Joint Stock Company
"NORVIK BANKA"

Consolidated and Separate Financial statements
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2013 and
independent auditors' report

CONTENTS

REPORT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL AND THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear clients, partners and shareholders,

Last year was important for the Bank not only due to major changes in its ownership but also as a result of steady and planned business development.

Norvik Banka continues to hold the 9th position among Latvian banks in terms of assets and deposits. According to a survey carried out by the research centre SKDS, in the beginning of January of this year, 75.1% of the Latvian population recognised the Bank's brand name, which is a logical result considering the fact that, among Latvian banks, clients of Norvik Banka are offered the widest client service network, consisting of 80 client service centres, of which 6 are branches and central office.

During the financial year, the Bank's assets increased by 5.6%.

Work to develop the client deposit base advanced successfully, as a result of which total deposits with the Bank last year increased by 8.0%, reaching more than EUR 713.9 million (LVL 501.7 million). Subordinated deposits at the end of 2013 amounted to more than EUR 21.9 million (LVL 15.4 million).

The Bank's operational income decreased slightly compared to the previous yeardue to planned adjustments in the risk profile assumed by the Bank. The Bank's credit portfolio and investments in funds during the year decreased by more than EUR 58.8 million (LVL 41.3 million) or 14.4%. At the same time, liquid assets increased by 54.6%, with the Bank's liquidity indicator reaching 55.38% in comparison with 39.79% in the previous year.

In 2013, the number of active customers reached 150 750, of which 93% were Latvian residents, including 43 thousand pensioners and recipients of benefits.

The Group continued to unload non-profile assets from its balance-sheet, which it had to assume during the previous year. During the financial year, the Group decided to sell all of its ships, which resulted in substantial, yet one-off losses. Losses from the reduction in the value of these assets were fully compensated by the increase in capital implemented by the shareholders.

Within the framework of the XXIV-XXVI issues of stock, the Bank's equity capital was increased by more than EUR 31.4 million (LVL 22.1 million), as a result of which at the end of the year the Bank's capital adequacy ratio reached 10.76%, which is 2.4pp more than a year before.

By following its plans and shareholders' aims, the Bank continues its activity as a universal bank and is becoming closer to its clients and partners.

The Bank continues the implementation of several economically and socially important projects in Latvia and Armenia and intends to expand on its business development in Great Britain and Russia.

The Norvik Assets' Management Company manages the pension savings of 78 854 Latvian residents with a total value of more than EUR 69.6 million (LVL 48,9 million) and continues to increase the volume of pension plan assets, that during the year increased by 13.8%.
We are grateful to our clients, partners and staff for their contributions and are ready to work energetically and productively to bring our new ideas into practice.

Chairman of the Supervisory Council G.Guselnikov	Chairman of the Management Board O.R.Bramwell

Riga, 31 March 2014

SUPERVISORY COUNCIL AND MANAGEMENT BOARD

Supervisory Council as at 31 December 2013

Name	Position	Date of initial appointment
G.Guselnikov	Chairman of the Supervisory Council	19/12/2013
I.Bazhenov	Deputy Chairman of the Supervisory Council	19/12/2013
N.Drozda	Member of the Supervisory Council	19/12/2013
I.Smolin	Member of the Supervisory Council	19/12/2013
A.Danilenko	Member of the Supervisory Council	19/12/2013

During the reporting period the following persons resigned from their position:
- Chairman of the Supervisory Council A.Svirčenkovs
- Member of the Supervisory Council V.Keiša

During the reporting period the following persons changed their position:
- Deputy Chairperson of the Supervisory Council N.Drozda

During the reporting period the following persons were appointed:
- Chairman of the Supervisory Council G.Guselnikov
- Deputy Chairman of the Supervisory Council I.Bazhenov
- Member of the Supervisory Council I.Smolin
- Member of the Supervisory Council A.Danilenko

Management Board as at 31 December 2013

Name	Position	Date of initial appointment
O.R.Bramwell	Chairman of the Management Board	19/12/2013
R.Ruskulis	Member of the Management Board	19/12/2013
I.Rozanov	Member of the Management Board	19/12/2013
A. Zykov	Member of the Management Board	19/12/2013
M. Stepiņa	Member of the Management Board	06/11/2008
A. Fedosejevs	Member of the Management Board	21/10/2011

During the reporting period the following persons resigned from their position:
- Chairperson of the Management Board L.Saltuma
- Deputy Chairman of the Management Board J.Šapurovs

During the reporting period the following persons were appointed:
- Chairman of the Management Board O.R.Bramwell
- Member of the Management Board R.Ruskulis
- Member of the Management Board I.Rozanov
- Member of the Management Board A. Zykov

On behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council G.Guselnikov	Chairman of the Management Board O.R.Bramwell

Riga, 31 March 2014

STATEMENT OF MANAGEMENT`S RESPONSIBILITIES

The Management of JSC “NORVIK BANKA” (the Bank) is responsible for preparing the Consolidated and Separate Financial Statements of the Bank and its subsidiaries (the Group).

The Consolidated and Separate Financial Statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2013 and the results of its operations and cash flows for the financial year ended 31 December 2013, as well as the financial position of the Bank as of 31 December 2013 and the results of its operations and cash flows for the financial year ended 31 December 2013.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the Consolidated and Separate Financial Statements for the year ended 31 December 2013 set out on pages 6 to 71. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed and that the Consolidated and the Separate Financial Statements have been prepared on a going concern basis and complies with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.

The Bank’s management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, Regulations issued by the Latvian Financial and Capital Market Commission (FCMC) and other legislation of the Republic of Latvia in all material respects.

On the behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council G.Guselnikov	Chairman of the Management Board O.R.Bramwell

Riga, 31 March 2014

CONSOLIDATED AND SEPARATE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

		2013		2012	
	Notes	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest and similar revenue		9 766	9 367	16 590	14 777
Interest and similar expense		(4 276)	(4 216)	(8 097)	(8 151)
Net interest income	4	**5 490**	**5 151**	**8 493**	**6 626**
Fee and commission revenue		13 616	13 061	12 277	11 783
Fee and commission expense		(2 052)	(2 040)	(2 078)	(1 956)
Net fee and commission income	5	**11 564**	**11 021**	**10 199**	**9 827**
Dividend revenue		5	130	2	2
Net trading income	6	9 860	7 777	9 525	9 223
Loss from financial assets designated at fair value through profit or loss, net	7	-	-	(13)	-
Gain/(loss) from subsidiaries disposal		483	-	-	-
Net gain or (loss) from sales of available-for-sale financial assets	8	5 866	(4 342)	1 923	(278)
Other operating income	9	29 997	1 606	18 260	1 345
Other operating expense	9	(23 443)	(1 169)	(20 126)	(495)
Net operating income		**39 822**	**20 174**	**28 263**	**26 250**
Administrative expenses	10	(25 068)	(13 759)	(17 675)	(13 800)
Personnel expenses		*(14 806)*	*(8 350)*	*(10 307)*	*(8 290)*
Other expenses		*(10 262)*	*(5 409)*	*(7 368)*	*(5 510)*
Depreciation and amortization		(7 969)	(840)	(5 910)	(914)
Changes in fair value of investment property	21	336	(524)	(10 516)	(1 129)
Changes in fair value of biological assets	23	428	-	(1 805)	-
Profit/ (losses) before impairment charge and tax		**7 549**	**5 051**	**(7 643)**	**10 407**
Impairment of available for sale financial assets	18	(4 218)	(12 307)	-	(15 176)
Impairment loss on assets held for sale		(26)	(26)	(93)	(93)
Impairment loss on tangible fixed assets		(155)	21	(4 260)	(423)
Impairment losses on financial assets	17	(15 912)	(10 680)	(29 030)	(27 671)
Impairment charge		**(20 311)**	**(22 992)**	**(33 383)**	**(43 363)**
Net losses before tax		**(12 762)**	**(17 941)**	**(41 026)**	**(32 956)**
Corporate income tax	11	(608)	(505)	(98)	5
Loss for the year		**(13 370)**	**(18 446)**	**(41 124)**	**(32 951)**
Attributable to:					
Equity holders of the parent		**(13 373)**		**(41 052)**	
Minority interest		3		(72)	
Basic and Diluted Earnings per share (LVL)	31	*(0.20)*		*(0.70)*	

The accompanying notes on pages 13 to 71 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 6 to 71 were approved by the Supervisory Council and the Management Board on 31 March 2014 and signed on their behalf by:

Chairman of the Supervisory Council	Chairman of the Management Board
G.Guselnikov	O.R.Bramwell

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loss for the year	**(13 370)**	**(18 446)**	**(41 124)**	**(32 951)**
Revaluation reserve of foreign currency translation	(3 727)	-	311	-
Revaluation reserve of tangible fixed assets net of tax	274	274	343	343
Revaluation and impairment of available-for-sale financial assets, net of tax	886	(2 044)	(1 068)	(3 299)
Total comprehensive losses	**(15 937)**	**(20 216)**	**(41 538)**	**(35 907)**
Total comprehensive income/ (losses) attributable to non-controlling interests	3		(72)	
Total comprehensive losses attributable to equity holders of the parent	(15 940)		(41 466)	

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Chairman of the Supervisory Council G.Guselnikov	Chairman of the Management Board O.R.Bramwell

CONSOLIDATED AND SEPARATE BALANCE SHEET AND OFF-BALANCE SHEET ITEMS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	31.12.2013 Group LVL’000	31.12.2013 Bank LVL’000	31.12.2012 Group LVL’000	31.12.2012 Bank LVL’000
Assets					
Cash and balances with the central bank	12	129 443	129 430	50 510	50 480
Loans to and receivables from banks	13	91 057	86 732	76 129	73 059
Trading financial assets	14	11 457	10 834	13 119	12 725
Derivatives financial instruments	15	1 181	1 181	11 620	11 620
Loans to and receivables from customers	16	135 563	142 320	178 917	220 598
Available-for-sale financial assets	18	38 113	160 641	52 806	130 784
Held-to-maturity financial assets	19	-	-	1 632	1 632
Prepaid corporate income tax		303	19	296	80
Investment property	21	82 765	9 841	61 528	10 404
Tangible fixed assets	22	29 715	11 699	53 200	11 799
Biological assets	23	8 500	-	7 724	-
Goodwill and other intangible assets	20	564	238	596	384
Assets held for sale		736	504	1 143	699
Other assets	24	14 922	3 820	9 821	3 176
Total assets		**544 319**	**557 259**	**519 041**	**527 440**
Liabilities					
Due to the central bank and other banks	26	727	727	1 449	1 449
Derivatives financial instruments	15	794	794	1 494	1 494
Customer deposits	27	490 857	501 733	460 867	464 524
Subordinated debt	28	15 373	15 373	19 391	19 391
Deferred tax liabilities	11	1 077	443	990	416
Other liabilities	29	8 628	4 139	13 436	8 025
Total liabilities		**517 456**	**523 209**	**497 627**	**495 299**
Equity attributable to equity holders of the Bank					
Share capital	30	87 672	87 672	65 569	65 569
Reserves		7	7	7	7
Revaluation reserve of tangible fixed assets, net of tax		2 513	2 513	2 359	2 359
Revaluation reserve of available-for-sale financial assets, net of tax		(1 844)	(188)	(2 730)	1 856
Revaluation reserve of foreign currency translation		(2 697)	-	1 030	-
Accumulated losses		(46 388)	(37 508)	(5 478)	(4 699)
Loss for the year		(13 373)	(18 446)	(41 052)	(32 951)
Total equity attributable to equity holders of the Bank		**25 890**	**34 050**	**19 705**	**32 141**
Minority interest		**973**	**-**	**1 709**	**-**
Total equity		**26 863**	**34 050**	**21 414**	**32 141**
Total liabilities and equity		**544 319**	**557 259**	**519 041**	**527 440**
Commitments and contingencies					
Contingent liabilities		9 223	9 223	2 967	2 967
Commitments		5 025	5 400	6 651	10 405
Total commitments and contingencies	33	**14 248**	**14 623**	**9 618**	**13 372**

The accompanying notes on pages 13 to 71 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 6 to 71 were approved by the Supervisory Council and the Management Board on 31 March 2014 and signed on their behalf by:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

Group	Share capital	Reserve	Revaluation reserve of tangible fixed assets net of tax	Revaluation reserve of available-for-sale financial assets net of tax	Revaluation reserve of foreign currency translation	Accumu-lated losses	Total	Minority interest	Total Groups’ equity
	Attributable to shareholders of the Bank								
	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000
As at 31 December 2011	**57 390**	**7**	**2 136**	**(1 662)**	**719**	**(15 572)**	**43 018**	**442**	**43 460**
Revaluation of available-for-sale financial assets net of tax	-	-	-	(1 068)	-	-	**(1 068)**	-	**(1 068)**
Revaluation reserve of tangible fixed assets net of tax	-	-	343	-	-	-	**343**	-	**343**
Foreign currency translation of foreign subsidiaries*	-	-	-	-	311	-	**311**	**-**	**311**
Loss for the year	**-**	**-**	**-**	**-**	**-**	(41 052)	**(41 052)**	(72)	**(41 124)**
Total comprehensive income for the year	**-**	**-**	**343**	**(1 068)**	**311**	**(41 052)**	**(41 466)**	**(72)**	**(41 538)**
Amortisation of revaluation reserve of tangible fixed assets net of tax	-	-	(120)	**-**	**-**	120	**-**	-	**-**
Other	-	-	-	**-**	**-**	22	**22**	-	**22**
Shareholders contribution	-	-	-	**-**	**-**	9 952	**9 952**	-	**9 952**
Increase of share capital	8 179	-	-	**-**	**-**	**-**	**8 179**	1 339	**9 518**
As at 31 December 2012	**65 569**	**7**	**2 359**	**(2 730)**	**1 030**	**(46 530)**	**19 705**	**1 709**	**21 414**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	886	-	-	**886**	-	**886**
Revaluation reserve of tangible fixed assets, net of tax	-	-	274	-	-	-	**274**	-	**274**
Foreign currency translation of foreign subsidiaries*	-	-	-	-	(3 727)	-	**(3 727)**	**-**	**(3 727)**
Loss for the year	**-**	**-**	**-**	**-**	**-**	(13 373)	**(13 373)**	3	**(13 370)**
Total comprehensive income for the year	**-**	**-**	**274**	**886**	**(3 727)**	**(13 373)**	**(15 940)**	**3**	**(15 937)**
Amortisation of revaluation reserve of tangible fixed assets, net of tax	-	-	(120)	**-**	**-**	120	**-**	-	**-**
Other	-	-	-	**-**	**-**	22	**22**		**22**
Changes in minority interest	-	-	-	**-**	**-**	-	**-**	(739)	**(739)**
Increase of share capital	22 103						**22 103**		**22 103**
As at 31 December 2013	**87 672**	**7**	**2 513**	**(1 844)**	**(2 697)**	**(59 761)**	**25 890**	**973**	**26 863**

* Revaluation reserve on consolidation with the subsidiaries that operate in different currencies.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

Bank	Share capital	Reserve	Revaluation reserve of tangible fixed assets, net of tax	Revaluation reserve of available-for-sale financial assets, net of tax	Accumu-lated losses	Total
	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000
As at 31 December 2011 (restated)	**57 390**	**7**	**2 136**	**5 155**	**(14 793)**	**49 895**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	(3 299)	-	**(3 299)**
Revaluation reserve of tangible fixed assets net of tax	-	-	343	-	-	**343**
Loss for the year	-	-	-	-	(32 951)	**(32 951)**
Total comprehensive income for the year	**-**	**-**	**343**	**(3 299)**	**(32 951)**	**(35 907)**
Amortisation of revaluation reserve of tangible fixed assets, net of tax	**-**	**-**	(120)	**-**	120	**-**
Other	**-**	**-**	-	**-**	22	**22**
Shareholders contribution	-	-	-	-	9 952	**9 952**
Increase of share capital	8 179	-	-	-	-	**8 179**
As at 31 December 2012 (restated)	**65 569**	**7**	**2 359**	**1 856**	**(37 650)**	**32 141**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	(2 044)	-	**(2 044)**
Revaluation reserve of tangible fixed assets, net of tax	-	-	274	-	-	**274**
Loss for the year	**-**	**-**	**-**	**-**	(18 446)	**(18 446)**
Total comprehensive income for the year	**-**	**-**	**274**	**(2 044)**	**(18 446)**	**(20 216)**
Amortisation of revaluation reserve of tangible fixed assets, net of tax	**-**	**-**	(120)	-	120	**-**
Other	**-**	**-**	-	-	22	**22**
Increase of share capital	22 103	-	-	-	-	**22 103**
As at 31 December 2013	**87 672**	**7**	**2 513**	**(188)**	**(55 954)**	**34 050**

The accompanying notes on pages 13 to 71 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 6 to 71 were approved by the Supervisory Council and the Management Board on 31 March 2014 and signed on their behalf by:

Chairman of the Supervisory Council
G.Guselnikov

Chairman of the Management Board
O.R.Bramwell

CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

		2013		2012	
		Group	Bank	Group	Bank
	Note	LVL'000	LVL'000	LVL'000	LVL'000
Cash flow from operations					
Loss before corporate income tax		(12 762)	(17 941)	(41 026)	(32 956)
Depreciation of intangible and tangible fixed assets and write off		8 422	933	29 092	951
Increase in provisions for impairments losses on financial investments		16 510	11 278	22 417	27 976
Impairment of tangible fixed assets		155	(21)	4 260	423
Impairment losses of assets held for sale		26	26	93	93
Impairment losses of available-for-sale financial assets		4 218	(3 441)	-	15 176
Loss/(profit) from foreign exchange revaluation	6	(6 654)	(4 704)	(6 845)	(6 558)
Non-realised (profit)/loss from investment property	21	(336)	524	10 516	1 129
Operating cash flow before changes in operating assets and liabilities		**9 579**	**(13 346)**	**18 507**	**6 234**
Decrease/(increase) in loans and receivables to banks		7 498	4 786	(5 691)	(2 979)
Decrease/(increase) in trading financial assets		1 662	1 891	22 038	22 432
Decrease/(increase) in derivatives financial assets		10 439	10 439	(5 447)	(5 447)
Decrease/(increase) in loans and receivables to customers		17 752	67 011	13 068	15 567
Decrease/(increase) in assets held for sale		382	169	(1 236)	(792)
Decrease/(increase) in other assets		(5 243)	(1 060)	(3 604)	828
Increase/(decrease) in due to banks		(722)	(722)	(2 078)	(2 078)
Increase/(decrease) in customer deposits		29 990	37 209	(58 114)	(57 208)
Increase/(decrease) in derivatives financial liabilities		(700)	(700)	530	530
Increase/(decrease) in other liabilities		(4 808)	(3 886)	7 010	4 897
Cash provided by (used in) operating activities		**65 829**	**101 791**	**(15 017)**	**(18 016)**
Corporate income tax (paid)		(73)	-	(409)	-
Net cash provided by (used in) operating activities		**65 756**	**101 791**	**(15,426)**	**(18 016)**
Cash flow from investing activities					
Acquisition of intangible and tangible fixed assets		(4 292)	(343)	(18 129)	(206)
Sale of intangible and tangible fixed assets		4 080	-	9 725	-
Decrease/ (increase) in held-to-maturity financial assets		1 632	1 632	(1 632)	(1 632)
Sale of investment property		1 810	-	969	-
Decrease/(increase) in available-for-sale financial assets		11 361	(28 460)	1 549	3 514
Net cash provided by (used in) investing activities		**14 591**	**(27 171)**	**(7 518)**	**1 676**
Cash flow from financing activities					
Increase in share capital		22 103	22 103	8 179	8 179
Increase/(decrease) in subordinated debt, net		(4 018)	(4 018)	1 572	1 572
Net cash provided by financing activities		**18 085**	**18 085**	**9 751**	**9 751**
Net decrease in cash and cash equivalents		**98 432**	**92 705**	**(13 193)**	**(6 589)**
Cash and cash equivalents at the beginning of the period		118 659	118 271	124 696	118 302
Effect of exchange changes on cash and cash equivalents		2 927	4 704	7 156	6 558
Cash and cash equivalents at the end of the period	32	**220 018**	**215 680**	**118 659**	**118 271**

Operating cash flows from interest and dividends

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest paid	5 190	5 135	6 547	6 600
Interest received	10 444	9 524	13 951	12 289
Dividend received	5	130	2	2

The accompanying notes on pages 13 to 71 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 6 to 71 were approved by the Supervisory Council and the Management Board on 31 March 2014 and signed on their behalf by:

Chairman of the Supervisory Council	Chairman of the Management Board
G.Guselnikov	O.R.Bramwell

1. GENERAL INFORMATION

"NORVIK BANKA" ("the Bank") is a joint stock company incorporated in the Republic of Latvia acting in accordance with Latvian legislation and License No. 30 issued by the Bank of Latvia on 27 April 1992.

The legal address of JSC "NORVIK BANKA" is E. Birznieka-Upīša Street 21 Riga LV-1011 Latvia.

The Bank has a central office, 6 branches, 73 accounting groups and one representative office in Moscow (Russia). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

In accordance with the Commercial Law of the Republic of Latvia the shareholders' meeting has the right and obligation to make decisions on approval of the annual financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Basis of preparation

The accompanying financial statements are presented in the national currency of Latvia in thousands of lats ("LVL'000").

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU") and rules set by Financial and Capital Market Commission of Latvia. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements.

The consolidated and separate financial statements have been prepared under the historical cost convention except for available for sale securities including investments in subsidiaries and investment property which are measured at fair value and real estate included in the tangible fixed assets carried at revalued amounts. Other financial assets and liabilities are carried at amortised cost in accordance with the effective interest rate method.

Accounting policies applied in the year 2013 are consistent with those followed in the preparation of the Group`s and Bank`s annual financial statements for the year ended 31 December 2012.

Standards and Interpretations effective in the current period.

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 "Presentation of financial statements"**– Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 19 "Employee Benefits"** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective
At the date of authorisation of these financial statements the following standards revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of all other standards revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Basis of Consolidation

The consolidated financial statements include all subsidiaries which are those companies in which the Group directly or indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over operations. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The subsidiaries are consolidated from the date on which effective control is acquired by the Group and are no longer consolidated from the date of loss of control.

The Bank and following companies make up a group of entities, controlled either directly by the Bank or through Bank's investment funds ("the Group"):

- CJSC NORVIK UNIVERSAL CREDIT ORGANISATION (Armenia) and its subsidiary company CJSC IKSOV;
- JSC NORVIK IEGULDĪJUMU PĀRVALDES SABIEDRĪBA and its subsidiary company ACCOUNTING LAB LLC;
- NORVIK LĪZINGS LLC;
- NORVIK APDROŠINĀŠANAS BROKERIS LLC;
- NBT ENERGY LLC;
- NBT1 ENERGY LLC;
- NBT3 ENERGY LLC;
- NBT4 ENERGY LLC;
- NBT5 ENERGY LLC;
- NBT6 ENERGY LLC;
- MARINE HOTEL LLC;
- BALTIKS LLC;
- NORVIK IPS JSC CIF ŪDENS TRANSPORTA FONDS and its subsidiary companies VIVA SHIPPING COMPANY LIMITED, SKADI SHIPPING COMPANY LTD, PRESTO MARITIME LIMITED;
- NORVIK IPS JSC CIF NĀKOTNES ĪPAŠUMU FONDS and its subsidiary companies RUBICON LLC, MAGNUM ESTATE LLC, SERENITY LLC, PALETES LLC, NORVIK PORT DEVELOPMENT LLC, LLC TOP ESTATE, LAT ESTATE LLC, LANORA LLC, GAUJA CS LLC, PILNSKALNA 911 LLC, KRASTA LLC, MELIORATORU 1A LLC, SEASTONE LLC, PNB PRINT LLC, BALTIJAS NAFTAS GRUPA LLC, BALTIJAS DEGVIELA LLC, BALTIJAS NAFTA LLC, VISALIA LLC, MADORA LLC, LANATA LLC, DAYS LLC, HOMELINK LLC, ACTON LLC, ULTIMATE CAPITAL LLC, POLIMERSINTEZ LLC, POLIMERSINTEZ JSC, TEHNO RU LLC, KARAVELLA PROPERTY LLC, KARAVELLA PLUS LLC, CITY ESTATES LLC, RELOCATION LLC, SOLUM ESTATE LLC, MERKURS RIGANTE PLUSS LLC, EKO FORUMS PLUSS LLC, ALPI TRANS PLUSS LLC, NORVIK MANAGEMENT OÜ, MEŽA FONDS LLC, ALFA TIMBER LLC, TIMBER LV LLC, BALTIC WOOD ENTERPRISE LLC, PROSPECTUM LLC, NBT2 ENERGY LLC, NBT7 ENERGY LLC, MONOLIT LLC, KAPITEL LLC, LESSTROI LLC, ORION LLC.

In accordance with IAS 27 "Consolidated and Separate Financial Statements" and the requirements of FCMC the Bank has prepared consolidated financial statements for the Group and separate financial statements of the Bank.

In the separate financial statements the Bank has recognized investments in subsidiaries share capital in fair value. The separate financial statements of the Bank and its subsidiaries are consolidated line by line by combining items of assets, liabilities aggregation of off-balance sheets exposures income and expenses. Intragroup balances of the Bank and its subsidiary as well as intragroup transactions, including income and expenses are eliminated.

Goodwill

The excess of the cost of acquisition over the Bank's interest in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill.

After initial recognition goodwill in the business combination is carried at cost less any impairment losses. For the purpose of impairment testing goodwill acquired in a business combination is from acquisition date allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated:

- Represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IFRS 8 Operating Segments.

Under IAS 36 *"Impairment of Assets"* goodwill is reviewed for impairment at each balance sheet date or more frequently when there are indications that impairment may have occurred. If such indications exist the Bank estimates the recoverable amount of goodwill. In case of the carrying amount of goodwill is greater than its estimated recoverable amount an impairment loss of goodwill is recognised in the Group's consolidated income statement. There was no impairment identified in 2013 (2012: nil).

(2) Significant accounting judgments and estimates

The presentation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the entity to make estimates and assumptions that affect the recognised amounts for assets liabilities and disclosure of contingent assets and liabilities as of the date of balance sheet date as well as recognised income and expenses for the reporting period. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from related actual results.

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

The most significant judgments and estimates representing most probably sources of uncertainty existing in current financial and economical market are presented below:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from active markets fair value is determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible but where this is not feasible a degree of judgment is required in establishing fair values depending on liquidity concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Allowances for impairment losses on loans and receivables

The Group reviews its loan portfolios at each reporting date to assess whether an allowance for impairment should be recognized in the income statement and for which amount. In particular judgment about financial position of counterparty and realization value of underlined collateral made by management in the estimation of net present value of expected future cash flows when determining the amount of allowance required based on best knowledge about current situation. As of reporting date real estate market was still inactive and there was significant uncertainty around the expected future cash flows from loans and receivables and uncertainties related to valuation of collateral including real estate and ships and difficulties to predict timing of realization of collateral. Consequently actual future results might differ from the estimates recorded.

In addition to specific allowances for individually significant loans and receivables the Group also creates a collective impairment allowance for exposures which although not specifically identified as requiring a specific allowance have a greater risk of default than when originally granted. Collective impairment allowances reflect historical data of respective markets as well as specific features of financial investment for which allowances estimations are made.

Impairment of financial instruments

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

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

Impairment of equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

Valuation of investment property

Investment property is stated at fair value which has been determined based on valuation performed by certified valuator close to reporting date. The fair value represents the amount at which the assets could be exchanged between an unrelated knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction at the date of valuation.

Valuation of tangible fixed assets carried at revalued amounts

Land and buildings held for own use are stated at their revalued amounts being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Valuation of biological assets

Biological assets reflected at fair value less cost of sale in accordance to IAS 41. The fair value represents the amount at which the assets could be exchanged between an unrelated knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction at the date of valuation

(3) Business perspectives of the Group

Performance results:

In 2013, the Bank followed its strategic plan, focusing primarily on maintaining earning power and promoting stable, long-term growth.

The Bank continues to grow its customer base – the volume of customers’ deposits in 2013 grew by 8%. This speaks highly of the level of trust that the banks customers’ have in the institute.

The proportion of the Bank’s liquid assets increased significantly through 2013: mainly due to a decrease in the loans portfolio, and investments in low liquidity funds by 14,4% during the year. The Bank’s liquidity ratio at the end of 2013 increased to 55.38% compared with 39.79% at the same time in the previous year.

Operating income for 2013 remain stable compared to 2012. The Bank’s total assets increased by 5.65%. Loses for the year decreased in 2013 by 44% comparing to the previous year.

An increase in commission & fee income of 12% and stable administrative expenses, compensated a 16% decrease in income from financial instruments.

Given that the Bank had planned to strengthen its capital base in the year, a conservative approach was used in risk profiling; as a result, net interest income decreased by 22%.

In 2013, financial losses were mainly caused by the disposal of problematic assets – specifically ships – that had been recovered through the year. Such a decision was taken on economic grounds and resulted in the Bank fixing one-time losses, but releasing funds to invest in more profitable projects. The second biggest item in terms of market value corrections of assets is related to a legal dispute, and related criminal proceedings, regarding wind farm electricity generators that had initially been financed as customer loans by the Bank. However, and further to the above, the Bank successfully implemented credit recovery operations across multiple asset classes, and in 2013 the Bank was able to release 1.9 m LVL of reserves in consumer loans.

Capital:

In 2013 there were three successful share issuances as resulted in an increase of the Bank’s equity by 22.1 m LVL, including winter issuance a new strategic investor invested 20 m LVL in the Bank’s equity.

Given the aforementioned equity investments the Bank made some significant changes in the composition of the Bank's Council with the new strategic investor's representatives appointed therein. A new Board was also appointed to strengthen risk management, corporate governance and to support growth in the retail business and modernisation of information technology.

The Bank's capital adequacy ratio at the end of 2013 was 10.76%, exceeding the previous year's ratio by 2.4 percentage points.

Given the current economic and political situation across Europe, and taking into account the strategic plan for the Bank from 2014 and onwards the management team are actively seeking new sources of capital. As of the date of issue of the annual report, additional subordinated capital of 6.4 m EUR has been invested in the Bank in March 2014. As a result of such additional investments at the beginning of 2014 the Bank's capital adequacy ratio is higher than the internal CAD ratio 11.1%. The Bank plans to reach a capital adequacy ratio of 14.0% within the next three years. During 2013 the Financial and Capital Market Commission applied enhanced monitoring procedures in relation to maintaining and further strengthening the Bank's equity capital by strictly monitoring the successful implementation of the Bank's plans.

Future plans:

Through to 2016 the Bank plans to ensure it maintains its existing product-customer niche on the market, and extend its reach to new customer segments through further development of existing products and services, offering new, innovative, high-technology products, and covering new geographic regions. In 2014 it is planned to make significant changes in the existing products and services in the Bank's retail network, one of the largest customer service networks in Latvia. The Bank also plans to recommence lending, specifically in the corporate sector, within a highly-controlled risk management framework. The development of products & services related to financial market instruments is one of the priority areas for the Bank's development in the coming years.

The Bank continues to earn positive returns on the Armenian market where the business is operated by a subsidiary financial institute "*AS Norvik UCO*". Share of the market in pension fund management through "*AS Norvik Ieguldījumu Pārvaldes Sabiedrība*" continues to show gains owing to the Bank's wide customer service network, and successful management results ensuring attractive profitability compared to the Bank's competitors. The volume of assets under management by "*Norvik IPS*" has reached 69.6 m EUR and the market share in terms of the number of participants increased to 6.44%, with the volume of assets under management 4.14%.

Starting from 2014 the proportion of the Bank's income earned from the resident market should increase. The Bank will keep disposing of recovered assets from non-performing loans in such a way as to release resources which can be used in more profitable business lines. In 2014 income is not expected to increase significantly, however, in 2015 the Bank's business volumes and income are expected to increase as a result of changes in operational activities, increases in business efficiency, new customer segments, new products and services offered.

The Bank and Group financial statements are prepared on a going concern basis as the management of the Bank are satisfied that the Bank has sufficient resources to continue business in the future, taking into account anticipated economic conditions, changes already implemented related to corporate governance and risk management, and the aforementioned strategic plans.

(4) Foreign currency translation

Transactions and balances

Transactions denominated in foreign currencies are translated into Latvian lat (LVL) at the official Bank of Latvia exchange rate on the date of the transaction which approximates the prevailing market rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date.

All realised gains and losses are recorded in the income statement in the period in which they arise. Unrealised gains and losses at reporting dates are credited or charged to the income statement.

The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows (lats for one foreign currency unit):

	Bank of Latvia exchange rates as of 31 December 2013	Bank of Latvia exchange rates as of 31 December 2012
EUR	0.702804	0.702804
USD	0.515000	0.531000

As of 1 January 2014 Latvia became the member state in European Monetary Union. Starting from 1 January 2014 the Bank's and Group's functional currency is EUR. For conversion to the euro the official exchange rate were set by the Bank of Latvia as EUR 1= LVL 0,702804.

Changes in functional currency do no impact Bank's and Groups accounting policy.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity *"Revaluation reserve of foreign currency translations"*.

On consolidation exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity.

(5) Financial assets and liabilities

Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are those that have been acquired or have arisen mainly for the purpose of gaining profit from short-term fluctuations in prices. These include trading debt securities and equity instruments. Trading securities are initially recorded in the balance sheet at fair value. Subsequently these securities are recorded at their fair value based on quoted market price. Any realized and unrealized profit or loss is recorded in the income statement as net profit or loss from trading securities. Interest earned by the Group from held for trading securities is recognized as interest income. Dividends received are recorded as dividend income. The Group recognizes purchase or sale of trading securities using settlement date accounting.

Derivatives recorded at fair value through profit or loss

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models. The Group and the Bank operates with derivative financial instruments such as future currency agreements (forwards) and currency exchange agreements (swaps). All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Fair value of derivative transactions is included in the balance sheet as "Derivatives financial instruments". Changes in the fair value of derivatives are included in the income statement in "Net trading income" on a daily basis.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets not classified as loans and receivables held-to-maturity financial assets or financial assets at fair value through profit and loss. Available-for-sale financial assets include certain bonds investments in funds, investments in jointly controlled entities and investments in subsidiaries.

Available-for-sale financial assets are initially recorded at their fair value (including expenses on purchase of the assets). The Group recognizes purchase or sale of available-for-sale financial assets using settlement date accounting. Subsequently assets are measured at their fair value based on quoted market prices where available. If financial assets are not quoted in an active market their fair value is measured using alternative methods (for example prices of similar investments, net asset value calculation, valuation performed by certified valuator).

Available-for-sale assets for which the market price is not quoted and which fair value is not possible to measure by using other previously mentioned alternative methods are initially recorded at their fair value and subsequently measured at cost less allowance for impairment when appropriate.

Unrealised gains or losses on available-for-sale financial assets are recognized directly in equity except for impairment losses and foreign exchange gains and losses arising from monetary assets until the financial asset is derecognized at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Investments in joint ventures

Investments in joint ventures are included in line "Available-for-sale financial assets" and are presented in accounting following all Available for sale financial assets accounting regulations.

Loans and receivables to banks and to customers

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

Loans are measured at amortised cost using the effective interest rate method. The amortised cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (through the use of an allowance account) for impairment or uncollectibility.

