20 YEARS OF VALUABLE EXPERIENCE

ABLV

Experience

Annual Report 2013

ABLV

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20 years of valuable experience

Romans Surnačovs
ABLV Bank Chief Operating Officer (COO)
Editor of Annual Report 2013

In 2013, we held celebrations to mark the 20th anniversary of our bank. Twenty years — is it a lot or a little? It is a lot in a human life; for the majority of the bank's employees — it is half of their lives…However, for a business it isn't a ripe old age, particularly on a global scale. There are a lot of banks and investment companies with a centenary of history.

We believe the true value is not held in the number of years passed, in business or in a human life — it is in the work done and experience gained. 20 years of valuable experience in the financial arena have taught us to get to know our clients and to learn how to work in other countries respecting cultural peculiarities, as well as succeeding in troubles and crises — these things really matter to you, our clients and partners; and to us.

Certainly many of us remember those times well — dynamic and unpredictable. In fact, every day brought something unexpected. Only people who were flexible and could adjust in unison with time could succeed. In the year the bank was established there were 63 operating banks. Nowadays, the number of banks equals 27, including the branches of foreign banks. At the same time, the banks' assets have grown 4 times amounting to 29 billion euro. Against this background our bank looks really good: we have been ranked first among commercial banks in the volume of attracted funds in deposits, our team has grown more than 10 times, our offices have been opened in 13 different regions, and the performance indicators of our subsidiary bank in Luxembourg are increasing as well.

What have we learnt in 20 years? The list of our achievements is long: caution and determination, persistence and comprehension, the skill to stand our ground but at the same time an ability to listen. But most important — all that we undertake to do, we do better than we have intended. Having arranged the line of payment business, we have reached 99 per cent automatization of payment execution and process a large number of payment orders at top speed. In developing our investment business, we have topped the leading positions in investment management by yield, and we occupy the highest place on the Regional Stock Exchange according to the volume of corporate bond issues. In offering advisory services, we have opened representative offices in distant parts of the world to be close at hand for our clients. To ensure confidentiality for our clients in legal and technological aspects, we spare no effort or expense in inventing our own know-how. When it comes to developing property projects, our subsidiary company Pillar is becoming one of the leading developers, meeting high-quality criteria in the building arena. Last but not least — those who work well, know how to rest well: the glory of our events and dinners for partners and clients has spread across the borders of Riga and Latvia. Clients appreciate and acknowledge that our events are exciting, exquisite, delicate and, most importantly — sincere. Even when we undertook organizing such a rare event for bankers as launching of a modern art exhibition, where we exhibited works of art collected by the bank for the future state museum — even for this event, we gained high critics' choice awards in acknowledgement of our contribution.

Remarkably, in our 20th anniversary year we obtained a new symbol — the sculpture of a bronze bull that we named *Labor omnia vincit*[1], it was created by a talented Latvian sculptor, Gļebs Panteļejevs. Our new bull sculpture was erected next to the new office of our subsidiary company Pillar in the territory of *New Hanza City,* where in the nearest future business skyscrapers will rise in the sky. According to the development plans, this grand project will spread across the territory of 24 hectares owned by the bank. This idea, which came to the ABLV shareholders at the beginning of the millennium, will become the symbol of the regional financial and business centre in Riga and Latvia.

20 years have passed in leaps and bounds, but still there are a lot of empty pages in our future history album. Life goes on. We create new pages of history; each of us: you — our clients, and we — the bank's employees, fill them with stories. Let them be stories of growth from small to big, narrating our mutual path to current and future success.

[1] 'Work conquers all' — says the motto placed on the ABLV headquarters, at 23 Elizabetes street

Performance that exceeds expectations

In the background, there is an emerald summer landscape with a twinkling red line, professionally captured by a photographer. Catching your eye, this photo makes you think of the chosen path that everyone is following in life.

Over many years, the owners of the largest private bank in Latvia have been collecting a Contemporary Art collection. We are talking with Ernests Bernis, the ABLV Bank Co-owner and Chief Executive Officer (CEO), in a beautiful airy office, that in a way resembles an art gallery.

'You like it here, don't you? It's beautiful. This is the answer to your question about the bank's traditions. Anything we undertake to do, we aim to exceed expectations,' Ernests says. And these words will serve as the epigraph for the interview.

The most important? Our people

The ABLV Bank story is a typical success story. When you started, it was the smallest bank in Latvia, and now it is one of the largest. Tell us the secret of your success. How did you do it?
Would you believe that 20 years ago we planned to become the largest bank in Latvia?

You didn't plan that, did you?
To be honest, we did. However, it didn't happen overnight. We understood long ago that if we do the things that we are expected to do, and do them really well, without hoping for an immediate profit, then the results will always come. We have turned out to be right.

Nowadays, ABLV Bank is one of the largest banks in Latvia, according to the volume of attracted deposits. This is, undoubtedly, proof of your clients' trust. How have you succeeded in winning your clients' trust and retaining it over time?
There is no such thing as 50 or 70 per cent trust. Either there is trust or there isn't. Our clients trust us because we do what they need us to do. Creating our products and services, we put ourselves in our clients' shoes and assess ourselves, the bank, from our clients' point of view. Therefore, as a result, we offer more convenient and qualitative solutions than our competitors.

Still, why have some banks, including the biggest ones, disappeared from the banking arena, while ABLV bank continues to grow and develop? Most likely, you were analysing the mistakes made by your once-powerful counterparts?
In the vast majority of cases, the reason for failure lies in incompetence and lack of discipline among management and personnel, along with problems in corporate culture. In short, it depends on the aims people are committed to achieving. For us, being a convenient and reliable bank for our clients is vital. Everything else is secondary. Profit, of course, is important. However, delivering convenient and high-quality services is more important. Have a look at some famous failure stories. What were the main aims the top managers were pursuing? What kind of people were running these companies?

Almost one quarter of ABLV Group employees have been working there for more than 10 years. How do you explain this level of staff retention?
From the very beginning, we knew that our team really mattered. We knew that they had to be focused on

long-term results. When people's jobs are important to them, and they are inspired by what they do, if necessary, they are ready to do amazing things.

Many of our bank managers have ABLV Bank shares and receive the same dividends as other shareholders do. Some bonuses are accumulated over time. We are all in the same boat…

That is why we take any assignment to any position seriously, trusting not words or appearance, but rather experience and achievements. The majority of our top managers have climbed the career ladder from the very bottom to the top.

To illustrate my point, none of our ex-managers has left the bank voluntarily. Nowadays, none of them can boast about being a top manager anywhere else, so this is a good proof that our approach was the right one. You are right — on average, salaries in our bank are higher than in the rest of the banking sector. But it isn't an olive branch from the shareholders. This is our acknowledgement to our team for their effectiveness.

What do you appreciate most of all in your employees?
Motivation and responsibility. Alas, sometimes we have to witness short-sightedness: they say, this is my area of responsibility and that is not; ask somebody else. But it does not work! Responsibility does not depend on the results of one or another project. Responsibility has to be a team effort. In particular, the managers' areas of responsibility.

Would you agree with the words that Napoleon once said — that he preferred to deal only with lucky people?
As far as I remember, Napoleon did not rely on lucky people, but on verified, reliable ones. Otherwise, he would not have said: "One jumps into the fray, then figures out what to do next."

However, I prefer this one: "Never awake me when you have good news to announce, because with good news nothing presses; but when you have bad news, arouse me immediately, for then there is not an instant to be lost."

Do you know many employees by sight? Can they come to your office and talk to you about personal issues?
Yes, they can, but it seldom happens. There are top managers who are there to solve issues. No matter how unpredictable a life scenario is, every single employee knows who his or her manager is, and, in turn, they know their managers. Everybody should have a clear vision: what questions can be asked at what meetings, how often they should be discussed, and what reports should be presented. Over the years, we have managed to create an effective management system that works well.

Today, a lot of issues seem so simple, and I am surprised at how we didn't do these things earlier. Most probably, this is what development is.

Creativity leads to solution

ABLV Bank is a bank with local capital. Does this give you any advantages?
Yes, it does. There are a lot of advantages. We make decisions here, in Riga — this is the most important advantage. We are free in decision-making, we realise our responsibility, and we are capable of implementing ideas as we possess sufficient funds.

Can you make decisions on your own or only with the other members of the Board? Do you have the right of veto or the casting vote?
Well, I don't have the right of veto. I have been in situations when I was in the minority. But these cases are rare. Sometimes, making decisions on difficult issues takes less time and the results are good. And, at other times, we cannot solve an easy question for a long time. We don't take action until we have arrived at a ready solution. It is great to do things which you are confident in.

Which is more important in the banking business — intuition or economic calculation?

"There is no such thing as 50 or 70 per cent client trust. Either there is trust or there isn't. Our clients trust us because we do what they need us to do."

I should say intuition and common sense help you to determine the direction you need to go in. When it comes to implementation, then calculations and analysis play the first fiddle.

Have you ever experienced a moment in the bank's history when you had to act very swiftly?
At the end of 2007, when the word 'crisis' was not yet being yelled on every corner, we realised that the situation was deteriorating, and we started to take action. The first half of 2008, we were rearranging operations in the bank: we shut down all our branches, decreased financing, cut down costs — in the end, we pooled our resources in a half a year.

The extent of the upheaval turned out to be bigger than we had anticipated. We were getting ready for a Latvian crisis; instead a world crisis broke out. We had chosen the right strategy; it saved us.

Do you shut down unviable projects easily?
In these cases, we start to question a manager first. The manager has to offer a solution to the problem. If no solution is offered, then this manager needs to be replaced by one who will find the right solution.

Are people held accountable for their mistakes?
We don't tolerate people who say one thing and do another, and those who avoid responsibility.

We aren't afraid of mistakes. The one who does nothing makes no mistakes. In our bank, the size of the potential risk is always limited. Those who make mistakes gain valuable experience for the future. I have made mistakes myself. Let's put it like this: mistakes are great things to have made.

Well, what is so special about making mistakes?
Mistakes bring the essence of the problem to the surface and help us see the real reasons for it; this knowledge helps us to not repeat same mistakes in the future. I am confident every challenge has a solution. In the end, having found it — you win.

Can you give any examples?
Right after the crisis, we owned a lot of properties. To deal with those property objects, we had to establish a property company, Pillar. By now, all 'bad' assets have been liquidated, and Pillar is making good profits. At present, we have also started a grant construction project — *New Hanza City*. We have been nurturing this idea for the last 10 years.

Today, there are 700 employees working at ABLV Bank — this number is not the limit. In recent years, we have created around 100 jobs per annum. So in 5-6 years, the number of employees could top one thousand. Having them all working in one building is very efficient.

Last year, in the commercial property market, our bank closed a huge deal — we rented the biggest part of the office building, The Jupiter Centre. But of course, we would like to have our own home. Nowadays, there are no suitable office blocks in Riga, so we will have to construct one. The business area, *New Hanza City,* will be built at Pulkveža Brieža, on a plot of land that we bought. The first building that will be constructed on this land will be the building for the bank.

The projection and planning of the building has already started. Construction work will be long and complicated. There are no utilities in the area. Attracting and installing utilities for the bank only would be costly, but supplying a huge district will justify the costs.

We can't rest

How do you evaluate the current situation in the Latvian economy?
It is growing dynamically. We are witnessing positive growth in many sectors. None of the ABLV Group businesses show any signs of stagnation. There is growth and demand in each sector. We have established an investment company, AmberStone Group, which deals with direct investments into the real Latvian economy. First of all, these are investments into a tangible sector of the economy. The company capital comprises the assets of our clients. Our subsidiary companies deliver advisory and securities custody services quite successfully.

How would you describe your relationship with the Latvian authorities?
Since we've become the largest private bank in Latvia, our opinion is being listened to. I can say, with confidence, our employees have contributed to every draft law that has been approved by the Association of Commercial Banks. This work requires a lot of time as it should be high-quality. Nevertheless, it is extremely important as it determines the rules of the game.

The banking sector is strictly regulated, and supervision is getting stronger all the time. This is the result of the situation in 2008-2009, when many international banks received financial aid in large amounts from the state. Nowadays, nobody wants this situation to ever be repeated.

ABLV Bank made it through the financial crisis without any help but still, we have to comply with common regulations the same as everyone else. From time to time, we're sorry that we have to spend time drawing up instructions instead of creating new products.

The foundation of the EU banking union in December last year will only strengthen the common rules. What is your opinion?
Nowadays, at the ECB meetings in Frankfurt, we sit at one table with representatives from the world's leading banks (usually The Financial Times writes about these grants). In September last year, ABLV Bank, the first among the Latvian banks, opened its subsidiary bank in Luxembourg. In spite of the local market having intense competition — we are getting on well.

Our work within the new regulatory framework of the new European Banking Union is a further proof for our clients of the high quality and reliability of our services; in many cases it is much better than that of other European banks. Now, we are getting ready for these changes: we are forming new structures and hiring new people. This process is expensive and complicated, but at the same time, it is very important for the team. This is good training for our team. I believe that there are no weak or strong people — I think there are trained and untrained people. Therefore, we can't rest.

