Annual report
for year 2014

Expobank

CONTENTS

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Dear customers and business partners,

The Latvian economy has been demonstrating the fastest growth in the European Union in recent years. The average growth of the gross domestic product (GDP) in 2011 – 2013 was 4.7%. Despite the geopolitical turmoil and its consequences witnessed in 2014, the Latvian GDP is still on the rise. The Ministry of Economics estimates the total GDP growth by 2.3 per cent in 2014.

As of 1 January 2014, Latvia became the 18th country of the Eurozone and introduced euro as its national currency.

Growth of the Latvian economy is still recognised internationally, which is also confirmed by international rating agencies that increased Latvia's investment credit rating in 2014: Fitch – to (A-), Standard and Poor's to (A-). Rating agency Moody's increased its rating to (A3) in early 2015.

One of the leading international rating agencies Moody's Investors Service assessing the conservative risk policy of AS Expobank (the Bank) and the high capital adequacy and liquidity ratios and assigned the Bank B1 credit rating for long-term obligations in 2013 with a stable outlook. In July 2014, Moody's revised and confirmed the rating granted to the Bank at the same level. This is the highest assigned credit rating among all local commercial banks in Latvia that are privately owned and are rated by international rating agencies.

Year 2014 was the twenty-third year of operations of AS Expobank. The high customer service standards the Bank implements are still highly valued by international multi-industry holdings operating in extraction of natural resources, manufacturing, financial, trade, and other industries at a global scale. The Bank continued its long-term development as a reliable and professional financial partner providing quality and prompt service, as well as preserving safety and stability. This year, the Bank invested in development of modern technologies that contributed to launch of a new convenient online banking system, which is yet another step towards even better customer service. The Bank also commenced cooperation with global business partners Euroclear Bank S.A., Industrial and Commercial Bank of China, Sumitomo Mitsui Banking Corporation, Westpac Banking Corporation for the benefit of the Bank's customers.

In 2014 the Bank received „Deutsche Bank`s 2013 Straight – Through Processing (STP) Excellence Award" from its long-term global business partner Deutsche Bank as recognition of its payment quality and efficiency. This is another acknowledgement that the Bank is a stable and professional long-term business partner.

The Bank continuously pursues conservative risk management profile tailored according to best practice in banking. The Bank`s growth is based on persistent development of risk management processes and compliance control system, as well as on highly selective customer base. The Bank focuses on servicing large corporate customers from Russia, Europe, and CIS countries operating on the global market.

Year 2014 was another successful year for the Group and Bank. The Bank's net profit reached 3,541 thousand euros. Stability remains to be the key priority of the Bank. This is supported by the fact that the Bank`s capital adequacy ratio as of 31 December 2014 was 35.5% and high liquidity ratio 102.2%. The Bank will continue development of the services offered to its customers, improvement and expansion of its range of services in 2015. It plans to offer customer service facilities not only in Latvia and Cyprus, but also in international financial centres in Europe and Asia.

The management of the Bank is grateful to all customers and business partners for their trust and loyalty to the Bank, and all employees – for their support and daily contribution to the Bank's growth!

Chairman of the Board of Directors
Igor Kim

Chairman of the Management Board
Iya Mitelman

26 February 2015

MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

As at 31 December 2014, the Members of the Board of Directors of the Bank were as follows:

Name	Position	Date of election
Igor Kim	Chairman of the Board of Directors	09.02.2012
Kirill Nifontov	Deputy Chairman of the Board of Directors	09.02.2012
Andrew Sergio Gazitua	Member of the Board of Directors	11.04.2013
Ingrīda Blūma	Member of the Board of Directors	01.11.2014

During 2014 the following Members of the Board of Directors resigned:

Name	Position	Date of election	Date of resignation
Ilya Mitelman	Member of the Board of Directors	09.02.2012	21.04.2014
Jyrki Ilmari Koskelo	Member of the Board of Directors	06.02.2012	31.10.2014

On April 21, 2014 at the Extraordinary Shareholders' Meeting of the Bank was made decision to accept the notice submitted by Member of the Board of Directors Mr. Ilya Mitelman about resigning from the position and to re-elect other Members of the Board of Directors. On October 24, 2014 at the Extraordinary Shareholders' Meeting of the Bank was made decision to accept the notice submitted by Member of the Board of Directors Mr. Jyrki Ilmari Koskelo about resigning from the position and to elect new Member of the Board of Directors Mrs. Ingrīda Blūma as of November 1, 2014.

As at the date of signing these financial statements, the Members of the Management Board of the Bank were as follows:

Name	Position	Date of election
Ilya Mitelman	Chairman of the Management Board	01.08.2014
Gints Čakāns	Deputy Chairman of the Management Board	01.09.2011
Sandris Straume	Member of the Management Board	02.11.2012
Evija Sloka	Member of the Management Board	02.11.2012

During 2014 the following Members of the Management Board resigned:

Name	Position	Date of election	Date of resignation
Māris Avotiņš	Chairman of the Management Board	01.09.2011	31.07.2014

On April 21, 2014 at the Extraordinary Board of Directors Meeting of the Bank was made decision to elect new Member the Management Board Ilya Mitelman as of April 22, 2014. According to the Extraordinary Board of Directors Meeting's Decision, made on 27 June 2014, Chairman of the Management Board Māris Avotiņš resigned from position and Member of the Management Board Ilya Mitelman was appointed as Chairman of the Management Board as of August 1, 2014.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of AS Expobank is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries ("the Group") as well as for the preparation of the separate financial statements of the Bank. The consolidated and separate financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and comply with legislative requirements of the Republic of Latvia.

The consolidated and separate financial statements on pages 8 to 79 are prepared in accordance with source data and present fairly the financial position of the Group and Bank as at 31 December 2014 and the results of its operations and cash flows for the year ended 31 December 2014 as well as the financial position of the Group as at 31 December 2014 and the results of its operations and cash flows for the year ended 31 December 2014.

The aforementioned consolidated and separate financial statements are prepared on a going concern basis, consistently applying accounting policies in conformity with International Financial Reporting Standards as adopted by the European Union, and relevant legislation of the Republic of Latvia. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

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

On behalf of the Group's and Bank's management,

Chairman of the Management Board
Ilya Mitelman

Deputy Chairman of the Management Board
Gints Čakāns

26 February 2015

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Independent Auditors' Report

To the shareholder of AS Expobank

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS Expobank ("the Bank"), which comprise the separate statement of financial position as at 31 December 2014, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 74. We have also audited the accompanying consolidated financial statements of AS Expobank and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 74.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Group's management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

Opinion

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

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Consolidated Management Report, as set out on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Consolidated Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Group. In our opinion, the Consolidated Management Report is consistent with the consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA

Armine Movsisjana
Sworn Auditor
Certificate No 178

26 February 2015
Vesetas iela 7
Riga, LV-1013
Latvia

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Interest income	5	4,421	4,586	2,245	2,250
Interest expense	5	(986)	(986)	(556)	(556)
Net interest income		**3,435**	**3,600**	**1,689**	**1,694**
Fee and commission income	6, 30	4,708	4,708	2,322	2,332
Fee and commission expense	7, 30	(298)	(298)	(215)	(215)
Net fee and commission income		**4,410**	**4,410**	**2,107**	**2,117**
Net income from transactions with financial instruments	8	2,247	2,247	6,589	6,589
Other income		104	46	34	26
Other expenses	9	(897)	(815)	(744)	(744)
Total operating income		**9,299**	**9,488**	**9,675**	**9,682**
Impairment losses	11	(3)	(3)	-	-
General administrative expenses	10, 30	(5,341)	(5,313)	(4,462)	(4,459)
Profit before income tax		**3,955**	**4,172**	**5,213**	**5,223**
Income tax expense	12	(631)	(631)	(598)	(599)
Profit for the year		**3,324**	**3,541**	**4,615**	**4,624**
Items that are or may be reclassified to profit or loss					
Available-for-sale financial assets – net change in fair value		(5,665)	(5,665)	572	572
Available for sale financial assets – reclassified to profit or loss	8	89	89	(174)	(174)
Other comprehensive income for the period		**(5,576)**	**(5,576)**	**398**	**398**
Total comprehensive income for the year		**(2,252)**	**(2,035)**	**5,013**	**5,022**

The accompanying notes on pages 14 to 79 form an integral part of these financial statements.

The financial statements as set out on pages 8 to 79 were approved for issue by the Management Board on 26 February 2015.

Chairman of the Management Board
Ilya Mitelman

Deputy Chairman of the Management Board
Gints Čakāns

26 February 2015

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
ASSETS					
Cash and demand deposits with the Bank of Latvia	13	2,748	2,748	71,257	71,257
Due from financial institutions	15, 30	398,119	398,117	283,738	283,738
Loans and advances due from customers	17, 30	21,191	26,639	9,657	9,882
Held for trading instruments	18	28,893	28,893	-	-
Available-for-sale instruments	18	30,886	30,886	33,281	33,281
Investment property	16	5,999	-	-	-
Property and equipment	19	269	269	302	302
Intangible assets	20	485	485	420	420
Current income tax asset		70	70	-	-
Other assets	21, 30	1,726	1,501	1,080	874
Total Assets		**490,386**	**489,608**	**399,735**	**399,754**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Deposits and balances due to financial institutions	22, 30	5,086	5,086	343	343
Current accounts and deposits due to customers	23, 30	414,031	414,057	323,662	323,673
Borrowings		1,001	-	-	-
Provisions	24	135	135	107	107
Deferred income		49	47	-	-
Deferred tax liabilities	12	14	14	20	20
Current income tax liabilities		-	-	3	3
Other tax payable		26	26	106	105
Other liabilities	25	2,063	2,036	1,261	1,261
Total Liabilities		**422,405**	**421,401**	**325,502**	**325,512**
Share capital		11,668	11,668	11,668	11,668
Share premium		6,360	6,360	6,360	6,360
Revaluation reserve		(5,173)	(5,173)	403	403
Other reserves		1	1	1	1
Retained earnings		55,125	55,351	55,801	55,810
Total Shareholder's Equity	**26**	**67,981**	**68,207**	**74,233**	**74,242**
Total Liabilities and Shareholder's Equity		**490,386**	**489,608**	**399,735**	**399,754**
Contingent liabilities and commitments	27,30	1,318	2,039	689	2,368
Funds under trust management	29,30	170,219	170,219	44,327	44,327

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Chairman of the Management Board
Ilya Mitelman

Deputy Chairman of the Management Board
Gints Čakāns

26 February 2015

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

	Note	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Cash flows from operating activities					
Profit before income tax		3,955	4,172	5,213	5,222
Amortisation and depreciation	16, 19,20	252	234	211	211
Disposal of fixed assets	19	-	-	11	11
Net (decrease)/ increase in provisions		28	28	(245)	(245)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**4,235**	**4,434**	**5,190**	**5,199**
Increase in held for trading financial instruments		(28,893)	(28,893)	-	-
Increase in available-for-sale financial instruments		(3,181)	(3,181)	(32,865)	(32,865)
(Increase) / decrease in due from financial institutions		(2,501)	(2,501)	3	3
Increase in loans		(11,534)	(16,757)	(9,637)	(9,862)
Increase in other assets		(647)	(628)	(825)	(619)
Increase in current account and deposits due to customers	23	90,369	90,384	68,738	68,749
Increase in other liabilities		771	743	618	618
Increase in cash and cash equivalents from operating activities before corporate income tax		**48,619**	**43,601**	**31,222**	**31,223**
Corporate income tax paid		(710)	(710)	(1,090)	(1,091)
Net cash and cash equivalents from/ (used in) operating activities		**47,909**	**42,891**	**30,132**	**30,132**

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

	Note	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Cash flows from investing activities					
Purchase of property and equipment and intangible assets	19,20	(266)	(266)	(357)	(357)
Purchase of investment property	16	(6,017)	-	-	-
Decrease in cash and cash equivalents from investing activities		**(6,283)**	**(266)**	**(357)**	**(357)**
Cash flows from financing activities					
Dividends paid		(4,000)	(4,000)	(427)	(427)
Borrowings received		1,001	-	-	-
Decrease in cash and cash equivalents from financing activities		**(2,999)**	**(4,000)**	**(427)**	**(427)**
Net cash flows for the period		**38,627**	**38,625**	**29,348**	**29,348**
Cash and cash equivalents at the beginning of the year		**353,934**	**353,934**	**324,586**	**324,586**
Cash and cash equivalents at the end of the year	**14**	**392,561**	**392,559**	**353,934**	**353,934**

The accompanying notes on pages 14 to 79 form an integral part of these financial statements.

The financial statements as set out on pages 8 to 79 were approved for issue by the Management Board on 26 February 2015.