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognised as loans granted to clients. Received lease payments less principal amount are recognised as interest income based on a pattern reflecting a constant periodic return on the net investment.

Reverse repurchase agreements

Securities purchases under agreements to resell at a specified future date ("reverse repo") are not recognized on the balance sheet. The corresponding cash paid including accrued interest is recognised on the balance sheet as a Loans to and receivables from customers. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

Financial liabilities

Included in balance sheets as "Due to banks", "Customer deposits" and "Subordinated debt" are financial liabilities measured at amortised cost.

After initial measurement these financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount on the issue and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar expense" in the income statement.

Derecognition of financial assets and financial liabilities

A financial asset is derecognized where:

- the right to receive cash flows from the assets have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a `pass-through` arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the assets or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the assets.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank or Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis.

The Bank and Group does not offset any financial assets and financial liabilities.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all overdue loans regardless of the balance of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

For the measurement of collective impairment the Group assumes that all contractual cash flows will be received and recognises impairment loss based on historical loss experience which is adjusted on the basis of currently available data.

Allowances are assessed collectively on portfolios with similar features such as credit cards portfolio and unsecured consumer loans portfolio. The main criterion for assessment is settlement discipline and calculation of necessary allowance on portfolio is based on experience and previous period's statistics.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the income statement. If any loan and receivable can not be recovered they are written off from the balance sheet accounts and charged against allowance for credit losses.

(6) Investment property

Group holds real estate as an investment property with the purpose to earn rental income or for value appreciation. Initially investment property is measured at cost. The fair value model of accounting is used for subsequent measurement of investment property. Fair value of investment property reflects market conditions at the balance sheet date. See Note 21 for more detailed information with respect to the Group's investment property. Gains or losses arising from changes in the fair value of investment property are included in the income statement in "Changes in fair value of investment property" in the period in which they arise.

(7) Intangible (except for goodwill) and tangible fixed assets

All fixed tangible and intangible assets except for goodwill and real estate are accounted at their cost less accumulated depreciation and amortisation. Depreciation and amortisation is calculated on a straight-line basis using the following depreciation and amortisation rates:

Intangible assets:	*Annual charge*
Licenses	20%
Software	20%
Tangible fixed assets:	
Buildings	3%
Other	7%-33%

Intangible assets with finite lives are amortised over the useful life. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. The depreciation and amortization expense on tangible fixed and intangible assets with finite lives is recognized in the income statement line "Depreciation and amortisation".

On purpose to avoid significant differences between book value and fair value of its real estate the Bank decided to carry its land and buildings at revalued amounts. Revaluations are performed with sufficient regularity. Fair value is determined based on valuator reports done by independent certified valuators. The increase of building value as the result of revaluation Bank recognizes in the equity and includes in comprehensive income report. If such increase cancels previous revaluation decrease that is recognized in the statement of profit or loss Bank recognizes the increase in statement of profit or loss. The decrease of building's fair value that appeared during revaluation is recognized in statement of profit or loss except if such decrease cancels previous revaluation increase that is shown in the equity and included in comprehensive income report in that case the decrease is recognized in the equity and included in other comprehensive income report. After building revaluation Bank depreciates its value in accordance with Bank's depreciation rates.

(8) Assets held for sale

Assets held for sale relate to foreclosed properties and equipment held for sale. These assets are carried at the lower of book value and net realisable value. The changes in the asset value are recorded in the profit or loss.

(9) Interest and fee income and expense recognition

Interest income and expenses are recognized in the income statement on an accrual basis of accounting using the effective interest rate method. Interest income and expense include the amortization of any difference (discount premium or other) between the initial carrying amount of the interest-bearing financial asset or liability and its maturity amount calculated on an effective interest rate foundation.

Interest income includes coupons earned on trading and available-for-sale bonds and other fixed income securities.

Accrued interest income is recognized in the income statement if the Group has no objective evidence that they will not be received in full.

Fees and commissions are generally recognized on an accrual basis either as the service is provided or on the execution of a significant act as applicable. Fees and commissions are recognised using effective interest method referring to provisions of IAS 39, when they relate and have to be included in the amortised cost model. Certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of recognised income on an accrual basis based on IAS 18.

Income and expenses relating to the reporting period are recognised in the income statement irrespective of the date of receipt or payment.

(10) Cash and cash equivalents

Under IAS 7 *"Cash Flow Statements"* cash and cash equivalents comprise cash balances with the Bank of Latvia correspondent accounts and deposits with original maturity of 3 months or less in other banks. Cash flow statement reflects an analysis of the cash flow from operating investing and financing activities for the period.

Cash flows from operating activities are presented using the indirect method. Cash flows from investing and financing activities are presented based on gross receipts and payments made during the reporting period.

(11) Taxes

Corporate income tax is calculated in conformity with the tax legislation of the Republic of Latvia. Deferred taxation is provided for temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base according to taxation legislation. The deferred taxation asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. When an overall deferred tax asset arises this is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(12) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation its carrying amount is the present value of those cash flows.

The Group creates provisions for guarantees issued and other off balance sheet items based on individual review of off balance sheet items. The management uses its judgement and estimates as to the probability of an outflow of economic resources and makes assessment of the value of security and collateral held and the amounts and timings of such outflows and recoveries if any.

3. RISK MANAGEMENT

Risk is an integral part of the Group's activities and it is managed through a process of ongoing identification, assessment and monitoring. The process of risk management is essential for the Group's continuing profitability. Each separate structural unit of the Group is responsible for the risk exposures relating to their responsibilities. The Group activity is subject to the following main types of risks: liquidity risk, credit risk and market risk as well as operational risk. Risk monitoring function on the level of the Group and the Bank is separated from business structures. System of risk limits that is established on the level of the Group and the Bank includes all above-mentioned types of risk.

Risk management structure

The Management Board is ultimately responsible for identifying and controlling risks.

Supervisory Council

The Supervisory Council reviews and approves policies for risk management.

Management Board

The Management Board is responsible for the overall risk management approach for the establishment of risk management principles and structure as well as for the approval of the methodologies and procedures to ensure implementation of risk management policies. The Management Board sets limits on total portfolios and restrictions on large exposures.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for the assets and liabilities management monitoring and sets limits on counterparties within the limits and restrictions set by the Board.

Credit Committee

The Credit Committee responsible for the approval of the exposure within its competence and loan portfolio quality analysis.

Risk Management Committee

The Risk Management Committee carries out the monitoring of the risk management system and the capital adequacy assessment process.

Chief Risk Officer

Chief Risk Officer performs overall risk control functions, supervises risk management system and coordinates the activity of Bank’s units involved in risk management.

Risk Management Department

The Risk Management is responsible for the establishment of the Risk Management system: identification and assessment of risks inherent in the Bank’s activity, preparation and submission of the risk reports. This unit also ensures the development of the Capital Adequacy Assessment Process.

Treasury

Treasury is responsible for managing assets and liabilities within set norms and limits, i.e. it is charged with liquidity, funding and deposits pricing, foreign exchange risks and foreign exchange operations, interest rate risks, cash management, as well as the Bank’s securities portfolios’ management.

Internal Audit

Risk Management processes are audited annually by the Internal Audit function that examines both the adequacy of the policies and procedures and the compliance with the internal and external requirements. Internal Audit discusses the results of inspections with the management and submits reports on inspection results with necessary recommendations to the Supervisory Council Managing Board and related units. Internal Audit performs follow-up engagements to check whether recommendations are followed and implemented.

To ensure control and management over financial risks the Management Board and Supervisory Council of the Group has approved Credit policy, Investment policy and Financial Risks Management and Control policy with regard to such significant risks as liquidity risk credit risk and market risk as well as other documents that regulate financial risk management system created by the Group.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn or paid. This may result in the failure to meet obligations to repay depositors and fulfil commitments to lend.

In order to limit this risk the Bank as the Group liquidity manager places its assets so as to ensure settling of their creditors' legal claims at any time (liquidity) has arranged diversified funding sources in extent appropriate to current market condition in addition to its core deposit base and monitors future cash flows and liquidity on a daily basis.

To ensure liquidity the Bank evaluates and plans the term structure of their assets and liabilities on a regular basis. The Bank maintains marketable trading and available-for-sale portfolios that can be liquidated or pledged in unforeseen situations. The bank also has money market lines that it can use to meet liquidity needs. In addition the Bank maintains an obligatory reserve deposit with the Central bank of Latvia equal to 4% of borrowings (at the end of 2012). In accordance to liquidity requirements determined by the FCMC the Bank maintains liquid assets that are sufficient for settling liabilities however no less than 30% of total current liabilities of the Bank (liquidity ratio). Current liabilities are demand liabilities and liabilities with a residual maturity of no more than 30 days. The liquidity ratio during the year was as follows:

	2013	**2012**
	%	%
31 December	55.38	39.79
Average during the period	46.77	48.83
Highest	57.97	58.57
Lowest	37.76	36.66

The Financial Risk Management and Control Policy determines liquidity risk control and management according to that the Management Board of the Bank and the Assets and Liabilities Committee state general liquidity risk management criteria by regulating the volumes terms and directions of the Group’s activities, the Resource division (the Treasury) manages liquidity on a daily basis and Risk Management Department measures and monitors liquidity risk and submits reports to the management.

Liquidity risk management and control is based on asset and liability term analysis incoming and outgoing cash flows analysis internal limit regulations regarding the net liquidity position the effective usage of liquidity surplus and liquidity regulation for the remaining free resources etc.

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below presents an analysis of the Group assets liabilities and off-balance sheet liabilities analyzed according to their contractual maturity. According to the regulations of the Latvian Financial and Capital Market Commission securities that the Bank is able to sell without any significant losses or use those as security assets for loan issue are classified in the group “Up to 1 month”.

Group As at 31 December 2013	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	125 042	4 401	-	-	-	-	-	**129 443**
Loans and receivables to banks	75 751	100	-	-	-	-	15 206	**91 057**
Trading financial assets	10 565	2	10	8	610	262	-	**11 457**
Derivative financial instruments	1 180	1	-	-	-	-	-	**1 181**
Loans and receivables to customers	11 994	5 547	6 943	10 592	35 173	18 338	46 976	**135 563**
Available-for-sale financial assets	31 806	-	-	-	6 307	-	-	**38 113**
Prepaid corporate income tax	-	2	-	-	301	-	-	**303**
Investment property	-	-	-	-	-	-	82 765	**82 765**
Tangible fixed assets	-	-	-	-	-	-	29 715	**29 715**
Biological assets	-	-	-	-	-	-	8 500	**8 500**
Goodwill and other intangible assets	-	-	-	-	-	-	564	**564**
Assets held for sale	-	-	-	736	-	-	-	**736**
Other assets	13 199	1 083	49	12	17	294	268	**14 922**
Total assets	**269 537**	**11 136**	**7 002**	**11 348**	**42 408**	**18 894**	**183 994**	**544 319**
Liabilities								
Due to the central bank and other banks	727	-	-	-	-	-	-	**727**
Derivative financial instruments	792	2	-	-	-	-	-	**794**
Customer deposits	423 194	24 423	19 243	15 784	6 494	150	1 569	**490 857**
Subordinated debt	-	-	-	-	13 914	1 459	-	**15 373**
Deferred tax	-	-	-	-	-	-	1 077	**1 077**
Other liabilities	5 611	1 357	153	586	550	-	371	**8 628**
Total liabilities	**430 324**	**25 782**	**19 396**	**16 370**	**20 958**	**1 609**	**3 017**	**517 456**
Off-balance sheet items	3 912	-	1 757	-	-	-	-	**5 669**
Net liquidity	**(164 699)**	**(14 646)**	**(14 151)**	**(5 022)**	**21 450**	**17 285**	**180 977**	

Group As at 31 December 2012	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	50 510	-	-	-	-	-	-	**50 510**
Loans and receivables to banks	54 682	2 713	4 675	-	-	-	14 059	**76 129**
Trading financial assets	12 440	-	-	-	466	213	-	**13 119**
Derivative financial instruments	11 611	9	-	-	-	-	-	**11 620**
Loans and receivables to customers	17 602	11 101	10 130	18 351	83 399	24 112	14 222	**178 917**
Available-for-sale financial assets	40 107	-	-	-	-	12 699	-	**52 806**
Held-to-maturity financial assets	-	1 460	59	113	-	-	-	**1 632**
Prepaid corporate income tax	-	-	-	-	296	-	-	**296**
Investment property	-	-	-	-	-	-	61 528	**61 528**
Tangible fixed assets	-	-	-	-	-	-	53 200	**53 200**
Biological assets	-	-	-	-	-	-	7 724	**7 724**
Goodwill and other intangible assets	-	-	-	-	-	-	596	**596**
Assets held for sale	-	-	-	1 143	-	-	-	**1 143**
Other assets	8 087	1 174	17	30	63	-	450	**9 821**
Total assets	**195 039**	**16 457**	**14 881**	**19 637**	**84 224**	**37 024**	**151 779**	**519 041**
Liabilities								
Due to the central bank and other banks	219	-	-	-	1 230	-	-	**1 449**
Derivative financial instruments	1 479	15	-	-	-	-	-	**1 494**
Customer deposits	372 574	21 099	35 844	23 083	7 990	277	-	**460 867**
Subordinated debt	-	-	-	6 285	13 036	70	-	**19 391**
Deferred tax	-	-	-	-	-	-	990	**990**
Other liabilities	9 986	1 989	148	654	129	-	530	**13 436**
Total liabilities	**384 258**	**23 103**	**35 992**	**30 022**	**22 385**	**347**	**1 520**	**497 627**
Off-balance sheet items	7 060	75	1 757	-	-	-	-	**8 892**
Net liquidity	**(196 279)**	**(6 721)**	**(22 868)**	**(10 385)**	**61 839**	**36 677**	**150 259**	

Bank	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over	Other	Total
As at 31 December 2013	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Assets								
Cash and balance with the central bank	125 029	4 401	-	-	-	-	-	**129 430**
Loans and receivables to banks	71 526	-	-	-	-	-	15 206	**86 732**
Trading financial assets	10 562	-	-	-	10	262	-	**10 834**
Derivative financial instruments	1 180	1	-	-	-	-	-	**1 181**
Loans and receivables to customers	11 993	21 659	6 196	8 883	28 671	17 824	47 094	**142 320**
Available-for-sale financial assets	31 806	-	-	-	5 494	123 341	-	**160 641**
Prepaid corporate income tax	-	-	-	-	19	-	-	**19**
Investment property	-	-	-	-	-	-	9 841	**9 841**
Tangible fixed assets	-	-	-	-	-	-	11 699	**11 699**
Goodwill and other intangible assets	-	-	-	-	-	-	238	**238**
Assets held for sale	-	-	-	504	-	-	-	**504**
Other assets	3 689	-	-	-	-	60	71	**3 820**
Total assets	**255 785**	**26 061**	**6 196**	**9 387**	**34 194**	**141 487**	**84 149**	**557 259**
Liabilities								
Due to the central bank and other banks	727	-	-	-	-	-	-	**727**
Derivative financial instruments	792	2	-	-	-	-	-	**794**
Customer deposits	430 634	27 093	20 009	15 784	6 494	150	1 569	**501 733**
Subordinated debt	-	-	-	-	13 914	1 459	-	**15 373**
Deferred tax	-	-	-	-	-	-	443	**443**
Other liabilities	3 661	-	-	478	-	-	-	**4 139**
Total liabilities	**435 814**	**27 095**	**20 009**	**16 262**	**20 408**	**1 609**	**2 012**	**523 209**
Off-balance sheet items	3 914	374	1 757	-	-	-	-	**6 045**
Net liquidity	**(183 943)**	**(1 408)**	**(15 570)**	**(6 875)**	**13 786**	**139 878**	**82 137**	

Bank As at 31 December 2012	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	50 480	-	-	-	-	-	-	**50 480**
Loans and receivables to banks	54 324	-	4 676	-	-	-	14 059	**73 059**
Trading financial assets	12 440	-	-	-	72	213	-	**12 725**
Derivative financial instruments	11 611	9	-	-	-	-	-	**11 620**
Loans and receivables to customers	17 376	10 735	28 916	15 058	95 673	37 380	15 460	**220 598**
Available-for-sale financial assets	40 107	-	-	-	-	90 677	-	**130 784**
Held-to-maturity financial assets	-	1 460	59	113	-	-	-	**1 632**
Prepaid corporate income tax	-	-	-	-	80	-	-	**80**
Investment property	-	-	-	-	-	-	10 404	**10 404**
Tangible fixed assets	-	-	-	-	-	-	11 799	**11 799**
Goodwill and other intangible assets	-	-	-	-	-	-	384	**384**
Assets held for sale	-	-	-	699	-	-	-	**699**
Other assets	3 050	-	-	-	-	-	126	**3 176**
Total assets	**189 388**	**12 204**	**33 651**	**15 870**	**95 825**	**128 270**	**52 232**	**527 440**
Liabilities								
Due to the central bank and other banks	219	-	-	-	1 230	-	-	**1 449**
Derivative financial instruments	1 479	15	-	-	-	-	-	**1 494**
Customer deposits	375 584	21 181	35 926	23 155	8 402	276	-	**464 524**
Subordinated debt	-	-	-	6 285	13 036	70	-	**19 391**
Deferred tax	-	-	-	-	-	-	416	**416**
Other liabilities	7 558	-	-	467	-	-	-	**8 025**
Total liabilities	**384 840**	**21 196**	**35 926**	**29 907**	**22 668**	**346**	**416**	**495 299**
Off-balance sheet items	10 754	103	1 781	8	-	-	-	**12 646**
Net liquidity	**(206 206)**	**(9 095)**	**(4 056)**	**(14 045)**	**73 157**	**127 924**	**51 816**	

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below presents the maturity profile of the Bank's financial liabilities by the remaining maturities: principal payment and/or interest payments under agreements. The amounts of the liabilities disclosed in the table are the contractual undiscounted cash flows.

