the loss for loan impairment which has been incurred is measured as the difference between the asset’s carrying amount and the recoverable amount, being the present value of expected cash flows (excluding future credit losses that have not been incurred), including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. The Bank does not perform collective assessment of provisions as it can carry out assessment of each individual loan taken the number of loans issued.

The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower’s financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Loans and provisions for loan impairment (continued)
The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the statement of comprehensive income. The assessment of the evidence for impairment and the determination of the amount of provision for impairment or its reversal require the application of Management's judgment and estimates. Management’s judgments and estimates consider relevant factors including, but not limited to, the identification of non-performing loans and high risk loans, the Bank’s past loan loss experience, known and inherent risks in the portfolio of loans, adverse situations that affects the borrowers’ ability to repay, the estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting loan and advance recoverability and collateral values. These judgments and estimates are reviewed periodically, and historical loss experience is adjusted on the basis of current observable data 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 Management of the Bank has made their best estimates of losses, based on objective evidence of impairment and believes those estimates presented in the financial statements are reasonable in light of available information. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

When loans and receivables cannot be recovered, they are written off and charged against provision for loan impairment losses. They are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined.

(h) Credit related commitments
The Bank enters into credit related commitments, including undrawn credit lines, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after the origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required settling the commitment at the balance sheet date.

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets at fair value through profit or loss comprise debt securities held by the Bank for trading purposes. They are accounted for at fair value with all gains and losses from revaluation and trading reported in the statement of comprehensive income. Interest earned while holding trading securities is reported as interest income.

All regular way purchases and sales of financial assets held for trading are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(j) Sale and repurchase agreements of securities
Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Bank is a transferor, assets transferred remain on the Bank’s balance sheets and are subject to the Bank’s usual accounting policies, with the purchase price received included as a liability owed to the transferee. Where the Bank is a transferee, the assets are not included in the Bank’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 comprehensive income over the term of the agreement using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Derivative financial instruments
Derivative financial instruments include foreign exchange contracts, currency and interest rate swaps held by the Bank for trading purposes. Derivative financial instruments are recognised on trade date and categorised as financial assets at fair value through profit or loss. They are initially recognised in the balance sheet at fair value and subsequently measured at their fair value with all gains and losses from revaluation reported in the profit and loss statement. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative.

(l) Due from other banks
Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

(m) 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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate, and may require the application of management's judgment and estimates.

Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

(n) Derecognition of financial assets
The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(o) Intangible assets
Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives, not exceeding five years.

(p) Property and Equipment
All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost of the fixed assets to their residual values over their estimated useful lives, as follows:

Office equipment	10 years
Computers	3 years
Transport	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Property and Equipment (continued)

Leasehold improvements are capitalised and depreciated over their expected useful lives, or over the remaining lease contract period if shorter, on a straight-line basis.

Property and equipment are periodically reviewed for impairment. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the statement of comprehensive income in the period in which they are incurred.

(q) Operating lease – the Bank is a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(r) Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

(s) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(t) Provisions

Provisions are recognised when the Bank 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. The assessment of provisions requires the application of management's judgment and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

(u) Dividends

Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Latvian legislation identifies the basis of distribution as retained earnings.

(v) Employee benefits

The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. According to the rulings of the Cabinet of Ministers of the Republic of Latvia 73,80% (2013: 75.80%) of the social security contributions are used to finance state funded pension scheme.

Short-term employee benefits, including salaries and state compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Off-balance sheet instruments

In the ordinary course of business, the Bank utilises off-balance sheet financial instruments including commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The methodology for provisioning against off-balance sheet instruments is given in paragraph (t) of Note 3 above.

(x) Trust operations

Funds managed or held in custody by the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not included in the balance sheet.

Accounting for trust operations is separated from the Bank's own accounting system thus ensuring separate accounting in a separate trust balance sheet for assets of each client, by client and by type of assets under management.

(y) Offsetting of Financial Assets and Liabilities

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

(aa) Critical accounting estimates

Loan impairment

The Bank reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank's Management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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.

The Bank applies stress – tests in order to evaluate the impact of changes in one or a number of variables, which are used for determination of provisions for loan impairment losses, on the financial result. If overdue loans in loan portfolio increase by 1%, provisions for loan impairment losses would increase by EUR 261 thousand (in 2013: EUR 200.9 thousand).

Securities valued at fair value

The Bank used quoted market prices to value securities carried at fair value as at year end for those securities which in the management's judgement are traded at liquid markets. The management had evaluated the liquidity of the securities market and has concluded that there is a significant reduction of activities in market, however, consider the market to be active with respect to type of securities held by the Bank therefore quoted market prices available on Stock Exchange of the security issuer countries were used to determine the fair values of the securities as at year end.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Management's judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Adoption of new or revised standards and interpretations

The following new and amended IFRS and interpretations became effective in 2014, but have no significant impact on these financial statements:

IFRS 10 “Consolidated financial statements” (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);

IFRS 11 “Joint arrangements” (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);

IFRS 12 “Disclosures of interests in other entities” (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);

Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);

IAS 27 (revised in 2011) “Separate financial statements” (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);

IAS 28 (revised in 2011) “Associates and joint ventures” (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);

Amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014);

Amendments to IAS 32 “Financial instruments: Presentation” on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014);

Amendments to IAS 36 “Impairment of assets” on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014);

Amendments to IAS 39 “Financial instruments: Recognition and measurement” on novation of derivatives and hedge accounting (effective for annual periods beginning on or after 1 January 2014);

IFRIC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning after 1 January 2014 or later periods or are not yet endorsed by the EU:

Amendments to IAS 19 “Employee benefits plans” regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU);

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU). These amendments include changes that affect 7 standards;

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU). The amendments include changes that affect 4 standards;

Amendment to IFRS 11 “Joint arrangements” on acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Adoption of new or revised standards and interpretations (continued)

Amendments to IAS 16 “Property, plant and equipment” and IAS 41 “Agriculture” regarding bearer plants (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendment to IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets” on depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

IFRS 14 “Regulatory deferral accounts” (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IAS 27 “Separate financial statements” on the equity method (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in associates and joint ventures” (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Annual improvements 2014 (effective for annual periods beginning on or after 1 July 2016, not yet endorsed in the EU). The amendments include changes that affect 4 standards;

IFRS 15 “Revenue from contracts with customers” (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Disclosure Initiative Amendments to IAS 1 “Presentation of Financial Statements” (issued in December 2014 and effective for annual periods on or after 1 January 2016, not yet endorsed in the EU);

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016, not yet endorsed in the EU).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT

Risk Management

Risk management is one of the Bank's strategic tasks. Risk management strategy has been developed for the Bank's risk management, which covers management of the following risks: credit risk and residual risk, operational risk, market risk, interest rate risk, foreign currency risk, liquidity risk, concentration risk, country risk and other risks.

For the purpose of managing these risks, internal risk management policies and procedures have been developed which are approved by the Bank's Council and/or Board and implemented by the responsible units of the Bank.

The Board of the Bank is responsible for the development and effective functioning of the risk management system and ensuring the identification and management of the Bank's risks, including estimation, evaluation, oversight and preparation of risk reports through implementing the risk identification and management policy set by the Bank's Council and other documents connected with risk management.

Risk Director is responsible for the risk control function in the Bank, oversees the risk management system and co-ordinates actions of all structural units of the Bank related to the risk management. The main unit responsible for determination, evaluation and oversight of the risks is the Risk Management Department, which is an independent unit whose functions are separated from the functions of the business units.

The risk management system is being constantly improved in accordance with the Bank's activities and external conditions influencing these activities. The regular oversight of this process is performed by the Internal Audit Department.

(a) Credit risk

Credit risk is the risk of incurring losses in the event that a borrower (debtor) or a business partner is unable to fulfil its obligations to the Bank in accordance with the provisions of the contract. Credit risk is present in the Bank's operations where the Bank makes claims against another person and which are reflected in the Bank's balance sheet and off-balance sheet items.

The Bank's principles for evaluation, oversight and acceptance of credit risk are described and approved in its Loan Policy, Business Partner Risk Policy and Investment Portfolio Policy.

The Bank divides up and oversees its credit risk by setting limits of various types and categories: acceptable risk limits for each borrower, group of related borrowers, geographical regions, business sectors, type and value of collateral, currency, term and ratings granted by international agencies. Credit risk exposures are monitored on a revolving basis through regular assessments of borrowers' ability to meet interest and principal repayments and limits are adjusted as appropriate. The Bank's exposure to credit risk is managed and minimised by obtaining collaterals and guarantees against credit exposures that are registered in the name of the Bank. The fair values of those are also reviewed on a regular basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The table below shows credit risk exposures relating to on-balance sheet assets and off-balance sheet items before collateral held or other credit enhancements:

	31.12.2014. EUR	31.12.2013. EUR
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from credit institutions	216,007,335	316,155,378
Loans to customers	70,395,363	69,849,186
Financial assets at fair value through profit or loss	199,941,747	23,556,430
Other assets	3,434,550	4,475,484
Total	**489,778,995**	**414,036,478**
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees issued	4,694,429	3,413,977
Credit related commitments	26,892,521	37,037,754
Total	**31,586,950**	**40,451,731**

The Bank regularly reviews the quality of the loan portfolio with the aim to identify loss events. In case loss event is identified, it is assessed whether impairment should be recognised. One of criteria in determining credit quality is overdue days of the payment, as compared to the original agreement date. Credit quality criteria applied to loans from legal entities are results of operating activities of the borrower, as well as perspective for development, current and planned cash flow available for settlement of liabilities, compliance with monitoring/ risk factors, value of collateral etc.

Significantly overdue loans are those overdue for more than 90 days. Impaired loans are loans for which the Bank has raised provisions arising from loss event, as well as loans overdue for more than 90 days and loans where it is planned to begin the process of loan recovery. In these financial statements, information on overdue loans is disclosed starting with the first overdue day.