Chairman of the Management Board
Ilya Mitelman

Deputy Chairman of the Management Board
Gints Čakāns

26 February 2015

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Group						
EUR'000	**Share capital**	**Share premium**	**Revalu-ation reserve**	**Other reserves**	**Retained earnings**	**Total**
Balance at 1 January 2013	**11,668**	**6,360**	**5**	**1**	**51,613**	**69,647**
Total comprehensive income						
Profit for the year	-	**-**	**-**	-	4,615	**4,615**
Other comprehensive income	-	-	398	-	-	398
Transactions with shareholders recorded directly in equity						
Dividends paid	-	-	-	-	(427)	(427)
Balance at 31 December 2013	**11,668**	**6,360**	**403**	**1**	**55,801**	**74,233**
Total comprehensive income						
Profit for the year	-	-	-	-	3,324	**3,324**
Other comprehensive income	-	-	(5,576)	-	-	**(5,576)**
Transactions with shareholders recorded directly in equity						
Dividends paid	-	-	-	-	(4,000)	**(4,000)**
Balance at 31 December 2014	**11,668**	**6,360**	**(5,173)**	**1**	**55,125**	**67,981**

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Bank

EUR'000	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2013	**11,668**	**6,360**	**5**	**1**	**51,613**	**69,647**
Total comprehensive income						
Profit for the year	-	-	-	-	4,624	**4,624**
Other comprehensive income	-	-	398	-	-	398
Transactions with shareholders recorded directly in equity						
Dividends paid	-	-	-	-	(427)	(427)
Balance at 31 December 2013	**11,668**	**6,360**	**403**	**1**	**55,810**	**74,242**
Total comprehensive income						
Profit for the year	-	-	-	-	3,541	**3,541**
Other comprehensive income	-	-	(5,576)	-	-	**(5,576)**
Transactions with shareholders recorded directly in equity						
Dividends paid	-	-	-	-	(4,000)	**(4,000)**
Balance at 31 December 2014	**11,668**	**6,360**	**(5,173)**	**1**	**55,351**	**68,207**

The accompanying notes on pages 14 to 79 form an integral part of these financial statements.

The financial statements as set out on pages 8 to 79 were approved for issue by the Management Board on 26 February 2015.

Chairman of the Management Board
Ilya Mitelman

Deputy Chairman of the Management Board
Gints Čakāns

26 February 2015

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1 Background

Information on the Group and Bank

AS Expobank (hereinafter the "Bank") was established in the Republic of Latvia on 6 December 1991 as a closed joint stock company. The Bank operates under a banking license issued by the Financial and Capital Market Commission of the Republic of Latvia ("FCMC") according to which the Bank is allowed to conduct financial services.

The principal activities of the Bank involve local and international money transfers, foreign exchange transactions on behalf of customers and trust operations.

The activities of the Bank are regulated by the FCMC.

At the end of 2014 the Bank received a permission to open a local representative office in Hong Kong (China) from supervisory authorities in Latvia and Hon Kong (China).

The Bank's Branch in Cyprus has active performance from October 8, 2010.

Information about the branch:	*AS Expobank Cyprus Branch,*
Address:	*Agiou Athanasiou,46, INTERLINK HERMES PLAZA,*
	1st floor, Flat/Office 101B, 4102, Limassol, Cyprus

Investments in subsidiaries

Name	Country of incorporation	Principal Activities	Ownership %		Net assets EUR'000		Carrying Value EUR	
			2014	2013	2014	2013	2014	2013
SIA „Axi Invest"	Latvija	Development of investment property	100%	100%	21	7	320	320
SIA „Kappa Capital"	Latvija	Development of investment property	100%	100%	(67)	(17)	320	320

Concluded Group agreements (management agreements) were registered with the Enterprise Register of the Republic of Latvia on 27 December 2012. It is stated in the agreements that the Bank is the governing entity and subsidiaries are the dependent entities.

Shareholders

On 9 February 2012, Mr. Igor Kim became the sole owner of the Bank.

Related party transactions are detailed in Note 30.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2 Basis of preparation

(1) Statement of compliance

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

The financial statements were approved for issue by the Management Board on 26 February 2015.

The shareholder has the right to reject these financial statements and request that new financial statements are prepared.

(2) Basis of measurement

The accounting system of the Group and Bank is organised in accordance with the legislation of the Republic of Latvia, including requirements applicable to credit institutions operating in Latvia. The financial year of the Group and Bank coincide with the calendar year. The consolidated financial statements include financial information of the Group and Bank including its branch in Cyprus.

The financial statements have been prepared on a historical cost basis for assets and liabilities except for derivatives carried at fair value, financial assets and liabilities designated at fair value through profit or loss, and available-for-sale assets whose fair value can be reliably estimated, which are carried at fair value.

(3) Functional and Presentation Currency

On 1 January 2014 the Republic of Latvia joined the euro-zone and the Latvian lat was replaced by the euro. As a result, the Group and Bank converted its financial accounting to euros as from 1 January 2014 and the financial statements are presented in euros. The comparative information was translated into euros using the official exchange rate of LVL 0.702804 to EUR 1.

The financial statements are presented in thousands of euro ('000 EUR), unless stated otherwise, being the functional currency of the Group and Bank. The functional currency of the subsidiaries and the Bank's branch in Cyprus is the euro.

(4) Basis of consolidation

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

Intra-group transactions, balances and unrealized profits arising from intra-group transactions are eliminated in the course of consolidation. Unrealized losses are eliminated to the extent these are not indicative of impairment.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies

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

(1) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at exchange rates published by the European Central Bank at the dates of the transactions. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Foreign operations

Monetary assets and liabilities, including funds under trust management, contingent liabilities and commitments, denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. Foreign currency differences arising on retranslation are recognized in profit and loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognized in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

Exchange rates as of 31 December 2014 and 31 December 2013 were as follows:

	31 December 2014	31 December 2013
EUR/USD	0,8236	0,7251
EUR/RUB	0,0138	0,0221
EUR/LVL	-	1,4229

(2) Cash and cash equivalents

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

3 Significant accounting policies, continued

(3) Financial instruments

Classification

Upon initial recognition, all financial instruments are classified into one of the following categories:

Financial assets and liabilities designated at fair value through profit or loss are:

- held-for-trading financial instruments;
- financial assets and liabilities designated at fair value through profit or loss upon initial recognition.

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purposes of selling or repurchasing in the near term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading.

The financial instrument may be designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies;
- certain assets are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis;
- financial instruments containing one or more embedded derivatives that significantly modify the cash flows are designated at fair value through profit or loss.

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

- those that the Group and Bank intends to sell immediately or in the short-term;
- those that the Group and Bank upon initial recognition designates as at fair value through profit or loss or as available-for-sale;
- those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

Loans and receivables include term deposits due from credit institutions, loans and receivables due from customers, and other financial assets which meet these classification criteria.

For the purposes of these financial statements, loans and receivables are accounted for at amortized cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

An impairment loss allowance for credit losses is established. For the policy see Note 3.9.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

Available-for-sale financial assets are financial assets classified at inception as available-for-sale or assets other than classified as held-for-trading, held-to-maturity, or loans and receivables. Available-for-sale assets include short-term investments and certain debt and equity securities. Generally, this category is assigned by the Group and Bank to financial assets that are held for an indeterminated period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices

Financial liabilities carried at amortized cost represent financial liabilities of the Group and Bank other than financial liabilities designated at fair value through profit or loss. This category includes term balances due to credit institutions, customer deposits, and other financial liabilities corresponding to such a classification.

Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Group and/or Bank become a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Bank accounts for the changes in the fair value of the received or transferred asset based on the same principles as used for any other acquired asset of the respective category.

Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

3 Significant accounting policies, continued

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

If a market for a financial instrument is not active, the Group and Bank establish fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group and Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group and Bank calibrate valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group and Bank have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group and Bank believe a third-party market participant would take them into account in pricing a transaction.

A number of the Group's and Bank's accounting policies and disclosures require the determination of fair value of financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

3 Significant accounting policies, continued

(a) Loans and receivables

The estimated fair value of loans and receivables represents the expected discounted amount of estimated future cash flows. The interest rates used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

(b) Shares and other non-fixed income securities

The fair value of shares (S.W.I.F.T) and other non-fixed income securities is determined by reference to their quoted bid price at the reporting date, if available. For a non-material amount of non-listed shares, where disposal opportunities are limited, the assumption has been made that the reliable estimate of fair value is not possible.

The fair value of S.W.I.F.T shares was determined based on the “transfer amount” approved for the respective year by the shareholder’s meeting, that represents the price for new share allocation and participants quit price.

(c) Derivative financial instruments

Derivative financial instruments include swaps and futures in foreign exchange and stock markets. The Group and the Bank classify all derivative financial instruments as financial instruments at fair value through profit and loss.

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

(d) Balances due to other credit institutions and customers

The estimated fair value of deposits with no stated maturities, which include also non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in the active market is based on discounted cash flows using interest rates for new debts with a similar remaining maturity.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the profit or loss;
- a gain or loss on an available-for-sale financial asset is recognized in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income. Interest in relation to an available-for-sale financial asset is recognized as earned in the profit or loss calculated using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the profit or loss when the financial asset or liability is derecognized or impaired, and through the amortisation process.

Derecognition

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

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

Repurchase and reverse repurchase agreements

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

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

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

3 Significant accounting policies, continued

Derivative financial instruments

Derivative financial instruments include currency swaps and forward contracts.

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

Changes in the fair value of derivatives are recognized immediately in the statement of comprehensive income.

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognized in the statement of comprehensive income. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group and Bank trade with derivative instruments for risk hedging purposes, the Group and Bank do not adopt hedge accounting.

Offsetting

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

(4) Property and equipment

Items of property and equipment are stated at cost including direct costs, net of accumulated depreciation and impairment losses, if any.

When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

Furniture and equipment	2 to 10 years
Computers and equipment	4 years
Software inseparable from equipment (OEM software)	4 years

Leasehold improvements are capitalised and depreciated over the remaining lease period on a straight-line basis. Leasehold improvements are not depreciated as long as the respective assets are not completed.

An item of property and equipment is derecognized upon disposal or when the asset is no longer in use and no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset calculated as the difference between the net disposal proceeds and the carrying amount of the item upon disposal is included in the income statement.

Depreciation methods, useful lives, and residual values are reviewed annually.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(5) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licences and software that are separately identifiable from electronic devices, etc.) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and/or Bank.

Intangible assets are stated at cost less accumulated amortisation and impairment losses and are amortized by equal charges to the income statement over the useful life of the asset. The useful life of each class of intangible assets is estimated, considering the contractual conditions, and/or based on the estimated period over which the asset is expected to generate economic benefits.

The estimated useful lives are as follows:

Software other than OEM	5 years
Mastercard licence	10 years
Other licences	5 years

Licences acquired by the Group and Bank for a period up to one year are expensed as acquired.

Amortisation methods and useful lives are reviewed annually.

(6) Investments in subsidiaries

Investments in subsidiaries are initially recognized at cost in the Bank's separate financial statements.. If the recoverable value of such investments at the balance sheet date is lower than the acquisition cost or valuation in the previous year's balance sheet, and such decrease is expected to be permanent, impairment loss is recognized and investments are reduced to the recoverable value.

(7) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost. The annual depreciation rate applied to investment properties, except for land which is not depreciated, is 2%.

When measuring the fair value of the investment property, the Group relies on external valuations and assesses the reliability of such valuation in light of the current market situation. As t 31 December 2014 the cost of investment property reflects the fair value of investment property, because acquisitions were made during the reporting period and the Group assesses that there were no significant changes in the current market situation and the transaction is still a reliable basis for the fair value measurement.

3 Significant accounting policies, continued

(8) Leased assets and lease payments

Leases under which the Group and Bank assume substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at the lower of fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and leased assets are not recognized in the Group's and Bank's statement of financial position.

Minimum lease payments under finance leases are apportioned between the finance charges and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(9) Impairment and calculation of the recoverable amount

Financial assets carried at amortized cost

The Group and Bank assess at each reporting date whether there is any objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence exists that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The criteria that the Group and Bank use to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and/or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of the loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level.

The Group and Bank first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for those that are not individually significant. If no objective evidence of impairment is determined for individual assets, whether significant or not, the impairment is tested collectively for groups of assets with similar credit characteristics, excluding assets for which an impairment loss is or continues to be recognized on an individual basis.

The amount of the loss is measured as a difference between the asset's carrying amount and its recoverable amount. The carrying amount of the asset is reduced through the use of the allowance account and the amount of the loss is recognized in the income statement.

When an asset is uncollectible, it is written off against the related allowances. Recovered amounts are disclosed in the income statement as a reduction in the allowance for bad debts.

The recoverable amount of financial assets carried at amortized cost and at cost is calculated as the present value of future cash flows including amounts that may be recovered from guarantees and loan securities, discounted at the original effective interest rate.

3 Significant accounting policies, continued

Available-for-sale financial assets

The Group and Bank assess at each reporting date whether there is any objective evidence that a financial assets are impaired. In the case of debts investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group and Bank consider more than 10% decline below previous fair value "significant". If any such evidence exists, The Group and Bank consider different criteria, such as significant financial obstacles of the issuer, decrease of credit rating below investment grade etc.

If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in income statement – is reclassified from equity and recognized in the income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to the event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

Other assets

The carrying value of other Group's and Bank's assets other than a deferred tax asset is reviewed for

impairment on each reporting date. If impairment indications exist, the recoverable amount of the asset is calculated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. All impairment losses are recognized in the income statement.

Treatment of deferred tax asset is detailed in Note 3.13.