Three years ago, you underwent a corporate rebranding. The bank was given a new name — ABLV — and a jewel became the symbol of the bank. What do these changes mean for the bank?

> "Our work within the new regulatory framework of the new European Banking Union is further proof for our clients of the high quality and reliability of our services; in many cases it is much better than that of other European banks."

In order to move forward, you need to offer new solutions and motivate people. We invited our employees to take part in the rebranding. It gave us additional stimulus and motivation. ABLV is us. Without us, it is just a brand name with a logo. Our symbol is a jewel that stands for our spirit and our attitude towards our business. We are happy with the results of our rebranding. Nevertheless, no matter how much we like our brand now, in 5-6 years, we will have to face another rebranding. By the way, that was already the sixth rebranding.

Time for positive thinking

Since 2012, you've topped the list of Latvian millionaires. But you are not a public figure. You rarely give interviews. How come?
I give interviews as often as my position demands. Regarding a social life, I don't have much time for that. I have just enough time for work and my family.

Do you regularly come to work?
Of course! Every day, I'm among the first to arrive and the last to leave.

Really?
Sure, call me anytime from 8.15 till the evening.

Are you a workaholic?
My working time is not limited. However, my Saturdays and Sundays are sacred. I don't work at the weekends. On Sunday evenings, I start looking through my diaries, planning my working schedule for the next week.

You know how to manage your routine, don't you? You are a happy person…
I have learnt this over time. Otherwise, it is impossible. Due to working overtime, I am privileged to have several extra weeks to go on holiday every year. By the way, a holiday is just the perfect time for positive thinking. (smiling)

Where do you go on holiday?
I usually go far from home. I try to escape the routine that can easily consume people.

What is your favourite book? Tell me what you are reading, and I will tell you who you are…
In my youth, I really liked Jack London and E.M. Remarque. Today, it is difficult to answer your question. I have got a lot of books at home, and I am keen on reading. But I can't read in dribs and drabs. Therefore, I mainly read while on holiday when my mind is not occupied with anything else. At moments like this, reading is a real pleasure for me.

What have you read recently? By the way, which books do you prefer: electronic or 'real' books?
Only real! Electronic format is good for reading the news. Recently, I read a book by an American writer and philosopher, Ayn Rand — 'Atlas Shrugged'. The book was written in the 1950s. It describes aggressive state regulations against industry. Since then, the book has not lost its relevance.

If you weren't a banker, what profession would you have chosen?
I strongly dislike the word 'banker'. I prefer to be called the Head of the Bank. My position in the bank is the Chairman of the Board and Chief Executive Officer. If I weren't the Head of the Bank, then I would have become a chef. I like cooking. While cooking, you can be the Head as well.

What do you cook?
Everything, except sweet dishes. Simple meals, but my family enjoys them.

Would you like your daughters to continue the family business and dive into banking?
I would be happy if one of them chose this area. However, nowadays, they have different passions: painting, music. Let's see…

What would you have done differently if you had known 10-15 years ago what you know now?
I would not have cooperated with certain people, who I met through a twist of fate, and who let me down. Although everything happens for a reason; because of them, I have gained valuable experience.

Latvia: a potential financial centre

Turning Latvia into a financial centre, at least on a regional level, has been a lifelong dream of ABLV Bank shareholders. The Chairman of the Council, ABLV Bank Co-owner, Oļegs Fiļs, believes that the potential of the financial services sector could reach 10-15 per cent of the GDP, not the current 3 per cent. Thus, the country could profitably compensate for the negative results caused by the population decrease.

In order to turn Riga into a financial centre, natural resources are not necessary; besides, there are none in Latvia. However, there are many other valuable resources in Latvia that are essential to the delivery of financial services, e.g. safety and peace in the country, which are highly desirable for investments, residence and business. The banking system is rigorously supervised, and the legislation is in perfect order. The population is well-educated and qualified, flexible, and fluent in many languages. Therefore, we can aim to become an international financial business centre. Having achieved this aim, all parties will benefit: clients, banks and other financial institutions, and the state and the people in general.

Isn't Riga a financial centre today?
What is a financial centre traditionally? This is a place where investors meet beneficiaries. Universal banks, specialized banks, private banks and mutual funds — they all work in financial centres. Various financial institutions follow different strategies, target different clusters of clients and deliver divergent products, but they all complement each other. It means that clients can get all necessary services in one place in a comfortable and reliable environment. At the same time, for the state, it is a tool for attracting foreign investment into the economy. Therefore, in many countries, the creation of financial centres is supported by targeted governmental policies.

A financial centre can definitely not operate alone. Complementary sectors, institutions and enterprises need to be involved: the stock exchange and depository, a regional transport hub, telecommunications, IT infrastructure, brokers, insurers, business consultants, tax specialists, auditors, legal offices, the hotel business, entertainment and leisure centres, educational institutions and office centres, including property rental and purchase. We associate these things with a financial centre.

Latvia and Riga have 20 years of experience as a financial centre. We have significant advantages in comparison to Lithuania and Estonia. This is why 70 per cent of all non-resident deposits with Baltic banks are concentrated in Latvian banks, and amount to 8.5 billion euro.

Nevertheless, according to data compiled by the World Bank, Latvia is not in the top 100 list of world financial centres. The acknowledged world financial centres are New York, London, Frankfurt, Hong Kong and Luxembourg. There are also many regional and specialised centres in Malta, Vienna and Monaco. However, this is just a matter of time. Those entrepreneurs, who today realise our potential and are establishing businesses in Latvia, will benefit. We are growing in numbers and we are improving our quality. Investments are always good to have, but, it is more important to create advantageous conditions for global holdings and attract them to settle here, bringing their organisational structures to Latvia.

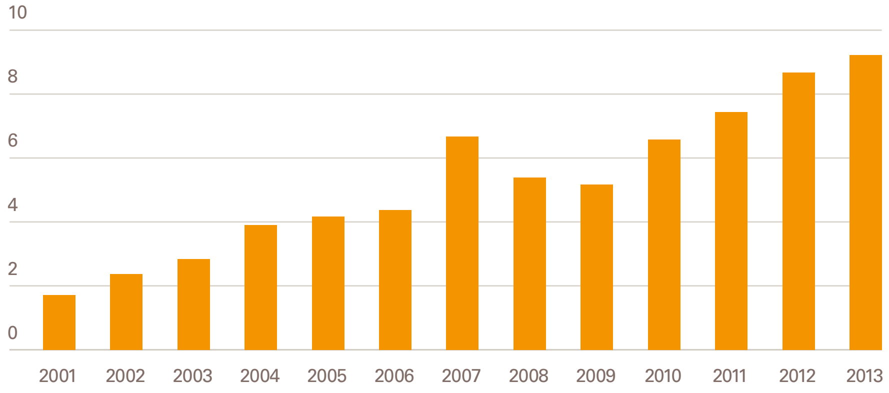
Financial services are products with high added value...
Well, yes, the exporters of products with low added value, in particular, raw materials and products before primary processing, are looked down on by other countries. This is not the best path to follow. It does not encourage development and brings low profit. The state becomes dependent on the prices of raw materials in the world market. For example, in Latvia this could be the export of round timber. Perhaps, the overall amount would be considerable but not in the long run. Working for the internal market and meeting only its demand are bad solutions for the country.

Financial services are products with high added value, independent of exhaustible or slowly recoverable resources. Revenues, earned from servicing foreign clients are, in fact, revenues received directly from export. In turn, these resources will not run out as long as there is mutual benefit and interest. Foreign clients will benefit from exciting new business opportunities: a geographically-beneficial location for money, and a safe place to live. The country will get people who will stimulate the economy with investment injections, deposits and taxes, thus causing an economy boom.

What financial services with high added value would you like to mention?
First of all, services related to investments and the attraction of funds: the issue and placement of shares, preparation and closure of mergers and acquisition deals. Undoubtedly, they include different special risk capital funds. For example, we have a private fund that invests in promising Latvian companies, e.g. in pharmaceuticals, agriculture, energy, trade, and other areas. One of our biggest investments was the investment in the ORTO clinic and the construction of the building. Today, the clinic delivers medical services to foreigners, thus it participates in the export of medical services. Everything is interrelated. We create new jobs in the bank to deliver services to foreign clients. And all parties benefit: the bank, our employees, related businesses, and the state in general.

We have had dozens of public bonds issues with the nominal value amounting to 400 million euro. Here is another example: the ABLV Group mutual funds, managed by ABLV Asset Management, manage ten mutual funds with the value of assets exceeding 90 million euro.

Non-resident deposits in Latvian banks (EUR billion, as at the end of the year)
(source: Financial and Capital Market Commission)



“Foreign clients will benefit from exciting new business opportunities: a geographically-beneficial location for money, and a safe place to live. The country will get people who will stimulate the economy with investment injections, deposits and taxes, thus causing an economy boom.”

Recently, some amendments to the law have been made to turn Latvia into a hospitable environment for establishing foreign business...
Yes, this issue has been widely discussed and many believe that foreign investments will bring more available loans to Latvian enterprises. We believe we need to expand the programme of wide allocation of funds. In other words, in order to develop Riga into a financial centre we need to ensure high-quality financial services, maintain import-export deals, international trade and logistics. Financial services and international grants are interrelated. So far, we have succeeded in delivering financial services. If we manage to create an encouraging environment for international companies in Latvia, particularly in Riga, then both our clients and the country’s economy will benefit.

So what is lacking then?
From the state, we, as a private sector, expect more support, understanding and better cooperation. I am not afraid to say that, today, we lack a coherent vision for state development and promotional activities to launch Latvia as a financial centre and a place for international trade in the world arena. We have good potential with favourable conditions, but we lack self-promotion. We need to highlight the advantages of tax law and state initiatives to motivate and attract foreign corporations to come to Latvia. Every other country is ‘fighting’ for new investments and taxpayers. Businesspeople understood some time ago that the tax-free period is over. Now, they need to bring their business to a profitable and convenient place. In this respect, we have great opportunities to compete with traditional financial centres.

The main condition for becoming a financial centre is to keep all documents and reports submitted to the State Revenue Service both in Latvian and in English. This would be a big and essential advantage. Our clients have often mentioned it to us.

What is the impact of the residence permit programme on the opportunities for Latvia becoming an international financial centre?

We need to remain open and proactive. A residence permit is like 'an open door' for investors, property vendees, and people who are looking for a new residence for themselves and their families in a country with a cultural, harmonious and safe environment. No doubt, residence permit criteria should be based on real calculations, taking into account market realities and the analysis of what's happening in neighbouring countries. Only in these circumstances will the state programme improve the economy, stimulate its development and create more new jobs.

We, the bank, are directly interested in this programme, and not only because of our subsidiary company, Pillar, which works in the property market. We are interested as we are thinking about the long run. Everybody knows that global money has a tendency to migrate, just as large capital is also mobile. However, even they have their own emotional affection. When a client lives in Latvia with his family, even for short periods of time, we become closer.

Residence permits, holdings...these things are virtual and intangible to common people. However, populist politicians can use them, saying: "If you want to invest, come and build a plant that provides 1000 jobs; develop a production company...!"

The global situation changed long ago. Today, plants with 1000 jobs make up the minority; new technologies and automation are being implemented more and more. At the same time, we cannot compete with emerging countries for huge cheap production lines, on climate, environmental requirements or salaries. Besides, we do not have a lot of 'available' hands. However, we do not have to compete with them. Becoming a country with cheap and semi-skilled man power, an unsafe environment, cannot be a state aim.

In western countries, entrepreneurs are being attracted in a different way. First of all, they are guaranteed a positive environment for their business. Therefore, holdings are established. This encourages a businessperson to buy property and spend some time in the country. Then, management structures and logistics units are relocated; later on, the coordination of trade is moved as well. In the end, production is relocated, especially if transport costs are increasing, thus there are no more valid reasons to maintain production in emerging countries. Today, the global tendency to relocate production is be a new trend.

Our treasures are skilled, educated, multi-lingual people, and our location. We do not even have to market

Residence permit programme effect on the Latvian economy
(source: SIA Deloitte Latvia, analysis of Latvian business immigration program, 2013)

"Our treasures are skilled, educated, multi-lingual people, and our location."

these conditions. What we do have to do is strengthen existing advantages with corresponding laws, in order to create a positive and predictable image for the country.

Don't you think that the efforts of one bank are not enough to create adequate new laws, attract investors and promote the country?
Certainly, the bank has to operate primarily in the banking arena: to ensure banking services to clients, and develop new products and services. The bank is developing fast — we are growing in volume, jobs, and geographically. We are expanding our network of representative offices; and we have opened a subsidiary bank that operates successfully in Luxembourg. Other ABLV Group companies are working hard and growing as well. It all requires a lot of work, time and continuous care.

Therefore, there are two professional organisations, The Association of Commercial Banks and the Association of Private Banks. Their primary task is creating a positive image for Latvian banks and ensuring a positive environment for financial service providers and clients. This should cover all aspects, including legislation, infrastructure, responsiveness of state institutions and societal support. We do realise that this cannot be achieved overnight, but we feel that progress is being made.