Loan loss events are:
- Significant financial difficulty of the borrower;
- Breach of loan covenants;
- Relieves provided to the borrower due to such economic or legal aspects that are related to financial difficulties of the borrower, which the Bank would not provide otherwise;
- Rather big probability that borrower will start bankruptcy procedure or any other type of financial reorganisation;
- Not being able to meet the preconditions of the project, underlying the issuance of the loan;
- Breach of liabilities due from borrower’s related party, which has an impact on the ability of the borrower to fulfil his obligations;
- Decrease in value of collateral, in case the repayment of the loan is directly related to the value of collateral;
- Other events increasing credit risk.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and liquidity of related collateral, if any.

The Bank classifies its loans which are not impaired as standard loans, close control loans and substandard loans.

Standard loans are loans, repayment of which is not doubted. Standard loans are those, impairment provisions for which based on present value of future cash flows are 0% to 1%. Standard loans are comprised of loans to legal entities with no expectancy of fulfilment of obligation, as current and future cash flow is sufficient to fulfil the obligations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Close control loans are loans requiring additional control from the Bank, as these have potential uncertainly, which if remains the same, may potentially endanger fulfilment of obligations in the future and create loss to the Bank. Close control loans are all those loans where impairment provisions calculated based on present value of future cash flows are 1% to 20%. Close control loans are comprised of loans, where:

- Economical or market conditions have adverse impact on the borrower or his industry;
- Tendencies of deterioration of financial position of the borrower are observed or the balance sheet of the borrower is indicative of instability, however, not that significant, as to endanger the repayment of the borrowing at present.

Substandard loans are loans with clear uncertainties about the fulfilment of credit obligations in full amount and which will create loss to the Bank, if the uncertainty is not removed. Substandard loans are all those loans where impairment provisions calculated based on present value of future cash flows are above 21%. Loans classified as substandard are comprised of loans, where:

- Cash flows of the borrower are insufficient to ensure regular payments are made in accordance with the agreement terms;
- The Bank received insufficient current information about financial condition of the borrower or inappropriate documentation on the conditions of the pledge and sources of fulfilment of credit obligations.

(b) Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

The Bank manages market risks by diversification of financial instruments portfolio, limits set for different types of financial instruments and application of sensitivity tests which show the impact of particular risks on the Bank’s assets and equity.

(c) Currency risk

The Bank has exposure to the effects of fluctuations in prevailing foreign currency exchange rates as a result of its financial position and cash flows. The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures. The Board has set limits on the level of exposure by currency, which is monitored on a daily basis. The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank’s equity and that the total foreign currency open position may not exceed 20% of the equity. During 2014 and 2013 the Bank was in compliance with those limits (see Note 25).

The Bank’s foreign currency risk evaluation is based on the following main principles:

- evaluation is made of changes to the Bank’s assets, liabilities and off-balance sheet items as a result of exchange rate fluctuations;
- how the Bank’s revenue/costs change with exchange rate fluctuations;
- performance of currency risk stress tests.

The main elements of currency risk management:

- currency risk evaluation;
- setting of limits and restrictions;
- monitoring of adherence to internal limits;
- performance of exchange rate stress tests and analysis of obtained results;
- entering into hedging relationships if necessary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(c) Currency risk (continued)

The following table shows the sensitivity of profit/ loss to currency exchange rate fluctuations at the end of the reporting period, with other conditions constant (in thousand EUR):

31.12.2014	**Effect on profit/ loss**		**31.12.2013**	**Effect on profit/ loss**	
	+10%	**-10%**		**+10%**	**-10%**
USD	(11)	11	**USD**	272	(272)
EUR	-	-	**EUR**	(217)	217
Total	**(11)**	**11**	**Total**	**55**	**(55)**

(d) Interest rate risk

Interest rate risk is the sensitivity of the financial position of the Bank to a change in market interest rates. In the normal course of business, the Bank encounters interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The risk is controlled by the Bank’s Asset and Liability Committee, which sets limits on the level of mismatch of interest rate reprising and evaluates interest rate risk undertaken by the Bank (see Note 27).

In order to evaluate interest rate risk, evaluation is made of the impact of interest rate changes on the Bank’s economic value, including evaluation of interest rate risk from the revenue perspective and the economic value perspective. In addition, interest rate risk stress testing is performed.

The main elements of interest rate risk management:
- evaluation of interest rate risk sensitivity;
- setting of internal limits (limit of reduction in economic value and for total duration of securities portfolio);
- monitoring of adherence to internal limits;
- performance of interest rate stress tests and analysis of obtained results;
- entering into hedging relationships if necessary.

The following changes in interest rates are applied to the sensitivity analysis: all items except for deposits are subject to rate changes of +/-100 base points, while deposits are subject to rate changes of +/-50 base points.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk (continued)

The following table shows the sensitivity of revenue and equity to interest rate fluctuations with other conditions constant:

31.12.2014	Effect on profit/ loss		31.12.2013	Effect on profit/ loss	
	+100 bps	-100 bps		+100 bps	-100 bps
USD	(347)	347	**USD**	(172)	172
EUR	(188)	188	**EUR**	(38)	38
other	-	-	**other**	(220)	220
Total	**(535)**	**535**	**Total**	**(430)**	**430**

(e) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from short-term liquid investments. The relationship between the maturity of assets and liabilities, as well as off-balance sheet items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations.

The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types (see Note 26). An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the daily liquidity management of the Bank.

The Bank uses the following methods for evaluation of liquidity risk:
- preparation of maturity analysis (for all currencies and separately for individual currencies);
- calculation of the liquidity ratio, monitoring of adherence to liquidity ratio regulations;
- stress testing.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

The following are the main elements of liquidity risk management:
- being in compliance with liquidity ratio regulations;
- setting of the liquidity net position limit;
- setting of restriction for attracting deposits;
- monitoring of adherence to liquidity limits;
- conducting liquidity stress tests and analysis of results obtained;
- recommendations for resolving liquidity problems.

In accordance with FCMC requirements, the Bank maintains sufficient liquid assets to meet its liabilities in the amount which is not less than 60% of the Bank's current liabilities.

(f) Capital adequacy

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover risks resulting from the Bank's operating activities.

In order to calculate the capital for risks to which minimal capital requirements are set, according to the Financial and Capital Market Commission's (FCMC) regulations on preparation of report on minimal capital requirements, capital requirements are calculated using the following approaches and methods:
-the capital requirements for the credit risk are calculated using the standardised approach,
-"simple method of financial security" is used in order to decrease the credit risk,
-the capital requirements for the foreign exchange risks, capital requirements for the commodities risk, capital requirements for the position risk of debt securities and equities are calculated using the standardised approach,
-the capital requirements for the general risk of debt securities are calculated using maturity method;
-the capital requirements for the operational risk are calculated using the basic index approach.

The Bank also evaluates whether compliance with the minimal capital requirements ensures that the capital of the Bank is sufficient to cover all possible losses associated with all of the above mentioned risks.

Moreover, the Bank has developed internal documentation and regulations according to which it determines the amount of necessary capital for substantial risks to which minimal capital requirements are not set (e.g., interest rates risk, liquidity risk, country risk, and other substantial risks).

Calculated in accordance with the FCMC requirements, the Bank's capital adequacy ratio as at 31 December 2014 was 26.59% (as at 31 December 2013 – 21.64%), which is above the minimum set by the European Parliament and Council Regula (EU) nr. 575/2013 requiring capital retention reserve amount (10.5%), being a sum of equity against risk weighted assets and off-balance sheet items being minimum of 8% and capital retention reserve above 2.5% (see Note 24). At the end of 2014 the Finance and Capital Markets Commission recalculated individual capital adequacy requirements placed on the Bank and determined it to be 13.5%. The Bank observed and complied with the individually determined capital adequacy requirements both as at 31 December 2014 and 31 December 2013.

(g) Operational risk

Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the Bank's internal processes, human and systemic actions, or influence of external conditions. Operational risk is defined as the risk of a reduction in the Bank's revenue/ incurring of additional costs (and a resulting reduction of the equity) due to erroneous transactions with customers/business partners, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external conditions.

The Bank has established and maintains an Operational Risk Event and Loss database in which internal data on operational risk events and associated losses are collected, processed and organised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(g) Operational risk (continued)

The main elements of operational risk management are:

- operational risk monitoring;
- operational risk control and minimisation:
  - development of internal regulatory documents which prevent/reduce the likelihood of operational events;
  - segregation of duties;
  - control over internal limits;
  - adherence to the procedures in the use of IT and other Bank's resources;
  - appropriate training of employees;
  - regular review of supporting documents for transactions and account balances.

(h) Concentration risk

Transaction concentration risk is each and every risk deal or group of risk deals that could cause Bank to suffer such losses that may endanger the liquidity of the Bank or its ability to continue on a going concern. Concentration risk arises from significant risk deals with Clients or Group of inter-related Clients or risk deals with Clients with common risk factors (e.g., economy sector, geographical region, currency, instrument used for decrease of credit risk (one type of collateral or one provider of collateral, etc.).

In order to control transaction concentration risk Bank has set limits for investments into various types of assets, instruments, markets, etc. Limit is a numerical threshold applied to various types of investments serving as an instrument for limiting and controlling the risk.

Country risk is one of significant transaction concentration risks. Country risk – country partner risk – is the possibility of incurring losses if the Bank's assets are located in a country where, due to changes in its economic and political factors, the Bank may experience problems in recovering its assets within the agreed time and amount. The reasons of default by partners and issuers are primarily currency devaluation, unfavourable legislative changes, creation of new restrictions and barriers as well as other, including force majeure, factors.

In order to control concentration risks following limits were set:
- currency risk limits;
- credit rating group limits;
- financial market operations risk limits;
- limits on open currency positions and cash, limits on allowable loss on trading with foreign currencies;
- limits on allowable loss from trading with financial instruments portfolios;
- limits on high risk deals;
- limits on transactions with parent bank;
- limits on crediting programmes.

Control, analysis and review of fulfilment of these limits is performed.