The recoverable amount of other assets is the larger of the fair value less cost to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(10) Provisions

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

(11) Credit related commitments

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

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

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

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

3 Significant accounting policies, continued

(12) Dividends

The ability of the Group and Bank to declare and pay dividends is subject to the rules and regulations of the Latvian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(13) Taxation

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

In accordance with Latvian tax regulations, income tax is applied at the rate of 15% on taxable income generated by the Group and Bank during the taxation period (2013: 15%). In accordance with Cyprus tax regulations, income tax is applied at the rate of 12.5% (2013: 10%) on taxable income generated by the AS Expobank Cyprus Branch during the taxation period.

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

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

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

(14) Income and expense recognition

All income and expense categories, including interest income and expense, are recognized on an accrual basis. Income is recognized only to the extent that an inflow of economic benefits to the Group and Bank is possible and such income can be reasonably estimated. Impairment loss is recognized if the receipt of income becomes doubtful.

Interest income and expense are recognized in the income statement using the effective interest rate method. Payments made by the Group and Bank to the deposit guarantee fund are disclosed under other interest expense.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

Commission and fee income and expense on non-recurring services are recognized on the transaction date on an accrual basis. Commission and fee income and expense on services provided or received in a certain period of time are accrued and charged to the income statement over the period of the services received/rendered.

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

Dividend income is recognized in the statement of comprehensive income on the date that the dividend is declared.

3 Significant accounting policies, continued

(15) Use of significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

Judgements:

Financial statements of the Group include Investment property. The Group management made judgement that all real estate property owned by the Group is held to earn rentals or for capital appreciation or both rather than for sale in the ordinary course of business.

Key sources of estimation uncertainty:

(i) Impairment of financial instruments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. 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.

(16) Trust operations

The trust operations policy of the Group and Bank set forth the general guidelines on organisation and execution of trust operations, their control and monitoring. The Group's and Bank's policy for trust operations is reviewed annually. The Group and Bank provide trust services only to customers of the Group and Bank.

Trust operations are accounted for separately from the Group's and Bank's own operations thus ensuring separate accounting in a separate trust sheet for assets of each customer, by customer and by type of assets under management. The Group and Bank accept no risk for its trust operations; all risk is retained by its customers. The Group and Bank earn fee income for administration of trust operations.

3 Significant accounting policies, continued

(17) New Standards and Interpretations

(a) Changes in accounting policies

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

The Group and Bank have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

(i) IFRS 10 Consolidated Financial Statements (2011)

As a result of IFRS 10 (2011), the Bank or its subsidiaries have changed the accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Bank or its subsidiaries have power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group and Bank reassessed the control conclusion for its investees at 1 January 2014. The Group and Bank concluded that there are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).

(ii) IFRS 11 Joint Arrangements

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

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

The Group and Bank is not a party to any joint arrangements.

(iii) IFRS 12: Disclosure of Interests in Other Entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

As a result of IFRS 12, the Group and Bank have expanded its disclosures about its interests in subsidiaries (Note 1).

(iv) Other amendments to standards

The following amendments to standards with effective date of 1 January 2014 did not have any impact on these consolidated and separate financial statements:

- Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting

3 Significant accounting policies, continued

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group and Bank are set out below. The Group and Bank do not plan to adopt these standards early.

(i) IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group and Bank do not expect the amendment to have any impact on the consolidated and separate financial statements since they do not have any defined benefit plans that involve contributions from employees or third parties.

(ii) IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014)

The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that and entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

The Group and Bank do not expect the amendment to have any impact on the consolidated and separate financial statements.

(iii) Annual Improvements to IFRSs

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Group and Bank.

4 Risk and capital management

The Group's and Bank's activities expose them to a variety of financial and non-financial risks. The Group's and Bank's strategic aim is to achieve an appropriate balance between risks assumed by the Group and Bank and returns and minimize the potential adverse effect on the Group's and Bank's financial performance and operations.

The risk management system is integrated in the framework of the Group's and Bank's internal control based on the effective bank supervision requirements laid down by the Financial and Capital Market Commission and the Basel Committee on Banking Supervision to provide for a risk control function and operational compliance control function independent from business units. Risk measurement, assessment and control functions are separated from the business unit (risk acceptance) functions.

The Group and Bank identify all inherent significant risks and develop documents and implement appropriate policies for risk management, including measurement, assessment, control, mitigation, and risk reporting and disclosures. Policies are reviewed at least on an annual basis in line with changes in the Group's and Bank's operations and external factors impacting the Group's and Bank's activities.

In order to identify risks in due time and completely and assess the acceptable levels of risks prior to launching new products and services the Group and Bank assess the potential inherent risks and approves internal normative documents related to risk management that include appropriate procedures, restrictions and limits, and hedging methods. The most important types of risk are credit risk, concentration risk, liquidity risk, interest rate risk, foreign currency and market prices risk, and operational risk. Concentration risk is closely related to different risks of Bank and assessments are carried out as part of risk management of these risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. The impact of these risks has been taken into account during strategic planning.

(1) Credit risk

Credit risk represents the Group's and Bank's exposure to potential loss in case a borrower (debtor) or a business partner fails or refuses to fulfil its contractual liabilities towards the Group and Bank. The Group and Bank are exposed to credit risk which is a significant inherent risk for the Group and Bank. Therefore, credit risk management is performed with particular care.

Sources of credit risk

The key source for credit risk of the Group and Bank is amounts due from credit institutions, which represent a material asset for the Group and Bank. Credit risk exists also in connection with lending operations, investments in securities, letters of credit and warranties/guarantees.

For the Group and Bank mostly as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Group and Bank should maintain sufficient funds on accounts with several principal correspondents to provide necessary customers' payments in relevant currencies, which sometimes causes also significant concentrations with particular counterparties.

Management and control of credit exposures

The Group and Bank ensure ongoing monitoring of concentrations of credit risk especially to individual counterparties or groups of counterparties, and to industries and countries.

The Group and Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one counterparty, or a group of counterparties, and to geographical and industry segments, and for a specific type of transaction. Such limits are subject to an annual or more frequent review, taking into account changes in the Group's and Bank's operations or external circumstances that can affect the Group's and Bank's operations.

4 Risk and capital management, continued

(1) Credit risk

Management and control of credit exposures, continued

The credit risk monitoring system applied by the Group and Bank comprises of regular review of the borrower's/ counterparty's credit standing as well as monitoring of the credit ratings granted by the international credit rating agencies, compliance with the contractual terms and conditions, fulfilment of the obligations, collateral control, as well as ongoing limit control.

Limits on exposures to operations with credit institutions and products are considered by the Assets and Liabilities Management Committee and approved by the Management Board. Limits on exposures to non-banks are considered by the Credit Committee and approved by the Management Board or the Board of Directors depending on the authorisation scope.

The Group and Bank perform regular monitoring of the counterparty credit risk and in case a transaction is to be made with a member of a group of counterparties, the Group and Bank would also assess the overall credit risk exposure of the group.

The Group and Bank ensure regular monitoring of the quality of receivables from counterparties/borrowers and the assessment of credit risk is performed by reference to expected loss and the amount of capital required for addressing credit risk.

Exposures to related groups of counterparties and counterparties related to the Group and Bank are also subject to regulatory requirements.

Credit risk mitigation policies

The Group and Bank employ a range of credit risk mitigation methods.

Credit risk arising from issued warranties/guarantees and credit limits attached to payment cards is primarily covered by a pledge of cash on the accounts opened with the Group and Bank.

The required amount of collateral may differ depending on the level of credit risk but it is usually set to cover at least the outstanding principal. The Group and Bank grant credit limits on payment cards that in general are not higher than 75% of the security deposit.

The funds derived from the sales of the collateral should generally cover the Group's and Bank's expenses incurred in the sale of the collaterals (legal expenses, auctions etc.) and the entire amount of the client's debt towards the Group and Bank, including calculated interest (for the entire period of the loan in the event that the term of the loan is shorter than 12 months or for a period of 12 months in the event that the term of the loan exceeds 12 months). Credit risk arising from loans can be mitigated by mortgage. The Group's and Bank's exposures to credit institutions are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Note 32.

4 Risk and capital management, continued

(2) Foreign exchange risk

Foreign exchange risk represents potential loss from revaluation of items of financial position and contingent liabilities and commitments denominated in foreign currencies due to movements in foreign exchange rates.

Foreign exchange risk management process

The foreign exchange risk management policy determines and regulates the tasks to be performed by the Group's and Bank's management and structural units and their responsibilities in managing foreign exchange risk, and foreign exchange risk control regulations and mitigation measures relevant for the Group's and Bank's transactions in foreign currencies, as well as measurement, reporting and disclosure procedures.

Limits on the foreign exchange open position in a single currency and the total open position in foreign currencies are set both on open currency positions to be maintained during the business day and open positions at the end of the day which are monitored and controlled.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 33.

(3) Position (market price) risk

Position risk is the risk of losses of financial instrument position due to changes in the security's price.

Position risk management process

Bank by creation of the trading and investment portfolio is exposed to securities price fluctuations. Position risk management is addressed in Trading and Investment policies, as well as in the procedures and methodologies that set the limits and limitations. The Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to prices change and assess risks by market stress scenarios.

(4) Liquidity risk

Liquidity risk represents the Group's and Bank's exposure to significant loss in the event that the Group and Bank do not have a sufficient amount of liquid assets to meet legally substantiated claims or overcome unplanned changes in the Group's and Bank's assets and/or market conditions on a timely basis.

Liquidity risk management process

The Group's and Bank's liquidity risk management policy sets the key principles and processes of liquidity risk management, tasks of management and structural units and their responsibilities in liquidity management and maintenance, methods and conditions, asset and liability management procedure, measures for preventing and managing liquidity crisis, and reporting and disclosure procedure.

Liquidity risk management is performed by the Group and Bank on the basis of the asset and liability management method ensuring a balanced asset and liability term structure and analysing funding concentration.. The Group and Bank manage liquidity risk as an aggregate of market liquidity risk and financing liquidity risk. Where required, the Group and Bank perform operational liquidity management by attracting funds on the interbank market and by entering into foreign exchange swaps (FX SWAP).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(4) Liquidity risk

Liquidity risk management process, continued

The following techniques are used to manage liquidity:

- Assessment and regular analysis of early warning indicators that help identify adverse trends that may impact the Group's and Bank's liquidity;
- Cash flow planning;
- Maintenance of a sufficient amount of liquid assets representing at least 90% of the total amount of the Group's and Bank's liabilities;
- Monitoring of Liquidity Coverage requirement (LCR) set by European Parliament and Council Regulation (EU) No. 575/2013;
- Monitoring risk limits, constraints and liquidity ratios;
- The Group and Bank create a liquidity reserve by maintaining an available-for-sale financial asset portfolio: financial assets which are acquired and held for undetermined period of time to earn interest income and/or profit from increase in price or to be sold for liquidity purposes;
- Liquidity risk limits, restrictions (including finance concentration) and liquidity ratios monitoring;
- Balancing asset and liability (including contingent liability) term structure;

The Group and Bank recognize a liquidity reserve maintaining a portfolio of financial assets available for sale – financial assets acquired in order to hold them for an indefinite period of time and generate interest income and / or profit from the price appreciation of that financial asset and that can be sold for liquidity needs;

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Note 34.

(5) Interest rate risk

Interest rate risk represents the Group's and Bank's exposure in the event that changes in interest rates have an adverse impact on the Group's and Bank's income and expenses and result in a decrease of the Group's and Bank's equity.

Interest rate risk arises from:

- price risk;
- profitability risk;
- base risk;
- optionality risk - the possibility of incurring losses if a financial instrument directly (options) or indirectly (demand deposits, etc.) provides an option to choose.

The assessment of interest rate risk, price risk and profitability risk is conducted jointly as a single element – the maturity gap. The maturity gap is used as joint element for assessing price risk and profitability risk as part of interest rate risk.

4 Risk and capital management, continued

Interest rate risk management process

The interest rate risk management policy states risk management principles, tasks and responsibilities of the Group's and Bank's management and structural units in interest rate risk management, interest rate risk measurement, setting of limits, and control processes, stress testing, as well as reporting and disclosure procedures.

The Group and Bank assess the impact produced by changes in interest rates on the entire Group's and Bank's business, as well as transactions belonging to the Group's and Bank's trading and non-trading portfolios, and interest rate risk in each currency for which assets or liabilities exceed 5% of the total balance, and all currencies in total.

Interest rate risk control and mitigation are performed through:

- Interest rate risk limits are determined: net annual interest income, interest rates changing in parallel by 1% (or 100 base points), changes and decrease of economic value assuming that unexpected changes in interest rates represent 200 base points;
- Ensuring interest rate sensitive assets and liabilities are maintained within levels of interest rate risk that are acceptable to the Group and Bank;
- Constant monitoring of changes in the interest rates on the financial instrument and money markets;
- If necessary an interest rate hedge is applied and interest rate options of the Group's and Bank's products are limited;

Quantitative disclosures

Further quantitative disclosures in respect of interest rate risk are presented in Note 35.

(6) Operational risk

Operational risk is the risk that the Group and Bank may suffer loss as a result of noncompliant, unsuccessful or incomplete internal processes or due to staff activities and system operations, or due to external impacts, including risks connected with information technologies and legal risks but excluding reputational risk and strategy and business risk.