These professional organisations must stay consistent in lobbying for banks' interests. Only by focusing on openness, information sharing and persuasion, can we get into a 'win-win' situation where all involved parties benefit.

Perhaps it sounds naïve, but I am convinced that people, in general, are good by nature and governed by good principles. To illustrate my point, let's have a look at strongly criticised politicians: they wish prosperity for people and the country the same as everyone else. We differ only in our understanding of how to achieve this goal.

History shows a lot of examples of brilliant people not using the best of innovations, taking wrong decisions, being governed by limited knowledge, information and stagnant notions, thus harming both their countries and business. A good example was the underestimation of personal computers in the near future. Decisions were taken with good intentions but, they were, unfortunately, bad ones.

Only education, information sharing, and persuasion can help to broaden the horizons of those who make decisions. This will help them to understand society better and win over its support. Being an optimist, I believe we will succeed.

Interesting facts about ABLV Bank

ABLV Bank was established in the autumn of 1993. At that time, the number of banks in Latvia equalled 61.

In 1994

the total amount of deposits amounted to EUR 1 105 290, and

assets amounted to EUR 2 552 656

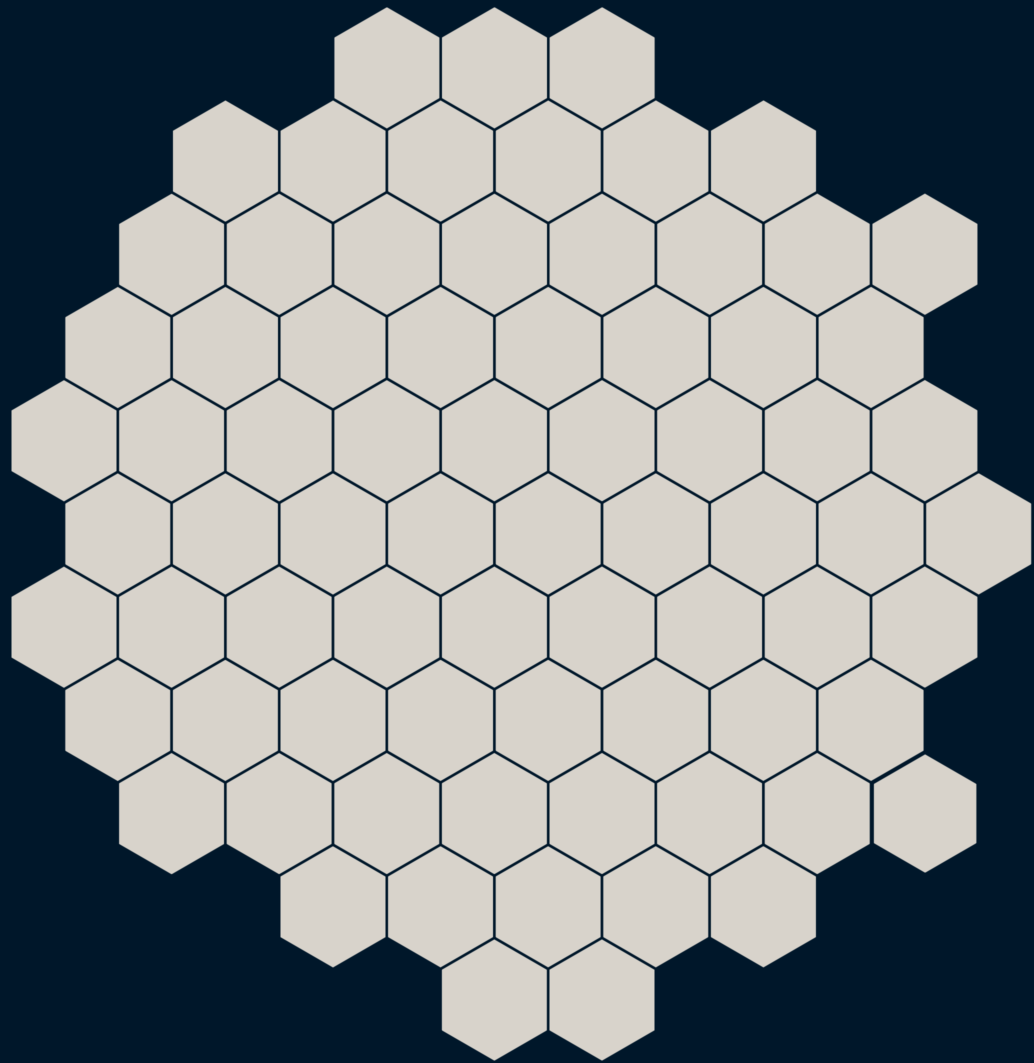
In 2013

the number of Latvian banks equalled 28. A carefully thought-out strategy allowed our bank to survive three financial crises and improve its market standing. In terms of client deposits, we take the No. 2 position in the sector with EUR 2 776 457 000, and we take the first among non-residents' deposits, with

assets amounting to EUR 3 315 366 000

"The foreign economic activity of JSC Aizkraukles banka is mainly centralised in its Riga branch. Effective work of the branch during the past year contributed greatly to the bank's development and stimulated the growth of the clients' database, bank prestige and profit." Ernests Bernis, 1995

"Defeating a competitor stronger and larger in number is possible by appearing at the right place at the right time, knowing own strengths, and acting as a united team. But most importantly, it is to believe in the rightness of the chosen path." Ernests Bernis, 2005



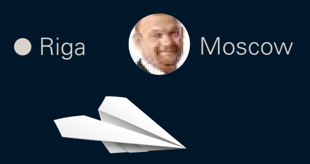
The first Aizkraukles banka office in the town of Aizkraukle was situated at 4 Lačpleša street, occupying

200 m^2

In 2013 the ABLV group premises was

15 000 m^2

"Not standing still, constantly developing and bringing innovations to business and life — in my opinion, it is not just a standard, but a necessity." Oļegs Fiļs, 2010



In 2004 Pavel Zaika became the Head of

the first representative office abroad in Moscow

As of 2013 you would need to spend

37 hours of flight time just to reach all 13 ABLV Group offices

and meet Benoit Wtterwulghe, Chief Executive Officer of ABLV Bank Luxembourg, S.A.


ПЯТНИЦА, 25.08.1995 г.

Прыжок из провинции в Ригу

In 1995 ABLV opened its Riga branch with

97 employees

At the end of 2013 there were

698 people

working in the ABLV Bank in Riga, in the subsidiary bank in Luxembourg and in the 12 representative offices abroad.

“Nowadays, we can call our bank modern, as services that we offer are efficient, convenient and mobile.” Ernests Bernis, 2001

In 1997 ABLV began to issue

the first credit cards

that substituted Thomas Cook travelling cheques.

In 2013 we offered

14 different types of credit cards.

The most popular was VISA Gold; the most prestigious was VISA Infinite.

In 1995 we developed a software program, “Bank-client,” and in 1999 we were

the first

among the Latvian banks

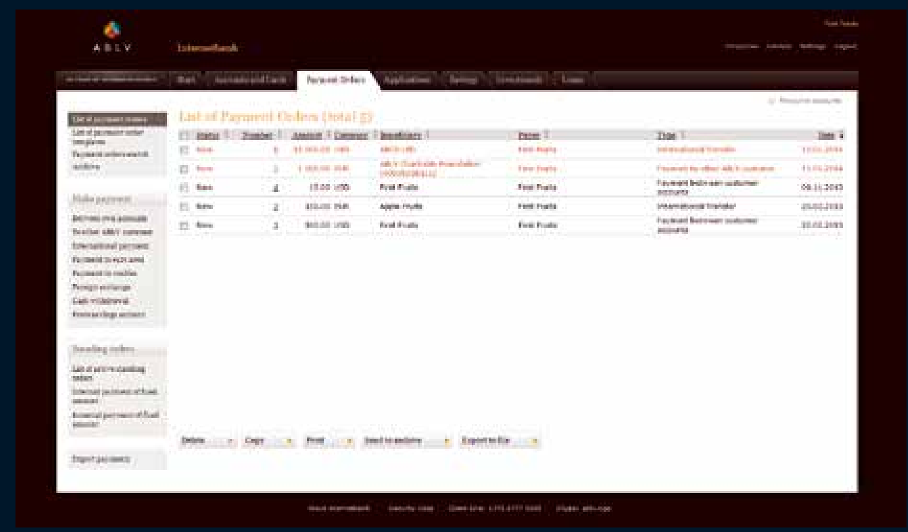
to launch an Internet-bank,

which is used by our clients to transfer 99.7% of payment orders.

In 2013 clients transferred

1 700 000 payment orders

via the Internetbank.



In 2005 we launched risk management and transaction

monitoring system

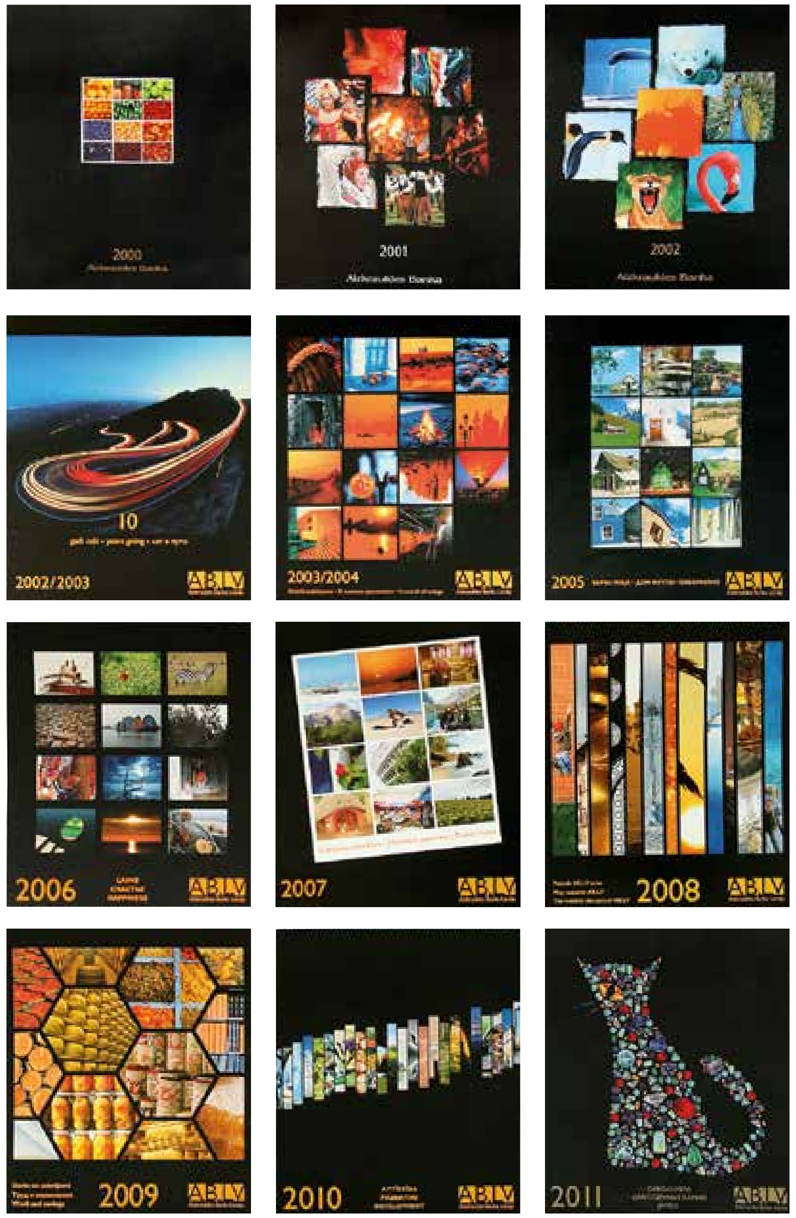
for detecting fraudulent card transactions. It is being constantly improved upon.

As of 2013,

we had saved

on our clients' card accounts

USD 1 000 000

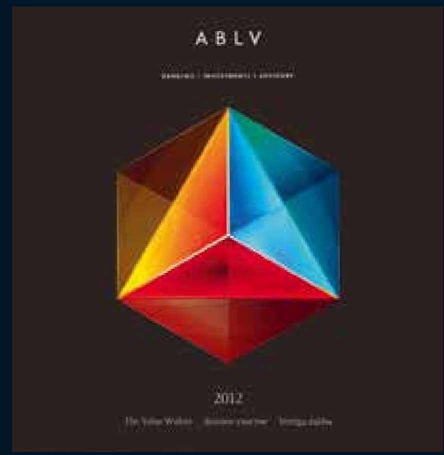


Since 1998 we have been

pleasing our clients with thematic ABLV calendars.

Some of the photographs used in the calendars were captured by our employees.

"If something is done superiorly, it awakens a feeling of aesthetic beauty and satisfaction." Ernests Bernis, 2012



By launching a new brand — ABLV, we express our interest in and support for contemporary art. This is done through refined photographs that are captured by famous Latvian photographers exclusively for ABLV. Thus, we are

promoting the works of the best Latvian photographers around the world.