International rating organisations data (including credit ratings and their dynamics), economic indicators of the country and other relevant information is used for risk analysis.

The main elements of risk control:
- setting of internal limits for regions, countries, and by transaction types in individual countries;
- monitoring of adherence to internal limits;
- analysis and monitoring of country risk;
- review of internal limits.

Asset, liability and off-balance sheet country risk applies to the country which is considered to be the primary country where the client conducts its business activities. If a loan is granted to a resident of another country using collateral which is physically located in a country other than the resident country of the legal entity, the state risk is transferred to the country where the loan collateral is actually located.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 INTEREST INCOME AND EXPENSE

	2014 EUR	2013 EUR
Interest income		
Loans and advances to legal entities	4,973,101	5,653,452
Loans and advances to private individuals	163,405	279,577
Balances due from banks	5,505,355	11,797,283
Trading securities	612,305	1,072,565
Total interest income	**11,254,166**	**18,802,877**
Interest expense		
Due to private individuals	(766,938)	(1,093,124)
Due to legal entities	(2,151,329)	(5,671,894)
Subordinated loan	(892,492)	(704,434)
Other liabilities	(1,064,402)	(927,007)
Total interest expense	**(4,875,161)**	**(8,396,459)**
Net interest income	**6,379,005**	**10,406,418**

Other interest expenses include payments to deposit guarantee fund amounting to 921,758 EUR (in 2013: 844,913 EUR), as well as payments for the financing of the FCMC amounting to 85,506 EUR (in 2013: 75,216 EUR) and negative interest income on correspondent account amounting to 55,808 EUR (in 2013: 0 EUR).

NOTE 6 FEE AND COMMISSION INCOME AND EXPENSE

	2014 EUR	2013 EUR
Fee and commission income		
Money transfers	4,745,744	4,745,886
Loan related fees	2,654	2,647
Commission income from asset management	439,520	38,778
Accounts servicing	572,381	575,394
Letters of credit	460,549	530,138
Commission income on transactions with financial instruments	62,193	58,358
Commission income on current accounts	81,317	38,231
Income from general services	34,169	86,999
Other commissions (DIGIPAS)	60,433	42,702
Interbank commission income	213,289	132,030
Commission for dealing with cards	197,443	165,565
Income from currency exchange	248,768	199,532
Other income	148,623	189,546
Total fee and commission income	**7,267,083**	**6,805,806**
Fee and commission expense		
Money transfers	(1,388,365)	(1,531,980)
Other expense	(29,814)	(29,744)
Total fee and commission expense	**(1,418,179)**	**(1,561,724)**
Net fee and commission income	**5,848,904**	**5,244,082**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 ADMINISTRATIVE EXPENSE

	2014 EUR	2013 EUR
Remuneration paid to personnel	2,836,371	2,528,634
Rent expense	402,527	403,997
Office and equipment maintenance	110,852	105,187
Remuneration paid to the members of the Council and the Board	408,256	303,472
Security services	2,873	2,753
Public utilities	51,830	52,500
State compulsory social insurance contributions	765,381	682,351
Communication expense	353,378	316,983
Consulting and professional fees	345,964	604,361
Set-up and maintenance costs of information systems	132,326	109,648
Business trips	101,587	108,995
Credit card expenses	4,324	29,355
Transportation	49,703	53,069
Health insurance	31,437	28,280
Advertising and marketing	15,210	6,229
Penalties	70,018	-
Other administrative expense	484,658	568,464
	6,166,695	**5,904,278**

The average number of staff employed by the Bank in 2014 was 144 (2012: 130).

NOTE 8 INCOME TAX EXPENSE

Corporate income tax for the reporting year	-	-
Amount of tax paid abroad	569,342	1,221,982
Deferred tax (see Note 19)	148	(29,199)
Total corporate income tax	**569,490**	**1,192,783**

Corporate income tax differs from the theoretically calculated taxation at the 15% rate as stipulated by the law (see below):

(Loss)/ profit before income tax	**(1,312,750)**	**2,138,586**
Theoretically calculated tax at a tax rate of 15%	(196,913)	320,788
Loss from revaluation of securities at fair value through profit or loss	60,597	30,219
Other expenses not deductible for tax purposes and non-taxable income, net	136,464	(380,206)
Amount of tax paid abroad	569,342	1,221,982
Corporate income tax expense	**569,490**	**1,192,783**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2014 EUR	31.12.2013 EUR
Cash	1,225,468	1,133,875
Balances on demand with the Bank of Latvia	100,081,040	31,717,767
	101,306,508	**32,851,642**

Balances on demand with Bank of Latvia reflect the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

Demand deposits with the Bank of Latvia include reserves, which are held in accordance with the Regulations of the Bank of Latvia. These Regulations prescribe the minimum level of the Bank's average correspondent account balance per month, while at any given day these monetary means in the account can be freely accessed and used by the Bank. The minimum level of the Bank's correspondent account for the period from 10 December 2014 to 31 December 2014 was set at EUR 4,594,256 (EUR 16,391,398 in 2013).

The Bank was in compliance with the reserve requirement of the Bank of Latvia during 2014 and 2013.

NOTE 10 BALANCES DUE FROM BANKS

	31.12.2014 EUR	31.12.2013 EUR
Due from Republic of Latvia credit institutions	20,023,153	38,098,079
Due from non-OECD credit institutions	81,126,500	144,147,148
Due from OECD credit institutions	114,857,682	133,910,151
	216,007,335	**316,155,378**

The following table discloses balances due from banks based on their type:

On demand	176,466,586	139,913,339
Balances with maturity of three months or less	13,460,477	101,394,406
Other balances due from banks	26,080,272	74,847,633
	216,007,335	**316,155,378**

The following table discloses balances due from banks according to their ratings as at 31 December 2014 and 31 December 2013:

	31.12.2014 Due from banks		31.12.2013 Due from banks	
Rating	**EUR**	**%**	**EUR**	**%**
Aaa to Aa3	6,443,279	2,98%	347,889	0,11%
A1 to A3	80,349,664	37,20%	120,878,760	38,23%
Baa1 to Baa3	74,900,772	34,68%	32,511,594	10,28%
Ba1 to Ba3	1,286,097	0,60%	15,811,400	5,00%
B1 to B3	15,377,297	7,12%	17,294,771	5,47%
Below B3	27,052,377	12,52%	66,185,848	20,93%
Total	**205,409,486**	**95.09%**	**253,030,262**	**80,02%**
Without rating	10,597,849	4,91%	63,125,116	19,98%
	216,007,335	**100,00%**	**316,155,378**	**100,00%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS

Analysis of loans by client type and by products:

	31.12.2014 EUR	31.12.2013 EUR
Loans to legal entities	95,718,164	85,576,381
Loans to private individuals, except for mortgages	1,748,648	1,745,650
Mortgages	1,925,683	2,227,988
Gross loans and advances to customers	**99,392,495**	**89,550,018**
Less: provisions for loan impairment	(28,997,132)	(19,700,832)
Total loans and advances to customers	**70,395,363**	**69,849,187**

The following table discloses changes in provisions for loan impairment during 2014:

	Loans to legal entities EUR	Loans to private individuals, except for mortgages EUR	Mortgages EUR	Total EUR
Provisions for loan impairment as at 1 January 2014	**17,466,817**	**1,630,046**	**603,969**	**19,700,832**
Increase in provisions for loan impairment for the year	6,913,034	(997)	609,653	7,521,689
Impact of foreign currency revaluation	1,696,750	-	77,860	1,774,610
Provisions for loan impairment as at 31 December 2014	**26,076,601**	**1,629,069**	**1,291,482**	**28,997,132**

The following table discloses changes in provisions for loan impairment during 2013:

	Loans to legal entities EUR	Loans to private individuals, except for mortgages EUR	Mortgages EUR	Total EUR
Provisions for loan impairment as at 1 January 2013	**13,587,834**	**787,202**	**296,818**	**14,671,854**
Increase in provisions for loan impairment for the year	7,217,105	842,844	307,151	8,367,100
Change in provision due to loans write-offs	(2,856,720)	-	-	(2,856,720)
Impact of foreign currency revaluation	(481,402)	-	-	(481,402)
Provisions for loan impairment as at 31 December 2013	**17,466,817**	**1,630,046**	**603,969**	**19,700,832**

The concentration of risks in the credit portfolio based on the economical industries is as follows:

	2014		2013	
	EUR	**%**	**EUR**	**%**
Trade and commercial activities	29,549,812	29.73	28,974,835	32.36
Private individuals	3,674,331	3.70	3,973,638	4.44
Agriculture and food industry	5,239,455	5.27	4,574,590	5.11
Construction and operations with real estate	26,026,470	26.19	21,840,966	24.39
Transport and communication	17,281,158	17.39	12,968,069	14.48
Industry	6,736,580	6.78	6,164,326	6.88
Tourism and hotel services, restaurant business	1,217,013	1.22	1,335,626	1.49
Financial services	4,145,199	4.17	4,478,291	5.00
Other	5,522,478	5.55	5,239,677	5.85
Loans and advances to customers (before provisions for impairment)	**99,392,495**	**100.00**	**89,550,018**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

As at 31 December 2014, the total amount of loans issued to 10 largest customers was EUR 50,840,154 (2013: EUR 37,721,961), which comprises 51.15% of the total credit portfolio (2013: 42.12%). As at 31 December 2014 loans to 10 largest customers were secured by deposits amounting to EUR 7,829,909 (31 December 2013: 7,421,479 EUR).