In order to identify operational risk events promptly and to take appropriate and timely measures to minimize operational risk the Group and Bank have developed and implemented a statistical data base for registering operational risk events on a regular basis. The Group and Bank have implemented a procedure that all employees regardless of their position immediately make entries of operational risk events in the Event Database upon identifying any circumstances that have caused or may cause losses (irrespective of the type) to the Group and Bank or may inflict damage to the Group's and Bank's reputation. If required, all operational risk events entered in the Event Database are checked according to the procedures specified in internal documents, and risk mitigation measures are developed and assigned to improve the internal controls.

Operational risk management process

The Operational Risk Management Policy details the tasks to be performed by the Group's and Bank's management and structural units and their responsibilities in the operational risk management, the basic principles of the operational risk management system and operational risk management processes, reporting and disclosures. Besides the above policy, operational risk management connected with the Group's and Bank's information systems is regulated by Information System Management Policy and Information System Security Management Policy and internal documents that govern the application thereof.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(6) Operational risk

Operational risk management process, continued

Operational risk management is performed in the Group and Bank as a complex of systemic measures and it includes:

- identification and assessment of operational risks;
- control of operational risks;
- measures to mitigate operational risks;
- set duties, authorities and responsibilities;
- procedure for reporting and disclosures;

The operational risk management system is integrated in the Group's and Bank's internal control system and is aimed at effective management of operational risk. The Group and Bank review and improve the operational risk management system on a regular basis to reflect changes in the Group's and Bank's operations and external circumstances that impact operations.

The control over operational risks in the Group and Bank is performed using the following control procedures:

- systematic assessment of the operational risk management system, including efficiency assessment;
- compliance reviews against normative documents regulating operational risk management;
- assessment of the results of operational risk assessment and stress testing and, if applicable, implementation of corrective measures in the risk management system;
- consistent control over restrictions and limits imposed by internal documents regulating the respective area;
- regular testing of business continuity plans;
- assessment of changes in the Group's and Bank's operations and external environment in order to determine the potential impact on the Group and Bank and its business processes;
- providing the Group's and Bank's management with reports of various detail and information on operational risk management and non-compliance with procedures, restrictions and limits;
- control over the development of new banking products or services and related internal documents in order to identify operational risks on a timely and complete basis, assess the acceptable level of operational risk and make a decision on risk management. Control over compliance with the Group's and Bank's procedures during implementation of new products and services.

(7) Capital management

The strategic objective of the Group's and Bank's capital management is to maintain the adequate capital base that would promote attaining the strategic business goals set by the Group and Bank, that is:

- comply with the regulatory requirements;
- be sufficient and optimal to support and further development of the Group's and Bank's business in terms of both volume and structure;
- ensure that the Group's and Bank's capital, which, based on the internal calculations, is required to cover risks and to establish the capital reserve, both existing and potential, inherent in the current and future business of the Group and Bank, is sufficient to cover significant inherent risks and establish the capital reserve in terms of amount, components and proportion.

The Law on Credit Institutions and the regulations developed by the Financial and Capital Market Commission to apply the provisions of this Law require that the Group and Bank maintain equity that at all times is equal to or exceeds the minimum regulatory capital requirement.

In order to calculate the statutory capital and capital requirement in 2013 the Group and the Bank applied the rules laid down by REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on prudential requirements for credit institutions and investment firms.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

The following table summarises the regulatory capital, capital requirements, and capital adequacy ratios of the Group and Bank as at 31 December 2014.

	31.12.2014 EUR'000	31.12.2013 EUR'000
Tier 1 capital		
Paid-in share capital	11,668	11,668
Share premium	6,360	6,360
Reserve capital	1	1
Retained earnings	51,814	51,186
Revaluation reserve	(5,173)	-
Profit for the reporting year	3,541	4,616
Less: intangible assets	(485)	(420)
Total Tier 1 capital	**67,726**	**73,411**
Subordinated capital	265	-
Equity used for capital adequacy calculation	**67,991**	**73,411**
Summary of calculations		
Capital requirement for credit risk in the banking book:	(11,604)	(9,150)
Due from central governments and central banks	(123)	(1,236)
Due from and contingent liabilities to credit institutions	(8,167)	(6,070)
Due from and contingent liabilities to companies	(2,326)	(1,746)
Due from and contingent liabilities to retail	(864)	-
Other items of financial position and contingent liabilities	(124)	(98)
Total capital requirements for market risks, including:	(2,477)	(336)
Capital requirement for currency risk	-	(336)
Capital requirement traded debt instruments	(2,477)	-
Capital requirement for operational risk	(1,228)	(1,061)
Total capital requirement	**(15,309)**	**(10,547)**
Surplus of available equity over capital requirement	**52,682**	**62,864**
Capital adequacy ratio	**35.53%**	**55.86%**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4 Risk and capital management, continued

The Group's and Bank's Capital Management Policy lays down the principles of capital management, elements and definition of capital, tasks to be performed by the Group's and Bank's management and structural units and their responsibilities, the procedure of determining the amount of internal capital, capital management process and its control, reporting and disclosure requirements and actions to be taken by the Group and Bank in emergency situations. The policy requires that the internal capital should always be larger than the capital prescribed by law and the methods used for its assessment should be more prudent than those used for the calculation of capital as prescribed by law.

Under the current capital requirements provided by the FCMC banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum requirement as at 31 December 2014 was 8% , in accordance with a special requirement of the FCMC the Group and Bank shall ensure the capital adequacy above the minimum, i.e., 20% from 8 June 2012.

The Group and Bank manage capital by setting the target range for the capital adequacy ratio, which is treated as a measure of whether the strategic objectives set in capital management have been attained.

The goal of capital management control is to maintain the adequate capital to cover significant risks and keep the reserve on an ongoing basis as well as to comply with the capital adequacy targets set by the Group and Bank. The Group and Bank perform control of the capital management process as a set of systematic measures, defining the relevant control procedures.

As disclosed in the Note 36 the Bank has paid out dividends in amount of EUR 5,000,000 on 23 January 2015. Taking into account dividend payment capital adequacy ratio as at 31 December 2014 would be 32.92%.

5 Net interest income

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Interest income				
Due from financial institutions	560	560	529	529
Loans and advances due from customers	406	571	36	41
Held for trading instruments	1,621	1,621	654	654
Available-for-sale instruments	1,834	1,834	1,026	1,026
	4,421	**4,586**	**2,245**	**2,250**
Interest expense				
Current accounts and deposits due to customers	439	439	169	169
Deposits due to financial institutions	45	45	-	-
Other interest expense	502	502	387	387
	986	**986**	**556**	**556**

6 Fee and commission income

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Money transfers	2,158	2,158	1,433	1,433
Trust account servicing	1,213	1,213	211	211
Current account servicing	785	785	380	380
Payment cards	279	279	141	141
Brokerage fees	126	126	55	55
Escrow account servicing	48	48	37	37
Documentary operations	19	19	9	9
Other	80	80	56	66
	4,708	**4,708**	**2,322**	**2,332**

7 Fee and commission expense

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Money transfers	199	199	172	172
Payment cards	63	63	34	34
Brokerage	23	23	9	9
Other	13	13	-	-
	298	**298**	**215**	**215**

8 Net income from transactions with financial instruments

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Gain on currency exchange transactions	5,560	5,560	6,837	6,837
Gain/ (loss) on translation of balances denominated in foreign currencies	20	20	(7)	(7)
Unrealized (loss) / gain on currency exchange transactions	129	129	(259)	(259)
Gain/ (loss) on available for sale instruments trading	(89)	(89)	174	174
Loss on held for trading securities trading	(3,373)	(3,373)	(156)	(156)
	2,247	**2,247**	**6,589**	**6,589**

9 Other expenses

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Association membership fees	144	144	84	84
Information services fees	417	417	359	359
Professional services	204	204	179	179
Litigation	-	-	104	104
Other expense	132	50	18	18
	897	**815**	**744**	**744**

10 General administrative expenses

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Remuneration to staff	1,975	1,975	1,639	1,639
Remuneration to the Management Board and Board of Directors members	1,166	1,166	679	679
Statutory social insurance contributions	455	455	484	484
Taxes	17	17	10	10
Professional services	289	279	514	509
Depreciation and amortisation	254	234	222	222
Rent expenses	245	245	245	245
Security	44	44	50	50
Telecommunications	72	72	95	95
Transportation	16	16	21	21
Moving costs	2	2	28	28
Repairs and maintenance of premises	67	67	64	64
Business trips	538	538	246	246
Representation expense	13	13	23	23
Sponsorship	35	35	33	33
Other expense	155	155	109	111
	5,341	**5,313**	**4,462**	**4,459**

The average number of the Group's and Bank's employees in 2014 was 77 (2013 - 66).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

11 Impairment losses

Group and Bank

EUR'000	Allowance for impairment of other assets
As at 31 December 2012	**2**
As at 31 December 2013	**2**
Allowance for impairment	4
Reversal of the allowance for impairment	(1)
As at 31 December 2014	**5**

12 Income tax expense

(a) Income tax charge

The components of income tax expense for the years ended 31 December 2014 and 2013 were as follows:

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Current income tax expense	637	637	682	683
Corporate income tax correction for prior years	-	-	(115)	(115)
Deferred tax expense	(6)	(6)	31	31
Total	**631**	**631**	**598**	**599**

(b) Reconciliation of effective tax rate

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Profit before income tax	**3,955**	**4,172**	**5,213**	**5,223**
Theoretically calculated tax at tax rate of 15%	593	626	782	783
Corporate income tax correction for prior years	-	-	(115)	(115)
Net tax effect of expenses not deductible and exempt income in determining taxable profit	38	5	(69)	(69)
Income tax expense	**631**	**631**	**598**	**599**

12 Income tax expense

(b) Reconciliation of effective tax rate, continued

The following table presents deferred tax included in the statement of financial position and changes recorded in the income statement for the years ended 31 December 2014 and 2013:

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Deferred tax liability/ (asset) at the beginning of the year	**20**	**20**	**(11)**	**(11)**
Decrease of deferred charge for the year	(6)	(6)	31	31
Deferred tax liability/ (asset) at the end of the year	**14**	**14**	**20**	**20**

The temporary differences that form the deferred tax liability/(asset) as at 31 December 2014 and 2013 are presented in the following statement of financial position captions:

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Accelerated depreciation of property and equipment	34	34	37	37
Provisions	(20)	(20)	(17)	(17)
Deferred tax liability/(asset) at the end of the year	**14**	**14**	**20**	**20**

13 Cash and deposits with the Bank of Latvia

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Cash	114	114	262	262
Demand deposits with the Bank of Latvia	2,634	2,634	70,829	70,829
Term deposit with the Bank of Latvia	-	-	166	166
Total cash and deposits with the Bank of Latvia	**2,748**	**2,748**	**71,257**	**71,257**

Since the beginning of 2014 Latvia is a member of European Monetary Union (EMU) and Latvian commercial banks should fulfil all the requirements set by the European Central Bank (ECB). In particular ECB set reserve requirement ratio meaning that financial institutions should maintain certain amount of cash with its local Central Bank - in case of AS Expobank with the Bank of Latvia. The Bank's average correspondent account balance should exceed the minimum reserve requirement. The Bank was in compliance with reserve requirement ratio during the reporting year.

14 Cash and cash equivalents

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Cash and demand deposits with the Bank of Latvia	2,748	2,748	71,257	71,257
Due from financial institutions maturing less than 3 months from the last day of the reporting period	394,899	394,897	283,019	283,019
Deposits and balances due to financial institutions maturing less than 3 months from the last day of the reporting period	(5,086)	(5,086)	(342)	(342)
	392,561	**392,559**	**353,934**	**353,934**

15 Due from financial institutions

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Nostro accounts				
Latvian commercial banks	13	11	34	34
OECD banks	299,976	299,976	170,957	170,957
Non-OECD banks	14,191	14,191	49,917	49,917
Total nostro accounts	**314,180**	**314,178**	**220,908**	**220,908**
Deposits	Deposits			
Latvian commercial banks	16,673	16,673	33,307	33,307
OECD banks	67,266	67,266	22,753	22,753
Non-OECD banks	-	-	6,770	6,770
Total deposits	**83,939**	**83,939**	**62,830**	**62,830**
Total due from financial institutions	**398,119**	**398,117**	**283,738**	**283,738**

For concentration risk please see Note 32.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

16 Investment property

Group

EUR'000	Investment property
Historical cost	
As at 1 January 2014	**-**
Additions	6,017
As at 31 December 2014	**6,017**
Accumulated depreciation	
As at 1 January 2014	-
Depreciation charge	18
As at 31 December 2014	**18**
Net carrying amount	
As at 1 January 2014	-
As at 31 December 2014	**5,999**

Rental income and operating expense for the year ended 31 December 2014:

EUR'000	Book value	Rental income	Operating expenses
Investment property rented out	3,576	58	(44)
Investment property not rented out	2,423	-	(50)
Total	**5,999**	**58**	**(94)**

Investment property of the Group consists of several buildings located in the center of Riga, Latvia.

Rental income is recognized in the profit or loss statement under other income.

Operating expenses are recognised in the profit or loss under general administrative expenses and other expenses.

Investment property comprises one commercial property that is leased to third parties and number of commercial properties under development.

17 Loans and advances due from customers

As at 31 December 2014, the largest loan to one customer with the Group amounted to EUR 10,756 thousand, or 40% of the total loans.