For 20 years we have given

20 various kinds

of pens to our clients as business gifts.

In 2013 clients took along

30 000 ABLV pens

as souvenirs. So, they should be definitely writing well!

"Human warmth cannot be substituted with technologies, even the most advanced ones." Ernests Bernis, 2005

In 2003 we held the first corporate event for our clients with

50 invitees

In 2013, at the 20th Bank anniversary,

500 guests

were served by

70 waiters

"One of our aims is to become a bank that delivers high-quality services; therefore, we are striving to create a close relationship with our clients." Ernests Bernis, 2001

Since 2006 at annual sporting events, we have been feeling how strong

the athletic spirit

among our employees is.

“I like an attack game, aimed at a particular result. This applies both to sport and business. This requires you to be aware, to take responsibility for your own actions and decisions, and to experience team chemistry.” Oļegs Fiļs, 2007

Today, all year round we support

3 experienced employee teams

in volleyball, football and ice hockey.

“Own business brings a new meaning and more satisfaction if it allows you to share the earned money, and direct its energy, toward things that you consider important: to help children, to support sport and cultural events, to implement projects important for the whole society.” Oļegs Fiļs, 2008

In 2005 Aizkraukles banka signed an agreement with the Ministry of Culture of the Republic of Latvia to invest

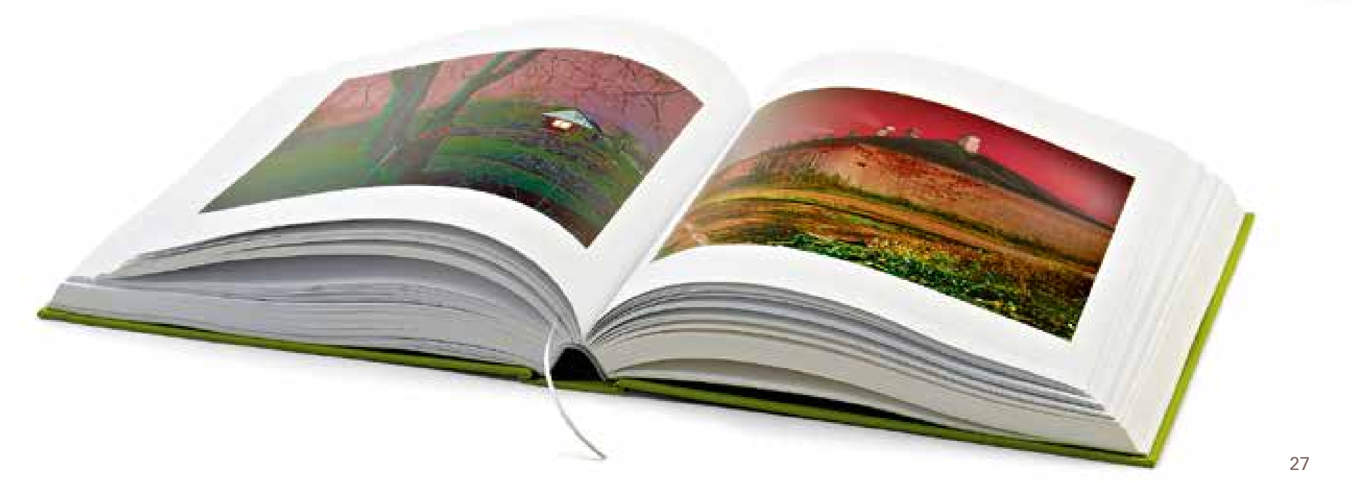
LVL 1 000 000

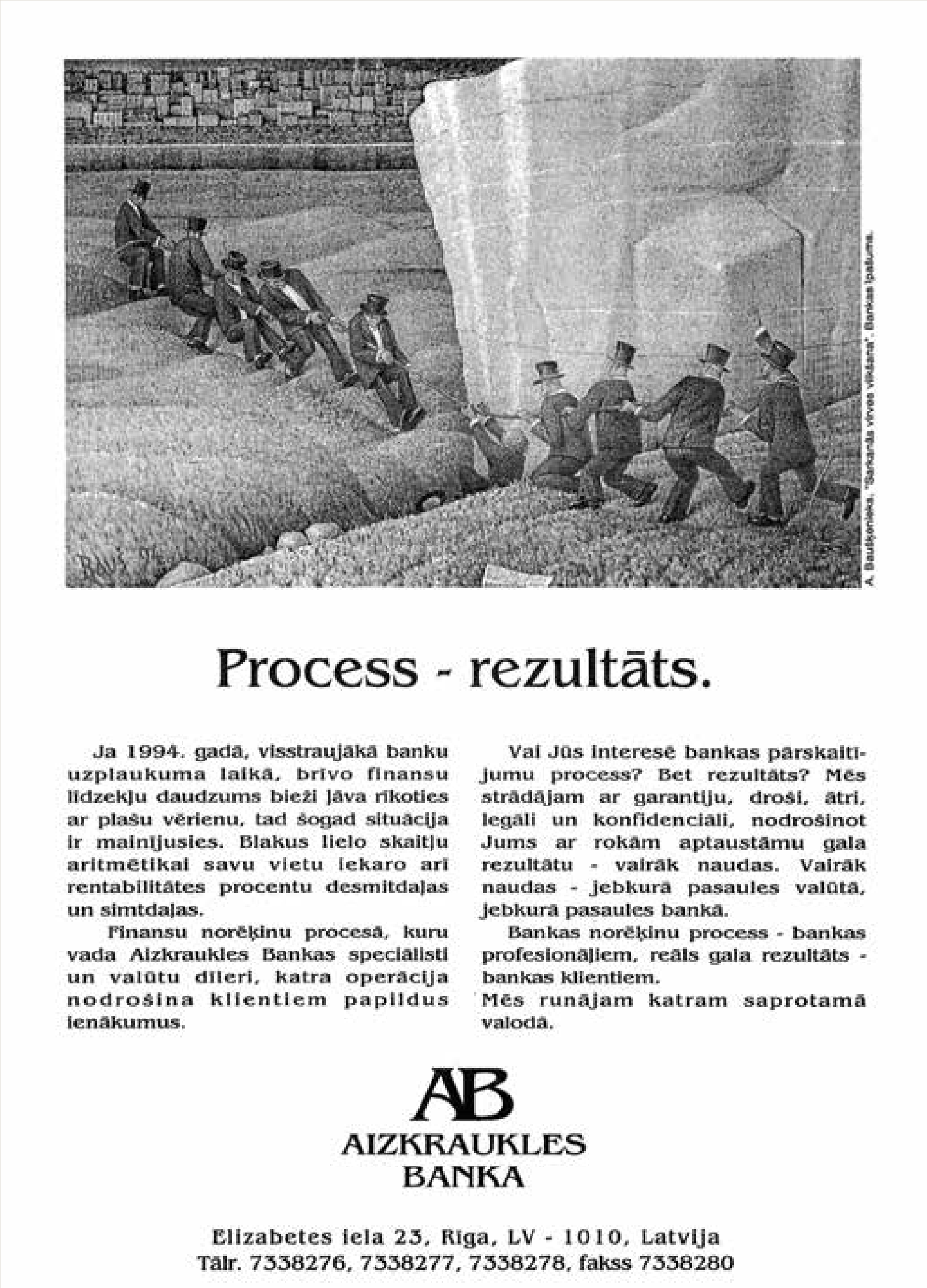
(EUR 1 422 880) into the collection of Contemporary Art Museum, currently being built.

To commemorate the bank’s 20th anniversary, an art album, “Without Walls” was published containing

204 works of art

created by 31 artists, at that moment held by the bank for the future museum. That same year the collection was exhibited to general public at an exhibition titled “…for an occurrence to become an adventure…”





“A good bank increases the value of money.” Ernests Bernis, 1995

“We believe development and the bank’s flourishing would be impossible without meeting clients’ needs and a stable growth of their financial well-being.” Ernests Bernis, 1996

OUR ADVERTISEMENTS

"The implementation of the euro, the united European currency, would allow Aizkraukles banka to optimize the range of correspondent accounts, speed up the implementation of transactions and cut costs on currency exchange." Ernests Bernis, 1999

"At present, the bank's mission is to attract funds from Russia and other CIS states in order to invest into the Latvian economy." Ernests Bernis, 2003

OUR ADVERTISEMENTS

"We are loyal to our clients and expect openness and honesty in return, as we believe that this is the essence of successful partnership." Oļegs Fiļs, 2004

"The performance of the bank's mortgage loan programme has evidenced our clients' trust in Aizkraukles banka as the credit institution specializing in mortgage loans; and they appreciated that." Ernests Bernis, 2006

OUR ADVERTISEMENTS

“If something on the chosen path does not work out, it is crucial to find a way to bring things to the end, not to be afraid to acknowledge our own mistakes, and continue to go further.” Oļegs Fiļs, 2006

“The main thing is that we are sure our clients need us.” Ernests Bernis, 2007

"We don't do things we don't know well... We are trying to make our rules open and undisputedly clear to our clients." Ernests Bernis, 2007

OUR ADVERTISEMENTS

"Time does not stand still. Life accelerates, and the things that we did ten or even five years ago were much more simple than we do today. Our business is growing, and it means we are growing together with it." Ernests Bernis, 2010

The Board of
ABLV Bank,
September, 2013

Our experienced team

Work in a bank differs from work on an assembly line. It requires special people; it does not allow you to get into a routine. "Efficiency results in dynamics at work. You are like an experienced Formula One driver — even if you know the race track well, you feel a surge of pure adrenaline at sharp bends…," says Dace Rūķite-Kariņa, the Head of ABLV Bank Human Resources Department.

They say the most important employee in your bank is a private banker; all the rest work for him or her. What criteria do you apply while selecting candidates? Do you prefer personal qualities or professional skills?
I cannot totally agree with this statement. In our bank, dealers, brokers, credit managers also work with clients. Surely, delivering services to clients is the essence of our work. Though it is true that one of the most desirable positions in the bank is a private banker. Becoming one is very difficult. Not everyone can do it.

Could you expand on how employees turn into private bankers?
We use our internal resources exclusively to fill these positions without maintaining an external selection. At the same time, we have a large Assistant Private Bankers Department with more than 30 people. This is our source of manpower. However, we do announce external competitions for the position of a private banker assistant. Certainly, we impose strict competence requirements: acquired education in economics or law, or at least last-year student, fluency in three languages.

But the most important thing is so-called soft competences, or personal skills. These are difficult to measure, but an experienced recruiter can reveal them through indirect questions at the first interview. It is possible to evaluate whether inner values of an applicant correspond to the bank's values. Ambitions and their correspondence to the skills are determined, as well. A private banker assistant has to be active, open, eager to learn, have a wide spectrum of interests, and, moreover, has to be highly intelligent, as they will speak with clients about different topics. Consistency and intelligence are important skills to have.

Sometimes, these requirements are difficult to describe and measure, but in our bank only experienced psychologists select personnel, so they know how to find the right people.

Is it difficult to find suitable specialists?
Our private bankers are unique. In 2012 608 people worked in the ABLV Group. Now there are more than 700. However, the number of private bankers does not increase so quickly. Only the number of private banker assistants has grown: in the beginning there was a small department of 11 people. Today, there are more than 30, and all of them have ambitions to become a private banker. The career ladder is quite steep. The work of an assistant is evaluated both by the Head of the Department and colleagues — they assess communication skills, attitude towards work, ability to concentrate…

Why is this position among the most desirable positions in the bank? Does salary matter?
Among other reasons, this one matters, too. A private banker can influence the level of income. The salary is composed of two parts: constant and variable. The changing part varies in accordance with the results of work. Nevertheless, it is also a matter of prestige.

Why don't you look for people for this position outside the bank?

A friendly team of young bankers, Aizkraukles banka, 1995

"...we will never be a conservative bank. Otherwise, in such an environment our employees would feel uneasy."

This is a matter of corporate culture. Our employees have to know how to deliver services at the level our clients get used to. Of course, it is always good to have other work experience. But first of all, a manager has to adjust to the working environment in our bank, accept our inner procedures and share our values…Therefore, we are growing our specialists on our own, as only we know what an ideal private banker is…Outside the bank, it is impossible to find such a specialist.

Does it mean that first the period of adaptation begins, and only then can a career start?
Exactly.

What is an average term of service in ABLV?
On average, it is 6 years. A lot of people work in the bank for more than 10 years: 146 people, or every fifth member of the team. The employees' migration is very low. In 2012, this indicator equalled 7 per cent. Last year, only 5 per cent. Newcomers join our team due to a confident growth of business — we need new specialists. For example, this year we are going to employ 140 people!

Is the period of post-crisis years the best time to move up the career ladder, when ABLV is developing a whole range of new business lines?
On the one hand, this is true. Rapid growth demands more people; but, we attract inner human resources to high positions. On the other hand, contrary to other banks, we did not cut positions during the crisis. We cut temporarily the variable portions of salaries, but when the situation improved, we compensated the retained. When the crisis was over, we raised bonuses back. This was a sign of goodwill on the employer's part, gratitude to employees for their understanding in a time of crisis.