Financial liabilities	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over	Total
As at 31 December 2013	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Due to the central bank and other banks	727	-	-	-	-	-	**727**
Derivative financial instruments	(1 573)	(7)	-	-	-	-	**(1 580)**
- Contractual amounts payable	*584 144*	*1 462*	*30*	-	-	-	**585 636**
- Contractual amounts receivable	*(585 717)*	*(1 469)*	*(30)*	-	-	-	**(587 216)**
Customer deposits	433 379	27 363	20 298	16 168	6 967	610	**504 785**
Subordinated debt	-	-	-	-	18 485	1 888	**20 373**
Total undiscounted financial liabilities	**432 533**	**27 356**	**20 298**	**16 168**	**25 452**	**2 498**	**524 305**
Contingent liabilities	9 223						**9 223**
Commitments	3 269	374	1 757	-			**5 400**
Total	**12 492**	**374**	**1 757**	**-**	**-**	**-**	**14 623**
As at 31 December 2012							
Due to the central bank and other banks	217	-	-	101	1 338	-	**1 656**
Derivatives financial instruments	(9 404)	5	-	-	-	-	**(9 399)**
- Contractual amounts payable	*852 342*	*6 386*	-	-	-	-	**858 728**
- Contractual amounts receivable	*(861 746)*	*(6 381)*	-	-	-	-	**(868 127)**
Customer deposits	380 512	21 718	36 703	25 091	7 617	1 006	**472 647**
Subordinated debt	-	-	-	8 956	17 462	90	**26 508**
Total undiscounted financial liabilities	**371 325**	**21 723**	**36 703**	**34 148**	**26 417**	**1 096**	**491 412**
Contingent liabilities	2 967	-	-	-	-	-	**2 967**
Commitments	8 513	103	1 781	8	-	-	**10 405**
Total	**11 480**	**103**	**1 781**	**8**	**-**	**-**	**13 372**

The maturity profile of the Group's financial liabilities is not presented as the only items the Bank's subsidiaries have is due to the Bank.

CREDIT RISK

Credit risk is the potential risk which may cause losses for the Bank or the Group if borrower or counterparty fails or refuses to meet its contractual obligations.

Both the Group and the Bank manage the overall credit risk, including country risk in accordance with the Financial Risk Management and Control Policy, Policy for the Country Risk Management and Credit Policy.

When managing credit risk Bank ensures its measurement assessment and supervision.

Credit risk monitoring system established by the Bank is based on the following key elements:

- 1. element – Availability of risk measurement method. The Bank has developed and consistently applies methods for assessing creditworthiness of the Borrowers.
- 2. element - Decision making procedure for granting a loan. Decisions on granting a loan are made jointly and the limits of authority are distributed across various levels in accordance with respective competence levels.

- 3. element – Diversification of the Credit Portfolio, i.e. establishment of limits and restrictions. Setting limits and restrictions is regarded as a tool for minimization of credit risk and elimination of potential losses.
- 4. element. Monitoring of compliance to established limits and restrictions,
- 5. element. Creation of adequate loan loss provisions to cover losses that might appear in the course of loan transactions. Created provisions are regarded an instrument that would allow the Bank to cover future expected losses resulting from loan transaction risks; thus protecting the Bank financial stability from any negative impact.

The credit risk management practice includes the approved methods of the credit risk measurement of the borrowers counter-parties or issuers as well as the regular assessment of the off-balance liabilities.

The Group and the Bank identify and control the credit risk by establishing the acceptable exposure limits for:

- individual borrowers and groups of interrelated counterparties;
- economic sectors;
- different types of exposures;
- types of collateral;
- unsecured loans;
- loans issued in the currency other than borrower’s income.

The exposure limits are established in the Credit Policy and the Policy of Control over Large Exposures both approved by the Council. Those limits are being regularly supervised and are revised annually at least by the decision of the Management Board.

The credit risk is managed by the Management Board and the Credit Committee.

The Management Board approves the internal bank’s regulations for implementation of Bank’s Credit Policy, considers and accepts new loan exposures, approves the measures for mitigating the risk related to the loan portfolio, performs control over the Credit Committee.

The Credit Committee approves the exposure within its competence, analyses the quality of the loan portfolio or individual loan and in case of deterioration accepts the measures for mitigating the credit risk. The Board approves the Credit Committee’s decisions when the exposure exceeds 5% of the 1st and 2nd tier capital.

The main assessment criterion for the possible lending is the creditworthiness of the customer. Prior to decision on any new loan exposure, the Bank and Group must obtain sufficient and reliable information to enable assessment of the risk profile of the borrower or counterparty.

The Credit and Investment Supervision Department is managing the credit risk on a daily basis. The Credit and Investment Supervision Department is responsible for Credit Policy implementation and supervision over its fulfilment.

The Credit and Investment Supervision Department also is in charge for exposure concentration analysis, for control over the set limits, for monitoring the loans portfolio, preparing the surveys on loan portfolio and their submission to the Management Board. All breaches revealed by the Credit and Investment Supervision Department are reported to the Credit Committee and the Management Board.

MAXIMUM EXPOSURE TO CREDIT RISK

The amount of the Group’s maximum exposure to credit risk without taking into account of any collateral is represented by the carrying amount of each category of financial assets in the balance sheet and off-balance sheet items.

	31.12.2013		31.12.2012	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Credit risk exposure relating to on-balance sheet assets	**292 874**	**405 593**	**345 392**	**454 152**
Loans and receivables to banks	91 057	86 732	76 129	73 059
Trading financial assets	11 457	10 834	13 119	12 725
Derivative assets	1 181	1 181	11 620	11 620
Loans and receivables to customers	135 563	142 320	178 917	220 598
Available-for-sale financial assets	38 113	160 641	52 806	130 784
Held-to-maturity financial assets	-	-	1 632	1 632
Prepaid corporate income tax	303	19	296	80
Assets held for sale	736	504	1 143	699
Other assets	14 464	3 362	9 730	2 955
Credit risk exposure relating to off-balance sheet items	**14 248**	**14 623**	**9 618**	**13 372**
Contingent liabilities	9 223	9 223	2 967	2 967
Commitments	5 025	5 400	6 651	10 405
Maximum exposure	**307 122**	**420 216**	**355 010**	**467 524**

Risk concentrations of the maximum exposure to credit risk

According to the Credit Policy, the following limits and restrictions are established for the Group and the Bank:

- the maximum amount of the loan portfolio should not be more than 70% of the total assets and should not exceed the size of Capital Tier1 and Tier 2 more than 8 times.
- the portion of non-resident loans should not exceed 50% of the total loan portfolio.
- the maximum amount of loans into one economic segment is limited up to 45% of the total loan portfolio.

The Group's and Bank's financial assets are deposited in the following geographical regions:

At 31 December 2013 – Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**103 051**	**106 705**	**83 118**	**292 874**
Loans and receivables to banks	947	83 876	6 234	**91 057**
Trading financial assets	285	645	10 527	**11 457**
Derivative assets	100	206	875	**1 181**
Loans and receivables to customers	81 680	8 968	44 915	**135 563**
Available-for-sale financial assets	10 865	10 540	16 708	**38 113**
Held-to-maturity financial assets	-	-	-	**-**
Prepaid corporate income tax	21	-	282	**303**
Assets held for sale	504	-	232	**736**
Other assets	8 649	2 470	3 345	**14 464**
Credit risk exposure relating to off-balance sheet items	**12 938**	**102**	**1 208**	**14 248**
Total	**115 989**	**106 807**	**84 326**	**307 122**

At 31 December 2012 – Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**131 839**	**110 025**	**103 528**	**345 392**
Loans and receivables to banks	1 279	68 977	5 873	**76 129**
Trading financial assets	303	151	12 665	**13 119**
Derivative assets	71	9 019	2 530	**11 620**
Loans and receivables to customers	112 036	13 770	53 111	**178 917**
Available-for-sale financial assets	9 391	15 992	27 423	**52 806**
Held-to-maturity financial assets	-	1 632	-	**1 632**
Prepaid corporate income tax	80	-	216	**296**
Assets held for sale	699	-	444	**1 143**
Other assets	7 980	484	1 266	**9 730**
Credit risk exposure relating to off-balance sheet items	**7 135**	**178**	**2 305**	**9 618**
Total	**138 974**	**110 203**	**105 833**	**355 010**

At 31 December 2013 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**214 488**	**106 532**	**84 573**	**405 593**
Loans and receivables to banks	840	83 864	2 028	**86 732**
Trading financial assets	285	492	10 057	**10 834**
Derivative assets	100	206	875	**1 181**
Loans and receivables to customers	91 281	8 968	42 071	**142 320**
Available-for-sale financial assets	120 862	10 540	29 239	**160 641**
Prepaid corporate income tax	19	-	-	**19**
Assets held for sale	504	-	-	**504**
Other assets	597	2 462	303	**3 362**
Credit risk exposure relating to off-balance sheet items	**13 313**	**102**	**1 208**	**14 623**
Total	**227 801**	**106 634**	**85 781**	**420 216**

At 31 December 2012 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**236 219**	**109 873**	**108 060**	**454 152**
Loans and receivables to banks	1 046	68 976	3 037	**73 059**
Trading financial assets	303	-	12 422	**12 725**
Derivative assets	71	9 019	2 530	**11 620**
Loans and receivables to customers	153 657	13 770	53 171	**220 598**
Available-for-sale financial assets	78 109	15 992	36 683	**130 784**
Held-to-maturity financial assets	-	1 632	-	**1 632**
Prepaid corporate income tax	80	-	-	**80**
Assets held for sale	699	-	-	**699**
Other assets	2 254	484	217	**2 955**
Credit risk exposure relating to off-balance sheet items	**7 577**	**178**	**5 617**	**13 372**
Total	**243 796**	**110 051**	**113 677**	**467 524**

An industry sector analysis of the Group’s and Bank’s financial assets before taking into account any collateral held or other credit enhancements is as following:

	31.12.2013		31.12.2012	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Credit risk exposure relating to on-balance sheet assets	**292 874**	**405 593**	**345 392**	**454 152**
Banks	97 836	93 511	87 067	83 997
Private individuals	22 556	13 001	25 043	16 403
Transport	20 054	21 008	21 057	24 416
Trade	2 046	1 836	12 482	17 940
Financial services	24 512	158 545	51 200	142 761
Processing industry	35 281	35 478	44 409	57 088
Building	13 147	9 173	18 614	12 588
Governments	33 245	32 092	37 456	37 063
Other	44 197	40 949	48 064	61 896
Credit risk exposure relating to off-balance sheet items	**14 248**	**14 623**	**9 618**	**13 372**
Total	**307 122**	**420 216**	**355 010**	**467 524**

Renegotiated loans

In accordance with the Credit Policy a “***renegotiated loan*** *” is a new loan* used to refinance the *old* one, with the following conditions:

- interest payments are made not more often than once a year;
- the Client participation share in the loan project is not required (in case when based on standard Bank’s requirements the Client share participation is required);
- newly stipulated interest rate for the loan utilisation is considerably lower than standard rate;
- new loan maturity is considerably longer than the standard maturity for the similar Bank loans;
- past due not paid loan interest is capitalised (for credit card loans at the moment of renegotiation).

Prior to loan renegotiation the Bank should have reasonable assurance that the borrower’s creditworthiness (forecasted cash flow) is sufficient for fulfilment of obligations under to the terms and conditions of the altered loan agreement:

- if the borrower is a legal entity such assurance is mainly based on the borrower’s forecasted cash flow and its feasibility analysis,
- if the borrower is a private individual such assurance is mainly based on the customer’s planned income,
- it is not permitted to make multiple amendments to the loan agreement (loan renegotiation) without performing the borrower cash flow analysis or analysis of feasibility of the financed project.

The decision on the loan restructuring is made by the authorized bodies of the Bank.

The amount of renegotiated loans as at 31 December 2013 is LVL’000 27 488 (2012: LVL’000 68 332).

Collateral and other loan enhancements

The Bank considers the collateral as an element mitigating the credit risk. The acceptable types of collateral and the methods of evaluation are established in the Credit Policy and the Procedure for the Supervision over the Loans.

The main acceptable types of collateral are: the real estate mortgage, ship mortgage, commercial pledge of the assets of the companies incl. fixed assets inventory and accounts receivable.

The management controls the market value of the collateral paying special attention to the real estate property and adjusting it accordance to the recent market prices.

The assessment of the real estate property is performed by the independent certified valuators. The Bank adjusts the market value made by the evaluators if considers that any substantial risk factors were omitted. Such adjusted market value is used in calculations of adequacy of collateral.

According to the requirements of the Credit Policy the maximum portion of the loans with the similar type of collateral should be limited up to 45% of the loan portfolio (loans without collateral are not taken into consideration).

The portion of unsecured exposures should be limited up to 15% of the Credit Portfolio. The Bank considers the unsecured exposures (they mainly are the consumer loans, including cards), as a group of loans with the same purpose and similar credit risk, that has been analyzed, assessed and accepted while implementing the respective loan instrument.

Quality of loans and receivables

The Group and the Bank are constantly monitoring the creditworthiness of the borrowers, adequacy of the collateral and measurement of its fair value.

The Bank classifies the loans on the quarterly basis or every time when it receives the information about the substantial deterioration of the quality of any loan. The classification is made with the aim to assess the quality and risk grade of the issued loans and indemnities measurement of potential losses and creation of sufficient provisions as well.

The loan assessment is made by the Credit Committee and the Risk management Committee. Both committees in its assessments and estimations observe the principles of conservatism and discretion, i.e. not to decrease the amount of assets and earnings or not to increase the amount of liabilities and costs so that the financial report remains reliable.

The Credit Committee decides on non-recognition or derecognition of interest income from individually assessed loan; and non-recognition or derecognition of interest income from renegotiated loans.

The Risk Management Committee decides on making the provisions for impairment.

The special provisions in the financial reports are reflected as a result of the deterioration of the loan quality and /or impairment. The amount of losses caused by the impairment is reflected in the Income Statement for the reported period.

The assessment of the loan quality is made by assessing of each loan, i.e. individually, or collectively by pooling the loans with similar credit risk characteristics.

	31.12.2013		**31.12.2012**	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Loans and receivables to customers				
Neither past due nor impaired	67 590	75 340	101 793	122 611
Past due but not impaired	17 204	14 741	40 867	37 974
Impaired	80 388	82 035	75 192	103 902
Gross amount	**165 182**	**172 116**	**217 852**	**264 487**
(Provisions)	(29 619)	(29 796)	(38 935)	(43 889)
Total net loans and receivables to customers	**135 563**	**142 320**	**178 917**	**220 598**

As of 31 December 2013 and 31 December 2012 other financial assets: loans and receivables to banks, available-for-sale financial assets, contingent liabilities and commitments have been classified as neither past due nor impaired.

As of 31 December 2013 the Bank and the Group has a total gross exposure of 39 686 thousand lats related to alternative energy sector, comprising gross loan exposure in the amount of 36 717 thousand lats and other exposure in the amount of 2 969 thousand lats.

The Bank is involved in several legal proceedings related to its exposure to alternative energy sector. The legal processes include a number of claims and different applications within court cases, insolvency and reorganisation proceedings.

A group of borrowers including SIA Winergy and related companies have taken various actions to avoid repayment of the loan and foreclosure on the collateral. These efforts comprise reducing value of the collateral and attempts to transfer the business and/or assets. SIA Winergy has been declared insolvent which was protested in the Supreme Court by the state prosecutor's office. A significant part of the collateral has been arrested by the state police within the criminal case initiated upon the Bank's request in connection with the aforementioned efforts of the borrowers.

The Bank intends to vigorously pursue the recovery of respective loans through the courts of Latvia and the European Union. During 2013 the Bank has evaluated the perspectives and timing of the recovery procedures and has created impairment allowances, based on the estimates of the management, for the wind energy loans.

As of 31 December 2013 the Bank has assessed impairment allowances in the amount of 8 681 thousand lats, which the management believes is the best estimate as at the date of the issuance of these financial statements.

Ageing analysis of past due but not impaired loans and receivables to customers

In order to detect possible impairment of overdue loans the Bank applied its internal methodology. No loans from the category of "past due but not impaired" (including unsecured consumer loans with the age interval over 180 days) demonstrated impairment when were examined in accordance with the internal methodology.

The table below represents the Group's and the Bank's analysis of past due but not impaired loans as at 31 December 2013:

Group	**Past due but not impaired**					
At 31 December 2013	**up to 30 days LVL'000**	**31 to 60 days LVL'000**	**61 to 90 days LVL'000**	**91 to 180 days LVL'000**	**More than 180 days LVL'000**	**Total LVL'000**
Mortgage loans	524	258	32	2 186	2 747	**5 747**
Industrial loans	1 228	140	-	-	2 637	**4 005**
Commercial loans	-	35	-	3 158	2 386	**5 579**
Consumer loans	576	6	24	39	18	**663**
Credit card	188	-	-	-	-	**188**
Finance leases	228	104	9	-	-	**341**
Other	-	-	-	681	-	**681**
Total	**2 744**	**543**	**65**	**6 064**	**7 788**	**17 204**

Bank	**Past due but not impaired**					
At 31 December 2013	**up to 30 days LVL'000**	**31 to 60 days LVL'000**	**61 to 90 days LVL'000**	**91 to 180 days LVL'000**	**More than 180 days LVL'000**	**Total LVL'000**
Mortgage loans	111	243	8	2 158	2 465	**4 985**
Industrial loans	1 228	140	-	-	2 637	**4 005**
Commercial loans	-	35	-	3 158	335	**3 528**
Consumer loans	576	6	24	39	1	**646**
Credit card	188	-	-	-	-	**188**
Finance leases	90	-	-	-	-	**90**
Other	-	618	-	681	-	**1 299**
Total	**2 193**	**1 042**	**32**	**6 036**	**5 438**	**14 741**

The table below represents the Group's and the Bank's analysis of past due but not impaired loans as at 31 December 2012:

Group	Past due but not impaired					
At 31 December 2012	up to 30 days LVL'000	31 to 60 days LVL'000	61 to 90 days LVL'000	91 to 180 days LVL'000	More than 180 days LVL'000	Total LVL'000
Mortgage loans	1 512	107	225	135	2 806	**4 785**
Industrial loans	223	3	205	25 552	868	**26 851**
Commercial loans	531	198	472	3 771	2 651	**7 623**
Consumer loans	722	17	32	30	26	**827**
Credit card	268	-	-	-	-	**268**
Finance leases	261	10	6	-	6	**283**
Other	-	77	-	-	153	**230**
Total	**3 517**	**412**	**940**	**29 488**	**6 510**	**40 867**

Bank	Past due but not impaired					
At 31 December 2012	up to 30 days LVL'000	31 to 60 days LVL'000	61 to 90 days LVL'000	91 to 180 days LVL'000	More than 180 days LVL'000	Total LVL'000
Mortgage loans	1 258	93	214	19	2 580	**4 164**
Industrial loans	223	3	205	25 552	868	**26 851**
Commercial loans	531	198	472	3 771	669	**5 641**
Consumer loans	722	17	32	30	13	**814**
Credit card	268	-	-	-	-	**268**
Finance leases	-	-	-	-	6	**6**
Other	-	77	-	-	153	**230**
Total	**3 002**	**388**	**923**	**29 372**	**4 289**	**37 974**

The detailed information on the provisions made against bad debts is in Note 17 "Impairment losses on financial assets".

MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will adversely fluctuate due to changes in market variables such as interest rates, exchange rates and equity prices.

The Bank classifies exposures to market risk into either trading or non-trading portfolios. Bank's subsidiaries do not have trading portfolios. Trading portfolio includes those positions arising from market-making transactions where the Bank acts as principal with clients or with the market and are managed by the Bank's Resource division (the Treasury) according to the Investment Policy and the Internal Financial Risk Management and Control Policy within limits and restrictions set by the Management Board.

Market risks mainly arise from open positions (both trading and non-trading) in interest rate and foreign currency exchange rates. Interest rate risk and foreign exchange risk are managed and monitored by applying sensitivity analyses. The Group has no significant market risk concentration.

The Management Board and the Assets and Liabilities Committee set the basic interest rate for deposits and loans for each currency group and period analyzing the maturity and interest rates of assets and liabilities, the net interest margin and liquidity in connection with currencies and directions of operations.

Interest rate risk

The following table demonstrates sensitivity of the Group's income statement and equity to possible changes in interest rates on the condition that all other variables are constant.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income (with equal effect on pre-tax profit) for one year based on financial assets and financial liabilities (variable loan commitments are not included) categorised by the earlier of contractual re-pricing or maturity dates.

The methods employed in interest rate risk sensitivity analysis have remained unchanged compared to the year 2012.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets held as of 31 December 2013 and is based on the assumption that there are parallel shifts in the yield curve discounting future cash flows by amended interest rate. There is the same effect on sensitivity of equity of the Group as only the Bank has fixed rate available-for-sale assets revaluing them through the equity.

Possible parallel interest rate shift in basis points has been set to 100 bps for all currencies – LVL, USD and EUR (100bp in 2012). The reason is that the Bank believes that there will be no dramatic increases in the interest rates for the major currencies, given the current situation of stagnation at historical lows.

At 31 December 2013		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase/ decrease in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
		LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
LVL	100	(187)	(108)	-	-	-	-
USD	100	(1 577)	(1 641)	(2)	-	(254)	(256)
EUR	100	(72)	(123)	(32)	(4)	-	(36)
LVL	(100)	187	108	-	-	-	-
USD	(100)	1 577	1 641	2	-	254	256
EUR	(100)	72	123	32	4	-	36

At 31 December 2012		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase/ decrease in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**Up to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
		LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
LVL	100	(62)	(126)	-	-	-	-
USD	100	(1 545)	(1 550)	(10)	(5)	(284)	(299)
EUR	100	(45)	(216)	(9)	-	(289)	(298)
LVL	(100)	62	126	-	-	-	-
USD	(100)	1 545	1 550	10	5	284	299
EUR	(100)	45	216	9	-	289	298

Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Policy of Control over Large Exposures and the Financial Risk Management and Control Policy govern foreign exchange risk control and management. These policies are based on meeting the restrictions of the net open position of each foreign currency and the total open position of foreign currencies in compliance with the limits and stop losses set by the Management Board and with the requirements of the Latvian Financial and Capital Market Commission. In order to avoid losses arising from adverse changes in exchange rates, the Treasury continuously manages open positions and supervises compliance with the restrictions on foreign currency positions.

The methods employed in currency risk sensitivity analysis have remained unchanged compared to year 2012.

The sensitivity analysis for the Group's foreign exchange risk is presented in the following tables

As at 31 December 2013 - Group	**LVL**	**USD**	**EUR**	**Other currencies**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Assets					
Cash and due from the central bank	34 573	1 069	91 545	2 256	**129 443**
Loans and receivables to banks	114	78 966	2 539	9 438	**91 057**
Trading financial assets	-	10 562	895	-	**11 457**
Derivative financial instruments	1 181	-	-	-	**1 181**
Loans to customers and receivables	10 621	37 477	79 929	7 536	**135 563**
Available-for-sale financial assets	812	19 195	18 106	-	**38 113**
Prepaid corporate income tax	19	-	-	284	**303**
Investment property	5 446	-	77 319	-	**82 765**
Tangible fixed assets	19 054	-	10 483	178	**29 715**
Biological assets	8 500	-	-	-	**8 500**
Goodwill and other intangible assets	522	-	3	9	**564**
Assets held for sale	504	-	-	232	**736**
Other assets	9 492	207	1 933	3 290	**14 922**
Total assets	**90 868**	**147 476**	**282 752**	**23 223**	**544 319**
Liabilities and equity					
Due to the central bank and other banks	-	640	79	8	**727**
Derivative financial instruments	794	-	-	-	**794**
Customer deposits	55 033	267 122	148 763	19 939	**490 857**
Subordinated debt	-	2 721	12 568	84	**15 373**
Deferred tax liabilities	443	-	-	634	**1 077**
Other liabilities	3 751	710	3 217	950	**8 628**
Total liabilities	**60 021**	**271 193**	**164 627**	**21 615**	**517 456**
Share capital and reserves	24 887	-	(475)	1 478	**25 890**
Minority interest	-	-	-	973	**973**
Total liabilities and equity	**84 908**	**271 193**	**164 152**	**24 066**	**544 319**
Net balance sheet long/(short) position	**5 960**	**(123 717)**	**118 600**	**(843)**	
Spot foreign-exchange contracts long/(short) position	(1 194)	182 947	(167 326)	(14 427)	
Swap foreign-exchange contracts long/(short) position	(496)	(33 181)	18 866	14 811	
Forward foreign-exchange contracts long/(short) position	9 117	(22 013)	9 282	3 614	
Net open long/(short) currency position	**13 387**	**4 036**	**(20 578)**	**3 155**	
Currency open position in % from capital as of 31/12/2013		**11.78**	**60.04**		
As at 31 December 2012 - Group					
Net open long/(short) currency position	**39 060**	**29 016**	**(84 523)**	**16 447**	
Currency open position in % from capital as of 31/12/2012		**100.50**	**292.74**		

The table below indicates the currencies to which the Group had significant exposure at 31 December 2013 and at 31 December 2012 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate against the Lat with all other variables held constant on the income statement

Possible currency rate fluctuations have been set to 7% (7% in 2012) for USD. The reason for keeping such volatility estimation for the USD – the Bank believes it to be a safe proxy for the future, given the fact that it was the approximate EURUSD volatility for the year 2013. The exposure in EUR does not have the effect on the income statement anymore as Latvia joined the European Monetary Union since 1 January 2014.

	31.12.2013		**31.12.2012**	
Currency	**Change in currency rate %**	**Effect on income statement LVL`000**	**Change in currency rate %**	**Effect on income statement LVL`000**
USD	+7	283	+7	2 031
	(7)	(283)	(7)	(2 031)

The sensitivity analysis of the Bank to the foreign exchange risk is presented in the following tables:

As at 31 December 2013 - Bank	**LVL**	**USD**	**EUR**	**Other currencies**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Assets					
Cash and due from the central bank	34 566	1 069	91 540	2 255	**129 430**
Loans and receivables to banks	8	74 928	2 519	9 277	**86 732**
Trading financial assets	-	10 562	272		**10 834**
Derivative financial instruments	1 181	-	-	-	**1 181**
Loans to customers and receivables	10 779	36 691	89 372	5 478	**142 320**
Available-for-sale financial assets	24 729	19 195	116 717	-	**160 641**
Prepaid corporate income tax	19	-	-	-	**19**
Investment property	9 841	-	-	-	**9 841**
Tangible fixed assets	11 699	-	-	-	**11 699**
Goodwill and other intangible assets	238	-	-	-	**238**
Assets held for sale	504	-	-	-	**504**
Other assets	3 040	207	325	248	**3 820**
Total assets	**96 604**	**142 652**	**300 745**	**17 258**	**557 259**
Liabilities and equity					
Due to the central bank and other banks	-	640	78	9	**727**
Derivative financial instruments	794	-	-	-	**794**
Customer deposits	63 585	267 127	151 082	19 939	**501 733**
Subordinated debt	-	2 721	12 568	84	**15 373**
Deferred tax liabilities	443	-	-	-	**443**
Other liabilities	2 311	709	806	313	**4 139**
Total liabilities	**67 133**	**271 197**	**164 534**	**20 345**	**523 209**
Share capital and reserves	34 050	-	-	-	**34 050**
Total liabilities and equity	**101 183**	**271 197**	**164 534**	**20 345**	**557 259**

Net balance sheet long/(short) position	**(4 579)**	**(128 545)**	**136 211**	**(3 087)**
Spot foreign-exchange contracts long/(short) position	(1 194)	182 947	(167 326)	(14 427)
Swap foreign-exchange contracts long/(short) position	(496)	(33 181)	18 866	14 811
Forward foreign-exchange contracts long/(short) position	9 117	(22 013)	9 282	3 614
Net open long/(short) currency position	**2 848**	**(792)**	**(2 967)**	**911**
Currency open position in % from capital as of 31/12/2013		**1.98**	**7.41**	
As at 31 December 2012 - Bank				
Net open long/(short) currency position	**5 992**	**(728)**	**(6 128)**	**864**
Currency open position in % from capital as of 31/12/2012		**1.98**	**16.68**	

As of 31 December 2013 the Bank's open position was 11,69% of the Tier 1 and Tier 2 of the capital (2012: 17.94%).

According to the Law on Credit Institutions of the Republic of Latvia the total open position should not exceed 20% of the capital amount set by instructions of Finance and Capital Market Commission, and the open position for every currency should not exceed 10 %; the internal limits set by the Board during the 2013 were stronger (17 % and 8% (except EUR) accordingly).

The table below indicates the currencies to which the Bank had significant exposure as of 31 December 2013 and as of 31 December 2012 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis shows the effect of a reasonable possible movement of the currency rate against the EUR, with all other variables held constant, on the income statement. The exposure in EUR does not have the effect on the income statement anymore as Latvia joined the European Monetary Union in 1 January 2014.

	31.12.2013		**31.12.2012**	
Currency	**Change in currency rate %**	**Effect on income statement LVL`000**	**Change in currency rate %**	**Effect on income statement LVL`000**
USD	+7	(55)	+7	(51)
	(7)	55	(7)	51

Operational risk

Operational risk is the risk of loss arising from the impact of inadequate or unsuccessful internal processes: personnel errors systems failure or external events. The Management Board and appropriate organizational units of the Group exercise supervision and control over the operational risk on the basis of the approved Operational Risk Management Policy. The operational risk is monitored and managed by the following methods: effective segregation of duties and accesses authorisation and reconciliation; operational risk is daily monitored by the Back-Office and operational risk cases are registered in on-line database for the further analysis; direct reporting on operational risk cases to the Management Board respective heads of department and product managers; regular internal control process reviews; regular inspections by Internal Audit including regular IT systems inspections by IT system internal auditor.

4. NET INTEREST INCOME

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest income	**9 766**	**9 367**	**16 590**	**14 777**
Loans and receivables to customers	7 384	7 075	13 157	11 790
Loans and receivables to banks	441	380	967	536
Available-for-sale securities	999	999	1 413	1 413
Trading securities	886	862	973	958
Held-to-maturity financial assets	10	10	39	39
Other	46	41	41	41
Interest expense	**4 276**	**4 216**	**8 097**	**8 151**
Customer deposits	1 819	1 820	5 015	5 073
Deposits from banks	37	37	66	66
Subordinated debt	1 258	1 258	1 352	1 352
Payments in the Deposit Guarantee Fund	1 101	1 101	1 660	1 660
Other	61	-	4	-
Net interest income	**5 490**	**5 151**	**8 493**	**6 626**

As at 31 December 2013 interest income accrued on impaired loans to customers amounted to LVL'000 1 202 (2012: LVL'000 2 035).

5. NET FEE AND COMMISSION INCOME

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fee and commission income	**13 616**	**13 061**	**12 277**	**11 783**
Account services and money transfer fees	8 586	8 641	7 012	7 084
Commission for public utility payments	1 095	1 095	1 116	1 116
Payment cards	1 834	1 834	1 602	1 602
Brokerage services on securities	764	770	1 332	1 333
Asset management fees	619	40	473	18
Cash withdrawal	520	520	446	446
Commission on letters of credit and collection	56	56	36	36
Other	142	105	260	148
Fee and commission expense	**2 052**	**2 040**	**2 078**	**1 956**
Payment cards	1 172	1 172	1 071	1 071
Services of correspondent banks	637	637	598	597
Securities purchase and brokerage services	230	230	287	287
Other	13	1	122	1
Net fee and commission income	**11 564**	**11 021**	**10 199**	**9 827**

6. NET TRADING INCOME

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from trading financial assets net	**(195)**	**(183)**	**(71)**	**(76)**
Bonds and other fixed income securities	***(134)***	***(122)***	***(90)***	***(95)***
Net trading profit/(loss)	32	42	(305)	(305)
Fair value adjustment	(166)	(164)	215	210
Shares and other non- fixed income securities	***(61)***	***(61)***	***19***	***19***
Net trading profit/(loss)	-	-	-	-
Fair value adjustment	(61)	(61)	19	19
Profit/(loss) from derivative instruments and foreign exchanges trading net	**3 401**	**3 523**	**2 751**	**2 741**
Net trading profit/(loss)	11 488	11 610	(1 489)	(1 459)
Fair value adjustment	(8 087)	(8 087)	4 240	4 200
Profit/(loss) from assets held for sale	**-**	**(267)**	**-**	**-**
Net trading profit/(loss)	-	(267)	-	-
Profit/(loss) from revaluation of open position net	**6 654**	**4 704**	**6 845**	**6 558**
Net trading income	**9 860**	**7 777**	**9 525**	**9 223**

7. NET PROFIT OR LOSS FROM FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net realized profit/(loss)	-	-	(13)	-
Profit/(loss) from financial assets designated at fair value through profit or loss, net	**-**	**-**	**(13)**	**-**

8. NET GAIN OR LOSS FROM SALES OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013		2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Non fixed income securities (investment funds)	386	(4 977)	-	-
Investments in subsidiaries	5 803	958	(64)	(64)
Bonds and other fixed income securities	(323)	(323)	1 987	(214)
Total	**5 866**	**(4 342)**	**1 923**	**(278)**

These are the amounts transferred from equity to the income statement on the derecognition of available-for-sale financial instruments.

9. OTHER OPERATING INCOME AND EXPENSES

Other operating income was as follows:	2013		2012	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Income from ships (freight)	7 619	-	11 887	-
Rent of investment property	3 496	848	1 894	872
Typography	14 489	-	763	-
Hotel business	593	-	642	-
Penalties	312	298	286	98
Forestry	584	-	240	-
Rent of premises	106	140	68	99
Other	2 798	320	2 480	276
Total	**29 997**	**1 606**	**18 260**	**1 345**

Other operating expenses were as follows:	2013		2012	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Expenses from ships (freight)	7 758	-	12 742	-
Net loss of sale of ship and real estate	3 783	-	4 638	-
Expenses from credit operations	995	995	337	366
Membership fees	187	131	179	128
Production costs (typography)	8 367	-	534	-
Other	2 353	43	1 696	1
Total	**23 443**	**1 169**	**20 126**	**495**

10. ADMINISTRATIVE EXPENSES

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Personnel expense	**14 806**	**8 350**	**10 307**	**8 290**
Personnel remuneration	11 505	6 041	7 706	5 999
Supervisory Council and Management Board remuneration	849	690	764	684
Social security contributions	2 452	1 619	1 837	1 607
Other expense	**10 262**	**5 409**	**7 368**	**5 510**
Professional services	1 678	1 457	1 368	1 370
Computer repair and communications	1 049	933	992	943
Rent	836	515	689	583
Public utilities and maintenance	2 418	574	824	672
Advertising	278	150	406	220
Value added tax	323	255	427	424
Business trips	274	197	192	175
Security	297	184	211	194
Real estate tax	195	131	198	90
Other administrative expenses	2 914	1 013	2 061	839
Total	**25 068**	**13 759**	**17 675**	**13 800**

During the 2013 the average number of employees in the Group and the Bank was 1 157, 3 Supervisory Council and 4 Management Board members and 587 employees, 3 Supervisory Council and 4 Management Board members, respectively.

During the 2012 the average number of employees in the Group and the Bank was 1 120, 3 Supervisory Council and 5 Management Board members and 589 employees, 3 Supervisory Council and 5 Management Board members, respectively.