The breakdown of loans due from customers is as follows:

(a) by borrower

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Commercial loans				
Loans to small and medium size companies	2,520	7,968	-	225
Reverse repo loans	18,656	18,656	9,637	9,637
Total commercial loans	**21,176**	**26,624**	**9,637**	**9,862**
Consumer loans	-	-	2	2
Credit cards	15	15	18	18
Total loans to individuals	**15**	**15**	**20**	**20**
Gross loans and advances due from customers	**21,191**	**26,639**	**9,657**	**9,882**
Net loans and advances due from customers	**21,191**	**26,639**	**9,657**	**9,882**

(b) by the term of agreement

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Up to one year	18,671	18,671	9,640	9,640
More than one year	2,520	7,968	17	242
Gross loans and advances due from customers	**21,191**	**26,639**	**9,657**	**9,882**
Net loans and advances due from customers	**21,191**	**26,639**	**9,657**	**9,882**

(c) by industry

	Group 2014 EUR'000	Bank 2014 EUR'000	Group 2013 EUR'000	Bank 2013 EUR'000
Financial intermediation	6,786	6,786	9,637	9,637
Real estate	3,639	9,087	-	225
Loans to individuals	10,766	10,766	20	20
Gross loans and advances due from customers	**21,191**	**26,639**	**9,657**	**9,882**
Net loans and advances due from customers	**21,191**	**26,639**	**9,657**	**9,882**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

17 Loans and advances due from customers, continued

(d) by geographical region

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Latvia	10,053	15,501	10	235
Non-OECD	5	5	9,646	9,646
OECD	11,133	11,133	1	1
Gross loans and advances due from customers	**21,191**	**26,639**	**9,657**	**9,882**
Net loans and advances due from customers	**21,191**	**26,639**	**9,657**	**9,882**

Credit quality of commercial loan portfolio and loans to individuals

In Group's consolidated and Bank's separate financial statement no impairment loss has been recognized for commercial loans and loans to individuals as at 31 December 2014 and 31 December 2013.

18 Financial instruments

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Held for trading financial assets				
Government bonds	2,951	2,951	-	-
Corporate bonds	25,942	25,942	-	-
Total held for trading financial assets	**28,893**	**28,893**	**-**	**-**
Available for sale financial assets				
Government bonds	2,361	2,361	1,239	1,239
Corporate bonds	28,508	28,508	32,025	32,025
Shares and other non-fixed income securities	17	17	17	17
Total available-for-sale financial assets	**30,886**	**30,886**	**33,281**	**33,281**

Shares and other non-fixed income securities represent an immaterial amount of un-listed and non-liquid shares of a Latvian private company, as well as S.W.I.F.T shares. S.W.I.F.T membership is required for ensuring payment services of the Bank. For more information on credit quality and fair value of bonds please refer to Notes 31 and 32.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

19 Property and equipment

The Group and Bank

EUR'000	Leasehold improvements	Other assets	Total
Historical cost			
As at 1 January 2014	132	663	795
Additions	3	54	57
Disposals	-	(50)	(50)
As at 31 December 2014	**135**	**667**	**802**
Accumulated depreciation			
As at 1 January 2014	12	481	493
Depreciation charge	31	59	90
Disposals	-	(50)	(50)
As at 31 December 2014	**43**	**490**	**533**
Net carrying amount			
As at 1 January 2014	**120**	**182**	**302**
As at 31 December 2014	**92**	**177**	**269**

EUR'000	Leasehold improvements	Other assets	Total
Historical cost			
As at 1 January 2013	145	744	889
Additions	131	100	231
Disposals	(144)	(181)	(325)
As at 31 December 2013	**132**	**663**	**795**
Accumulated depreciation			
As at 1 January 2013	125	589	714
Depreciation charge	23	70	93
Disposals	(136)	(178)	(314)
As at 31 December 2013	**12**	**481**	**493**
Net carrying amount			
As at 1 January 2013	**20**	**155**	**175**
As at 31 December 2013	**120**	**182**	**302**

All items of property and equipment are used in the operating activities of the Group and the Bank.

20 Intangible assets

The Group and Bank

EUR'000	Software and licences
Historical cost	
As at 1 January 2014	1,025
Additions	209
Disposals	(1)
As at 31 December 2014	**1,233**
Accumulated amortisation	
As at 1 January 2014	605
Amortisation charge	144
Disposals	(1)
As at 31 December 2014	**748**
Net carrying amount	
As at 1 January 2014	**420**
As at 31 December 2014	**485**

EUR'000	Software and licences
Historical cost	
As at 1 January 2013	898
Additions	127
As at 31 December 2013	**1,025**
Accumulated amortisation	
As at 1 January 2013	487
Amortisation charge	118
As at 31 December 2013	**605**
Net carrying amount	
As at 1 January 2013	**411**
As at 31 December 2013	**420**

All intangible assets including software are used in the operating activities of the Group and the Bank.

21 Other assets

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Other financial assets				
Currency exchange transactions in progress	471	471	265	265
Credit cards guarantee deposit	165	165	147	147
Cash on broker accounts	474	474	304	304
Cash on escrow account	-	-	201	-
Other financial assets	3	3	-	-
Impairment allowance	(5)	(5)	(2)	(2)
	1,108	**1,108**	**915**	**714**
Other non-financial assets				
Prepaid expense	104	103	85	85
Accrued income	268	268	44	44
Other non-financial assets	246	22	36	31
	618	**393**	**165**	**160**
	1,726	**1,501**	**1,080**	**874**

22 Deposits and balances due to financial institutions

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Vostro accounts	4,994	4,994	343	343
Broker accounts	92	92	-	-
	5,086	**5,086**	**343**	**343**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2014, the largest amounts due on demand were to Expobank LLC (Russia) amounted to EUR 3,620 thousand (2013: EUR 329 thousand), or 71% of total deposits and balances due to financial institutions (2013: 96%).

23 Current accounts and deposits due to customers

As at 31 December 2014, the largest deposit from one customer with the Group and Bank amounted to EUR 62,766 thousand, or 15% of the total deposits (2013: EUR 35,068 thousand, or 11%), while the deposit from one group of related customers amounted to EUR 141,703 thousand, or 34% of the total deposits (2013: EUR 88,335 thousand, or 27%).

23 Current accounts and deposits due to customers, continued

The breakdown of current accounts and deposits due to customers is as follows:

(a) by the term of the agreement

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR000
Current accounts, including accrued interest	405,307	405,333	315,010	315,021
Deposits:				
up to six months	7,982	7,982	8,332	8,332
from six months to one year	89	89	155	155
more than one year	650	650	159	159
Accrued interest	3	3	6	6
Total current accounts and deposits due to customers	**414,031**	**414,057**	**323,662**	**323,673**

(b) by geographical region

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Residents of Latvia	1,805	1,831	2,817	2,828
Non-residents:				
Residents of OECD countries	141,921	141,921	5,492	5,492
Residents of other countries	270,305	270,305	315,353	315,353
Total current accounts and deposits due to customers	**414,031**	**414,057**	**323,662**	**323,673**

(c) by depositor

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Current accounts				
Residents:				
Private enterprises	815	841	1,726	1,737
Private individuals	510	510	760	760
Public organisations	-	-	13	13
Bank employees	-	-	218	218
	1,325	**1,351**	**2,717**	**2,728**
Non-residents:				
Financial institutions	14,544	14,544	5,872	5,872
Private enterprises	376,306	376,306	279,038	279,038
Private individuals	13,132	13,132	3,483	3,483
	403,982	**403,982**	**288,393**	**288,393**
Total demand deposits	**405,307**	**405,333**	**291,110**	**291,121**

23 Current accounts and deposits due to customers, continued

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Deposits				
Residents:				
Private enterprises	5	5	3	3
Private individuals	67	67	97	97
Bank employees	408	408	-	-
	480	**480**	**100**	**100**
Non-residents:				
Private enterprises	7,816	7,816	32,339	32,339
Private individuals	416	416	108	108
Financial institutions	12	12	5	5
	8,244	**8,244**	**32,452**	**32,452**
Total deposits	**8,724**	**8,724**	**32,552**	**32,552**
Total current accounts and deposits due to customers	**414,031**	**414,057**	**323,662**	**323,673**

Interest rates applied to deposits of the Group's and Bank's employees do not differ from interest rates on deposits from other customers.

24 Provisions

The Group and Bank

EUR'000	Employee unused holiday pay	Provision for court case	Total
As at 31 December 2012	**53**	**299**	**352**
Increase in provisions	54	-	54
Amounts charged against provisions	-	(299)	(299)
As at 31 December 2013	**107**	**-**	**107**
Increase in provisions	28	-	28
As at 31 December 2014	**135**	**-**	**135**

25 Other liabilities

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Financial liabilities				
Cash in transit	4	4	57	57
Currency exchange transactions in progress	946	946	480	480
Creditors	27	-	23	23
Suspense accounts	742	742	424	424
Other	-	-	2	2
	1,719	**1,692**	**986**	**986**
Non-financial liabilities				
Accrued expense	344	344	275	275
	344	**344**	**275**	**275**
Total other liabilities	**2,063**	**2,036**	**1,261**	**1,261**

26 Shareholder's equity

Share capital

As at 31 December 2014 and 2013, the fully paid-in share capital of the Group and Bank was LVL 8,200 thousand and consisted of 820,000 voting ordinary registered shares with the nominal value of LVL 10 each.

All the shares rank equally with regard to the Group's and Bank's residual assets, to the right to dividends and to vote at meetings of the Group and Bank. The shareholders as at 31 December 2014 are as follows:

Shareholder	Country	31.12.2014 % of the paid-in share capital	31.12.2013 % of the paid-in share capital
Igor Kim	Russian Federation	100.00	100.00

Share premium

In 2004, the Group and Bank executed a share capital increase of EUR 4,240 (LVL 2,980) thousand with a share premium of EUR 6,360 (LVL 4,470) thousand.

Other reserves

Other reserves comprise the remaining portion of the statutory reserves made in the previous years' profits. As at 31 December 2014 and 2013 there was no legislative requirement for creation of such a reserve.

Retained earnings

Dividends paid in amount of EUR 4,000 thousand in 2014 represent gross amount payable to the shareholder. 10% income tax was withheld at the time of dividend payment.

27 Contingent liabilities and commitments

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Contingent liabilities				
Guarantees	3	3	46	46
Commitments				
Credit cards commitments	311	311	293	293
Unutilised credit lines and overdraft facilities	1,004	1,725	350	2,029
	1,315	**2,036**	**643**	**2,322**

To meet the financial needs of customers, the Group and Bank enter into various transactions resulting in contingent liabilities and commitments. Even though these financial liabilities are not recognized in the statement of financial position, they do contain credit risk and are therefore part of the overall risk assessment of the Group and Bank.

Nevertheless, the potential credit loss is less than the total unused part of the liability since these are contingent upon customers maintaining specific standards. The Group and Bank employ collateral mainly in the form of term deposits for mitigation of related credit risk.

Issued guarantees commit the Group and Bank to make payments on behalf of the customers in the event of a specific act. Other commitments represent contractual obligations on payment cards' overdraft facilities. Since contingent liabilities and commitments may expire without being drawn on, the total contract amount do not necessarily represents future cash requirements.

28 Operating leases

a) Leases as lessee

For the Group and Bank as a lessee, the breakdown of the future minimum lease payments by periods until the maturity of operating leases effective as at 31 December 2014 are as follows:

EUR'000	Less than one year	Between one and five years	Total
Rent of premises	249	452	**701**

For the Group and Bank as a lessee, the breakdown of the future minimum lease payments by periods until the maturity of operating leases effective as at 31 December 2013 are as follows:

EUR'000	Less than one year	Between one and five years	Total
Rent of premises	235	664	**899**

The leases typically run for an initial period of three to five years, with an option to renew the lease after that date. Lease payments are fixed for the whole lease period. None of the leases includes contingent rentals.

During the current year EUR 245 thousand was recognized as an expense in the income statement in respect of operating leases (2013: EUR 245 thousand).

b) Leases as lessor

The Group leases investment property under operating lease. In accordance with the lease terms tenants could unilaterally terminate rental agreements could be terminated giving one month notice.

29 Funds under trust management

The Group and Bank provide Assets under management services to individuals and institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group and Bank receive fee income for providing these services. Assets under management are neither assets of the Group nor Bank and are not recognised in the consolidated and separate statement of financial position. The Group and Bank are not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

	Group 31.12.2014 EUR'000	Bank 31.12.2014 EUR'000	Group 31.12.2013 EUR'000	Bank 31.12.2013 EUR'000
Assets under management				
Non-residents:				
Loans	158,065	158,065	35,817	35,817
Placement of resources in financial institutions	12,154	12,154	8,510	8,510
	170,219	**170,219**	**44,327**	**44,327**
Liabilities under management				
Residents:				
Private individuals	758	758	675	675
Non-residents:				
Private enterprises	169,049	169,049	43,652	43,652
Private individuals	412	412	-	-
	170,219	**170,219**	**44,327**	**44,327**

30 Related party transactions

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

The Law on Credit Institutions defines significant investment as a shareholding of 10 or more per cent of the company's capital or voting shares, obtained directly or indirectly, or providing an opportunity to exercise significant influence over the company's activities.