How do these career paths evolve in your bank?
Already at the first job interview, we are trying to evaluate an applicant's level of ambition and their correlation to skills. Let's take a person who has applied for the position of a private banker. If we realise that he/she has rather analytical skills, it is better for this applicant to employ these skills at the back office.

Furthermore, there is one ruling principle in the bank: a person can move up a career ladder, but he/she has to work at the initial position for at least one year. It is important to adjust to the working environment, get new knowledge and acquire new skills. After one year, an employee can participate in internal job competitions. However, managers have to be informed first, as they may count on subordinates, have different plans for the employee and offer options for personal growth. The Heads of Department have to think about bank interests in general; they cannot keep an employee for their own sake at the department. In the end, an employee can choose whether to take part in a job competition or to develop further within the same department.

The incentives of middle managers who stick to strong "structured separatism" can be understood, as well. Who really wants to let a good employee go to other departments?
Certainly, it is logical: instead of an experienced employee, they will have to find and teach a new one. It requires both time and energy. Practically all our managers have experienced similar career growth. However, if they notice that their employees have high ambitions, usually they do not restrain. Life is life. One of the manager's tasks is to teach personnel.

The employees of the front and back office have absolutely different personal traits. Are any successful shifts possible? Can a good back office employee become a successful private banker?
It depends on the defining characteristics of a person. A good front office employee has to be a good sales person. Unambiguously, they need to have certain skills. If you work with a client, you have to know how to persuade. Not all back office employees possess these qualities. In the back office, a person can be rather introverted, "tailored" to do paper work accurately and observe rules in detail. A sales person is more of an "actor": he/she persuades, sells, highlights advantages and retouches weaknesses…(*smiles*)

If a back office employee can work this way, this is perfect. We have these universal people: some private bankers have originated from the back office, before they had worked as assistants. Nevertheless, we have had examples of the opposite, as well. A lot of young people work in the bank, so they are still finding themselves. Only having tried doing something can they understand what they are able to achieve.

Before the crisis, you said that ABLV employees would always remain ambitious. However, many of the bank's managers admit their conservatism.
Probably, people imply different meanings in this word. I would like to say accuracy and discipline are necessary in the bank, and I don't call these features conservatism. I still believe that we will never be a conservative bank. Otherwise, in such an environment our employees would feel uneasy.

"...our main resource is not buildings, furniture, computers nor software, but people, professional specialists, who are engaged in a common cause and interested in its development."

For instance, imagine a very conservative ABLV Bank employee who would want to be addressed only as "Mister/Miss or Misses". But we call each other by names and use "you". This refers to everyone without exception; we don't say to Ernests Bernis, "Good afternoon, Mr. Bernis!" Oļegs Fiļs is no exception. It works for everyone. Just imagine how a conservative person might feel getting a phone call from the CEO calling him and saying, "Hi, Jānis!" (*smiles*)

What are other unwritten rules in the bank's corporate code?
The corporate environment is created by the management and employees. These traditions usually have their own goals. For example, addressing "you" and calling you by name helps to solve working issues easily and quickly. Or, for example, accessibility of the authority — you do not have to queue to meet your boss. Many questions are solved via emails and over the phone.

As a result, we have managed to bring employees' satisfaction to a higher level. Annually, we carry out an anonymous survey. Last year, the level of employee satisfaction amounted to 80 per cent. This is a very high indicator. In comparison, an average indicator of similar surveys committed in the financial sector of the Baltic States equals 63 per cent. In the entire EU, it is 58 per cent. It proves that our people do love their work and the company. They feel that they are taken care of and are paid good salary. The most important fact is that our people are proud to work in ABLV.

How long does the period of working at one position last before becoming an everyday routine?
I don't agree with the "Six Years Theory", when a lot of people tend to believe that in six years' time boredom and routine set in. Of course, if you work on an assembly line, even three years will be too much. I don't know any position in the bank at which a person can get into a routine: everything changes very quickly. … I know it myself, that's for sure. I have been the Head of Human Resources Department since 2000.

Are there employees in your bank who started work in 1995, when it was JSC Aizkraukles Bank?
Yes, there are. We do have these people, they are not few — there are 27! How much has their work changed? There are people who started as specialists in 1995. Now they are Members of the Board. There are other examples as well: 20 years ago, a person came to the position of the chief accountant, and today this person is in the same position. Ask them how they feel about a routine. I think they will tell you the same thing — routine is impossible here.

Can you recall some of the most successful examples of career growth?
There are many examples, as the bank has been growing together with its people. For instance, the Deputy Chairman of the Board, Vadims Reinfelds, joined the bank in 1997 as a payment cards specialist, or Romans Surnačovs, Member of the Board, came in 1999 as a payment specialist. All Members of the Board have a very similar experience — a career ladder always starts with the first step.

Planning our future business development, we always keep in mind that our main resource is not buildings, furniture, computers nor software, but people, professional specialists, who are engaged in a common cause and interested in its development. Salaries, bonuses, career potential — these things are undoubtedly important and good to have, but most important is that our people feel as though they belong to the team, share the same values and find new opportunities here to implement their ideas. This is the main secret to loyalty. Our clients appreciate that our team is composed of these people.

ABLV Group news

Banking

20 years of valuable experience
In autumn 2013, ABLV Bank celebrated its 20th anniversary. Steadily pursuing elaborated strategy, a small bank, founded on the basis of the Bank of Latvia regional branch in the town of Aizkraukle, managed to successfully overcome all crisis situations, meanwhile retaining its independence, and became the largest private bank in Latvia that has a subsidiary bank in Luxembourg and ABLV Group representative offices in Moscow, St. Petersburg, Yekaterinburg, Vladivostok, Kiev, Odessa, Minsk, Almaty, Dushanbe, Baku, Tashkent, and Limassol.

Financial achievements
ABLV Bank major financial indicators for 2013 reached their historic maximum and prove its stable growth.
- The bank's profit — EUR 43.7 million.
- Operating income before allowances — EUR 110.2 million.
- Clients' deposits — EUR 2.78 billion.
- Amount of issued debt securities — EUR 308.4 million.
- Amount of the bank's assets — EUR 3.32 billion.
- The bank's capital and reserves amounted to EUR 187.0 million.
- Liquidity — 79.20%, and capital adequacy — 17.53%.

Euromoney named ABLV Bank the best bank in Latvia
One of the most influential magazines reporting on global capital and financial markets, Euromoney named ABLV Bank the best bank in Latvia. The appraisal was given to the bank under Euromoney Awards for Excellence 2013. According to Euromoney, ABLV Bank is one of the strongest banks in the region that maintains steady growth and works with proportionate profit. The bank diversifies its financial resources by substituting long-term deposits with bonds issued by the bank, Euromoney noted.

Place for further development
Due to constant expansion of ABLV Bank and its affiliate companies, as well as respective staff increase, the resources of the office building that the bank rented before at 4a Mednieku Street became insufficient. Therefore, a decision on moving a part of the bank's structural units to a new business centre Jupiter Centre, at 7/1 Skanstes Street, was made. In the new building, we are renting premises on the floors from 2nd to 12th. We will stay in these premises until a new bank building is constructed in the territory of the future business area in Riga — New Hanza City.

Now as before, private banking service is ensured at 23 Elizabetes Street, along with the bank's Board that continues working in this building. Nowadays, the most of back-office units are located in Jupiter Centre. At the beginning of 2014, there were two major moves: ABLV Bank loan centre also moved from 13 Marijas Street to fully renovated premises in Elizabetes Park House, at 21a Elizabetes Street, and ABLV Group affiliate company Pillar occupied its new building specially built in the territory of New Hanza City.

Issue of ABLV Bank shares
In March 2013, at the extraordinary meeting ABLV Bank, AS shareholders made the decision on increasing the bank's equity by 16.4 million euro. The increase was performed by issuing 6 570 registered voting shares. The sale price of one newly issued share equalled 2 499 euro. The issue of shares was performed in the form

of non-public offering, and 38 current shareholders of the bank participated in it. After the issue, the bank's share capital is composed of 127 170 ordinary voting shares and 13 400 employee shares without voting rights. Compared with the share issue performed in 2010, the price of one share increased 2.7 times. This clearly evidences financial return ensured by the shareholders' contribution. The funds obtained as a result of the share issue were invested in the bank's further development.

Internetbank application for iPhone

Making payments and sending orders to the bank became even more convenient and easily accessible due to special iPhone Internetbank application launched in March 2013. The application has been developed in compliance with our corporate style, and it has new intuitive design, suitable to iPhone features.
The application allows viewing the account balances, signing payments and applications, including those prepared by private bankers following the client's instructions, as well as performing intrabank payments and currency exchange round the clock. The login and authorization tools are the same as those in the main Internetbank. The application is available free of charge in App Store.

Internetbank application for iPad

The Internetbank application for iPad is developed in accordance with our brand taking into account iPad peculiarities; it has intuitive design. The application ensures as many functions of the main Internetbank as possible. It is realised in two high-contrast versions: dark and light, and it allows switching between landscape and portrait layout. ABLV Internetbank application for iPad is available in App Store.

Stronghold for secure payments

In 2013, ABLV introduced new techniques and procedures to ensure protection of clients' assets. Our bank has a unique risk management and transaction monitoring system Stronghold. Given excellent performance in relation to payment cards, we expanded its functions, thus ensuring risk management and payment monitoring in our Internetbank. In 2013, we introduced Stronghold rules for responding to suspicious payments or user activity in the Internetbank. The system automatically suspends suspicious payments and passes those for manual check. The payment is executed only after receiving the client's confirmation over the phone.

Intrabank transactions on holidays

From March 2013, our clients can perform intrabank payments every day, 7 days a week, 365 days a year. On holidays, payments submitted via the Internetbank are also executed (payments between the accounts of one client, without amount limitation, except payments from cash accounts; payments to other client of the bank, provided the payment amount does not exceed EUR 10 000 or equivalent amount in other currency). Moreover, we also ensure the following services during holidays:

- currency exchange of amounts below EUR 10 000 at the general exchange rate;
- repayment of overdrafts;
- payments of deposit interest and repayment of deposit principal.

Client Line working round the clock

Since autumn 2013, ABLV Client Line (tel. +371 6777 5555) has been working round the clock. The Client Line specialists provide assistance on the following issues:

- blocking of the Internetbank, authorisation tools, and payment cards;
- unblocking of digipass or PIN-codes of payment cards;
- changing of the Internetbank passwords;
- informing about card account balances and transactions;
- performing payment card activation;
- increasing the limit for cash withdrawal from ATMs.

Euro implementation in Latvia

On 1 January 2014, the euro became the national currency of Latvia. On the night of 1 January 2014, all lats held in the accounts were automatically exchanged into euro at the official exchange rate of 1 EUR = 0.702804 LVL, retaining former account numbers. Along with the automatic account currency exchange, the payment cards linked to the accounts in lats continued to be effective as payment cards in euro.

Investments

Successful year

ABLV Capital Markets, IBAS, which executes clients' instructions on purchasing and selling all types of financial instruments in the world's major stock markets, gained profit of EUR 3.3 million in 2013. As at 31 December 2013, the total assets of the company's clients invested in financial instruments amounted to EUR 780.4 million.

Mutual funds

As at the end of 2013, the total asset value of the open-end mutual funds reached EUR 87.9 million. Since the beginning of the year, the total value of funds has increased by 72.4%, i.e., approximately by EUR 36.9 million. The growth of the funds' value was due to the clients' high interest in the financial markets and their willingness to diversify their investment portfolios by acquiring shares of ABLV mutual funds, as well as due to establishment of four new open-end mutual funds.

New investment opportunities

In 2013, the range of our open-end mutual funds was expanded by four new funds, namely:

- corporate bond funds, which have moderate investment strategy and balanced risk level, and are aimed at achieving capital growth considerably higher than that ensured by deposit interest rates, by investing the funds' assets in corporate bonds with high coupon yield and good market liquidity:
  - ABLV European Corporate EUR Bond Fund, investing in companies of the European Union states, Norway, Turkey, and Switzerland;
  - ABLV Global Corporate USD Bond Fund, investing in countries where companies issue bonds in USD. These are mainly the USA, as well as Latin American, Asian and European countries;
- stock funds with moderately aggressive investment strategy and increased risk level, which are aimed at achieving long-term capital growth:
  - ABLV European Industry EUR Equity Fund — the fund's assets are invested in ETF securities, which replicate the structure of stocks of commercial companies operating in different economy sectors that are traded on regulated markets of European countries;
  - ABLV US Industry USD Equity Fund — the fund's assets are invested in ETF securities, which replicate the structure of stocks of commercial companies operating in different economy sectors, traded on the US regulated markets.

Just like existing mutual funds, the new ones are also managed by ABLV Asset Management, IPAS.

Access to the US stock market

Starting from January 2014, our clients who wish to use the opportunities offered by the stock markets and make decisions on purchase and sale of financial instruments on their own are offered new trading platform Orbis Trader ABLV. This trading platform ensures access to the US stock market — NYSE, NASDAQ, and AMEX stock exchanges.