11. CORPORATE INCOME TAX

a) Components of corporate income tax	2013		2012	
	Group	**Bank**	**Group**	**Bank**
	LVL’000	**LVL’000**	**LVL’000**	**LVL’000**
Corporate income tax expense for the year	32	-	2	-
Corporate income tax paid abroad	246	246	183	183
Recalculation for previous year	268	259	-	-
Change in deferred tax liability	62	-	(87)	(188)
Total	**608**	**505**	**98**	**(5)**

b) Reconciliation of accounting profit to tax charge	2013		2012	
	Group	**Bank**	**Group**	**Bank**
	LVL’000	**LVL’000**	**LVL’000**	**LVL’000**
Loss before taxation	**(12 762)**	**(17 941)**	**(41 026)**	**(32 956)**
Expected corporate income tax	(1 914)	(2 691)	(6 154)	(4 943)
Tax effect of:				
(Untaxed income)/non-deductible expense	(590)	21	3 373	3 688
Effect of different tax rates on income tax paid abroad/ lost allowance for tax paid abroad	246	246	183	183
Effect of different tax rates of subsidiaries operating in other jurisdictions	25	-	988	-
Corrections of previous periods	259	259	-	-
Carried losses in group	-	448	-	-
Overtaken loses	(77)	-	(47)	-
Not recognised deferred tax assets	2 659	2 222	1 755	1 067
Other	-	-	-	-
Total	**608**	**505**	**98**	**(5)**

Expected corporate income tax has been calculated in accordance to Latvian income tax rate in 2013.
Effect of different tax rates of subsidiaries operating in other jurisdictions appeared due to 20% income tax rate in Armenia.

c) Reconciliation of prior year deferred tax balance with that of current period is as follows:

	2013		2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Deferred tax liability at the beginning of year	574	-	650	188
Deferred tax liability increase (decrease) for the year	77	-	(87)	(188)
Acquisition of subsidiary	-	-	44	-
Foreign exchange	(17)	-	(33)	-
Deferred tax liability at the year end	**634**	**-**	**574**	**-**
Deferred tax recognised directly in equity at the beginning of year	416	416	377	377
Deferred tax increase for the year net	27	27	39	39
Deferred tax recognised directly in equity at the year end	**443**	**443**	**416**	**416**
Total	**1 077**	**443**	**990**	**416**

d) The deferred tax included in the balance sheet and changes recorded in the income statement are as follows:

	2013		2012	
Group	**Deferred tax asset LVL'000**	**Deferred tax liability LVL'000**	**Deferred tax asset LVL'000**	**Deferred tax liability LVL'000**
Loans to customers	-	(611)	-	(589)
Depreciation and amortisation	5	(296)	3	(223)
Change in fair value of investment property	-	(1 017)	-	(446)
Tax loss carry-forwards	4 732	-	1 413	-
Accruals for vacations	107	-	85	-
Not recognised deferred tax assets	-	(3 511)	-	(791)
Other	2	(45)	2	(28)
Total mutual off setting of asset/(liability)	**4 846**	**(5 480)**	**1 503**	**(2 077)**
Net deferred tax asset/(liability)	**-**	**(634)**	**-**	**(574)**
Deferred tax recognised directly in equity	**-**	**(443)**	**-**	**(416)**
Total	**-**	**(1 077)**	**-**	**(990)**

	2013		2012	
Bank	**Deferred tax assets LVL'000**	**Deferred tax liability LVL'000**	**Deferred tax assets LVL'000**	**Deferred tax liability LVL'000**
Depreciation and amortisation	-	(296)	-	(179)
Change in fair value of investment property	-	(418)	-	(446)
Tax loss carry-forwards	3 567	-	1 346	-
Accruals for vacations	72	-	70	-
Not recognised deferred tax assets	-	(2 925)	-	(791)
Other	-	-	-	-
Total mutual off setting of asset/(liability)	**3 639**	**(3 639)**	**1 416**	**(1 416)**
Net deferred tax asset/(liability)	**-**	**-**	**-**	**-**
Deferred tax recognised directly in equity	**-**	**(443)**	**-**	**(416)**
Total	**-**	**(443)**	**-**	**(416)**

12. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash	8 515	8 502	9 947	9 917
Due from the central bank	120 928	120 928*	40 563	40 563
Total	**129 443**	**129 430**	**50 510**	**50 480**

* - According to regulations set by the Bank of Latvia on euro implementation the LVL '000 6 602 were pledged in the Bank of Latvia account. The pledge was released in February 2014.

Balances with the Bank of Latvia represent funds held in the Bank's clearing account. In accordance with the regulations set by the Bank of Latvia the Bank's average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base as at the end of each month. As at 31 December 2013 the amount of the statutory reserve of the Bank was LVL'000 19 026 (31.12.2012: LVL'000 19 050). Bank is compliant with this regulation.

13. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand placements with:	**76 257**	**71 932**	**54 854**	**54 497**
Banks of the Republic of Latvia	650	543	621	435
Banks of the OECD countries	69 373	69 361	51 026	51 025
Banks of other countries	6 234	2 028	3 207	3 037
Loans to and receivables from:	**14 800**	**14 800**	**21 275**	**18 562**
Banks of the Republic of Latvia	297	297	658	611
Banks of the OECD countries	14 503	14 503	17 951	17 951
Banks of other countries	-	-	2 666	-
Total	**91 057**	**86 732**	**76 129**	**73 059**

As at 31 December 2013 the Bank has LVL'000 14 318 pledged for Forex deals (31.12.2012: LVL'000 13 101) ; LVL'000 482 pledged for guaranties (31.12.2012: LVL'000 645); LVL'000 406 pledged for POS-terminal payments (31.12.2012: LVL'000 314).
In 2013 the Bank's average nominal interest rates are: LVL 0.05%, USD 0.05%, EUR 0.05%; in 2012: LVL 0.22%, USD 0.23%, EUR 0.27%.

14. TRADING FINANCIAL ASSETS

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Trading bonds and other fixed income securities	**11 447**	**10 824**	**13 047**	**12 653**
Republic of Latvia bonds	285	285	303	303
OECD country bonds	645	492	151	-
Other country bonds	10 517	10 047	12 593	12 350
Trading shares and other non- fixed income securities	**10**	**10**	**72**	**72**
Other country shares	10	10	72	72
Total	**11 457**	**10 834**	**13 119**	**12 725**

15. DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents the fair value of the Group's and Bank's derivatives held for trading. Derivatives financial instruments are accounted as assets or liabilities together with their notional amounts. The notional amounts are the gross amount of a derivative's underlying assets and are calculated based on FCMC regulation on calculation of capital adequacy. The notional amounts indicate the volume of transactions outstanding at the year end.

	31.12.2013			31.12.2012		
	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000
Foreign exchange contracts						
Swaps	1 138	634	144 421	11 601	1 455	368 799
Forwards	43	160	57 425	19	39	24 817
	1 181	**794**	**201 846**	**11 620**	**1 494**	**393 616**

16. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net loans to:	**125 293**	**132 050**	**167 631**	**209 312**
Private companies	118 233	134 874	163 671	219 115
Individuals	36 679	26 972	42 895	34 086
Allowance for impairment losses (Note 17)	(29 619)	(29 796)	(38 935)	(43 889)
Receivables from:	**10 270**	**10 270**	**11 286**	**11 286**
Finance companies	9 317	9 317	10 485	10 485
Private companies	953	953	801	801
Total loans to and receivables from customers, net	**135 563**	**142 320**	**178 917**	**220 598**

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Geographical segmentation of loans and receivables				
Net loans to:	**125 293**	**132 050**	**167 631**	**209 312**
Residents of Latvia	106 728	116 678	141 211	186 205
Residents of OECD countries	2 373	2 373	10 254	10 253
Residents of the other countries	45 811	42 795	55 101	56 743
Allowance for impairment losses (Note 17)	(29 619)	(29 796)	(38 935)	(43 889)
Receivables from:	**10 270**	**10 270**	**11 286**	**11 286**
Residents of Latvia	3	3	4	4
Residents of OECD countries	6 787	6 787	7 393	7 393
Residents of the other countries	3 480	3 480	3 889	3 889
Total loans to and receivables from customers	**135 563**	**142 320**	**178 917**	**220 598**

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Analysis of loans by type				
Mortgage loans	18 693	17 546	30 787	47 284
Industrial loans	53 625	53 737	72 537	89 601
Commercial loans	31 586	41 368	45 031	56 067
Consumer loans	5 875	3 990	5 852	4 205
Credit card balances	3 585	3 585	3 908	3 908
Reverse Repo transactions	3 915	3 915	3 406	3 406
Finance leases	923	90	1 493	107
Other	7 091	7 819	4 617	4 734
Net loans to customers	**125 293**	**132 050**	**167 631**	**209 312**

The Group has received securities at fair value LVL'000 7 212 (at 31 December 2012: LVL'000 5 848) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2013 they have not been sold or repledged (at 31 December 2012: LVL'000 nil).

In 2013 Bank has LVL'000 3 941 pledged for card transactions (at 31.12.2012: LVL '000 3 975); LVL'000 2 278 pledged for Forex deals (at 31 December 2012: LVL '000 804). .

During 2013 the Bank's average nominal interest rates were: LVL 7.23%, USD 4.21%, EUR 1.86%; in 2012: LVL 15.76%, USD 5.50%, EUR 3.92%.

Finance leases	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Gross investments	**989**	**92**	**1 581**	**113**
Within 1 year	710	80	850	10
From 1 year to 5 years	279	12	647	103
More than 5 years	-	-	84	-
Unearned income	**66**	**2**	**88**	**6**
Within 1 year	40	2	42	4
From 1 year to 5 years	26	-	42	2
More than 5 years		-	4	-
Present value of minimum lease payments	**923**	**90**	**1 493**	**107**
Within 1 year	670	78	808	6
From 1 year to 5 years	253	12	605	101
More than 5 years	-	-	80	-

17. IMPAIRMENT LOSSES ON ASSETS

The following table presents an analysis of the change in allowance account for impairment. The Group attributes the allowance for impairment losses completely to the financial assets.

Group	At 31 December 2012 LVL'000	Increase in allowance LVL'000	Written off LVL'000	Released from allowance LVL'000	Foreign exchange LVL'000	At 31 December 2013 LVL'000
Industrial loans	9 771	12 415	(7 566)	(2 772)	(43)	**11 805**
Commercial loans	6 482	3 270	(7 687)	648	(129)	**2 584**
Consumer loans	14 128	501	(1 840)	(1 947)	(2)	**10 840**
Credit cards	3 636	155	(483)	(418)	(1)	**2 889**
Finance leasing	253	6	(6)	-	-	**253**
Mortgage loans	4 029	4 853	(6 622)	(1 099)	(3)	**1 158**
Other loans	636	474	(1 019)	(1)	-	**90**
Other provisions	320	425	(316)	-	(10)	**419**
Total	**39 255**	**22 099**	**(25 539)**	**(5 589)**	**(188)**	**30 038**

Group At 31 December 2013	Individual impairment LVL'000	Collective impairment LVL'000	Total LVL'000	Gross amount of financial assets individually determined to be impaired before deducting any individually assessed impairment allowance LVL'000
Industrial loans	3 612	8 193	**11 805**	**16 509**
Commercial loans	1 645	939	**2 584**	**5 587**
Consumer loans	10 708	132	**10 840**	**12 538**
Credit cards	2 859	30	**2 889**	**3 168**
Finance leasing	253	-	**253**	**729**
Mortgage loans	1 081	77	**1 158**	**2 019**
Other loans	90	-	**90**	**184**
Other provisions	416	3	**419**	**520**
Total	**20 664**	**9 374**	**30 038**	**41 254**

Group	At 31 December 2011 LVL'000	Increase in allowance LVL'000	Written off LVL'000	Released from allowance LVL'000	Foreign exchange LVL'000	At 31 December 2012 LVL'000
Industrial loans	4 174	12 135	(5 713)	(799)	(26)	**9 771**
Commercial loans	4 296	6 772	(4 153)	(247)	(186)	**6 482**
Consumer loans	11 099	3 848	(109)	(709)	(1)	**14 128**
Credit cards	1 968	1 883	(62)	(152)	(1)	**3 636**
Finance leasing	1 412	12	(1 140)	(30)	(1)	**253**
Mortgage loans	5 656	2 874	(1 128)	(3 365)	(8)	**4 029**
Other loans	226	582	(171)	-	(1)	**636**
Other provisions	323	51	(46)	-	(8)	**320**
Total	**29 154**	**28 157**	**(12 522)**	**(5 302)**	**(232)**	**39 255**

Group At 31 December 2012	Individual impairment LVL'000	Collective impairment LVL'000	Total LVL'000	Gross amount of financial assets individually determined to be impaired before deducting any individually assessed impairment allowance LVL'000
Industrial loans	9 771	-	**9 771**	**24 463**
Commercial loans	6 409	73	**6 482**	**11 677**
Consumer loans	14 066	62	**14 128**	**14 817**
Credit cards	3 632	4	**3 636**	**3 677**
Finance leasing	253	-	**253**	**735**
Mortgage loans	3 959	70	**4 029**	**16 493**
Other loans	636	-	**636**	**1 062**
Other provisions	317	3	**320**	**424**
Total	**39 043**	**212**	**39 255**	**73 348**

Group	2013 LVL'000	2012 LVL'000
Result from impairment losses	**(15 912)**	**(29 030)**
Increase in allowance (loans)	(22 099)	(28 157)
Impairment losses charged to income statement (repossession of collateral)	-	(6 468)
Released from allowance (loans)	5 589	5 302
Recovery of previously written-off assets	598	304
Foreign exchange	-	(11)

The following table presents an analysis of the change in allowance account for impairment. The Bank's attributes the allowance for impairment losses completely to the financial investments.

Bank	At 31 December 2012 LVL'000	Increase in allowance LVL'000	Written off LVL'000	Released from allowance LVL'000	Foreign exchange LVL'000	At 31 December 2013 LVL'000
Industrial loans	10 982	12 415	(7 566)	(3 983)	(43)	**11 805**
Commercial loans	7 455	3 289	(7 687)	(268)	(127)	**2 662**
Consumer loans	14 091	500	(1 846)	(1 947)	-	**10 798**
Credit cards	3 636	155	(483)	(418)	(1)	**2 889**
Finance leasing	-	6	(6)	-	-	**-**
Mortgage loans	7 089	4 832	(6 581)	(3 787)	(1)	**1 552**
Other loans	636	474	(1 019)	(1)	-	**90**
Other provisions	311	11	(11)	-	(9)	**302**
Total	**44 200**	**21 682**	**(25 199)**	**(10 404)**	**(181)**	**30 098**

Bank At 31 December 2013	Individual impairment LVL'000	Collective impairment LVL'000	Total LVL'000	Gross amount of financial assets individually determined to be impaired before deducting any individually assessed impairment allowance LVL'000
Industrial loans	3 612	8 193	**11 805**	**16 509**
Commercial loans	1 776	886	**2 662**	**8 234**
Consumer loans	10 709	89	**10 798**	**12 538**
Credit cards	2 859	30	**2 889**	**3 168**
Mortgage loans	1 552	-	**1 552**	**3 587**
Other loans	90	-	**90**	**184**
Other provisions	302	-	**302**	**406**
Total	**20 900**	**9 198**	**30 098**	**44 626**

Bank	At 31 December 2011 LVL'000	Increase in allowance LVL'000	Written off LVL'000	Released from allowance LVL'000	Foreign exchange LVL'000	At 31 December 2012 LVL'000
Industrial loans	4 209	13 220	(5 713)	(700)	(34)	**10 982**
Commercial loans	4 336	7 657	(4 153)	(198)	(187)	**7 455**
Consumer loans	11 093	3 782	(75)	(709)	-	**14 091**
Credit cards	1 968	1 883	(62)	(152)	(1)	**3 636**
Finance leasing	34	12	(16)	(30)	-	**-**
Mortgage loans	5 620	5 747	(1 128)	(3 147)	(3)	**7 089**
Other loans	226	582	(171)	-	(1)	**636**
Other provisions	318	29	(29)	-	(7)	**311**
Total	**27 804**	**32 912**	**(11 347)**	**(4 936)**	**(233)**	**44 200**

Bank At 31 December 2012	Individual impairment LVL'000	Collective impairment LVL'000	Total LVL'000	Gross amount of financial assets individually determined to be impaired before deducting any individually assessed impairment allowance LVL'000
Industrial loans	10 982	-	**10 982**	**28 681**
Commercial loans	7 455	-	**7 455**	**18 826**
Consumer loans	14 066	25	**14 091**	**14 817**
Credit cards	3 632	4	**3 636**	**3 677**
Mortgage loans	7 089	-	**7 089**	**35 918**
Other loans	636	-	**636**	**1 062**
Other provisions	311	-	**311**	**418**
Total	**44 171**	**29**	**44 200**	**103 399**

Bank	2013 LVL'000	2012 LVL'000
Result from impairment losses	**(10 680)**	**(27 671)**
Increase from impairment (loans)	(21 682)	(32 912)
Released from impairment (loans)	10 404	4 936
Recovery of previously written-off assets	598	305

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	**31 806**	**31 806**	**40 107**	**40 107**
Latvian bonds	10 052	10 052	9 391	9 391
OECD country bonds	10 540	10 540	15 992	15 992
Other country bonds	11 214	11 214	14 724	14 724
Shares and other non-fixed income securities	**6 307**	**104 106**	**12 699**	**67 224**
Funds registered in Latvia	-	98 612	-	54 525
Funds registered in EU countries	5 494	5 494	12 699	12 699
Other non-fixed income securities	813	-	-	-
Investments in subsidiaries	**-**	**24 729**	**-**	**23 453**
Financial institutions (LR residents)	-	5 732	-	5 785
Financial institutions (other country residents)	-	9 340	-	9 260
Private companies (LR residents)	-	6 466	-	8 408
Private companies (other country residents)	-	3 191	.	.
Total	**38 113**	**160 641**	**52 806**	**130 784**

During 2013 the Bank recognised impairment losses regarding its investments in closed end investments funds in the amount of LVL'000 12 307 (2012: LVL'000 14 415). During 2013 the Bank had no impairment losses regarding its investments in subsidiaries (2012: LVL'000 761).