The definition of related parties of the Law on Credit Institutions generally complies with the requirements of IAS 24 as applicable to the Group and Bank which also specifies the requirements for disclosure of related party transactions in the financial statements.

The Group and Bank enter into transactions with related parties in the ordinary course of business. All the loans, advances and financing activities arranged with related parties are at market rates. For the year ended 31 December 2014, all assets are performing and free of any impairment for credit losses (2013: nil).

The Group's and Bank's financial statements comprise the following outstanding balances, contingent liabilities and commitments, and statement of comprehensive income items as a result of transactions with related parties:

30 Related party transactions, continued

The Group's statement of financial position

	Key management personnel		Other related parties	
	31.12.2014 EUR'000	31.12.2013 EUR'000	31.12.2014 EUR'000	31.12.2013 EUR'000
Assets				
Due from financial institutions	-	-	6,709	623
Loans and advances due from customers	-	3	-	-
Other assets	1	-	-	-
	1	**3**	**6,709**	**623**
Liabilities				
Deposits and balances due to financial institutions	-	-	3,842	329
Current accounts and deposits due to customers	478	157	720	290
	478	**157**	**4,562**	**619**

The Bank's statement of financial position

	Key management personnel		Other related parties	
	31.12.2014 EUR'000	31.12.2013 EUR'000	31.12.2014 EUR'000	31.12.2013 EUR'000
Assets				
Due from financial institutions	-	-	6,709	623
Loans and advances due from customers	-	3	5,448	-
Other assets	1	-	-	-
	1	**3**	**12,157**	**623**
Liabilities				
Deposits and balances due to financial institutions	-	-	3,842	329
Current accounts and deposits due to customers	478	157	747	290
	478	**157**	**4,589**	**619**

The Group's contingent liabilities and commitments

	Key management personnel		Other related parties	
	31.12.2014 EUR'000	31.12.2013 EUR'000	31.12.2014 EUR'000	31.12.2013 EUR'000
Assets under management	-	-	1,715	1,134
Liabilities under management	758	674	-	-
Other commitments	23	34	34	350

30 Related party transactions, continued

The Bank's contingent liabilities and commitments

	Key management personnel		Other related parties	
	31.12.2014 EUR'000	31.12.2013 EUR'000	31.12.2014 EUR'000	31.12.2013 EUR'000
Assets under management	-	-	1,715	1,134
Liabilities under management	758	674	-	-
Other commitments	23	34	755	350

The Group's statement of comprehensive income

	Key management personnel		Other related parties	
	31.12.2014 EUR'000	31.12.2013 EUR'000	31.12.2014 EUR'000	31.12.2013 EUR'000
Interest expense	-	(4)	-	(6)
Fee and commission income	3	1	38	37
Gain on currency exchange transactions	-	-	404	235
	3	**(3)**	**442**	**266**

The Bank's statement of comprehensive income

	Key management personnel		Other related parties	
	31.12.2014 EUR'000	31.12.2013 EUR'000	31.12.2014 EUR'000	31.12.2013 EUR'000
Interest income	-	-	165	-
Interest expense	-	(4)	-	(6)
Fee and commission income	3	1	38	37
Gain on currency exchange transactions	-	-	404	235
	3	**(3)**	**607**	**266**

Detailed information about remuneration to the Management Board and Board of Directors members disclosed in Note 10.

31 Fair value of financial assets and financial liabilities

Set out below is the comparison of the carrying amounts and fair values of the Group's and the Bank's financial instruments that are recognized in the financial statements.

a) Financial instruments measured at fair value

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

2014	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total EUR'000
Financial assets				
Held for trading instruments	28,893	-	-	28,893
Available for sale instruments	30,519	350	17	30,886
	59,412	**350**	**17**	**59,779**
2013				
Financial assets				
Available for sale instruments	33,264	-	17	33,281
	33,264	**-**	**17**	**33,281**

During the reporting year, due to changes in market conditions for certain debt securities, quoted prices in active markets became less reliable for these securities and management had to apply judgment on how to interpret the quotes received. However, there was sufficient information available to measure fair values of these securities on the broker quotes received, with a carrying amount of thousand 350 EUR, and these were transferred from Level 1 to Level 2 in the fair value hierarchy.

b) Financial instruments not measured at fair value

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

31 December 2014	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with the Bank of Latvia	-	-	-	2,748	2,748
Due from financial institutions	-	-	398,068	398,068	398,117
Loans and advances due from customers	-	-	27,828	27,828	26,639
Other financial assets	-	-	-	1,108	1,108
Financial liabilities					
Deposits and balances due to financial institutions	-	-	-	5,086	5,086
Borrowings	-	-	-	1,001	1,001
Current accounts and deposits due to customers	-	-	414,021	414,021	414,057
Other financial liabilities	-	-	-	1,692	1,692

31 Fair value of financial assets and financial liabilities, continued

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

31 December 2014	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with the Bank of Latvia	-	-	-	2,748	2,748
Due from financial institutions	-	-	398,068	398,068	398,117
Loans and advances due from customers	-	-	-	27,828	26,639
Other financial assets	-	-	-	1,108	1,108
Financial liabilities					
Deposits and balances due to financial institutions	-	-	-	5,086	5,086
Current accounts and deposits due to customers	-	-	414,021	414,021	414,057
Other financial liabilities	-	-	-	1,692	1,692

Cash and demand deposits with the Bank of Latvia are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.

Other financial assets consist of cash on broker and escrow accounts, credit card guarantee deposits and currency exchange transactions in progress; thus the carrying amount is equal to their fair value.

Deposits and balances due to financial institutions consists of Loro accounts of financial institutions whose carrying amount represents the fair value.

Other financial liabilities consist of cash on suspense account and currency exchange transactions in progress; thus the carrying amount is equal to their fair value.

31 December 2013	Level 1 EUR'000	Level 2 EUR'000	Level 3 EUR'000	Total fair values EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with the Bank of Latvia	-	-	-	71,257	71,257
Due from financial institutions	-	-	283,732	283,732	283,738
Loans and advances due from customers	-	-	-	9,882	9,882
Other financial assets	-	-	-	714	714
Financial liabilities					
Deposits and balances due to financial institutions	-	-	-	343	343
Current accounts and deposits due to customers	-	-	323,654	323,654	323,673
Other financial liabilities	-	-	-	986	986

The methodology for determining the fair value is disclosed in Note 3.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

31 Fair value of financial assets and financial liabilities, continued

The following table presents interest rates used to discount estimated cash flows, where applicable, by the classes of financial assets and financial liabilities.

	31.12.2014	31.12.2013
Due from and due to financial institutions	0.17 – 0.53%	0.17 – 6.95%
Loans and advances due from customers	0.17 – 0.63%	0.17 – 6.95%
Current accounts and deposits due to customers	0.02 – 5.80%	0.06 – 6.95%

For financial instruments whose fair value is estimated using valuation techniques with non-market observable inputs, net unrealized amount due to changes in the inputs was zero during the year 2014 (2013: nil).

32 Credit risk

Maximum credit risk exposure

The table below shows the Group's and maximum exposure to credit risk for the components of the statement of financial position. Exposures are based on net carrying amounts as reported in the statement of financial position, less impairment allowances.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancements, and net, i.e. after taking into account any collateral and other credit enhancements.

	Note	Gross maximum credit exposure		Net maximum credit exposure	
		31.12.2014 EUR'000	31.12.2013 EUR'000	31.12.2014 EUR'000	31.12.2013 EUR'000
Demand deposits with the Bank of Latvia	13	2,748	71,257	2,748	71,257
Due from financial institutions	15	398,119	283,738	398,117	283,738
Loans and advances due from customers	17	26,639	9,657	26,639	9,657
Held for trading instruments	18	28,893	-	28,893	-
Available-for-sale assets	18	30,886	33,281	30,886	33,281
Other financial assets	21	1,108	915	1,103	912
Total financial assets		**488,393**	**398,848**	**488,386**	**398,845**
Guarantees	27	3	46	3	46
Credit cards commitments	27	311	293	311	293
Unutilised credit lines and overdraft facilities	27	1,004	350	1,004	350
Total contingent liabilities and commitments		**1,318**	**689**	**1,318**	**689**
Total maximum credit risk exposure		**489,711**	**399,537**	**489,704**	**399,534**

32 Credit risk, continued

The table below shows the Bank's maximum exposure to credit risk.

	Note	Gross maximum credit exposure		Net maximum credit exposure	
		31.12.2014 EUR'000	31.12.2013 EUR'000	31.12.2014 EUR'000	31.12.2013 EUR'000
Demand deposits with the Bank of Latvia	13	2,748	71,257	2,748	71,257
Due from financial institutions	15	398,117	283,738	398,117	283,738
Loans and advances due from customers	17	26,639	9,882	26,639	9,882
Held for trading instruments	18	28,893	-	28,893	-
Available-for-sale assets	18	30,886	33,281	30,886	33,281
Other financial assets	21	1,108	714	1,103	711
Total financial assets		**488,391**	**398,872**	**488,386**	**398,869**
Guarantees	27	3	46	3	46
Credit cards commitments	27	311	293	311	293
Unutilised credit lines and overdraft facilities	27	1,725	2,029	1,725	2,029
Total contingent liabilities and commitments		**2,039**	**2,368**	**2,039**	**2,368**
Total maximum credit risk exposure		**490,430**	**401,240**	**490,425**	**401,237**

As it is shown above, 81% of the total gross maximum credit exposure is derived from balances due from credit institutions (2013: 71%).

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32 Credit risk, continued

Concentrations of the maximum credit risk exposure

The following table breaks down the gross exposure related to the Banks balances due from credit institutions by geographical regions and major counterparties or groups of related counterparties.

		Group and Bank 31.12.2014 EUR'000	Group and Bank 31.12.2013 EUR'000
Latvia			
AS „Swedbank"		201	202
Danske Bank Branch in Latvia		-	15,000
AS „DnB Banka"		16,473	17,587
AS „SEB banka"		11	552
Total Latvia		**16,685**	**33,341**
OECD countries			
Deutsche Bank Group	USA, Germany, UK	79,414	56,252
UBS AG	Switzerland	59,235	58,982
Raiffeisen Zentralbank International AG	Austria	47,202	245
VTB Bank (Austria) AG	Austria	15,026	14
Norddeutsche Landesbank Luxembourg SA	Luxembourg	57,657	18,319
Amsterdam Trade Bank N.V.	Netherlands	-	22,003
Commerzbank AG	Germany	57,241	37,848
Unicredit Banka SPA	Italy	-	38
Euroclear Bank S.A.	Belgium	44,153	-
Expobank CZ a.s.	Czech Republic	6,591	-
Other credit institutions		722	9
Total OECD countries		**367,241**	**193,710**
Other countries			
OAO „MDM Bank"	Russian Federation	21	1,144
OAO „Alfa-Bank"	Russian Federation	7,605	20
Expobank LLC	Russian Federation	118	623
OAO „Sberbank of Russia"	Russian Federation	256	8,366
OAO „Gazprombank"	Russian Federation	-	35,135
OAO „Nomos Bank"	Russian Federation	-	11,323
OAO „Promsvjazbank"	Russian Federation	4,857	-
Industrial and Commercial Bank of China	Republic of China	1,306	-
Other credit institutions		28	76
Total other countries		**14,191**	**56,687**
Total balances due from credit institutions		**398,117**	**283,738**

For the Bank the gross maximum credit risk exposure to a single counterparty or a group of related counterparties as at 31 December 2014 comprised 20% of the total gross credit exposure attributable to balances due from credit institutions (2013: 21%).

The gross maximum credit risk exposure of the Group does not significantly differ from the Bank's maximum credit risk exposure.

32 Credit risk, continued

Credit quality per class of financial assets

Credit quality of financial assets is managed by the Group and Bank by employing debtors' (borrowers') financial analysis techniques, analysis of the counterparty's reputation and historical cooperation with the counterparty, as well as using credit ratings granted by international rating agencies.

The transactions subject to credit risk are divided into four credit quality groups depending on the credit ratings published by international rating agencies. There are the following credit quality groups:

Group 1: AAA, AA (Standard& Poor's, Fitch) / Aaa, Aa (Moody's)

This group includes first class transaction partners who are considered to be low-risk investments. The largest exposure included in this group relates to receivables from Euroclear Bank S.A. (2013: none).

Group 2: A, BBB (Standard& Poor's, Fitch) / A, Baa (Moody's)

This group includes transaction partners with a market position ranging from medium to good. The largest exposure included in this group relates to receivables from Deutsche Bank group banks, UBS AG, Raiffeisen Bank International AG, VTB Bank (Austria) AG, Norddeutsche Landesbank Luxembourg SA, Gazprombank, Industrial and Commercial Bank of China and Commerzbank AG (2013: from Deutsche Bank group banks, UBS AG, Raiffeisen Bank International AG, VTB Bank (Austria) AG, Norddeutsche Landesbank Luxembourg SA, Gazprombank, Sberbank and Commerzbank AG).

Group 3: BB, B, CCC, CC, (Standard& Poor's, Fitch) / Ba, B, C (Moody's)

The largest credit risk exposure in this group relates to receivables from transaction partners below medium rating BB (Standard& Poor's, Fitch) / Ba (Moody's). Out of the above group, the most significant receivables are from Amsterdam Trade Bank, Alfa Bank, Nomos Bank, Sberbank and Promsvyazbank (2013: Amsterdam Trade Bank, Alfa Bank, Nomos Bank and Promsvyazbank).