The following table shows the information about collateral as at 31 December 2014:

	Loans to legal entities	**Loans to private individuals, except for mortgages**	**Mortgages**	**Total**
	EUR	**EUR**	**EUR**	**EUR**
Unsecured	10,060,244	1,745,684	323,168	**12,129,096**
Collateralised by:				
- residential real estate	1,912,525	-	711,271	**2,623,796**
- other real estate	54,473,120	-	891,244	**55,364,364**
- cash deposits	8,454,791	2,964	-	**8,457,755**
- guarantees and other assets	20,817,484	-	-	**20,817,484**
Total loans and advances to customers (before provisions for impairment)	**95,718,164**	**1,748,648**	**1,925,683**	**99,392,495**

The following table shows the information about collateral as at 31 December 2013:

	Loans to legal entities	**Loans to private individuals, except for mortgages**	**Mortgages**	**Total**
	EUR	**EUR**	**EUR**	**EUR**
Unsecured	7,154,114	1,737,786	296,505	9,188,405
Collateralised by:				
- residential real estate	2,057,177	-	1,031,373	3,088,550
- other real estate	44,898,899	-	900,110	45,799,009
- cash deposits	9,159,487	7,864	-	9,167,351
- guarantees and other assets	22,306,703	-	-	22,306,703
Total loans and advances to customers (before provisions for impairment)	**85,576,380**	**1,745,650**	**2,227,988**	**89,550,018**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The following table shows the loans outstanding as at 31 December 2014 by credit quality:

	Loans to legal entities EUR	Loans to private individuals, except for mortgages EUR	Mortgages EUR	Total EUR
Loans that are neither past due nor impaired				
- Standard loans	45,233,496	112,272	526,779	**45,872,547**
- Close control	-	-	-	**-**
- Substandard	277,047	-	-	**277,047**
Total neither past due nor impaired	**45,510,543**	**112,272**	**526,779**	**46,149,594**
Past due but not impaired loans				
- past due 30 days	479,713	-	-	**479,713**
- past due from 30 to 90 days	4,097,853	-	-	**4,097,853**
- past due from 91 to 180 days	271,147	-	-	**271,147**
- past due from 181 to 360 days	102,841	41	-	**102,882**
Total past due, but not impaired	**4,951,554**	**41**	**-**	**4,951,595**
Individually impaired loans (total amount)				
- not past due	11,587,865	-	1,075,736	**12,663,601**
- past due up to 30 days	2,248,470	-	-	**2,248,470**
- past due 30 – 90 days	50,612	-	-	**50,612**
- past due 91 – 180 days	10,634,764	-	-	**10,634,764**
- past due 181 – 360 days	1,906,520	28,769	-	**1,935,289**
- past due over 360 days	18,827,836	1,607,566	323,168	**20,758,570**
Total individually impaired loans (total amount)	**45,256,067**	**1,636,335**	**1,398,904**	**48,291,306**
Less: provisions for loan impairment	**(26,076,601)**	**(1,629,049)**	**(1,291,482)**	**(28,997,132)**
Net loans and advances to customers	**69,641,563**	**119,599**	**634,201**	**70,395,363**

Loans past due, but not impaired include all amounts due from borrowers. Amount actually overdue as at 31 December 2014 was 775,300 EUR (as at 31 December 2013: 5,947,769 EUR).

Loans past due and individually impaired include all amounts due from borrowers. Amount actually overdue as at 31 December 2014 was 30,197,658 EUR (as at 31 December 2013: 17,082,488 EUR).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The following table shows the loans outstanding as at 31 December 2013 by credit quality:

	Loans to legal entities EUR	Loans to private individuals, except for mortgages EUR	Mortgages EUR	Total EUR
Loans that are neither past due nor impaired				
- Standard loans	45,025,936	107,913	867,236	**46,001,085**
- Close control	289,731	-	-	**289,731**
- Substandard	-	-	-	**-**
Total neither past due nor impaired	**45,315,667**	**107,913**	**867,236**	**46,290,816**
Past due but not impaired				
- past due 30 days	4,281,827	-	-	**4,281,827**
- past due from 30 to 90 days	2,642,737	-	-	**2,642,737**
- past due from 91 to 180 days	2,166,285	-	-	**2,166,285**
Total past due but not impaired	**9,090,849**	**-**	**-**	**9,090,849**
Individually impaired loans (total amount)				
- not past due	14,023,075	10,555	-	**14,033,630**
- past due 30 days	-	19,323	-	**19,323**
- past due from 30 to 90 days			1,023,837	**1,023,837**
- past due from 91 to 180 days	1,137,000	-	-	**1,137,000**
- past due 181 to 360 days	2,452,166	646	-	**2,452,812**
- past due over 360 days	13,557,623	1,607,213	336,915	**15,501,751**
Total individually impaired loans (total amount)	**31,169,864**	**1,637,737**	**1,360,752**	**34,168,353**
Less: provisions for loan impairment	**(17,466,817)**	**(1,630,046)**	**(603,969)**	**(19,700,832)**
Net loans and advances to customers	**68,109,563**	**115,604**	**1,624,019**	**69,849,186**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2014 was as follows:

	Loans to legal entities EUR	Mortgages EUR
Fair value of collateral – loans past due but not impaired		
- Residential real estate	1,403,037	-
- Other real estate objects	41,711,167	-
- Deposits	3,226,159	-
- Other assets	9,004,424	-
Fair value of collateral – individually impaired loans		
- Residential real estate	1,083,677	184,492
- Other real estate objects	40,401,202	1,625,778
- Deposits	2,896,697	-
- Other assets	7,503,434	-
Total	**107,229,797**	**1,810,270**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2013 was as follows:

	Loans to legal entities EUR	Mortgages EUR
Fair value of collateral – loans past due but not impaired		
- Residential real estate	28,457	-
- Other real estate objects	8,718,209	-
- deposits	-	-
- Other assets	7,018,216	-
Fair value of collateral – individually impaired loans		
- Residential real estate	1,286,838	164,137
- Other real estate objects	26,281,908	1,486,811
- deposits	146,556	-
- Other assets	8,447,291	-
Total	**51,927,475**	**1,650,948**

The Bank’s policy is to classify each loan as ‘neither past due nor impaired’ until specific objective evidence of impairment of the loan is identified.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The financial effect of collateral is presented by disclosing separately impact (i) on assets with collateral being equal or in excess of the book value of assets ("Assets with collateral value exceeding the loan balance"), and (ii) on assets with collateral being less than the book value of assets ("Assets with insufficient collateral").

The impact of collateral at 31 December 2014:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Book value of asset (before provisions for impairment)	Fair value of collateral	Book value of asset (before provisions for impairment)	Fair value of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	80,864,740	190,751,888	14,853,424	4,793,180
Loans to individuals – consumer loans	1,316	66,291	1,747,332	1,648
Mortgage loans	1,602,515	2,899,085	323,168	-
Total	**82,468,571**	**193,717,264**	**16,923,924**	**4,794,828**

The impact of collateral at 31 December 2013:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Book value of asset (before provisions for impairment)	Fair value of collateral	Book value of asset (before provisions for impairment)	Fair value of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	72,664,514	175,557,155	12,911,866	5,757,752
Loans to individuals – consumer loans	6,985	36,959	1,738,665	879
Mortgage loans	1,891,073	3,091,977	336,915	40,410
Total	**74,562,572**	**178,686,091**	**14,987,446**	**5,799,041**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2014 EUR	31.12.2013 EUR
Latvian government debt securities	17,817,963	14,137,606
OECD state government debt securities	173,552,232	-
Non-OECD state government debt securities	8,506,507	2,895,400
Non-OECD region corporate debt securities	57,681	6,515,127
Unquoted shares	7,364	6,551
Quoted shares	-	1,746
	199,941,747	**23,556,430**

The following table discloses securities by issuers' ratings as at 31 December 2014 and 31 December 2013:

	31.12.2014		31.12.2013	
Rating	**Securities EUR**	**%**	**Securities EUR**	**%**
Aaa to Aa3	160,594,154	80,32%	-	-
From A1 to A3	8,533,417	4,27%	-	-
From Baa1 to Baa3	30,749,130	15,38%	14,137,606	60,02%
From Ba1 to Ba3	-	-	5,937,017	25,20%
From B1 to B3	28,030	0,01%	17,043	0,07%
Below B3	7,364	0,00%	3,446,058	14,63%
	199,912,095	99.98%	**23,537,724**	99,92%
Without rating	29,652	0.02%	18,706	0,08%
	199,941,747	**100%**	**23,556,430**	**100%**

NOTE 13 INTANGIBLE ASSETS

The following changes in the Bank's intangible assets took place during 2014 and 2013:

	Software 2014 EUR	Software 2013 EUR
Cost		
As at the beginning of the year	**1,377,496**	**1,232,234**
Additions	115,010	145,262
As at end of the year	**1,492,506**	**1,377,496**
Amortisation		
Accumulated amortisation at the beginning of the year	**1,145,986**	**1,020,630**
Charge for the year	109,441	125,356
Accumulated amortisation at the end of the year	**1,255,427**	**1,145,986**
Net book value at the beginning of the year	**231,510**	**211,604**
Net book value at the end of the year	**237,079**	**231,510**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 PROPERTY AND EQUIPMENT

The following changes in the Bank's property and equipment took place during the year ended 31 December 2014:

	Transport	Computers	Office equipment	Leasehold improvements	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
31.12.2013	**61,455**	**711,535**	**593,039**	**100,927**	**1,466,956**
Additions	27,557	44,160	20,177	-	91,894
Disposals	-	(33,903)	(29,317)	-	(63,220)
31.12.2014	**89,012**	**721,792**	**583,899**	**100,927**	**1,495,630**
Depreciation					
31.12.2013	**25,087**	**646,893**	**490,225**	**30,584**	**1,192,789**
On disposals	**-**	(33,911)	(17,305)	**-**	(51,216)
Charge for 2014	8,902	45,768	27,104	6,115	87,889
31.12.2014	**33,989**	**658,750**	**500,024**	**36,699**	**1,229,462**
Net book value 31.12.2013	**36,368**	**64,642**	**102,814**	**70,343**	**274,167**
Net book value 31.12.2014	**55,023**	**63,042**	**83,875**	**64,228**	**266,168**