Financing against pledge of investment portfolio

The opportunities of obtaining financing against pledge of investment portfolio have been expanded — since February 2013 we have been offering financing available not only in USD and EUR, but in RUB as well. The financing in roubles is provided applying the interest rate based on the refinancing rate of the Central Bank of Russia. The total financing rate ranges between 11% and 24% p.a., depending on the collateral.

Since 17 September 2013, most of the services developed for Luxembourg bank have become available to its clients.

Investment portfolio revaluation currency

Earlier, we performed revaluation of the clients' investment portfolios in USD only, displaying value of financial instruments and total portfolio value in USD both in the Internetbank and the reports sent to the clients. Given the growing number of clients and their investment portfolios, starting from February 2013 we are offering the possibility to choose the portfolio revaluation currency. The chosen currency is used in reports on the investment portfolio and also for displaying the portfolio status in the Internetbank.

ABLV bonds

Continuing our bond issue programme, in 2013 we offered several new bond issues to our clients:

- six issues of straight bonds amounting to USD 175.0 million and EUR 40.0 million;
- four issues of subordinated bonds amounting to USD 55.0 million and EUR 20.0 million.

The bond issues were performed in accordance with the bank's strategic objective that is to raise sufficient financial resources available in the long term. Investments in bonds allow our clients receiving higher income than that under deposits and also ensure wider transaction opportunities: purchase, sale, and use as collateral to obtain financing (available only against pledge of ABLV Bank straight bonds), meanwhile retaining the investment amount and planned yield.

In the period from 2011 till the end of 2013, ABLV Bank performed 18 public bond issues, their total face value amounting to EUR 401.5 million. As at the end of 2013, the bonds worth EUR 308.4 million were in public trading. 15 issues of ABLV Bank bonds were included in NASDAQ OMX Riga list of debt securities. According to the Riga Stock Exchange data, in 2013 ABLV Bank, AS bonds ensured 85.86% of the listed debt securities trading turnover in the Riga market, whereas in the Baltics (Riga, Tallinn, Vilnius) trading in our securities constituted 53.98% of the total trading turnover.

New company in ABLV Group — AmberStone Group, AS

Under restructuring of ABLV Group alternative investments, the bank's board made the decision to establish a new company AmberStone Group, AS. The company will invest in private equity, overtaking the investments of ABLV Private Equity Fund 2010, KS, and will also make new investments. One of the objectives of restructuring the alternative investments is to separate the business not related to rendering financial and banking services from ABLV Group, as well as to offer a new investment product to prospective investors: the bank's clients and employees, and other private and institutional investors, ensuring liquidity of those investments. From the very beginning, AmberStone Group, AS, will be a public company, will make quarterly reports and disclose information on significant events, since following the attraction of new investors it is supposed to start trading the company's shares at the stock exchange, not later than in 2015, by including those in NASDAQ OMX Riga official listing.

Rendering services to ABLV Bank Luxembourg clients

Fiduciary deposits and overnights, active investment advisory, convenient and intuitive Internetbank, exceptional client service ensured by ABLV and traditions of the largest European investment centre — these are the major advantages of products offered by our subsidiary bank ABLV Bank Luxembourg. Starting from 17 September 2013, most of the services developed for Luxembourg bank have become available to the clients. The same comfort level is ensured under client service in both banks of ABLV Group, but the bank in Luxembourg is a completely independent company, regulated under other jurisdiction and offering a number of new investment opportunities.

Advisory

New representative office in Vladivostok

In July 2013, the network of ABLV Group representative offices was expanded by one more, the representative office of ABLV Consulting Services in Vladivostok. This is already the fourth ABLV Group representative office in Russia (the other three are located in Moscow, St. Petersburg, and Yekaterinburg). The main task of the representative office is to inform prospective and existing clients about banking, investment, and advisory services offered by ABLV Group.

ABLV in Cyprus

Expanding into new business regions, ABLV Group has been also represented in Cyprus since December 2013 by the regional office of ABLV Consulting Services, which was opened in Limassol. This is already the twelfth representative office of ABLV Group abroad. Cyprus is one of our target regions and was chosen considering the fact that many bank's clients from Russia and CIS states have started businesses in Cyprus and use services rendered by companies registered there.

Opportunities offered by Latvian companies

For convenience of foreign legal entities and for the sake of reducing expenses, ABLV Corporate Services offers the service of establishing a Latvian company. Thus foreign legal entities will be able to reduce costs, using tax benefits ensured by Latvian holding companies, are exposed to more advantageous borrowing conditions and payment fees, and also gain other benefits. Latvian companies also provide advantages for businesses involved in international trade across the eurozone countries.

ABLV participation in exhibitions and conferences

During 2013, ABLV participated in a number of international conferences and exhibitions in the CIS and European states. Already for the second time, the bank took part in the international transport and logistics exhibition *TransRussia 2013*, presenting wide financing opportunities to clients. The bank also participated in the following events: international conference and exhibition Intax Wealth Latvia (Riga), Intax Expo (Moscow), Intax Forum (Kiev), conference Inter Legal in Kiev, conference *Practice of International Tax Planning: Actual Issues* (Moscow), seminar *Your Business: Optimization and Safety* (Odessa), international conference *Invest Pro — Kazakhstan 2013* (Almaty). In most cases, we were sponsoring the events. The representatives of ABLV Group gave presentations on banking products, namely, *Trade Finance*, *Fiduciary Transactions*, *ABLV Bank Luxembourg S.A. is open!*, *Bank Secrecy in Latvia: Theory and Practice.* Due to participation in those events, we managed to make a lot of useful contacts, attract new clients, and prepare the ground for long-term cooperation.

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Property

Considerable increase in transactions

The Pillar Group dealing with property development and trading, achieved great results in 2013, increasing its sales 2.5 times. In 2013, the company made the total of 613 property sale transactions, amounting to EUR 38.6 million. In comparison with 2012, Pillar sold 254 properties for EUR 15.7 million. Foreign clients showed even greater interest in property acquisition, initiated by successfully implemented Latvian residence permit programme. However, the major part of our property sale transactions was made with residents, which indicates the wish to improve living conditions. We made 61 property acquisition transactions with foreign clients, the overall amount of those being EUR 8 million (21% of the total amount of transactions).

Property development projects

Pillar property development and renovation line of business is growing. Taking over and performing complete renovation of apartment blocks, private houses, and individual apartments, Pillar ensures their high-quality interior finishing, and since the beginning of its operations, Pillar has invested the total of EUR 14 million in property renovation. The quality of our work is proven by the fact that most of the properties have already been sold. More information about Pillar and offered properties can be found on our homepage www.pillar.lv.

The development of New Hanza City district

Active works in the project that is important for the whole ABLV Group — the construction of financial and business centre New Hanza City (NHC) — have already started. The first construction works were performed at 28a Pulkveža Brieža Street, where a new office building was constructed for property development and trading company Pillar, a part of ABLV Group, a large parking for 400 cars was also built, and new underground utility lines were equipped. As a reminder, we should note that new business area New Hanza City is being developed in the territory of the former railway goods depot in Riga, at the area of 24 ha between Pulkveža Brieža, Hanzas, Skanstes, and Sporta Streets. There several office buildings will be constructed, including ABLV Bank, AS, main building, as well as a hotel, a conference centre, a shopping mall, and leisure and recreation area. It is also planned to have a green space in the territory, which will become a new city park in the future. NHC development and management is ensured by Pillar. The development of financial and business centre was initiated by ABLV Bank.

Farewell, Lat! Welcome, Euro!

ABLV Group Senior Financial Markets Analyst Leonīds Aļšanskis discusses new opportunities for Latvia with the transition from the lat to the euro.

One of the most significant events for Latvia in 2013 was the invitation to join the single euro currency on the 1st of January 2014. This invitation was made possible because Latvia had met the Maastricht criteria (which evaluate the stability of the financial and economic system of a country). Thus, Latvia became the 18th EU country to join the currency union. Initially, the government planned the transition from the lat to the euro in 2008. However, an increase in inflation in 2006–2007 prevented this idea from being realized.

The transition from the lat to the euro, undoubtedly, will strengthen the stability of the Latvian financial and economic system and will boost the attractiveness of the country to foreign investors.

First of all, this transition will exclude the threat of a sudden devaluation of the national currency. This threat, like a Sword of Damocles, hung over our currency and was especially dangerous during the crisis of 2008–2009. Then, the lat was massively attacked by currency profiteers. In expectation of devaluation in 2009, a deposit interest rate in lats on some days reached 40%. Correspondingly, loans in lats were almost not made. Banks were experiencing great stress along with non-financial sectors of the economy. Since then, Latvian entrepreneurs have understood the importance of monetary stability; they have learnt it in fact rather than in word.

Joining the euro area will improve the growth of foreign investments, as it happened in other countries from Central and Eastern Europe that joined the union before Latvia. This will provide a stimulus to the economy's growth, which has been a top performer recently in regards to the GDP increases among other EU countries.

Also, the transition to the euro will encourage a raise in the country's

Not only has the transition from the national currency been completed, but the Latvian banking system has come under the jurisdiction of the European Central Bank, one of the biggest central banks in the world.

credit rating. This will make the process of state debt refinancing cheaper, thus freeing extra funds in the state budget to stimulate the economy and increase spending on social needs.

Another important consequence of joining the euro area is the impossibility of any banking crises similar to one that happened in 2008–2009. The crisis, caused by the second largest Latvian bank, Parex Bank, cost a lot both to the state and the taxpayers. Today, experts from the Bank of Latvia admit that if Latvia had been a participant in the euro area at that time, Parex Bank would not have crashed. In 2008, many banks in the euro area faced similar or more difficult situations. However, they found help from the ECB, and almost every one managed to survive. Our Central Bank was not capable of helping Parex Bank deal with problems due to the lack of resources.

The Latvian banking system would be, no doubt, the main "beneficiary" from joining the euro area. It is not only the transition of the national currency but the transition of the banking system under the jurisdiction of the European Central Bank, one of the biggest central banks in the world. This will significantly strengthen the reliability of Latvian banks, bring more client activities, attract foreign investors into savings programs and create a reliable environment for loan businesses.

It is worth highlighting that our bank will be among three other Latvian banks and the only Latvian private bank that will come under a direct control of the ECB, starting in 2014.

Just as a reminder, at the end of 2013, finally, all major principles of the Banking Union of the euro area that starts working in 2014 were approved.

The work of the new Banking Union will be based on three main principles: single supervisory mechanism, single resolution mechanism and single savings protection.

To control banks the ECB is establishing a Supervisory Council that will deal with prudential supervision of banks in the euro area. The Council will supervise credit institutions with assets amounting to more 30 billion euro or those whose assets comprise 20% of the country's GDP. Besides this, the three biggest banks in each country will mandatorily fall under ECB supervision. As expected, the list of regulated banks will be compiled from 130 credit institutions of the euro area.

The fact that our bank will be on the list of regulated banks by the ECB both is our achievement and, at the same time, a great responsibility for all employees. For our clients this is an additional guarantee of our reliability and stability.

Payments: today and tomorrow

Payment services, along with financing and investments, are the main banking services. They are the foundation upon which other services, products and servicing structures, are built — everything that we associate with modern credit institutions.

Vadims Reinfelds, ABLV Bank Deputy Chief Executive Officer, opens up the complicated multilevel process contained within this apparently simple operation called a 'money transfer', and reveals current challenges and what to expect tomorrow.

Bank clients have begun to notice that international payments are more and more often burdened by different limitations, and often require additional information. At the same time, all banks are on an equal footing so there are only small nuanced differences. It seems paradoxical that in the current 'small' world, with demolished borders and global communication, people can share information at lightning speed with the most remote places on the planet. So, where is the problem?
Quite simply, the world has changed — nowadays communication is essential and easy. But along with new opportunities, social demands for more thorough control are growing. The reasons are varied: from the fight against terrorism, to interstate competition in the tax arena. With every year that goes by, more compliance in risk management is being imposed on banks. The price of non-compliance is very high: either the termination of the bank's operations, or heavy penalties that make a complete set of bank services, and clients' residence in certain countries, truly unbeneficial to banks. To minimize the risks of non-compliance, certain limitations, monitoring and security measures are rapidly introduced without a systematic approach. This is a universal phenomenon, happening worldwide: in the USA, the EU, CIS states, etc

Banking is one of the many areas in which regulations are becoming stricter and stricter. Remember how easy it was to get on a plane a few years ago? It wasn't much more complicated than travelling by bus or train. Compare that with the current situation… In general, the areas of transport and payments have a lot in common.