No rating

Transaction partners who have not been assigned an international credit rating are primarily credit institutions operating in the Republic of Latvia. In this group, the largest receivables are from Danske Bank Latvian Branch, AS DnB Banka, credit rating of the parent bank – DNB Bank ASA – A+ (Standard& Poor's) and Aa3 (Moody's), SEB bank , credit rating of the parent bank – SEB AB – A+ (Standard& Poor's, Fitch) and A1 (Moody's) and Expobank CZ a.s. (2013: DNB banka and SEB banka).

32 Credit risk, continued

The table below shows the credit quality by class of financial assets for the Group as at 31 December 2014 based on international ratings.

	Neither past due nor impaired					
EUR'000	Group 1	Group 2	Group 3	No rating	**Impaired**	**Total**
Demand deposits with the Bank of Latvia	-	2,634	-	-	-	**2,634**
Due from financial institutions	44,375	317,610	12,858	23,276	-	**398,119**
Loans and advances due from customers	-	-	-	21,191	-	**21,191**
Held for trading instruments	-	12,846	16,047	-	-	28,893
Available-for-sale assets	-	13,740	17,129	17	-	**30,886**
Other financial assets	-	-	-	1,108	5	**1,113**
Total financial assets, gross	**44,375**	**346,830**	**46,034**	**45,592**	**5**	**482,836**
Less: impairment allowance	-	-	-	-	(5)	**(5)**
Total financial assets, net	**44,375**	**346,830**	**46,034**	**45,592**	**-**	**482,831**

The table below shows the credit quality by class of financial assets for the Bank as at 31 December 2014 based on international ratings.

	Neither past due nor impaired					
EUR'000	Group 1	Group 2	Group 3	No rating	**Impaired**	**Total**
Demand deposits with the Bank of Latvia	-	2,634	-	-	-	**2,634**
Due from financial institutions	44,375	317,610	12,858	23,274	-	**398,117**
Loans and advances due from customers	-	-	-	26,639	-	**26,639**
Held for trading instruments	-	12,846	16,047	-	-	28,893
Available-for-sale assets	-	13,740	17,129	17	-	**30,886**
Other financial assets	-	-	-	1,108	5	**1,113**
Total financial assets, gross	**44,375**	**346,830**	**46,034**	**51,038**	**5**	**488,282**
Less: impairment allowance	-	-	-	-	(5)	**(5)**
Total financial assets, net	**44,375**	**346,830**	**46,034**	**51,038**	**-**	**488,277**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32 Credit risk, continued

The table below shows the credit quality by class of financial assets for the Group as at 31 December 2013 based on international ratings.

EUR'000	Neither past due nor impaired				Impaired	Total
	Group 1	Group 2	Group 3	No rating		
Demand deposits with the Bank of Latvia	-	71,257	-	-	-	**71,257**
Due from financial institutions	-	215,252	35,145	33,341	-	**283,738**
Loans and advances due from customers	-	-	-	9,657	-	**9,657**
Available-for-sale assets	-	14,176	19,088	17	-	**33,281**
Other financial assets	-	-	-	915	3	**918**
Total financial assets, gross	**-**	**300,685**	**54,233**	**43,930**	**3**	**398,851**
Less: impairment allowance	-	-	-	-	(3)	**(3)**
Total financial assets, net	**-**	**300,685**	**54,233**	**43,930**	**-**	**398,848**

The table below shows the credit quality by class of financial assets for the Bank as at 31 December 2013 based on international ratings.

EUR'000	Neither past due nor impaired				Impaired	Total
	Group 1	Group 2	Group 3	No rating		
Demand deposits with the Bank of Latvia	-	71,257	-	-	-	**71,257**
Due from financial institutions	-	215,252	35,145	33,341	-	**283,738**
Loans and advances due from customers	-	-	-	9,882	-	**9,882**
Available-for-sale assets	-	14,176	19,088	17	-	**33,281**
Other financial assets	-	-	-	714	3	**717**
Total financial assets, gross	**-**	**300,685**	**54,233**	**43,954**	**3**	**398,875**
Less: impairment allowance	-	-	-	-	(3)	**(3)**
Total financial assets, net	**-**	**300,685**	**54,233**	**43,954**	**-**	**398,872**

33 Currency risk

Currency risk exposure

The Group's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2014 was as follows:

EUR'000	USD	EUR	RUB	Other currencies	Total
Financial assets					
Cash and demand deposits with the Bank of Latvia	18	2,725	1	4	**2,748**
Due from financial institutions	256,525	131,334	2,502	7,758	**398,119**
Loans and advances due from customers	18,660	2,531	-	-	**21,191**
Held for trading instruments	23,339	-	5,554	-	28,893
Available-for-sale assets	30,869	17	-	-	**30,886**
Other financial assets	412	482	211	3	**1,108**
Total	**329,823**	**137,089**	**8,268**	**7,765**	**482,945**
Financial liabilities					
Deposits and balances due to financial institutions	1,069	283	-	3,734	**5,086**
Current accounts and deposits due to customers	321,550	73,050	15,554	3,877	**414,031**
Borrowings	-	1,001	-	-	1,001
Other financial liabilities	-	7	363	1,349	**1,719**
Total	**322,619**	**74,341**	**15,917**	**8,960**	**421,837**
Net position - on and off statement of financial position	**7,204**	**62,748**	**(7,649)**	**(1,195)**	
Spot transaction receivables	16,521	750	23,308	-	**40,579**
Spot transaction liabilities	(24,253)	(1,000)	(15,801)	-	**(41,054)**
Net open position	**(528)**	**62,498**	**(142)**	**(1,195)**	

33 Currency risk, continued

The Bank's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2014 was as follows:

EUR'000	USD	EUR	RUB	Other currencies	Total
Financial assets					
Cash and demand deposits with the Bank of Latvia	18	2,725	1	4	**2,748**
Due from financial institutions	256,525	131,332	2,502	7,758	**398,117**
Loans and advances due from customers	18,660	7,979	-	-	**26,639**
Held for trading instruments	23,339	-	5,554	-	28,893
Available-for-sale assets	30,869	17	-	-	**30,886**
Other financial assets	412	482	211	3	**1,108**
Total	**329,823**	**142,535**	**8,268**	**7,765**	**488,391**
Financial liabilities					
Deposits and balances due to financial institutions	1,069	283	-	3,734	**5,086**
Current accounts and deposits due to customers	321,550	73,077	15,554	3,876	**414,057**
Other financial liabilities	-	4	363	1,325	**1,692**
Total	**322,619**	**73,364**	**15,917**	**8,935**	**420,835**
Net position - on and off statement of financial position	**7,204**	**69,171**	**(7,649)**	**(1,170)**	
Spot transaction receivables	16,521	750	23,308	-	**40,579**
Spot transaction liabilities	(24,253)	(1,000)	(15,801)	-	(41,054)
Net open position	**(528)**	**68,921**	**(142)**	**(1,170)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 Currency risk, continued

The Group's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2013 was as follows:

EUR'000	LVL	USD	EUR	RUB	Other currencies	Total
Financial assets						
Cash and demand deposits with the Bank of Latvia	68,998	70	2,184	4	1	**71,257**
Due from financial institutions	9	232,385	39,771	9,646	1,927	**283,738**
Loans and advances due from customers	-	9,637	20	-	-	**9,657**
Available-for-sale assets	-	32,144	17	1,120	-	**33,281**
Other financial assets	265	297	201	151	1	**915**
Total	**69,272**	**274,533**	**42,193**	**10,921**	**1,929**	**398,848**
Financial liabilities						
Deposits and balances due to financial institutions	1	40	297	-	5	**343**
Current accounts and deposits due to customers	808	233,221	37,784	49,978	1,871	**323,662**
Other financial liabilities	491	471	24	-	-	**986**
Total	**1,300**	**233,732**	**38,105**	**49,978**	**1,876**	324,991
Net position - on and off statement of financial position	**67,972**	**40,801**	**4,088**	**(39,057)**	**53**	**73,857**
Spot transaction receivables	-	38,776	120	77,689	-	**116,585**
Spot transaction liabilities	-	(78,301)	-	(38,511)	-	(116,812)
Net open position	**67,972**	**1,276**	**4,208**	**121**	**53**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 Currency risk, continued

The Bank's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2013 was as follows:

EUR'000	LVL	USD	EUR	RUB	Other currencies	Total
Financial assets						
Cash and demand deposits with the Bank of Latvia	68,998	70	2,184	4	1	**71,257**
Due from financial institutions	9	232,385	39,771	9,646	1,927	**283,738**
Loans and advances due from customers	-	9,637	245	-	-	**9,882**
Available-for-sale assets	-	32,144	17	1,120	-	**33,281**
Other financial assets	265	297	-	151	1	**714**
Total	**69,272**	**274,533**	**42,217**	**10,921**	**1,929**	**398,872**
Financial liabilities						
Deposits and balances due to financial institutions	1	40	297	-	5	**343**
Current accounts and deposits due to customers	808	233,221	37,796	49,978	1,870	**323,673**
Other financial liabilities	491	471	24	-	-	**986**
Total	**1,300**	**233,732**	**38,117**	**49,978**	**1,875**	325,002
Net position - on and off statement of financial position	**67,972**	**40,801**	**4,100**	**(39,057)**	**54**	**73,870**
Spot transaction receivables	-	38,776	120	77,689	-	**116,585**
Spot transaction liabilities	-	(78,301)	-	(38,511)	-	(116,812)
Net open position	**67,972**	**1,276**	**4,220**	**121**	**54**	

Sensitivity analysis

The scenario used for the analysis is based on reasonable volatility of exchange rates equal for all exposures of the Group and Bank in foreign currencies assuming that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for both years.

A thirteen percent (2013: 5%) of the RUB and a five percent strengthening of the USD and other foreign currencies against the euro as at 31 December 2014 and 31 December 2013 respectively would have increased profit by the amounts shown below:

	2014 EUR'000	2013 EUR'000
RUB	(18)	6
USD	(26)	64
Other currencies	(58)	3
Total	**(102)**	**73**

A thirteen percent (2013: 5%) of the RUB and a five percent strengthening of the USD and other foreign currencies against the euro as at 31 December 2014 and 31 December 2013 respectively would have had equal absolute value but opposite effect on the above currencies, i.e. decreased profit by the amounts shown above.

As the sensitivity analysis shows, as at 31 December 2014 and 2013 there was no direct effect on the shareholder's equity from exposures in the financial instruments whose changes in fair value related to movements of the currency rates.

34 Liquidity risk

Maturity analysis

The table below reflects the maturity analysis of the Group's and Bank's financial assets and financial liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities.

The maturity analysis of the Group's financial items of financial position and contingent liabilities and commitments as at 31 December 2014 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the Bank of Latvia	2,748	-	-	-	-	-	-	-	**2,748**
Due from financial institutions	314,178	80,719	2	200	-	3,020	-	-	**398,119**
Loans and advances due from customers	14	9,681	11,495	-	-	1	-	-	**21,191**
Held for trading instruments	3,766	-	5,846	19,281	-	-	-	-	**28,893**
Available-for-sale assets	-	1	24	1	-	26,137	4,706	17	**30,886**
Other financial assets	1,108	-	-	-	-	-	-	-	**1,108**
Total	**321,814**	**90,401**	**17,367**	**19,482**	**-**	**29,158**	**4,706**	**17**	**482,945**
Financial liabilities									
Deposits and balances due to financial institutions	5,086	-	-	-	-	-	-	-	**5,086**
Current accounts and deposits due to customers	410,503	13	90	83	1,405	1,937	-	-	**414,031**
Borrowings	-	-	-	-	-	1,001	-	-	**1,001**
Other financial liabilities	1,719	-	-	-	-	-	-	-	**1,719**
Total	**417,308**	**13**	**90**	**83**	**1,405**	**2,938**	**-**	**-**	**421,837**
Contingent liabilities and commitments	(1,315)	-	-	-	-	(3)	-	-	**(1,318)**
Net liquidity position	**(96,809)**	**90,388**	**17,277**	**19,399**	**(1,405)**	**26,217**	**4,706**	**17**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Liquidity risk, continued

The maturity analysis of Bank's financial items of financial position and contingent liabilities and commitments as at 31 December 2014 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the Bank of Latvia	2,748	-	-	-	-	-	-	-	**2,748**
Due from financial institutions	314,176	80,719	2	200	-	3,020	-	-	**398,117**
Loans and advances due from customers	14	15,129	11,495	-	-	1	-	-	**26,639**
Held for trading instruments	3,766	-	5,846	19,281	-	-	-	-	**28,893**
Available-for-sale assets	-	1	24	1	-	26,137	4,706	17	**30,886**
Other financial assets	1,108	-	-	-	-	-	-	-	**1,108**
Total	**321,812**	**95,849**	**17,367**	**19,482**	**-**	**29,158**	**4,706**	**17**	**488,391**
Financial liabilities									
Deposits and balances due to financial institutions	5,086	-	-	-	-	-	-	-	**5,086**
Current accounts and deposits due to customers	410,529	13	90	83	1,405	1,937	-	-	**414,057**
Other financial liabilities	1,692	-	-	-	-	-	-	-	**1,692**
Total	**417,307**	**13**	**90**	**83**	**1,405**	**1,937**	**-**	**-**	**420,835**
Contingent liabilities and commitments	(2,036)	-	-	-	-	(3)	-	-	**(2,039)**
Net liquidity position	**(97,531)**	**95,836**	**17,277**	**19,399**	**(1,405)**	**27,218**	**4,706**	**17**	