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

	Transport	Computers	Office equipment	Leasehold improvements	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
31.12.2012	**23,833**	**707,224**	**581,821**	**100,927**	**1,413,805**
Additions	37,622	39,816	12,001	-	89,439
Disposals	-	(35,505)	(783)	-	(36,288)
31.12.2013	**61,455**	**711,535**	**593,039**	**100,927**	**1,466,956**
Depreciation					
31.12.2012	**23,833**	**634,293**	**410,911**	**24,468**	**1,093,505**
On disposals	-	(35,038)	(437)	-	(35,475)
Charge for 2013	1,254	47,638	79,751	6,116	134,759
31.12.2013	**25,087**	**646,893**	**490,225**	**30,584**	**1,192,789**
Net book value 31.12.2012	**-**	**72,931**	**170,910**	**76,459**	**320,300**
Net book value 31.12.2013	**36,368**	**64,642**	**102,814**	**70,343**	**274,167**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 15 CUSTOMER ACCOUNTS

(a) Analysis of groups by customers

	31.12.2014 EUR	31.12.2013 EUR
Legal entities		
- current/ settlement accounts	472,830,037	343,844,837
- term deposits	12,215,905	14,551,228
Private individuals		
- current/ settlement accounts	38,092,339	15,154,140
- term deposits	17,794,882	24,234,829
Total customer accounts:	**540,933,163**	**397,785,034**
Sector profile:		
Private companies	484,657,024	358,139,843
Private individuals	55,887,221	39,388,969
Financial institutions	243,050	238,223
Non-profit institutions	137,185	6,215
Central government	8,683	11,784
Total customer accounts:	**540,933,163**	**397,785,034**

(b) Analysis by place of residence

Residents	23,512,866	28,941,900
Non-residents	517,420,297	368,843,134
Total customer accounts:	**540,933,163**	**397,785,034**

The average interest rate on term deposits in 2014 was 4.02% (2013: 4.39%) and the average interest rate on demand deposits was 0,16% (2013: 0.48%). All deposits have a fixed interest rate.

Economic sector concentration within customer accounts is as follows:

	2014		2013	
	EUR	%	EUR	%
Manufacturing	4,692,483	0.87	10,021,444	2.52
Building and real estate	7,847,147	1.45	5,783,810	1.45
Trade and commercial activities	278,737,231	51.53	147,866,166	37.17
Financial and insurance services	77,646,401	14.35	117,453,566	29.53
Transport and communications	98,964,618	18.30	64,882,845	16.31
Agriculture and food industries	3,154,595	0.58	1,709,185	0.43
Private individuals	55,887,221	10.37	39,388,969	9.90
Other	14,003,468	2.57	10,679,048	2.69
Total customer accounts	**540,933,163**	**100,00**	**397,785,034**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 16 BALANCES DUE TO BANKS

	31.12.2014 EUR	31.12.2013 EUR
Term deposit of Pivdennyi Bank	-	4,895
Other interbank borrowings	7,365	62,983
	7,365	**67,878**

NOTE 17 OTHER FINANCIAL LIABILITIES

Liabilities in clearance	2,054,024	494,122
Settlements on behalf of a closed bank	16,585	16,585
Cash in transit	124,219	32,335
Creditors settlements	140,712	75,071
	2,345,540	**618,113**

Liabilities in clearance include amounts erroneously transferred to the Bank, which were returned to senders at the beginning of 2015.

NOTE 18 DEFERRED INCOME AND ACCRUED EXPENSES

Accrued annual leave expenses	197,652	200,291
Accrual for guarantee fund and FCMC financing	290,717	231,891
State social security contributions to be paid	125,148	51,300
Accrued commission expenses	222,047	182,523
Other accrued expenses	39,210	103,356
	874,774	**769,361**

NOTE 19 DEFERRED INCOME TAX

Deferred income tax is calculated by using the enacted tax rate – 15%.

The movement on the deferred income tax account is as follows:

	2014 EUR	2013 EUR
Deferred income tax (asset) / liability at the beginning of the reporting year	(19,311)	9,888
Deferred income tax change during the reporting year (see Note 8)	148	(29,199)
Deferred tax asset at the end of the reporting year	**(19,163)**	**(19,311)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred income tax has been calculated from the following temporary differences between assets and liabilities values for financial reporting and tax purposes:

	31.12.2014 EUR	31.12.2013 EUR
Deferred income tax liability:		
Temporary difference on fixed assets depreciation	17,784	18,428
Deferred income tax assets:		
Temporary difference on accruals for unused annual leave	(36,947)	(37,739)
Deferred tax asset	**(19,163)**	**(19,311)**

NOTE 20 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative financial instruments: currency forwards – agreements on currency acquisition in future, currency swaps – agreements on exchange of one set of each cash flow for another.

The Bank's credit risk represents the potential cost to replace the forward contracts if counterparties fail to perform their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Bank's exposure to credit risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The Bank’s notional amounts and fair values of derivative instruments held for trading are set out in the following table:

	31.12.2014			31.12.2013		
	Contract / notional amount	Fair value		Contract / notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	43,539,914	736,418	(514,290)	13,552,986	208,831	(129,456)
Currency forwards	750,195	194	(1,134)	5,397,414	27,221	(12,918)
Total		**736,612**	**(515,424)**		**236,052**	**(142,374)**

The Bank’s notional amounts of derivative instruments by counterparty credit rating are set out in the following table:

Rating	31.12.2014 EUR	31.12.2013 EUR
Aaa to Aa3	750,195	571,266
Baa1 to Baa3	20,388,271	2,743,210
B1 to B3	19,351,643	-
Without rating	3,800,000	15,635,924
	44,290,109	**18,950,400**

The table below allocates the Bank’s derivative instruments future cash flows as at 31 December 2014:

	Up to 1 month EUR	1 to 3 months EUR	Over 3 months EUR	Total EUR
Derivatives settled on a gross basis				
Foreign exchange derivatives:				
- inflow	44,290,109	-	-	44,290,109
- outflow	(44,064,460)	-	-	(44,064,460)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below allocates the Bank's derivative instruments future cash flows as at 31 December 2013:

	Up to 1 month	1 to 3 months	Over 3 months	Total
	EUR	EUR	EUR	EUR
Derivatives settled on a gross basis				
Foreign exchange derivatives:				
- inflow	19,141,495	-	-	19,141,495
- outflow	(19,047,985)	-	-	(19,047,985)

NOTE 21 SHARE CAPITAL

Issued and fully paid share capital as at 31 December 2014 was EUR 32,334,762 (31 December 2013: EUR 32,334,762). Nominal value of one share is EUR 1.43 (31 December 2013: EUR 1.43). All shares are ordinary equity shares with voting rights.

During 2014 the following changes were made in the composition of the shareholders of the Bank:

During July 2014 shareholder of the Bank AB "Pivdenny" sold 4 461 000 of its shares to following parties:

- 160 000 shares to Jurij Rodin,
- 358 400 shares to OOO „Vinster",
- 2 150 500 shares to OOO „Groslend",
- 430 100 shares to OOO „Portfeļnij Investor",
- 1 362 000 shares to OOO „Jasnie Zori".

During August 2014 shareholder of the Bank OOO "Groslend: sold all of its 2 150 500 shares to Mark Bekker.

During September 2014 shareholder of the Bank AB "Pivdenny" sold 1 148 000 of its shares to Jurij Rodin.

During October 2014 shareholder of the Bank Haralds Abolins sold all of his 220 shares to Jurij Rodin.

As at 31 December 2014 and 31 December 2013 shareholders of the Bank were:

	31.12.2014		31.12.2013	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
	EUR	%	EUR	%
AB „Pivdenny" bank	18,484,058	57.16	26,464,946	81.85
Jurij Rodin	4,849,460	15.00	2,988,031	9.24
Mark Bekker	3,059,886	9.46	-	-
Jasnii Zori OOO	1,937,952	6.00	-	-
DrawNex Universal S.A	1,565,159	4.84	1,565,159	4.84
Aztin corporation	711,436	2.20	711,436	2.20
Portfolio Investor OOO	611,977	1.89	-	-
Winster OOO	509,957	1.58	-	-
Olegs Atayants	284,574	0.88	284,574	0.88
Vitalijs Medvedcuks	284,574	0.88	284,574	0.88
Irina Veseluha	35,572	0.11	35,572	0.11
Haralds Abolins	-	-	313	-
Daiga Muravska	157	-	157	-
	32,334,762	**100.00**	**32,334,762**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 COMMITMENTS, GUARANTEES ISSUED AND PLEDGED ASSETS

Guarantees

The following table discloses guarantees issued:

	31.12.2014 EUR	31.12.2013 EUR
Financial guarantees at nominal amount	4,694,429	3,413,977
	4,694,429	**3,413,977**

The Bank has issued financial guarantees in the amount of EUR 4,694,429. These guarantees are secured by deposits placed with the Bank or money resources in the security accounts or insurance policy of an insurance company.

Credit related commitments

The following table discloses the contractual amounts of the Bank's commitments to extend credit:

	31.12.2014 EUR	31.12.2013 EUR
Letters of credit	21,815	1,336,334
Commitments for trade cheques	-	321,680
Lending commitments	26,870,706	35,379,740
	26,892,521	**37,037,754**

From which Bank's commitments relating to lending were as follows:

	31.12.2014 EUR	31.12.2013 EUR
Loan commitments	5,330,541	34,347,729
Undrawn credit lines	21,540,165	1,032,011
Total lending commitments	**26,870,706**	**35,379,740**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The loan commitments are denominated in the following currencies:

	31.12.2014 EUR	31.12.2013 EUR
USD	2,988,477	19,525,382
EUR	2,342,064	11,465,489
LVL	-	3,356,858
Total	**5,330,541**	**34,347,729**

The undrawn credit lines are denominated in the following currencies:

	31.12.2014 EUR	31.12.2013 EUR
USD	13,808,047	576,596
EUR	7,732,118	555,415
Total	**21,540,165**	**1,032,011**

Commitment under operating lease agreement

The Bank has entered into an operating lease agreement for its office premises. The lease agreement expires in June 2025. The planned lease liabilities payable within a year are EUR 438,609 (in 2013: 438,734 EUR). The Bank does not have non-cancellable lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 COMMITMENTS, GUARANTEES ISSUED AND PLEDGED ASSETS (continued)

Where the Bank is the lessee, the future lease payments under concluded operating lease agreements are as follows:

	31.12.2014. EUR	31.12.2013. EUR
Up to 1 year	438,609	357,578
1 to 5 years	1,952,883	1,836,351
Over 5 years	1,756,145	2,485,134
Total operating lease liabilities	**4,147,637**	**4,679,063**

Assets pledged and restricted

As at year 2014 and 2013 the Bank had the following assets pledged:

	2014	2013
	Assets pledged EUR	Assets pledged EUR
Balances due from banks	6 814 011	2,607,672
Other assets	634 610	2,713,849
Total	**7 448 621**	**5,321,521**

All encumbered assets serve as a pledge for liabilities of the Bank as at 31 December 2014 and 31 December 2013.