Let's go back to international payments — how and when are they being checked and monitored?
The further the distance, the more check-points there are. Internal payments have to comply with only one bank's regulations. However, to execute an international payment — a whole chain of banks is necessary. This chain includes the beneficiary bank, the remitting bank and one or more correspondent banks. Each bank follows its own rules and regulations: some might be unacceptable for business partners, and some may change regularly. Some regulations act as a hidden mechanism with the aim of preventing crime, so they cannot be revealed to the clients or to the other banks involved in the payment process. Each bank creates its own lists of indicators that identify the level of risk for each transaction, classifies conditions for deals to be thoroughly investigated, decides when the highest level of risk needs to be assigned (a so-called 'red flag'), or when a deal has to be rejected and reported to law-enforcement authorities. By compiling lists of undesirable clients, each bank has the right to

refuse any cooperation (direct and indirect) with those who are listed. Correspondingly, each beneficiary bank, remitting and correspondent bank has its own regulations and lists — thus, the further the transfer distance, the more bank requirements are applied.

Certainly, the absence of unique requirements, which can minimize risk, makes the situation even more complicated. The governing principle is the following: banks will continue to introduce measures to protect financial systems against criminal intent. Heads of Compliance Divisions are forced to create limitations themselves. On the one hand, if criminal actions take place, these limitations do not guarantee that sanctions will not be applied; on the other hand, nowadays these limitations complicate the execution of clients' transactions. In the nearest future, creating unique standards is not on the agenda, so new requirements, which are sometimes created with excessive caution, will continue to appear.

In addition, the transaction currency is of the utmost importance — it determines both the requirements the bank has to meet, and the route the money will be transferred via. Summing up, we should remember that if payments are made in US dollars, they must comply with US rules and regulations; if they are made in euro, they must comply with the ECB requirements and the laws of the corresponding EU country; payments in Russian roubles are regulated by the standards of the Russian Federation. So how does this work in reality?

First of all, a bank cannot execute payments in the currency of a country whose requirements it does not meet, directly or indirectly, including payments through correspondent banks. Secondly, if there are no direct relations between the two banks, the payment will be executed through a mutual correspondent bank, or, if they do not have one, through the Central Bank or other payment systems in corresponding countries (e.g. via CHIPS in the USA, STEP2 in the EU). These make up the vast majority of cases, particularly with regard to incoming payments.

But, what does the client have to do with all this? In the end, he/she is just interested in receiving money and certainly, price matters. First of all, it is essential to think about the currency of your payment — think of which country's requirements your transaction will need to comply with. In particular, this is crucial for payments in US dollars, as compliance requirements in this currency are probably the most demanding; these determine a high price for these payments.

Secondly, nowadays, accurate and valid content-wise information on the essence of the payment is required. If the banks involved in the transaction can independently check the information supplied in a payment order, then the risk of payment delay for further investigation decreases. Less strict requirements are applied only between the clients of one bank if the bank is aware of both clients' business activities. The simple 'transfer' from one account to another is already in the past: the absence of criminal intent is not enough to execute a payment — now a clear and legal reason is needed.

Thirdly, both parties engaged in a transaction have to be examined. The country that the legal entity is registered in is important. A country with a dubious reputation may add extra compliance requirements to your transactions.

Therefore, it is worth choosing adjustable solutions. You can 'borrow a good reputation' for your payments from a country with a reliable reputation and strict regulations in banking and business activities. Obviously, a business partner registered and physically present in Latvia with a servicing bank in Latvia will gain more trust from a bank rather than a company registered in a classic offshore country,

"The country that the legal entity is registered in is important. A country with a dubious reputation may add extra compliance requirements to your transactions."

with its management and servicing bank located in different countries. At the same time, companies need to take care of their own transparency — servicing banks have to have easy access to a company's profile either on the internet or in public databases.

As for us, we carry out a check in advance, prior to payment execution, which allows us to minimize the risk of payment failure. At the preparatory stage, the bank becomes the best advisor.

Our world is constantly changing. What will influence payment services in the future? Recently, essential changes have been implemented regarding payments in US dollars. The number of payment centres or banks that accept and execute payments in US dollars has decreased. Nowadays, a relatively small number of US banks render these services, defining the ground rules. Certain players occupy dominant positions. Certainly, this environment, with such weak competition, bears many risks which influence the cost of services and determine the requirements. That is why it is worth diversifying the payment currency. Many clients tend to choose an alternative — a currency which is more convenient and more beneficial in execution — the euro. For instance, in the second half of 2013 we received more payment orders in euro than in US dollars.

The importance of the country of residence legislation is growing as well. Consequently, every year we invest more resources into researching local regulations and practical activities.

Our aim is to protect our clients' capital by delivering current information on new regulations and warning them about potential risks. For that reason, we regularly hold conferences to bring our clients the latest news and discuss topical issues. We are constantly improving our employees' expertise also, primarily those who work directly with our clients — our private bankers and business partners in other countries.

The best choice for raising financing

Clients from Russia are getting financing for their businesses in Latvian banks, first and foremost because the local banks ensure confidentiality and offer lower interest rates. Besides, local clients are returning from Scandinavian banks. Oļegs Sirotins, Head of ABLV Bank Financing Division, talks about the specifics of corporate loans.

How would you evaluate the last year?
With some minor exceptions we mainly financed projects in Latvia and Russia. With regard to Latvia, the market was rather small with a few worthy projects but a considerable number of banks. Due to the open economy, foreign credit institutions can also finance projects in Latvia, thus expanding the pool of Latvian banks to include foreign competitors.

The situation in Russia is different. On the one hand, there are a lot of opportunities in Russia. On the other hand, almost all our Russian clients acknowledge that the economic situation in the country is getting worse. As a result, it affects financing. Clients are getting more conservative.

Are clients in Russia keeping their projects 'on hold'?
Well, yes, our Russian clients' businesses are not growing as quickly as they would like. Anticipating upcoming events, we are also becoming more cautious.

Taking into account the aforementioned factors, we consider the last year to be rather complicated in the financing area. Of course, we would have liked it to have had more interesting events. Let's mention among the most significant events in the last year — the cases of refinancing, when Latvian clients preferred us to competing banks and brought challenging projects to our bank.

What were these projects? Why did they come to ABLV Bank?
For one thing, a couple of years ago ABLV Bank crystallized a new strategic trend in our financing policy — we advanced commercial loans: loans against the pledge of offices, warehouses and commercial premises. And we have begun to notice a growing interest for refinancing among our clients.

Why do clients choose us? It depends on the situation. Struggling in the crisis, some local clients witnessed dramatic changes in the banks' attitude caused by the changes in bank policy. Do you remember the time a couple of years ago when Swedish bankers offered very appealing conditions to their clients with smiles on their faces; however, with time those employees were substituted by other bank employees who maintained tough negotiations with the same clients in the name of the bank. We do not make our clients pledge their souls.

Do the mood swings in other banks work to your advantage?
The problem is the lack of client awareness — not all potential clients are aware of our financing opportunities. Moreover, we offer the same services as the Scandinavians, and sometimes we offer even more. But a so-called average Latvian client looking for financing is used to focusing on Scandinavian banks. We get these clients only when they are not satisfied with the Scandinavian offers, or when for some reason the cooperation with other banks is not successful. In addition, the way decisions are taken is of the utmost importance — the situations when decisions aren't made by the Latvian banks' management make up the vast majority of cases.

For example, a typical example was illustrated by Italian *Unicredit*: in the beginning, the company was active, financing local projects successfully. While planning their business, people counted on *Unicredit* financing and were using their financial products. All of a sudden, the situation changed — *Unicredit* made the decision to leave the Latvian market. We, as a Latvian bank, cannot imagine a similar situation.

Is the saying 'the bank with local capital comprehends Latvian projects better' correct?
Indeed, this is our forte. As a rule, our new clients are Latvian businesspeople disappointed by Scandinavian bankers. The reasons why they are unhappy vary. In simple cases, conditions offered do not meet the client's needs, but in most cases, drawbacks in the relationship matter.

What complications can usually occur in the relationship between clients and banks?
The main problem is related to the nature of decision-making. In our bank, the chain involved in decision-making process is very short: there are 2-3 steps from a loan manager to a loan committee. We don't face situations when loans for large amounts additionally have to be approved by the Loan Committee in Stockholm.

If needed, any matter can be discussed with the top management of ABLV Bank at a personal meeting or over the phone — and you won't have to wait for a week. Efficiency and attention to detail are our advantages. Based on many years' experience, another advantage is our understanding of challenging and complicated deals, related to business restructuring, mergers or splits or the appearance of new co-owners. Therefore, cases when our clients merge business with partners who are being financed by another bank, and convince them to come to our bank are becoming more frequent.

Do you have sufficient funds to compete with Scandinavian banks in getting the best projects to finance? Do the banks with local capital tend to work with more risky and challenging borrowers?
In the local market, ABLV Bank is ranked within the three largest banks according to the number of parameters. Our loan limit amounts to 50 million euro for one project. Few leading Latvian banks are ready to finance this kind of projects alone. To take part in substantial financing projects like this, often banks have to join together in a syndicate. By contrast, we are ready to finance similar projects on our own. With regard to conditions and interest rates, our offer is fairly competitive.

How does economic stagnation in Russia intimidate logistics projects that deliver goods from the EU to Russia?
The cases when our Russian clients, simultaneously operating as project developers, are the main consumers of these services — are very frequent. For example, pledged warehouses are often owned by large wholesalers. Therefore, by monitoring the economic situation with our clients, we are able to react to changes in a timely manner; and adjust the business plan or loan agreement conditions respectively.

What other business areas do you finance in Russia?
Last year we launched a new programme — financing a yacht business: from a keel laying ceremony in England, Holland, or Italy and up to a new yacht launch. Certainly, it is not our strategic expertise, but some of our foreign clients find this offer very attractive.

Financed objects by ABLV Bank: SIA BEINITS complex of business premises and a warehouse; Wellton Centrum Hotel and SPA

"Out of many options we have chosen the one in which we have greater expertise — these are loans secured by commercial property."

Financing a yacht business is the 'icing on the cake' in the financing portfolio. What areas do you consider to be mass, except loans against the pledge of commercial property?
When financing outside Latvia, the bank adopts a very conservative policy. Out of many options we have chosen the one in which we have greater expertise — these are loans secured by commercial property. Residential property in Russia is a very inconvenient pledge for foreign banks; if a client defaults you will get property with inhabitants. High-quality commercial property is always in demand; therefore I am pretty confident in our loan portfolio in Russia even if the situation worsens.

Discussing Latvian projects, I would like to emphasize that we stand out with the scope of advantages. We can finance main assets acquisition, production lines; and the choice in the property market is also diversified. The only area that we avoid financing is the building of residential premises. The construction of commercial property is our expertise. For instance, at the end of the last year a hotel constructed by our client was opened in the old town.

What are the main advantages for ABLV Bank clients from Russia in raising financing in Latvia?
Primarily and most importantly, it is confidentiality. Today the situation in Russia is getting better than it was before, but not so quickly that it's changing radically. As before, Russian banks launch corporate raids; the leakage of the client's commercial information is still common. The consequences of information leakage in Russia can be very serious.

Why is it so important? In order to structure financing precisely, the bank has to comprehend the client's business. In the vast majority of the cases our borrower isn't a Russian resident — it is either a Cypriot or Latvian company, having pledges in Russia.

Let's have a look at a so-called typical client — a company importing to Russia. Usually this business has residential and non-residential sides, the latter deals with procurement and uses our banking services. Considering a loan request, we assess the client's complete business: having analysed the financial results of all holding divisions we can come to the right conclusion. Most importantly, they know that Latvian bankers are interested in loan repayment not their businesses.

The comprehension of the overall picture enables us to offer better conditions. Not to mention our interest rates which are more beneficial than one of our Russian counterparts — on average by 1-5 per cent.

What is the correlation between local and foreign clients in the ABLV Bank corporate loans portfolio? What are the plans for this year?
In the current portfolio, there are two thirds local clients and one third foreign ones. Talking about our plans for this year, we are going to reach a fifty-fifty correlation. According to bank standards, the loan amounts are relatively small; in 2014 we are going to grant loans totalling around 200 million euro. Within the programme of trade financing we are going to finance deals with oil products and metals. We are pleased that we have not faced any emergencies or complications with the loans granted during the past few years. The performance of the companies is robust.

Therefore, I would like to invite Latvian and foreign clients to assess our offers. Perhaps, we might become the best choice for raising financing.

The main advantage of fiduciary services is confidentiality: the bank places funds on behalf of a client but in its own name, thus keeping the name of a deposit holder confidential.

Luxembourg: fiduciary services

During the first year, since our subsidiary bank, ABLV Bank Luxembourg, S.A. started to work it has significantly broadened its spectrum of services — now offering fiduciary deposits and loans that are made on behalf of a client in the bank's name. Aivars Rauska, ABLV Bank Luxembourg, S.A. Deputy Chief Executive Officer, explains the benefits of fiduciary services.

We started with deposits

Our subsidiary bank in Luxembourg started to render banking services in September 2013, and fiduciary deposits were one of the first services that we offered to our clients in the cooperation with the three most reliable Luxembourg banks with a high credit rating.

Nowadays, in the list of ABLV partners there are 14 banks from six countries, where clients in the name of ABLV can place money on fiduciary deposits. This list includes some credit institutions from Russia, Belarus, Azerbaijan; and we are going to widen the net of ABLV partnering banks. We follow clear-cut criteria for selection: the volume of assets, a credit rating or a compulsory position in the top ten banks of the corresponding country.