Amounts due from credit institutions repayable, according to contracts, by prior notice of withdrawal are included in the category "On demand". Other financial assets and financial liabilities are disclosed in accordance with their remaining contractual maturities.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Liquidity risk, continued

The maturity analysis of the Group's financial items of financial position and contingent liabilities and commitments as at 31 December 2013 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the Bank of Latvia	71,091	166	-	-	-	-	-	-	**71,257**
Due from financial institutions	278,585	4,434	-	702	17	-	-	-	**283,738**
Loans and advances due from customers	-	1,356	8,285	2	1	13	-	-	**9,657**
Available-for-sale assets	-	48	54	38	-	22,141	10,983	17	**33,281**
Other financial assets	915	-	-	-	-	-	-	-	**915**
Total	**350,591**	**6,004**	**8,339**	**742**	**18**	**22,154**	**10,983**	**17**	**398,848**
Financial liabilities									
Deposits and balances due to financial institutions	343	-	-	-	-	-	-	-	**343**
Current accounts and deposits due to customers	315,015	8,298	21	14	155	159	-	-	**323,662**
Other financial liabilities	986	-	-	-	-	-	-	-	**986**
Total	**316,344**	**8,298**	**21**	**14**	**155**	**159**	**-**	**-**	**324,991**
Contingent liabilities and commitments	(643)	-	-	-	(43)	(3)	-	-	**(689)**
Net liquidity position	**33,604**	**(2,294)**	**8,318**	**728**	**(180)**	**21,992**	**10,983**	**17**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Liquidity risk, continued

The maturity analysis of the Bank's financial items of financial position and contingent liabilities and commitments as at 31 December 2013 was as follows:

EUR'000	On de-mandv	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the Bank of Latvia	71,091	166	-	-	-	-	-	-	**71,257**
Due from financial institutions	278,585	4,434	-	702	17	-	-	-	**283,738**
Loans and advances due from customers	-	1,356	8,285	2	1	238	-	-	**9,882**
Available-for-sale assets	-	48	54	38	-	22,141	10,983	17	**33,281**
Other financial assets	714	-	-	-	-	-	-	-	**714**
Total	**350,390**	**6,004**	**8,339**	**742**	**18**	**22,379**	**10,983**	**17**	**398,872**
Financial liabilities									
Deposits and balances due to financial institutions	343	-	-	-	-	-	-	-	**343**
Current accounts and deposits due to customers	315,027	8,298	21	13	155	159	-	-	**323,673**
Other financial liabilities	986	-	-	-	-	-	-	-	**986**
Total	**316,356**	**8,298**	**21**	**13**	**155**	**159**	**-**	**-**	**325,002**
Contingent liabilities and commitments	(2,322)	-	-	-	(43)	(3)	-	-	**(2, 368)**
Net liquidity position	**31,712**	**(2,294)**	**8,318**	**729**	**(180)**	**22,217**	**10,983**	**17**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Liquidity risk, continued

Analysis of financial liabilities' contractual undiscounted cash flows

The tables below presents the cash flows payable by the Group and Bank under contractual financial liabilities, including derivative financial liabilities, by remaining contractual maturities as at the reporting date.

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

The analysis of financial liabilities' contractual undiscounted cash flows of the Group as at 31 December 2014 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years
Non-derivative financial instruments						
Deposits and balances due to financial institutions	5,086	(5,086)	-	-	-	-
Current accounts and deposits due to customers	414,031	(414,095)	(410,582)	(90)	(1,489)	(1,934)
Borrowings	1,001	(1,005)	-	(1,005)	-	-
Other financial liabilities	1,719	(1,719)	(1,719)	-	-	-
Total	**421,837**	**(421,905)**	**(412,301)**	**(1,095)**	**(1,489)**	**(1,934)**

The analysis of financial liabilities' contractual undiscounted cash flows of the Bank as at 31 December 2014 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years
Non-derivative financial instruments						
Deposits and balances due to financial institutions	5,086	(5,086)	-	-	-	-
Current accounts and deposits due to customers	414,057	(414,069)	(410,556)	(90)	(1,489)	(1,934)
Other financial liabilities	1,692	(1,692)	(1,692)	-	-	-
Total	**420,835**	**(420,847)**	**(412,248)**	**(90)**	**(1,489)**	**(1,934)**

34 Liquidity risk, continued

The analysis of financial liabilities' contractual undiscounted cash flows of the Group as at 31 December 2013 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years
Non-derivative financial instruments						
Deposits and balances due to financial institutions	343	(343)	(343)	-	-	-
Current accounts and deposits due to customers	323,662	(323,686)	(323,335)	(21)	(169)	(161)
Other financial liabilities	986	(986)	(986)	-	-	-
Total	**324,991**	**(325,015)**	**(324,664)**	**(21)**	**(169)**	**(161)**

The analysis of financial liabilities' contractual undiscounted cash flows of the Bank as at 31 December 2013 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years
Non-derivative financial instruments						
Deposits and balances due to financial institutions	343	(343)	(343)	-	-	-
Current accounts and deposits due to customers	323,673	(323,675)	(323,323)	(21)	(169)	(161)
Other financial liabilities	986	(986)	(986)	-	-	-
Total	**325,002**	**(325,004)**	**(324,652)**	**(21)**	**(169)**	**(161)**

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Interest rate risk

Exposure to interest rate risk

The Group's and Bank's exposure to interest rate risk is characterised by the maturity of financial assets and financial liabilities subject to interest rate risk based on the shorter of the remaining maturity dates of financial instruments subject to interest rate risk and the interest rate review dates.

The repricing maturity analysis of financial assets and financial liabilities for the Group as at 31 December 2014 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Bank of Latvia	-	-	-	-	-	-	2,748	**2,748**
Due from financial institutions	342,672	2	200	-	3,020	-	52,225	**398,119**
Loans and advances due from customers	9,695	11,495	-	-	1	-	-	**21,191**
Held for trading instruments	3,766	5,846	19,281	-	-	-	-	**28,893**
Available-for-sale assets	1	24	1	-	26,137	4,706	17	**30,886**
Other financial assets	165	-	-	-	-	-	943	**1,108**
Total	**356,299**	**17,367**	**19,482**	**-**	**29,158**	**4,706**	**55,933**	**482,945**
Financial liabilities								
Deposits and balances due to financial institutions	78	-	-	-	-	-	5,008	**5,086**
Current accounts and deposits due to customers	104,994	90	83	1,405	1,937	-	305,522	**414,031**
Borrowings	-	-	-	-	1,001	-	-	**1,001**
Other financial liabilities	-	-	-	-	-	-	1,719	**1,719**
Total	**105,072**	**90**	**83**	**1,405**	**2,938**	**-**	**312,249**	**421,837**
Interest rate risk	**251,227**	**17,277**	**19,399**	**(1,405)**	**26,220**	**4,706**	**(256,316)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Interest rate risk, continued

The repricing maturity analysis of financial assets and financial liabilities for the Bank as at 31 December 2014 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Bank of Latvia	-	-	-	-	-	-	2,748	**2,748**
Due from financial institutions	342,670	2	200	-	3,020	-	52,225	**398,117**
Loans and advances due from customers	15,143	11,495	-	-	1	-	-	**26,639**
Held for trading instruments	3,766	5,846	19,281	-	-	-	-	**28,893**
Available-for-sale assets	1	24	1	-	26,137	4,706	17	**30,886**
Other financial assets	165	-	-	-	-	-	943	**1,108**
Total	**361,745**	**17,367**	**19,482**	**-**	**29,158**	**4,706**	**55,933**	**488,391**
Financial liabilities								
Deposits and balances due to financial institutions	78	-	-	-	-	-	5,008	**5,086**
Current accounts and deposits due to customers	105,020	90	83	1,405	1,937	-	305,522	**414,057**
Other financial liabilities	-	-	-	-	-	-	1,692	**1,692**
Total	**105,098**	**90**	**83**	**1,405**	**1,937**	**-**	**312,222**	**420,835**
Interest rate risk	**256,647**	**17,277**	**19,399**	**(1,405)**	**27,221**	**4,706**	**(256,289)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Interest rate risk, continued

The repricing maturity analysis of financial assets and financial liabilities for the Group as at 31 December 2013 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Bank of Latvia	43,974	-	-	-	-	-	27,283	**71,257**
Due from financial institutions	268,505	-	702	17	-	-	14,514	**283,738**
Loans and advances due from customers	1,356	8,285	2	1	13	-	-	**9,657**
Available-for-sale assets	48	54	38	-	22,141	10,983	17	**33,281**
Other financial assets	347	-	-	-	-	-	568	**915**
Total	**314,230**	**8,339**	**742**	**18**	**22,154**	**10,983**	**42,382**	**398,848**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	343	**343**
Current accounts and deposits due to customers	80,969	21	13	155	159	-	242,345	**323,662**
Other financial liabilities	-	-	-	-	-	-	986	**986**
Total	**80,969**	**21**	**13**	**155**	**159**	**-**	**243,674**	**324,991**
Interest rate risk	**233,261**	**8,318**	**726**	**(137)**	**21,995**	**10,983**	**(201,292)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Interest rate risk, continued

The repricing maturity analysis of financial assets and financial liabilities for the Bank as at 31 December 2013 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Bank of Latvia	43,974	-	-	-	-	-	27,283	**71,257**
Due from financial institutions	268,505	-	702	17	-	-	14,514	**283,738**
Loans and advances due from customers	1,356	8,285	2	1	238	-	-	**9,882**
Available-for-sale assets	48	54	38	-	22,141	10,983	17	**33,281**
Other financial assets	146	-	-	-	-	-	568	**714**
Total	**314,029**	**8,339**	**742**	**18**	**22,379**	**10,983**	**42,382**	**398,871**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	343	**343**
Current accounts and deposits due to customers	80,980	21	13	155	159	-	242,345	**323,673**
Other financial liabilities	-	-	-	-	-	-	986	**986**
Total	**80,980**	**21**	**13**	**155**	**159**	**-**	**243,674**	**325,002**
Interest rate risk	**233,051**	**8,318**	**726**	**(137)**	**22,220**	**10,983**	**(201,292)**	

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Interest rate risk, continued

Average weighted effective interest rates

The table below shows the Bank's interest rate sensitive assets and liabilities as at 31 December 2014 and 2013 and the corresponding average weighted effective interest rates in 2014 and 2013.

	Carrying amount 31.12.2014 EUR'000	2014 average weighted effective interest rate	Carrying amount 31.12.2013 EUR'000	2013 average weighted effective interest rate
Interest rate sensitive assets				
Demand deposits with the Bank of Latvia	-	-	43,974	0.04%
Due from financial institutions	345,894	0.02%	270,220	0.17%
Held for trading instruments	28,893	5.61%	-	-
Available-for-sale assets	30,886	5.91%	33,281	6.04%
Loans and advances due from customers	26,639	2.80%	9,882	2.66%
Total	**432,312**		**357,357**	
Interest rate sensitive liabilities				
Current accounts and deposits due to customers	108,535	0.09%	81,329	0.07%
Total	**108,535**		**81,329**	

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in interest rates of the Group's and Bank's net interest income. The analysis assumes that all other variables remain constant.

The sensitivity of net interest income is the effect of the assumed changes in interest rates on net interest income for one year following the reporting date, based on the interest rate sensitive non-trading financial assets and financial liabilities held as at 31 December 2014 and 2013.

	Increase in basis points	Sensitivity of net interest income EUR'000	Decrease in basis points	Sensitivity of net interest income EUR'000
As at 31 December 2014				
EUR	+10	130	-10	-
USD	+10	269	-10	(47)
RUB	+200	16	-200	3
Total effect		**415**		**(44)**
As at 31 December 2013				
EUR	+5	21	-5	(7)
USD	+5	120	-5	(23)
LVL	+15	104	-15	-
RUB	+20	(44)	-20	50
Total effect		**201**		**20**

There is a mismatch between sensitivity of net interest income as a result of assumed increase and decrease in interest rates, since for some assets and liabilities zero interest rates have been reached.

NOTES TO CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Interest rate risk, continued

To assess risks in securities portfolio Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to prices change. Bank defines Value at Risk (VaR) as possible adverse loss that will not be exceeded with a 99% confidence level, over period 1 day.

	31.12.2014	
	Held for trading instruments	**Available-for-sale financial assets**
Value of portfolio (000' EUR)	28,893	30,863
1 day VaR (000' EUR)	712	550

36 Events subsequent to the reporting date

On 3 December 2014, the Bank submitted a request to FCMC asking for permission to distribute part of retained earnings in dividends. The Bank has been informed that FCMC does not object the Bank's intentions. The Bank has paid out dividends in amount of EUR 5,000,000 on 23 January 2015.

No other significant subsequent events have occurred in the period from the year-end to the date of these consolidated and separate financial statements that would are not disclosed in these consolidated and separate financial statements, but require adjustments to be made to these consolidated and separate financial statements and disclosures added to the notes thereto.