Carrying value of encumbered assets approximates their fair value bots as at 31 December 2014 and as at 31 December 2013.

Encumbered assets of the Bank as at 31 December 2014 are comprised of the following assets:
- EUR 634,610 security deposits for potential claims from Visa Europe Services Inc and MasterCard Europe SPRL. Agreements with these organisation provide for ensuring sufficient amount of resources available in deposit accounts in the Lloyds TSB Bank plc (Visa Europe Services InC) and in HSBC BANK (MasterCard Europe Sprl), which could cover all expenses related with the participation of the Bank in these organisations. Total amount of these encumbered assets is included within other assets.
- EUR 4,095,948 security deposits for guarantees issued by the Bank. Total amount of these encumbered assets is included within balances due from other banks.
- EUR 2,718,063 security deposits for execution of securities and derivative financial instruments deals. Total amount of these encumbered assets is included within balances due from other banks.

Encumbered assets of the Bank as at 31 December 2013 are comprised of the following assets:
- EUR 576,177 security deposits for potential claims from Visa Europe Services Inc and MasterCard Europe SPRL. Agreements with these organisation provide for ensuring sufficient amount of resources available in deposit accounts in the Lloyds TSB Bank plc (Visa Europe Services InC) and in HSBC BANK (MasterCard Europe Sprl), which could cover all expenses related with the participation of the Bank in these organisations. Total amount of these encumbered assets is included within other assets.
- EUR 2,142,672 real estate available for sale, serving as a pledge for loan. Total amount of these encumbered assets is included within other assets.
- EUR 2,607,672 security deposits for guarantees issued by the Bank. Total amount of these encumbered assets is included within balances due from other banks.
- .

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 23 CASH AND CASH EQUIVALENTS

	31.12.2014 EUR	31.12.2013 EUR
Cash and balances on demand with the Bank of Latvia	101,306,508	32,851,642
Due from banks with original maturity of 3 months or less	189,927,063	241,307,745
Due to banks with original maturity of 3 months or less	(7,365)	(67,878)
	291,226,206	**274,091,509**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 24 CAPITAL ADEQUACY

The Bank's calculation of the capital adequacy ratio according to the Finance and Capital Market Commission Guidelines as at 31 December 2014 has been set in the table below:

Description	31.12.2014 EUR
Total own funds	**47,024,138**
- Tier 1 capital	35,369,244
- Common equity Tier 1 capital	35,369,244
- Tier 2 capital	11,654,894
Total risk exposure amount	**176,827,836**
- Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	141,495,348
- Total risk exposure amount for position, foreign exchange and commodities risks	10,897,100
- Total risk exposure amount for operational risk	24,435,388
Capital adequacy ratios	
- Common equity Tier 1 Capital ratio	20.00%
- Surplus (+) / Deficit (-) of Common equity Tier 1 capital (4.5%)	27,411,991
- Tier 1 Capital ratio	20.00%
- Surplus (+) / Deficit (-) of Tier 1 capital (6%)	24,759,574
- Total capital ratio	26.59%
- Surplus (+) / Deficit (-) of total capital (8%)	32,877,911
- Total capital ratio	26.59%
- Surplus (+) / Deficit (-) of total capital (11%, calculated as a total individual capital requirement set to the Bank of 13.5% less capital retention reserve of 2.5%)	27,573,076
- Capital retention reserve (%)	2.5%
- Capital retention reserve	4,420,696

The Bank's calculation of the capital adequacy ratio according to the Finance and Capital Market Commission Guidelines as at 31 December 2013 has been set in the table below:

Description	31.12.2013 EUR
Total own funds	**47,828,117**
- Tier 1 capital	37,257,047
- Common equity Tier 1 capital	37,257,047
- Tier 2 capital	10,571,070
Total risk exposure amount	**221,029,139**
- Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	184,240,112
- Total risk exposure amount for position, foreign exchange and commodities risks	17,766,707
- Total risk exposure amount for operational risk	19,022,320
Capital adequacy ratios	
- Total capital ratio	21.64%
- Surplus (+) / Deficit (-) of total capital (8%)	30,145,786

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 25 CURRENCY ANALYSIS

The following table provides the analysis of the Bank's assets, liabilities and shareholders' equity as well as off-balance sheet claims arising from foreign exchange outstanding as at 31 December 2014 by currency profile:

	USD EUR	EUR EUR	LVL EUR	Other EUR	Total EUR
Assets					
Cash and deposits with the Bank of Latvia	452,483	100,853,854	-	171	101,306,508
Balances due from banks	196,484,772	14,707,419	-	4,815,144	216,007,335
Loans and advances to customers	38,328,776	32,066,587	-	-	70,395,363
Financial assets at fair value through profit or loss	191,121,087	9,557,272	-	-	200,678,359
Intangible assets	-	237,079	-	-	237,079
Property and equipment	-	266,168	-	-	266,168
Deferred tax assets	-	19,163	-	-	19,163
Other assets	1,590,260	1,107,808	-	891,306	3,589,374
Total assets	**427,977,378**	**158,815,350**	**-**	**5,706,621**	**592,499,349**
Liabilities and equity					
Balances due to banks	-	7,365	-	-	7,365
Customer accounts	450,354,900	86,872,826	-	3,705,437	540,933,163
Other liabilities	353,572	2,839,411	-	27,331	3,220,314
Derivative financial instruments	-	515,424	-	-	515,424
Subordinated loan	12,216,760	-	-	-	12,216,760
Equity	-	35,606,323	-	-	35,606,323
Total liabilities and equity	**462,925,232**	**125,841,349**	**-**	**3,732,768**	**592,499,350**
Net long / (short) position on balance sheet	**(34,947,854)**	**32,974,001**	**-**	**1,973,853**	**-**
Off-balance sheet claims arising from foreign exchange					
Balances due from foreign exchange	39,940,108	4,350,000	-	-	44,290,108
Liabilities from foreign exchange	4,864,460	39,200,000	-	-	44,064,460
Net long / (short) position on foreign exchange	**35,075,648**	**(34,850,000)**	**-**	**-**	**225,648**
Net long / (short) position	***127,794***	***(1,875,999)***	***-***	***1,973,853***	***225,648***
As at 31 December 2013					
Total assets	**324,017,269**	**73,974,047**	**43,798,780**	**5,951,709**	**447,741,805**
Total liabilities and shareholders' equity	**327,218,959**	**71,415,725**	**44,182,297**	**4,924,824**	**447,741,805**
Net long / (short) position on balance sheet	**(3,201,690)**	**2,558,322**	**(383,517)**	**1,026,885**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 26 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2014 based on the time remaining from the balance sheet date to the contractual maturity dates:

	Overdue	1 m.	1 – 3 m.	3 – 6 m.	6 –12 m.	1–5 years	More than 5 years	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Cash and balances with the Bank of Latvia	-	101,306,508	-	-	-	-	-	**101,306,508**
Balances due from banks	-	189,371,001	13,988,348	8,337,900	4,310,086	-	-	**216,007,335**
Loans and advances to customers	10,849,353	4,776,888	4,707,742	6,206,817	13,568,419	26,076,279	4,209,865	**70,395,363**
Financial assets at fair value through profit or loss	29,652	169,100,661	1,699,872	18,732	8,533,416	19,132,963	1,426,451	**199,941,747**
Intangible assets	-	-	-	-	-	-	237,079	**237,079**
Property and equipment	-	-	-	-	-	-	266,168	**266,168**
Derivative financial instruments	-	736,612	-	-	-	-	-	**736,612**
Next period expenses	-	-	-	-	154,824	-	-	**154,824**
Deferred tax asset	-	-	-	-	19,163	-	-	**19,163**
Other assets	-	1,300,554	1,167,043	-	332,343	-	634,610	**3,434,550**
Total assets	**10,879,005**	**466,592,224**	**21,563,005**	**14,563,449**	**26,918,251**	**45,446,321**	**6,537,094**	**592,499,349**
Liabilities and equity								
Balances due to banks	-	7,365	-	-	-	-	-	**7,365**
Customer accounts	-	499,115,229	8,255,502	5,735,279	15,854,207	11,901,591	71,355	**540,933,163**
Derivative financial instruments	-	515,424	-	-	-	-	-	**515,424**
Deferred income and accrued expenses	-	436,520	77,741	90,177	270,336	-	-	**874,774**
Other liabilities	-	2,345,540	-	-	-	-	-	**2,345,540**
Subordinated loan	-	5,246	-	-	-	4,118,277	8,093,237	**12,216,760**
Equity	-	-	-	-	-	-	35,606,323	**35,606,323**
Total liabilities and equity	**-**	**502,425,324**	**8,333,243**	**5,825,456**	**16,124,543**	**16,019,868**	**43,770,915**	**592,499,349**
Net liquidity	*10,879,005*	*(35,833,100)*	*13,229,762*	*8,737,993*	*10,793,708*	*29,426,453*	*(37,233,821)*	-
As at 31 December 2013								
Total assets	**8,585,345**	**307,491,273**	**25,858,471**	**20,788,694**	**59,455,053**	**24,021,037**	**1,541,932**	**447,741,805**
Total liabilities and equity	**-**	**347,772,309**	**7,688,045**	**4,884,176**	**24,159,121**	**16,105,884**	**47,132,270**	**447,741,805**
Net liquidity	*8,585,345*	*(40,281,036)*	*18,170,426*	*15,904,518*	*35,295,932*	*7,915,153*	*(45,590,338)*	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 26 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE (continued)

Management of the Bank is confident that short-term liquidity is not endangered. Liquidity calculated based on the requirements of the FCMC as at 31 December was 91.05%. In accordance with the requirements of the FCMC, the Bank has to ensure sufficient amount of liquid assets to fulfil liabilities, but not less than in amount of 60% from the amount of the total current liabilities of the Bank.