The following table presents an analysis of the change in revaluation reserve of Available-for-sale financial assets:

	Group LVL'000	Bank LVL'000
At 31 December 2012	**(2 730)**	**1 856**
Revaluation	2 534	(18 693)
Net (gain) or loss from sales	(5 866)	4 342
Impairment losses	4 218	12 307
At 31 December 2013	**(1 844)**	**(188)**

As at 31 December 2013 and 2012 the Bank had the following investments in subsidiaries:

Company	Country and address of registration	Business profile	Balance value as at 31 December 2013	Balance value as at 31 December 2012	Bank's share capital (%) as at 31 December 2013
AS "NORVIK Ieguldījumu pārvaldes sabiedrība"	E.Birznieka-Upīša Str. 21, Riga, Latvia	Financial services	5 732	5 669	100
AS "NORVIK" Universal Credit Organization"	Khanjyan Str. 41 Yerevan, Armenia	Financial services	9 340	9 260	100
"NORVIK Līzings" SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Financial services	-	-	100
AS "NORVIK Alternative Investments"	E.Birznieka-Upīša Str. 21, Riga, Latvia	Financial services	-	116	-
"NBT4 Energy" SIA (ex. "Legal Consulting" SIA)	E.Birznieka-Upīša Str. 21, Riga, Latvia	Agriculture	9	129	100
„PRESES NAMS BALTIC" SIA	Jāņsili silakrogs, Ropažu region, Latvia	Printing services	-	5 664	-
„PROSPECTUM" SIA	Braslas Str. 22, Riga, Latvia	Real estate activities	-	21	-
"NORVIK APDROŠINĀŠANAS BROKERIS" SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Insurance brokerage services	-	-	100
"MEŽA FONDS" SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Forestry	-	2 594	-
"NBT Energy" SIA*	E.Birznieka-Upīša Str. 21, Riga, Latvia	Electric power generation, transmission and distribution	2 962	-	100
"NBT1 Energy" SIA*	E.Birznieka-Upīša Str. 21, Riga, Latvia	Electric power generation, transmission and distribution	2	-	100
"NBT3 Energy" SIA*	E.Birznieka-Upīša Str. 21, Riga, Latvia	Electric power generation, transmission and distribution	2	-	100
"NBT5 Energy" SIA*	E.Birznieka-Upīša Str. 21, Riga, Latvia	Real estate activities	2	-	100
"NBT6 Energy" SIA*	E.Birznieka-Upīša Str. 21, Riga, Latvia	Real estate activities	2	-	100
"Marine Hotel" SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Administrative and support service activities	3 487	-	100
"Балтикс" SIA	Russia, Moscow, Shodnenskaja str. 10	Transportation and storage	3 191	-	99.917
Total			**24 729**	**23 453**	

* See Note 3, "Risk management" section "Credit risk",

19. HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2013		31.12.2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Bonds and other fixed income securities				
OECD country bonds	-	-	1 632	1 632
Total	**-**	**-**	**1 632**	**1 632**

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	31.12.2013		31.12.2012	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Goodwill	286	-	286	-
Other intangible assets	278	238	292	366
Prepayment for other intangible assets	-	-	18	18
Net book value of other intangible assets	**564**	**238**	**596**	**384**

The following table shows the changes in the Group's and Bank's intangible assets for the year ended 31 December 2013 and 31 December 2012:

Group **LVL `000**	**Goodwill**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost				
At 31 December 2012	**286**	**1 561**	**18**	**1 865**
Additions	-	124	32	**156**
Disposals	-	(4)	(50)	**(54)**
Foreign exchange	**-**	(1)	**-**	**(1)**
At 31 December 2013	**286**	**1 680**	**-**	**1 966**
Amortisation				
At 31 December 2012	**-**	**1 269**	**-**	**1 269**
Charge/correction	-	137	**-**	137
Disposals	-	(3)	**-**	(3)
Foreign exchange	-	(1)	**-**	(1)
At 31 December 2013	**-**	**1 402**	**-**	**1 402**
Net book value				
At 31 December 2012	**286**	**292**	**18**	**596**
At 31 December 2013	**286**	**278**	**-**	**564**

Group **LVL `000**	**Goodwill**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost				
At 31 December 2011	**286**	**1 459**	**-**	**1 745**
Additions	-	156	26	**182**
Disposals	-	(54)	(8)	**(62)**
At 31 December 2012	**286**	**1 561**	**18**	**1865**
Amortisation				
At 31 December 2011	**-**	**1 435**		**1 435**
Charge/correction	-	(116)	-	**(116)**
Disposals	-	(50)	-	**(50)**
At 31 December 2012	**-**	**1 269**	**-**	**1 269**
Net book value				
At 31 December 2011	**286**	**24**	**-**	**310**
At 31 December 2012	**286**	**292**	**18**	**596**

Goodwill acquired through business combination with indefinite life has been allocated for impairment testing to one individual cash-generating unit – Investment Funds Management.

Bank **LVL`000**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost			
At 31 December 2012	**2 053**	**18**	**2 071**
Additions	97	32	**129**
Disposals	-	(50)	**(50)**
At 31 December 2013	**2 150**	**-**	**2 150**
Amortisation			
At 31 December 2012	**1 687**	**-**	**1 687**
Charge	225	-	**225**
Disposals	-	-	**-**
At 31 December 2013	**1 912**	**-**	**1 912**
Net book value			
At 31 December 2012	**366**	**18**	**384**
At 31 December 2013	**238**	**-**	**238**

Bank **LVL`000**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost			
At 31 December 2011	**2 058**	**-**	**2 058**
Additions	45	26	71
Disposals	(50)	(8)	(58)
At 31 December 2012	**2 053**	**18**	**2 071**
Amortisation			
At 31 December 2011	**1 477**	**-**	**1 477**
Charge	260	-	260
Disposals	(50)	-	(50)
At 31 December 2012	**1 687**	**-**	**1 687**
Net book value			
At 31 December 2011	**581**	**-**	**581**
At 31 December 2012	**366**	**18**	**384**

21. INVESTMENT PROPERTY

The following table shows the movement in the Group's and Bank's investment property for the year ended 31 December 2013:

	Group LVL'000	Bank LVL'000
As at 31 December 2011	**34 546**	**11 533**
Additions	29 083	-
Sale	(2 328)	-
Net change in fair value	(10 516)	(1 129)
Contribution by shareholder	10 931	-
Foreign exchange	(188)	-
As at 31 December 2012	**61 528**	**10 404**
Additions	26 993	-
Renovation	63	-
Sale	(1 810)	-
Derecognition	(39)	(39)
Reclassification	(4 075)	-
Net change in fair value	336	(524)
Foreign exchange	(231)	-
As at 31 December 2013	**82 765**	**9 841**

Group's and Bank's investment properties types are following:

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Land	22 440	-	12 159	-
Office buildings	17 922	5 446	13 732	5 663
Manufacturing facilities, warehouses	24 356	4 395	18 974	4 741
Hotels and restaurants	2 395	-	3 533	-
Recreation buildings	35	-	431	-
Fuel station and oil depot	6 479	-	8 643	-
Apartments	4 306	-	2 763	-
Unfinished constructions	2 834	-	1 293	-
Other	1 998	-	-	-
Total	**82 765**	**9 841**	**61 528**	**10 404**

Group's investment property is stated at fair value. The valuation of Group's investment properties were performed by certified independent appraisers of the licensed companies. Based on the investment property object (type of asset, location, number of market transactions) various valuation methods were used – market evidence of transaction prices for similar properties, income method or discounted cash flow method, or a mix of the methods with respective weights assigned to each of them.

Rental income from investment property earned by the Group / Bank amounted to LVL'000 3 496 (31.12.2012: LVL'000 1 894) / LVL'000 848 (31.12.2012: LVL'000 872). Direct operating expenses (including real estate tax) arising from investment property that generated rental income during the period by the Group / Bank amounted to LVL'000 2 074 (31.12.2012: LVL'000 644) / LVL'000 218 (31.12.2012: LVL'000 155). Direct operating expenses (including real estate tax) arising from investment property that did not generate rental income during the period by the Group amounted to LVL'000 143 (31.12.2012: LVL'000 41). Part of Group's investment property is acquired by overtaking collateral from loans issued by the bank.

As of 31 December 2013 the amount of overtaken collateral accounted as Group investment property was LVL '000 46 010 (31.12.2012: LVL'000 44 935).

22. TANGIBLE FIXED ASSETS

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Lands and buildings	20 525	11 277	19 237	11 326
Vehicles, including ships	190	52	29 464	91
Office equipment and other fixed assets	8 677	368	4 226	380
Prepayments for tangible fixed assets	122	2	41	2
Leasehold improvements	201	-	232	-
Net book value of tangible fixed assets	**29 715**	**11 699**	**53 200**	**11 799**

Group's tangible fixed assets (Lands and buildings, Ships) are stated at fair value.

The valuation of Group's tangibles fixed assets were performed by certified independent appraisers of the licensed companies. Based on the object (type of asset, location, number of market transactions) various valuation methods were used – market evidence of transaction prices for similar properties, income method or discounted cash flow method, or a mix of the methods with respective weights assigned to each of them.

Part of Group's tangible fixed assets are acquired by overtaking collateral from loans issued by the Bank.

As of 31 December 2013 the amount of overtaken collateral accounted as Group tangible fixed assets was LVL '000 10 446 (2012: LVL '000 41 141).

The following table shows the changes in the Bank's tangible fixed assets for the year ended 31 December 2013:

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Total
Historical cost					
At 31 December 2012	**14 954**	**370**	**4 002**	**2**	**19 328**
Additions	-	-	176	38	**214**
Revaluation	323	-	-	-	**323**
Disposals	-	(21)	(243)	(38)	**(302)**
At 31 December 2013	**15 277**	**349**	**3 935**	**2**	**19 563**
Accumulated depreciation and impairment					
At 31 December 2012	**3 628**	**279**	**3 622**	**-**	**7 529**
Charge	393	34	188	-	**615**
Impairment loss	(21)	-	-	-	**(21)**
Disposals	-	(16)	(243)	**-**	**(259)**
At 31 December 2013	**4 000**	**297**	**3 567**	**-**	**7 864**
Net book value					
At 31 December 2012	**11 326**	**91**	**380**	**2**	**11 799**
At 31 December 2013	**11 277**	**52**	**368**	**2**	**11 699**

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Total
Historical cost					
At 31 December 2011	**14 550**	**401**	**3 937**	**3**	**18 891**
Additions	-	-	116	19	**135**
Revaluation	404	-	-	-	**404**
Disposals	-	(31)	(51)	(20)	**(102)**
At 31 December 2012	**14 954**	**370**	**4 002**	**2**	**19 328**
Accumulated depreciation and impairment					
At 31 December 2011	**2 806**	**261**	**3 458**	**-**	**6 525**
Charge	399	42	213	-	**654**
Impairment loss	423	-	-	-	**423**
Disposals	-	(24)	(49)	**-**	**(73)**
At 31 December 2012	**3 628**	**279**	**3 622**	**-**	**7 529**
Net book value					
At 31 December 2011	**11 744**	**140**	**479**	**3**	**12 366**
At 31 December 2012	**11 326**	**91**	**380**	**2**	**11 799**

Revaluation reserve of tangible fixed assets included in equity and is not distributable to shareholders.

23. BIOLOGICAL ASSETS

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Biological assets (forest)	8 500	-	7 724	-
Net book value of biological assets	**8 500**	**-**	**7 724**	**-**

The following table shows the movement in the Group's biological assets for the period ended 31 December 2013:

	Group LVL'000
As at 31 December 2011	**-**
Additions	9 529
Net change in fair value	(1 805)
As at 31 December 2012	**7 724**
Additions	4
Reclassification	506
Disposal	(162)
Net change in fair value	428
As at 31 December 2013	**8 500**

Fair value of biological assets is estimated by Latvian experts applying Latvian University scientific data base regarding Latvian forests' wood stock and it's growing tempos. Forest is recognised at lowest of immediate fell and realisation at current market price less cost of sale and discounted cash flows assumed forest maintenance and gradual fell considering forest maturity and inflation adjustments.

24. OTHER ASSETS

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Inventories	4 384	-	1 434	-
Deferred expenses	706	659	929	665
Spot deals	1 885	1 885	480	480
VAT	1 430	50	413	187
Accrued income	305	211	425	265
Cards transactions	2	2	261	261
Other receivables	6 210	1 013	5 879	1 318
Total	**14 922**	**3 820**	**9 821**	**3 176**

As at 31 December 2013 the Bank has LVL'000 71 pledged for communal and communication services (in 2012: LVL'000 66).

25. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Managed trust assets	**5 372**	**5 372**	**2 622**	**2 622**
Loans	5 372	5 372	2 622	2 622
Managed trust liabilities	**5 372**	**5 372**	**2 622**	**2 622**
Private companies	5 372	5 372	2 622	2 622

The financial statements disclose assets and liabilities held by the Bank on behalf of clients and registered in the name of the Bank. The Group does not carry credit interest rate or any other risk associated with these managed assets. The Bank receives commission fee for rendering of trust services to clients.

26. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits	**727**	**727**	**220**	**220**
Banks registered in Latvia	331	331	1	1
Banks registered in other countries	396	396	219	219
Term deposits	**-**	**-**	**1 229**	**1 229**
Banks registered in Latvia	-	-	1 229	1 229
Total	**727**	**727**	**1 449**	**1 449**

During 2013 the Bank's average nominal interest rate for EUR 2.59%; in 2012: LVL 0.28%, USD 0.00%, EUR 3.07%.

27. CUSTOMER DEPOSITS

	31.12.2013		31.12.2012	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Current accounts	**396 338**	**403 689**	**340 338**	**343 151**
Private companies	310 012	317 363	272 860	275 673
Individuals	85 248	85 248	66 898	66 898
Public organizations	670	670	359	359
Government companies	342	342	172	172
Local government	66	66	49	49
Fixed-term deposits	**94 519**	**98 044**	**120 529**	**121 373**
Private companies	32 180	35 705	39 769	40 613
Individuals	62 313	62 313	80 615	80 615
Public organizations	26	26	145	145
Total	**490 857**	**501 733**	**460 867**	**464 524**
Geographical segmentation of customer deposits				
Current accounts	**396 338**	**403 689**	**340 338**	**343 151**
Residents of Latvia	63 817	71 164	44 706	46 841
Residents of OECD countries	51 929	51 929	47 577	47 577
Residents of the other countries	280 592	280 596	248 055	248 733
Fixed-term deposits	**94 519**	**98 044**	**120 529**	**121 373**
Residents of Latvia	52 559	56 084	76 756	77 600
Residents of OECD countries	2 404	2 404	3 786	3 786
Residents of the other countries	39 556	39 556	39 987	39 987
Total	**490 857**	**501 733**	**460 867**	**464 524**

During 2013 the Bank’s average nominal interest rates for term deposits are: LVL 0.59% USD 0.21% EUR 0.45%; in 2012: LVL 1.53% USD 0.42% EUR 1.46%.

28. SUBORDINATED DEBT

As at 31 December 2013 and 2012 subordinated debt holders accounting individually more than 10% of total Bank’s subordinated debt balance were as follows:

	Maturity	Interest rate (%)	Currency	31.12.2013 LVL’000	31.12.2012 LVL’000
“NEW OST INVESTMENTS LIMITED” (United Kingdom)	2017	7	EUR	4 920	4 920
“Raiffeisen Zentralbank Oesterreich AG” (Austria)	-	-	EUR	-	5 170
Other persons	2015-2019	3.85-7	EUR USD GBP	10 453	9 301
Total				**15 373**	**19 391**

29. OTHER LIABILITIES

	31.12.2013		31.12.2012	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Liabilities for subsidiary purchase	-	-	4 400	4 400
Accrued expenses	1 007	1 000	1 289	911
Spot deals	691	691	938	938
Accruals for vacations	715	478	707	467
Payments collected on behalf of public utilities services providers	-	-	349	349
Suspense amounts	695	695	25	25
Cards transactions	420	420	2	2
Deferred income	153	30	85	10
Other	4 947	825	5 641	923
Total	**8 628**	**4 139**	**13 436**	**8 025**

Suspense amounts represent payments received by the Bank where the beneficiary is not clearly identified and are cleared after year-end. According to cooperation agreements, payments received for public services providers are transferred after yearend.

30. SHARE CAPITAL

	31.12.2013		31.12.2012	
	Quantity`000	LVL `000	Quantity`000	LVL `000
Registered and paid – in share capital	**87 672**	**87 672**	**65 569**	**65 569**

Voting rights correspond to number of registered shares.
During 2013 the share capital of the Bank was increased by LVL '000 22 103.