Deposits serving as pledge for liabilities of customers are disclosed based on maturity of the underlying liability.

The table below allocates the Bank's financial liabilities on undiscounted cash flow bases as at 31 December 2014:

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balances due to banks	-	7,365	-	-	-	-	-	7,365
Customer accounts	-	499,270,917	8,389,692	5,872,866	16,126,399	12,287,028	72,564	542,019,466
Other liabilities	-	2,345,540	-	-	-	-	-	2,345,540
Subordinated loan	-	30,641	50,792	76,188	152,376	5,139,930	8,093,238	13,543,165
Total liabilities	**-**	**501,654,463**	**8,440,484**	**5,949,054**	**16,278,775**	**17,426,958**	**8,165,802**	**557,915,536**

The table below allocates the Bank's financial liabilities on undiscounted cash flow bases as at 31 December 2013:

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balances due to banks	-	401,851	96,401	148,686	300,640	2,387,148	1,287,569	4,622,295
Customer accounts	-	346,559,049	7,805,436	4,966,107	24,704,372	15,389,824	259,293	399,684,081
Other liabilities	-	618,118	-	-	-	-	-	618,118
Subordinated loan	-	84,164	171,012	167,989	274,337	1,742,244	9,409,961	11,849,707
Total liabilities	**-**	**347,663,182**	**8,072,849**	**5,282,782**	**25,279,349**	**19,519,216**	**10,956,823**	**416,774,201**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2014 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates:

	Within 1 month	1–3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Positions which are not sensitive to the interest rate risk	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Cash and balances with the Bank of Latvia	-	-	-	-	-	-	101,306,508	**101,306,508**
Balances due from banks	184,237,363	11,261,125	-	-	-	-	20,508,847	**216,007,335**
Loans and advances to customers	19,144,220	13,646,445	9,001,906	8,160,833	16,985,904	3,450,939	5,116	**70,395,363**
Financial assets at fair value through profit or loss	169,100,661	1,699,872	18,732	8,533,416	19,132,963	1,448,739	7,364	**199,941,747**
Intangible assets	-	-	-	-	-	-	237,079	**237,079**
Property and equipment	-	-	-	-	-	-	266,168	**266,168**
Deferred tax expenses	-	-	-	-	-	-	19,163	**19,163**
Other assets	-	-	-	-	-	-	4,325,986	**4,325,986**
Total assets	**372,482,244**	**26,607,442**	**9,020,638**	**16,694,249**	**36,118,867**	**4,899,678**	**126,676,231**	**592,499,349**
Liabilities								
Balances due to banks	-	-	-	-	-	-	7,365	**7,365**
Customer accounts	14,653,519	4,588,971	1,578,782	4,687,603	11,462,323	71,144	503,890,821	**540,933,163**
Other liabilities	-	-	-	-	-	-	3,735,738	**3,735,738**
Subordinated loan	-	-	-	-	4,118,277	8,093,237	5,246	**12,216,760**
Total liabilities	**14,653,519**	**4,588,971**	**1,578,782**	**4,687,603**	**15,580,600**	**8,164,381**	**507,639,170**	**556,893,026**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	35,606,323	**35,606,323**
Total liabilities and equity	**14,653,519**	**4,588,971**	**1,578,782**	**4,687,603**	**15,580,600**	**8,164,381**	**543,245,493**	**592,499,349**
On balance sheet interest sensitivity analysis	*357,828,725*	*22,018,471*	*7,441,856*	*12,006,646*	*20,538,267*	*(3,264,703)*	*(416,569,262)*	-
As at 31 December 2013								
Total assets	**261,808,464**	**23,623,111**	**31,179,184**	**46,330,829**	**30,945,591**	**1,971,658**	**51,882,968**	**447,741,805**
Total liabilities and equity	**58,080,240**	**3,760,743**	**2,898,526**	**14,331,580**	**14,417,253**	**9,642,767**	**344,610,696**	**447, 741,805**
On balance sheet interest sensitivity analysis	*203,728,224*	*19,862,368*	*28,280,658*	*31,999,249*	*16,528,338*	*(7,671,109)*	*(292,727,728)*	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

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

The direct parent company of the Bank is AB Pivdenny bank, as it has control over the operations of the Bank, as well as own more than half of shares with voting rights. Ultimate beneficiary of AB Pivdenny bank is Jurij Rodin.

Operations with the related parties were as follows as at 31 December 2014:

	Parent company of the Bank	**Enterprises under the control of related parties**	**Other related parties**
Total loans and advances (interest rate on agreement: 5,7-24%)	22,873,259	2,861,818	5,033
Correspondent account	4,160,448	-	-
Customer accounts (interest rate: 0.0-5,0%)	-	5,287,968	25,381
Subordinated loan	8,095,074	823,816	

Income and expense from operations with related parties during 2014 were as follows:

	Parent company of the Bank	**Enterprises under the control of related parties**	**Other related parties**
Interest income	2,898,016	210,982	722
Interest expenses	613,615	399,512	31,644
Fee and commission income	-	232,321	790
Fee and commission expense	19,461	-	-
Administrative and other operating expenses	17,032	-	-

The balances in respect of operations with related parties are as follows as at 31 December 2014:

	Enterprises under the control of related parties	**Other related parties**
Undrawn credit lines	**82**	**3,809**
Assets under management	**6,823,458**	**-**

Total amounts of loan commitments issued to and repaid by related parties during 2014 are as follows:

	Parent company of the Bank	**Enterprises under the control of related parties**	**Other related parties**
Issued to related parties	3,742,645,376	-	348,937
Repaid by related parties	3,777,552,866	-	352,852

Transactions with the parent company of the Bank include total amount of short term loans issued and repaid during 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 RELATED PARTY TRANSACTIONS (continued)

Operations with the related parties were as follows as at 31 December 2013:

	Parent company of the Bank	Enterprises under the control of related parties	Other related parties
Total loans and advances (interest rate on agreement: 5,7-24%)	56,398,300	2,546,065	8,994
Correspondent account	2,295,512	-	-
Customer accounts (interest rate: 0.10-5,0%)	-	20,811,713	1,925,857
Subordinated loan	7,203,555	732,921	-
Vostro account	4,895	-	-

Income and expense from operations with related parties during 2013 were as follows:

	Parent company of the Bank	Enterprises under the control of related parties	Other related parties
Interest income	6,071,694	211,891	1,995
Interest expenses	(425,673)	(922,045)	(86,792)
Fee and commission income	-	2,038	948
Fee and commission expense	(6,858)	-	-
Administrative and other operating expenses	(20,164)	-	-

The balances in respect of operations with related parties are as follows as at 31 December 2013:

	Enterprises under the control of related parties	Other related parties
Undrawn credit lines	**74**	**34,627**
Assets under management	**4,103,009**	**-**

Total amounts of loan commitments issued to and repaid by related parties during 2013 are as follows:

	Parent company of the Bank	Enterprises under the control of related parties	Other related parties
Issued to related parties	16,011,326,496	253,402	211,635
Repaid by related parties	16,073,648,232	246,894	231,746

Transactions with the parent company of the Bank include total amount of short term loans issued and repaid during 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 RELATED PARTY TRANSACTIONS (continued)

Remuneration to key management personnel is disclosed below:

	2014 EUR	2013 EUR
Short-term benefits:		
- Salaries	444,686	296,810
Pension benefits:		
- Expenses to the State Pension Insurance	63,850	70,241
Total	**508,536**	**367,051**

NOTE 29 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value of financial instruments is such amount of cash, for which the asset can be sold or liability settled between two unrelated, independent parties based on generally accepted terms and conditions. The Bank discloses information on fair values of assets and liabilities in such a way as to enable its comparison with book values.

When determining fair values of assets and liabilities, the Bank is using various sources of fair value, which are grouped into three categories based of following hierarchy:
Category 1 – quoted market prices in an active market;
Category 2 – models to determine fair value using data directly observable in the market;
Category 3 – other methods for determining fair value using data, which is not directly observable in the market.

Instruments within Category 1 include highly liquid assets and standard derivative financial instruments traded on the stock exchange.

Instruments within Category 2 include assets, for which no active market exists, such as over the counter derivative financial instruments and currency swaps agreements.

Category 3 instruments are all other assets and liabilities, as well as loans.

Fair value for such financial instruments as Financial assets at fair value through profit and loss is mainly determined based on publicly available quoted prices (bid price). When the price for these assets is not readily available, fair value is determined based on prices available in less active markets – such approach is used for several debt instruments.

Various methods are used by the Bank for those financial assets, which are not quoted in the market and for which no prices for similar quoted instrument are available. While determining fair value of these financial instruments, the Bank uses models based on assumptions and estimates on possible financial performance of investment object, as well as industry in which it operates, inherent risks and geographic segment in which investment object is operating.

Fair value of derivative financial instruments is determined based on discounted cash flow models with all parameters used being directly observable in the market.

Other assets and liabilities for which fair value is disclosed, except for loans and advances to customers, the Bank assumes that fair value equals book values. This assumption relates also to deposit placements and current accounts. Fair value of loans is determined via discounting expected cash inflows with the discount rate, which is determined taking into account money market rates at the end of the reporting year and interest rates for loans.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 29 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

The table below shows assets and liabilities valued at amortised cost by book values and fair values as at 31 December 2014 and 31 December 2013:

		31.12.2014		31.12.2013
	Book value EUR	Fair value EUR	Book value EUR	Fair value EUR
Assets valued at amortised cost				
Cash and balances with the Bank of Latvia	101,306,508	101,306,508	32,851,643	32,851,643
Balances due from banks	216,007,335	216,007,335	316,155,378	316,155,378
Loans	70,395,363	77,009,816	69,849,186	76,368,474
Total assets valued at amortised cost	**387,709,206**	**394,323,659**	**418,856,206**	**425,375,494**
Liabilities valued at amortised cost				
Balances due to banks	7,365	7,365	67,878	67,878
Due to customers	540,933,163	541,468,909	397,785,034	397,785,034
Subordinated loan	12,216,760	12,078,809	10,870,482	10,870,482
Total liabilities valued at amortised cost	**553,157,288**	**553,555,083**	**408,723,394**	**408,723,394**

Fair value of loans and deposits is determined based on expected present value of discounted future cash flows. Discount rate applied in the calculation is based on the interest rates prevailing in the money market at the end of the year.

Fair value of subordinated loan is determined based on expected present value of discounted future cash flows. Discount rate applied in the calculation is based on the interest rate of last similar deal adjusted by the decline of the market rates observed during the period since that deal.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 29 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

The table below specified analysis by fair value categories as at 31 December 2014 and 31 December 2013 (based on carrying amounts):

	31.12.2014			31.12.2013		
	Category 1 EUR	**Category 2 EUR**	**Category 3 EUR**	**Category 1 EUR**	**Category 2 EUR**	**Category 3 EUR**
Assets valued at fair value						
Derivative financial instruments	-	736,612	-	-	236,052	-
Financial assets at fair value through profit or loss	199,941,747	-	-	23,556,430	-	-
Total assets valued at fair value	**199,941,747**	**736,612**	-	**23,556,430**	**236,052**	**-**
Assets valued at amortised cost						
Cash and balances with the Bank of Latvia	-	101,306,508	-	-	32,851,643	-
Balances due from banks	-	216,007,335	-	-	316,155,378	-
Loans and advances to customers	-	-	70,395,363	-	-	69,849,186
Total assets valued at amortised cost	**-**	**317,313,843**	**70,395,363**	**-**	**319,007,020**	**69,849,186**
Liabilities valued at fair value						
Derivative financial instruments	-	515,424	-	-	142,374	-
Total liabilities valued at fair value	**-**	**515,424**	**-**	**-**	**142,374**	**-**
Liabilities valued at amortised cost						
Balances due to banks	-	7,365	-	-	67,878	-
Customer accounts	-	541,468,909	-	-	397,785,034	-
Subordinated loan	-	12,078,809	-	-	10,870,482	-
Total liabilities valued at amortised cost	-	**553,555,083**	**-**	**-**	**408,723,394**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 30 TAXES

	Balance 31.12.2014	Calculated in 2014	Returned from the budget	Paid in 2014	Balance 31.12.2014
	EUR	EUR	EUR	EUR	EUR
Corporate income tax*	-	569,342	-	569,342	-
State compulsory social insurance contributions	-	966,819	-	890,877	75,942
Personal income tax	(3,371)	615,494	-	615,494	-
Value added tax	(16,941)	(72,305)	102,521	(70)	13,205
(Overpaid)	**(20,312)**				**-**
Liabilities	**-**				**89,147**

* CIT calculated and paid includes the amount of tax withheld abroad – 569,342 EUR (2013: 1,221,982 EUR).

The tax authorities have the right to inspect the tax computations for the last three taxation years. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

NOTE 31 SUBORDINATED LOAN

On 23 August 2011 the Bank signed an agreement with Venture Resource Investments LTD receiving subordinated loan in amount of USD 2,000,000 maturing in 2019. Interest rate for subordinated loan is 8%.

On 9 December 2011 the Bank signed an agreement with Aleksey Fedorichev receiving subordinated loan in amount of USD 2,000,000 maturing in 2018. Interest rate for subordinated loan is 7%.

On 8 June 2012 the Bank signed an agreement with Fortum Trade Services LTD receiving subordinated loan in amount of USD 1,000,000 maturing in 2019. Interest rate for subordinated loan is 7%.

On 20 June 2012 Bank signed an agreement with Pivdennyi Bank receiving subordinated loan in amount of USD 2,000,000, on 15 August – USD 5,000,000 and on 7 September – USD 5,500,000. On 11 December 2012 after receiving of approval from FCMC the agreements for subordinated loan in amounts of USD 2,000,000, USD 5,000,000 and USD 2,174,000 (part of USD 5,500,000) were cancelled and the assets were used in the increase of the Bank’s share capital for the amount LVL 5,000,000. As at 31 December 2013 the balance of the subordinated loan of Pivdennyi Bank comprise USD 3,326,000 maturing in 2020. Interest rate for subordinated loan is 8.5 %.

On 30 April 2013 the Bank signed an agreement with Pivdennyi Bank receiving subordinated loan in amount of USD 1,000,000 maturing in 2021. Interest rate for subordinated loan is 8.0%.

On 22 may 2013 the Bank signed an agreement with Pivdennyi Bank receiving subordinated loan in amount of USD 1,500,000 maturing in 2021. Interest rate for subordinated loan is 8.0%.

On 5 June 2013, Bank signed an agreement with the Bank on a subordinated loan Pivdenny receipt of USD 4,000,000 maturing in 2021. Interest rate for subordinated loan is 8.0%.

As at 31 December 2014 subordinated loans amounted to total of EUR 12,216,760 (31.12.2014: EUR 10,870,482).

NOTES TO THE FINANCIAL STATEMENTS (continued)

32 OTHER ASSETS

The following table represents split of other assets into financial and non-financial assets as at 31 December 2014 and 31 December 2013:

	31.12.2014 EUR	31.12.2013 EUR
Financial assets	3,102,207	2,262,561
Non-financial assets	332,343	2,212,923
Total other assets	**3,434,550**	**4,475,484**

33 FINANCIAL ASSETS UNDER MANAGEMENT

	31.12.2014 EUR	31.12.2013 EUR
Legal entities:		
- residents	10,445,293	9,475,408
- non-residents	115,182,208	73,129,388
Private individuals:		
- non-residents	3,655,768	150,032
Total financial assets under management	**129,283,269**	**82,754,828**

Assets held by the Bank under management are financial instruments held on behalf of customers and other client means acquired under trust agreements.

34 LOSS FROM SALE OF REPOSSESSED COLLATERAL

While performing work with problematic loans, in 2014 the Bank has repossessed from its borrowers and recognised in the balance sheet 6 collaterals available for further sale (real estate) for the total amount of 676,205 EUR.

During the year the Bank sold 4 real estate objects, which were previously recognised in the balance sheet of the Bank (one object in 2012, one in 2013 and two in 2014) for the total amount of 1,248,288 EUR. As a result of sale of these objects (i.e. from the difference arising between the balance sheet value and the selling price), the Bank in 2014 incurred losses of 1,438,130 EUR.

The biggest portion of loss (1,303,068 EUR from 1,438,130 EUR) arose on one transaction where the Bank sold real estate object recognised in the balance sheet of the Bank in 2013 located in Cerkovnaja street 10, Odesa (factory and warehouse complex with approximate space of 26,000 m²). This object was recognised in the balance sheet of the Bank in September 2013 based on the valuation performed on 26 June 2013 and sold in September 2014 for the price, which was significantly below the valuation price and the balance sheet value. Such a significant deviation between price included into valuation made in June 2013 and selling price of September 2014 was determined by the following factors:

(1) The Bank obtained ownership rights for this object after complex and prolonged litigation, which took place in 2012 and 2013. The owner of the object (provider of the pledge) made all possible effort in preventing the Bank from exercising the mortgage rights, and understanding that his position is unsupported and there is no opportunity of keeping the ownership of the object, was not taking any care of the object until the moment when ownership rights were passed to the Bank. Although legal ownership passed to the Bank in September 2013, actual transfer of ownership occurred only at the very end of 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

34 LOSS FROM SALE OF REPOSSESSED COLLATERAL (continued)

(2) The Bank was forced to sell object in September 2014, as after the actions of the former owner described in point (1) above and after winter of 2013-2014, the preservation of the object required significant additional investments, especially in light of approaching winter of 2014-2015. Management and repairs of such specific objects is not the operating activity of the Bank, therefore, the Bank considered that realisation of the object for the maximum possible selling price of that moment is rational decision, moreover, without additional investments, the condition of the object continued to deteriorate.

(3) At the moment of sale, potential customers knew that starting from 2015 new real estate tax rate will be enacted in Ukraine, significantly increasing maintenance costs of similar objects, especially taking into account the large space occupied – approximately 26,000 m^2. This factor also significantly decreased the potential selling price of the object.

Taking into account the considerations above, the Bank considers that these losses are fully attributable to 2014 and should be qualified not as a mistake in initial valuation of collateral, but as one-off case related to misconduct of borrower, who to the biggest extent possible was preventing the Bank from exercising its legal rights and interests, which resulted in significant damage to the pledged object. This position is substantiated by sales of other real estate objects of the Bank, where losses (as percentage from the carrying value of the object) are significantly lower and are mainly related to the currency rate fluctuations on Ukrainian national currency at the moment of transaction.

35 RETURN ON CAPITAL AND RETURN ON ASSETS

	2014	2013
Return on capital (ROE) (%)	(4.79)%	2.83%
Return on assets (ROA) (%)	(0.37)%	0.23%

Both return ratios are calculated based on FCMC regulations, taking annual average from monthly balances. ROE is calculated as net profit for the year divided by annual average total equity. ROA is calculated as net profit for the year divided by annual average total assets.

36 SUBSEQUENT EVENTS

In March 2015 the Bank has signed an agreement on purchase of its office building located in Riga, J.Alunāna street 2.

Except for the matter disclosed above, there are no subsequent events since the last date of the reporting year which would have a significant effect on the financial position of the Bank as at 31 December 2014.