As at 31 December 2013 and 2012 the Bank's shareholders were as follows:

	31.12.2013			31.12.2012		
	Number of shares	% of total shares	Paid up share capital LVL'000	Number of shares	% of total shares	Paid up share capital LVL'000
G. Guselnikov	43 836 007	50.00	43 836	-	-	-
J. Šapurovs	16 482 886	18.80	16 483	16 048 552	24.48	16 049
"Straumborg Ehf." (Iceland)	-	-	-	11 372 087	17.34	11 372
A. Svirčenkovs	-	-	-	11 347 190	17.31	11 347
Other (individually less than 10%)	27 353 118	31.20	27 353	26 800 760	40.87	26 801
Total	**87 672 011**	**100.00**	**87 672**	**65 568 589**	**100.00**	**65 569**

31. LOSES PER SHARE

Earnings per share are based on net profit attributable to ordinary equity holders of the parent divided by the weighted average number of issued shares. As of 31 December 2013 and 2012 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2013	Group 31.12.2012
Net loss (LVL’000)	(13 373)	(41 052)
Weighted average number of ordinary shares (’000)	67 540	58 753
Earnings per share (LVL)	**(0.20)**	**(0.70)**

32. CASH AND CASH EQUIVALENTS

	31.12.2013		31.12.2012	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Cash and balances due on demand from the Bank of Latvia	129 443	129 430	50 510	50 480
Balances due from other banks with original maturity of 3 months or less	90 575	86 250	68 149	67 791
Total	**220 018**	**215 680**	**118 659**	**118 271**

33. COMMITMENTS AND CONTINGENCIES

	31.12.2013		31.12.2012	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Contingent liabilities	**9 223**	**9 223**	**2 967**	**2 967**
Guarantees	2 570	2 570	2 914	2 914
Other	6 653	6 653*	53	53
Commitments	**5 025**	**5 400**	**6 651**	**10 405**
Unused credit lines	4 891	5 266	5 776	9 530
Letters of credit	134	134	875	875
Total off-balance sheet items gross	**14 248**	**14 623**	**9 618**	**13 372**

*including contingent liabilities against Bank of Latvia according to the introduction of the euro LVL’000 6 602.

In the ordinary course of business the Group provides loan commitments, guarantees and letters of credit. The main purpose of these instruments is to ensure the availability of necessary funds for the clients. Guarantees and letters of credit that include irrevocable liabilities - the ones that the Bank will have to pay in the event of failure by the clients to meet their obligations to third parties - are assigned the same risk as for loans. Letters of credit in accordance with which the Bank has the right on behalf of the client to accept invoices from third parties are secured with goods being transported.

Unused part of credit lines is viewed as an obligation arising from credit lines. As regards the credit risk the Bank is potentially exposed to losses arising also from obligations under unused credit lines.

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows a comparison by class of the Group's and Bank's carrying values and fair values of the financial instruments that are carried in the financial statements.

Group	31.12.2013. Carrying value LVL'000	31.12.2013. Fair value LVL'000	31.12.2013. Difference LVL'000	31.12.2012. Carrying value LVL'000	31.12.2012. Fair value LVL'000	31.12.2012. Difference LVL'000
Financial assets						
Cash and balances with the central bank	129 443	129 443	-	50 510	50 510	-
Loans and receivables to banks	91 057	91 057	-	76 129	76 141	12
Trading financial assets	11 457	11 457	-	13 119	13 119	-
Derivative financial instruments	1 181	1 181	-	11 620	11 620	-
Loans to customer and receivables	135 563	136 935	1 372	178 917	179 899	982
Available-for-sale financial assets	38 113	38 113	-	52 806	52 806	-
Held-to-maturity financial assets	-	-	-	1 632	1 625	(7)
Financial liabilities						
Due to the central bank and other banks	727	727	-	1 449	1 449	-
Derivative financial instruments	794	794	-	1 494	1 494	-
Customer deposits	490 857	490 998	(141)	460 867	461 350	(483)
Subordinated debt	15 373	15 373	-	19 391	19 391	-
Total difference			**1 231**			**504**

Bank	31.12.2013. Carrying value LVL'000	31.12.2013. Fair value LVL'000	31.12.2013. Difference LVL'000	31.12.2012. Carrying value LVL'000	31.12.2012. Fair value LVL'000	31.12.2012. Difference LVL'000
Financial assets						
Cash and balances with the central bank	129 430	129 430	-	50 480	50 480	-
Loans and receivables to banks	86 732	86 732	-	73 059	73 071	12
Trading financial assets	10 834	10 834	-	12 725	12 725	-
Derivative financial instruments	1 181	1 181	-	11 620	11 620	-
Loans to customer and receivables	142 320	144 944	2 624	220 598	224 163	3 565
Available-for-sale financial assets	160 641	160 641	-	130 784	130 784	-
Held-to-maturity financial assets	-	-	-	1 632	1 625	(7)
Financial liabilities						
Due to the central bank and other banks	727	727	-	1 449	1 441	8
Derivative financial instruments	794	794	-	1 494	1 494	-
Customer deposits	501 733	501 883	(150)	464 524	464 995	(471)
Subordinated debt	15 373	15 373	-	19 391	19 391	-
Total difference			**2 474**			**3 107**

The following describes the methodologies and assumptions used to determine fair value for those financial instruments which are not recorded at fair value in the financial statements:

- For financial assets and liabilities that have a short term maturity (such as overdrafts money market deals with maturity less than 3 months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits current accounts without a specific maturity and subordinated debts with special conditions which permit for such debts to be eligible as tier 2 capital.
- The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated as the present value of future cash flows by discounting contractual cash flows using current rates at which similar

loans (or attracted deposits) would be transacted by the Group with borrowers with similar credit ratings and/or collateral and for the same remaining maturities.
- No future loan losses adjustments related to future probable loan renegotiating or early repayment considered.

The fair values included in the tables above were calculated for disclosure purposes only. The valuation techniques and assumptions described above provide a measurement of fair value of the Bank's and Group's financial instruments accounted for at amortized cost. However, because other institutions may use different methods and assumptions for their fair value estimation such fair value disclosures cannot necessarily be compared from one financial institution to another.

35. FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following table shows an analysis of the Group's and Bank's financial instruments recorded at fair value between those whose fair value is based on quoted market prices those involving valuation techniques where all the model inputs are observable in the market and those where the valuation techniques involves the use of non-market observable inputs.

As at 31 December 2013 - Group	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	**43 263**	**1 181**	**6 307**	**50 751**
Trading financial assets	11 457	-	-	**11 457**
Derivative financial instruments	-	1 181	-	**1 181**
Available-for-sale financial assets	31 806	-	6 307	**38 113**
Financial liabilities	**-**	**794**	**-**	**794**
Derivative financial instruments	-	794	-	**794**

As at 31 December 2012 - Group	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	**53 226**	**11 620**	**12 699**	**77 545**
Trading financial assets	13 119	-	-	**13 119**
Derivative financial instruments	-	11 620	-	**11 620**
Available-for-sale financial assets	40 107	-	12 699	**52 806**
Financial liabilities	**-**	**1 494**	**-**	**1 494**
Derivative financial instruments	-	1 494	-	**1 494**

As at 31 December 2013 - Bank	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	**42 640**	**1 181**	**128 835**	**172 656**
Trading financial assets	10 834		-	**10 834**
Derivative financial instruments	-	1 181	-	**1 181**
Available-for-sale financial assets	31 806	-	128 835	**160 641**
Financial liabilities	**-**	**794**	**-**	**794**
Derivative financial instruments	-	794	-	**794**

As at 31 December 2012 - Bank	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	**52 832**	**11 620**	**90 677**	**155 129**
Trading financial assets	12 725	-	-	**12 725**
Derivative financial instruments	-	11 620	-	**11 620**
Available-for-sale financial assets	40 107	-	90 677	**130 784**
Financial liabilities	**-**	**1 494**	**-**	**1 494**
Derivatives financial instruments	-	1 494	-	**1 494**

The following table shows changes of non-market observable inputs during 2013 and 2012:

LVL'000	Group Non-market observable inputs	Bank Non-market observable inputs
At 31 December 2011	**10 688**	**94 727**
Acquisition	4 430	26 890
Sell	-	(20 190)
Net gain or loss from sales	-	111
Fair value adjustment	(2 419)	(10 861)
At 31 December 2012	**12 699**	**90 677**
Acquisition	813	105 769
Sell	-	(49 406)
Net gain or loss from sales	-	(4 180)
Fair value adjustment	(7 205)	(14 025)
At 31 December 2013	**6 307**	**128 835**

Changes in fair value are recognised in comprehensive income and equity in position "Revaluation reserve of available-for-sale financial assets net of tax". Net gain or loss from sales is recognised in Income Statement position "Net gain or loss from sales of available-for-sale financial assets".

36. CAPITAL ADEQUACY CALCULATION

The Group's and Bank's capital adequacy ratio as of 31 December 2013 has been calculated as follows:

ASSETS	Notional risk level %	Group Exposure LVL'000	Group Risk weighted assets LVL'000	Bank Exposure LVL'000	Bank Risk weighted assets LVL'000
Central governments or central banks	0%	125 443	-	125 443	-
	20%	6 837	1 367	6 838	1 368
	50%	13 852	6 926	13 852	6 926
	100%	-	-	-	-
Financial institutions	0%	-	-	-	-
	20%	91 184	18 237	86 860	17 372
	50%	-	-	-	-
	100%	703	703	703	703
Private companies and individuals	0%	-	-	-	-
	20%	-	-	-	-
	100%	59 801	59 801	69 422	69 422
	150%	1 526	2 289	1 526	2 289
Pool of retail exposure claims (MRD)	0%	-	-	-	-
	75%	4 507	3 380	4 507	3 380
Past due exposures	0%	-	-	-	-
	100%	35 262	35 262	35 009	35 009
	150%	21 086	31 629	18 474	27 711
Collective investment undertakings (CIU)	0%	-	-	-	-
	100%	5 494	5 494	100 822	100 822
Other items	0%	8 700	-	8 687	-
	20%		-	-	-
	100%	142 179	142 179	55 036	55 036
	150%	-	-	-	-
Total assets and risk weighted assets		**516 574**	**307 267**	**527 179**	**320 038**

OFF-BALANCE SHEET ITEMS	Notional risk level %	Exposure LVL'000	Risk weighted assets LVL'000	Exposure LVL'000	Risk weighted assets LVL'000
Items with 100% adjustment	20%	51	10	51	10
Items with 50% adjustment	50%	18	5	18	5
Items with 50% adjustment	75%	1 642	616	1 642	616
Items with 0% adjustment	100%	-	-	376	-
Items with 50% adjustment	100%	4 094	2 047	4 094	2 047
Items with 100% adjustment	100%	983	983	983	983
Items with 50% adjustment	150%	183	137	183	137
Secured items	0%	674	-	674	-
Total off-balance sheet items		**7 645**	**3 798**	**8 021**	**3 798**
Total assets and off-balance sheet items		**524 219**	**311 065**	**535 200**	**323 836**

	Group LVL'000	Bank LVL'000
Tier 1		
Paid in share capital	87 672	87 672
Reserve capital	7	7
Accumulated losses	(46 388)	(37 508)
Minority interest	973	-
Revaluation reserve of available-for-sale financial assets	(1 844)	(188)
Revaluation reserve of foreign currency	(2 697)	-
Expected loss from loans	(259)	(259)
Loss of the year	(13 373)	(18 446)
Goodwill	(286)	-
Other intangible assets	(278)	(238)
Investment property revaluation (earnings)	-	(1 722)
Total tier 1	**23 527**	**29 318**
Tier 2		
Expected loss from loans	(259)	(259)
Subordinated capital	8 761	8 761
70% from tangible fixed assets revaluation earnings	990	990
45% from investment property revaluation earnings	1 254	1 254
Total tier 2	**10 746**	**10 746**
Total capital	**34 273**	**40 064**
Summary		
Credit risk capital	24 885	25 907
Market risks capital requirement	2 445	1 097
Operational risk	6 867	2 792
Capital requirement covered by capital (total capital)	**76**	**10 268**
Capital adequacy rate as of 31.12.2013	**8.02%**	**10.76%**
Capital adequacy rate as of 31.12.2012	**6.33%**	**8.34%**
Minimal capital adequacy ratio (%) 2013 and 2012	**8.00%**	**8.00%**

Since FCMC applies increased capital requirements to the banks involved in non-resident deposit servicing, the capital adequacy ratio for the Bank is set at the level of 11.1%. At present, the Bank undertakes specific measures to achieve the targeted ratio.

37. RELATED PARTIES

Related parties are shareholders which have control or significant influence over the management policy of the Group members of the Supervisory Council and the Management Board senior level executives their immediate family members and undertakings over which they have a controlling interest as well as associated companies of the Group. Assets and liabilities in relation to related parties are as follows:

Group	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2013 Total LVL'000	31.12.2012 Total LVL'000
Assets		**6 025**	**22**	**6 047**	**2 211**
Loans and receivables net		**6 025**	**22**	**6 047**	**2 211**
Related undertakings and individuals	0.70	5 358	10	**5 368**	**1 487**
Supervisory Council and Management Board	4.03	550	7	**557**	**614**
Other senior executives	2.20	117	5	**122**	**110**
Liabilities		**8 600**	**-**	**8 600**	**3 620**
Deposits		**7 558**	**-**	**7 558**	**1 336**
Related undertakings and Individuals	1.61	5 251	-	**5 251**	**1 280**
Supervisory Council and Management Board	0.48	60	-	**60**	**48**
Other senior executives	0.00	2 247	-	**2 247**	**8**
Subordinated debt		**1 042**	**-**	**1 042**	**2 284**
Related undertakings and Individuals	6.00	515	-	**515**	**1 406**
Supervisory Council and Management Board	0.00	-	-	**-**	**527**
Other senior executives	7.00	527	-	**527**	**351**

Bank	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2013 Total LVL'000	31.12.2012 Total LVL'000
Assets		**34 042**	**398**	**34 440**	**77 060**
Loans and receivables net		**34 042**	**398**	**34 440**	**77 060**
Related undertakings and Individuals	0.70	5 358	10	**5 368**	**1 487**
Subsidiaries	4.13	28 630	376	**29 006**	**75 501**
Supervisory Council and Management Board	1.58	52	7	**59**	**68**
Other senior executives	14.87	2	5	**7**	**4**
Liabilities		**28 651**	**-**	**28 651**	**11 183**
Deposits		**27 609**	**-**	**27 609**	**8 899**
Related undertakings and Individuals	1.61	5 251	-	**5 251**	**1 280**
Subsidiaries	-	20 051	-	**20 051**	**7 563**
Supervisory Council and Management Board	0.48	60	-	**60**	**48**
Other senior executives	-	2 247	-	**2 247**	**8**
Subordinated debt		**1 042**	**-**	**1 042**	**2 284**
Related undertakings and Individuals	6.00	515	-	**515**	**1 406**
Supervisory Council and Management Board	-	-	-	**-**	**527**
Other senior executives	7.00	527	-	**527**	**351**

As at 31 December 2013 the amount of the Bank's exposure transactions with related parties is LVL`000 2 008 or 4.45% of the sum of tier 1 and tier 2 capital. According to the Law on Credit Institutions of the Republic of Latvia the total amount of exposure transactions with persons that are associated with the bank may not exceed 15 % of the sum tier 1 and tier 2 capital of the Bank.

Transactions between related parties are based on standard interest rates offered by the Bank. The following table present income and expense resulting from above-mentioned related parties transactions:

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Interest income	127	2 305	114	2 053
Interest expense	(53)	(54)	(201)	(215)
Net interest income	**74**	**2 251**	**(87)**	**1 838**

38. SUBSEQUENT EVENTS

Starting 1 January 2014 Latvia joined the euro zone and Latvian lat was replaced by the euro. Since that date, the Bank accounts are kept in euro. For conversion to the euro the official exchange rate set by the Bank of Latvia - 1 euro/0.702804 Latvian lat, was used. The financial statements for subsequent financial periods will be presented in euros.

As of the date of issue of the annual report, additional subordinated capital of 6.4 m EUR has been invested in the Bank thus strengthening the Bank's and the Group's capital.

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Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "Norvik Banka"

Report on the Financial Statements

We have audited the accompanying financial statements of JSC "Norvik Banka" (further "the Bank") and the consolidated financial statements of JSC "Norvik Banka" and its subsidiaries (further "the Group") set out on pages 6 to 71, which comprise the Bank's and the Group's balance sheets as of 31 December 2013, income statements, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements 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.

Auditors' 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 about 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 qualified audit opinion.

Basis for Qualified Opinion

(a) As disclosed in Note 18, the Bank's and the Group's available for sale financial assets include investments in a number of investment funds. These financial assets are accounted at fair value and gain or loss due to fair value changes is recognised in other comprehensive income, except for impairment losses. When there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from revaluation reserve to income statement. As of 31 December 2013 the Bank and the Group has recognised negative fair value revaluation reserve in respect of several investments in the amount of 6 960 thousand lats (8 956 thousand lats as of 31 December 2012) and 2 373 thousand lats (3 845 thousand lats as of 31 December 2012), respectively. We were unable to obtain sufficient and appropriate audit evidence to determine whether an impairment loss from the mentioned investments should not be recognised in income statement. The possible adjustment would have impact on the net loss for the year, however, it would not affect the net equity amount as of 31 December 2013.

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INDEPENDENT AUDITORS' REPORT – continued

(b) As disclosed in Note 3, "Risk management" section "Credit risk", as of 31 December 2013 the Bank and the Group has a total gross exposure of 39 686 thousand lats related to alternative energy sector, comprising gross loan exposure in the amount of 36 717 thousand lats and other exposure in the amount of 2 969 thousand lats. As of 31 December 2013 the management has assessed the recoverability of these balances based on a number of assumptions related to the future cash flows and has recognised impairment allowances in the amount of 8 681 thousand lats. As the Bank is involved in several legal proceedings related to the aforementioned exposures there is significant uncertainty related to the timing and amounts of the expected future cash flows. Consequently, we were unable to determine whether any adjustments to impairment allowances in respect of the mentioned exposures were necessary as of 31 December 2013.

Qualified Opinion

In our opinion, except for the possible effect of the matters described in the Basis for Qualified Opinion (a) and (b) the financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as of 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Report of the Chairman of the Supervisory Council and the Chairman of the Management Board for 2013 set out on page 3 of the accompanying annual report for the year ended 31 December 2013 and have not identified any material inconsistencies between the historical financial information contained in the management report and the financial statements for 2013.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stugis
Member of the Board

Jelena Mihejenkova
Certified auditor of Latvia
Certificate No. 166

Riga, Latvia
31 March 2014