Countries and yields

From a client point of view, a fiduciary deposit is one of the alternatives to place available funds. It is generally short-term with maturities ranging anywhere from 3 to 12 months. Interest rates on fiduciary deposits vary depending on a country, credit institution, deposit amount and term. For instance, interest rates in leading Luxembourg banks comprise less than one per cent, while in the CIS states credit institutions listed as our partners offer interest rates between 3% and 8% per annum on up to 12-months deposits. A client has to bear in mind that risks in the CIS banking sector are higher. Besides, there is Deposit Guarantee Association for deposits in Europe, although it does not cover fiduciary deposits.

Decisions to place funds onto fiduciary deposits depend on a risk profile of a client, in other words, his/her readiness to take risk bearing in mind an expected yield. One client can invest a part of funds into ultra-reliable Luxembourg banks, another part into Azerbaijan and Russian credit institutions to diversify risks and increase an average yield. Someone, for example, who is mostly focused on risks minimization, will choose 0.3% per annum exclusively in Luxembourg banks.

Moreover, a client can name any other banks not listed among our partners, where one would like to place funds in the name of ABLV. We have handled these cases as well. Among ABLV clients there are business professionals from the CIS states, who know a lot about banking sector, in general, and possess particular knowledge about local credit institutions.

Confidentiality and safety

Why our clients choose to place money on fiduciary deposits? For some clients confidentiality is the main advantage: the bank places funds on behalf of a client but in its own name, thus keeping the name of a deposit holder confidential.

This is also a matter of convenience. For instance, an Azerbaijan bank offers maximal 8% per annum on a 12-months deposit. But let's be real: very few businessmen would buy a flight ticket Riga–Baku and fly to Baku. Through Luxembourg bank one can simultaneously and efficiently make fiduciary deposits in several countries, choosing among best options. In reality, the bank acts as a deposit aggregator for a client. Another advantage of fiduciary deposits is a possibility to invest in different currencies (Swiss francs, pound sterling, euro and dollar); plus due to short terms planning of cash flow remains efficient.

Furthermore, the target investment level in ABLV Bank Luxembourg in active investment advisory starts at 300 thousand euro, but the initial amount for fiduciary deposits is considerably lower, equalling 35 thousand euro.

Wide Segment

Fiduciary transactions are a wide segment of services that include credits, overnights and holding of business assets.

ABLV Bank in Riga has been ensuring fiduciary transactions for 10 years since 2004, so we have significant experience. We anticipate a great potential in this area, therefore, we are going to develop extensively these services in Luxembourg.

A great advantage of the country is an independent developed legislation that regulates all fiduciary transactions. From a legal viewpoint, a client in Luxembourg is well protected, but economic risks always remain. There is no such legislation that regulates fiduciary transactions in Latvia, although banks are really interested to have one, as fiduciary services are rendered in Riga as well.

Appetite for risk

Where is the demand for fiduciary services greater — among clients from the Baltic States or the CIS states? I believe it is worth examining clients not according to regions but to their appetite for risk. Some are ready to take bigger risks to get 8% per annum, while others agree to a safe 0.3% — to sleep a peaceful sleep. This is a typical myth about Latvia: as if belonging to the Nordic countries, people in Latvia are more cautious. In reality, this is not true! A geographical location does not matter. I would rather consider a psychological aspect — if a person has earned his capital relatively quickly, he is more inclined to take risks.

Securing funds and information

Our IT-specialists share opinion that the system of information security can never be perfect, and its improvement process is endless. Therefore, information security and its improvement always have been and will be priority issues for ABLV — is convinced Rolands Citajevs, ABLV Bank Chief Information Officer (CIO).

The one, who does not look ahead, stays behind. ABLV complies not only with the regulations of the Data Protection Authority, but we often impose even stricter standards for ourselves. For example, the ECB directives only plan to apply the Risk Management System in the Internetbank in 2015, but in ABLV this system has already been implemented and has been effectively working for several years.

Roland, they say, if you know the enemy and know yourself, you need not fear the results of a hundred battles. What danger is comprised today in our friend and personal assistant — "a computer"?
Nowadays, we witness a growth in cybercrimes in many economic sectors around the world. In the banking area, it is worth noting two most popular types of cybercrimes. Both are related to system penetration by viruses received in email or through unchecked removable media.

In the first case, so called, malicious software in the browser acts as an intermediate between a client and the Internetbank. User is sure he uses a familiar Internetbank, but in reality there is a "transparent sheet" of malicious software on top of the Internetbank. The substitution of payment details happens when user signs and submits a payment. Funds, in fact, are transferred to a different beneficiary. The bank identifies this payment as signed by a client. And indeed, a client has signed it. However, one has no clue that payment details have been substituted.

What can the bank do to avoid this situation?
There are several methods: we constantly inform our clients how to minimize the likelihood of a fraud, and we regularly take small actions to complicate tasks for fraudsters. Let's take a recent innovation — the guilloche pattern. In the classical theory it is a set of repetitive ornate lines, that form a very precise intricate, difficult to repeat pattern. It is applied in architecture, jewellery manufacture, as well as a safety feature in banknotes and securities. Our guilloche pattern is aimed at increasing the safety, but only in the Internetbank. So, the signature of a payment is processed on a separate screen, where information is displayed not as a text, but as a picture with the guilloche pattern. As a result, we complicate for hackers an online automatic analysis and the substitution of payment details.

It sounds very convincing. It seems that this simple algorithm protects from a theft!
Not really, as I have mentioned before, we just complicate the task for hackers. As a rule, they do not try to overcome minor difficulties — they quickly give up if any complications occur and start looking for an easier target.

Well, fine, but what about the second type of theft?
In this case, malicious software does not aim at substituting payment details;

instead it simply analyses and gathers useful information about user: e-mail address, regular Internetbank transactions, etc. Then it sends this information to fraudsters. They analyse where funds are transferred, how often, in what amount and with what payment details. At some point a person gets a regular invoice from a partner in an email. It looks fine at first sight, nothing seems extraordinary — it contains a sender, a regular letter text, a subject line, an amount, invoice details — all are regular. The only exception is beneficiary's banking details. Having no doubts, a client enters information in the Internetbank and signs a payment made pursuant to a fake invoice.

It sounds hopeless! Won't even the guilloche pattern help? Then what?
In the Internetbank we use the risk management system. According to certain rules we discern anomalous transactions and uncommon user behaviour. These abnormalities are analyzed and, in case, we have any doubts, we block a potentially dangerous transaction or user. Then we get in touch with a client to make sure everything is fine. We stop risky looking payments, for example, a payment of a large amount to a new beneficiary. We will execute it only when we get an additional confirmation from a client via different channels of communication. It is important that a client takes our request seriously and confirms information with a partner. Only then, a fraud can be prevented and funds are saved.

We also compile a "black list" of payment details, which were once noted in fraud transactions. Nowadays, it is not so easy to open a bank account, so this method along with other security measures is very effective.

Obviously, clients should be happy and grateful for that...
Clients, whom we've helped not to be involved in a fraud, are very grateful. In general, our clients are very positive about new safety measures, including phone calls for payment confirmation. They realize that these measures are considerable bank's efforts to secure their funds.

Moreover, a close cooperation between a private banker and a client is also a certain element of security. The more a private banker knows a client, the fainter possibility for a fraud payment exists, as untypical payments will draw our attention. We have always taken a client-focused approach — turning it into our philosophy. Last year we finished the implementation of the Customer Relationship Management system (CRM).

However, security is not the only reason for the implementation of CRM, is it?
No doubt, the main aim is to improve the quality of client service. CRM allows us to gather, structure and group information by a client. It improves the speed of information search requested by a client. A client is happy to get everything one needs quickly just by contacting the bank.

Nevertheless, we should not forget another important aspect — security. The centralised storage and processing of client information allow us to undertake unprecedented security measures — starting from encryption of the data base and finishing with strict division of access rights. Plus, it ensures the quality and a full spectrum of information. All these measures allow us to deliver high-quality service to our clients, create an atmosphere of trust, and make them feel that we take care of them. We are aware of their needs and their information is protected.

A bank is a conservative institution. Nevertheless, clients like innovations and appreciate new technologies. What can the bank offer to clients in this respect?
We were one of the pioneers, who developed an Internetbank application for iPad. Besides its convenience, we believe this software for mobile platforms essentially increases security. First of all, the risk of infection is decreased — if viruses for Apple gadgets running on

> "The centralised storage and processing of client information allow us to undertake unprecedented security measures — starting from encryption of the data base and finishing with strict division of access rights."

iOS system exist, they are definitely not as many as for other platforms. Secondly, we've reduced the possibility of above-mentioned malicious software penetration. Thirdly, we can use a gadget itself as a means of user authentification (recognition) in the Internetbank — all these factors along with standard safety measures strengthen security.

Our clients live busy lives and their need for mobility is constantly growing. To meet their requirements, in 2013 we launched a new service — the preparation of payments and applications by a private banker instead of a client. Now you can simply call the bank and ask to prepare one or more payments, for example, to repeat an earlier executed payment or to email an invoice to be paid. A private banker will call you back, when payments are ready. Then, the rest that a client has to do is to login to the Internetbank and sign ready payments for submission. When 90% of your time you spend in front of the computer screen, you may not appreciate the benefits of this service. However, if you are travelling or relaxing by a swimming pool, it is easy and convenient to assign meticulous work to a private banker, and all you have to do is to check results and sign payments.

It is generally believed that 70% of threats to information security are hidden within the organization. Client information may be very tempting. How to stand against these risks?
The principle of restricted privileges is most important. Every employee is granted a limited access to certain data necessary to perform work obligations. If you render services to a small group of clients, an access to other client information is blocked for you.

We have implemented the Data Leakage Prevention system. Now being developed it allows us not only to control information flows but to set certain rights for users: rights to duplicate, print out, email information, etc.

Leakage of data may happen carelessly without deliberate attempts to cause harm. For example, an employee has printed out some documents and forgot copies in a meeting room. We follow a strict "clean desk" policy, but we needn't forget that we are all humans, so we tend to make mistakes. The system of print out control and special marks on copies helps us to solve this problem efficiently and take necessary and timely steps (the system shows information on an employee who printed out, when, etc).

Another valuable contribution to security was made in 2013. We entirely switched over to virtual workstations. As before, a person works in the Windows operating system, using all common office applications, such as Word, Excel, e-mail, banking software, CRM and others. But calculations, estimations, data storage are done on the central server. Positive effects of its implementation are numerous and it is rather difficult to enumerate all of them: starting with energy savings, aesthetics (there is a small box on the desk instead of Tower PC), finishing with a convenient administration and boost in security.

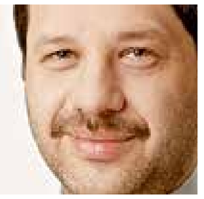
I believe that information security and storage reliability are the most important achievements of implemented modernization. Now it is much easier to control what is being stored on a workstation, maintain data back-up, set and manage safety instructions. Now the administration and maintenance of the system are more convenient. Today the installation of new software programs, updates, changes of workstations, their capacity and other parameters can be done distantly, literally, by a click of a computer mouse. An employee can login to a workstation from anywhere on the ABLV premises — in a meeting room or other rooms, even in representative offices, and all information will be displayed as it has been left, including unsaved documents in MS Word. When employees get an efficient access to information, then they deliver high-quality service in a timely manner.

We have discussed different topics, but talking about virtualization and mobile applications, we constantly raised an issue of security. Why?
As I have mentioned at the beginning of our conversation, reliability and information security are the most important focuses at our work. We cannot relax and say that we have developed an absolutely secure system. This is impossible. We are constantly improving our systems and looking for new solutions. As you know, fraud crimes are also being enhanced, posing new threats. Besides, we understand that cybercrimes are not committed by students. In order to withstand a serious enemy and emerging risks, we have to learn and improve constantly. We value our reputation of a reliable partner among our clients and will do all possible to justify their confidence.

Former computers and screens that had served faithfully until the switch to virtual workstations

"We advise our clients to keep funds in safe instruments with fixed yields. They already have to face many risks in their everyday business. Therefore, our aim is first to preserve funds and then to increase their capital."

Safe harbour or surfing?



Today, clients treat savings with caution as they try to keep their funds in very liquid assets, but unfortunately most of them are unprofitable. ABLV Asset Management and ABLV Capital Markets Chairman of the Board, Leonīds Kiļs writes about the financial markets, where growth is expected and where to earn.

Investors are being cautious

A recently popular approach to investments among our clients can be described as "invest nearby and take anytime". Certainly, memories of 2008 are still very vivid, when everything that was high-quality and safe turned the opposite.

The old truth says that greediness and fear fight in every investor. On deposits with a 5 per cent interest rate, greediness usually wins. Today, when interest rates are close to zero, fear wins. We may say that 2014 is going to be a period of careful investing.

For those who are ready to invest in shares, the American market remains the most attractive. We are likely to witness growth up to 10 per cent this year, as well. However, I assume those who are interested in shares, most probably, hope for a higher yield. One needs to focus on the priority areas.

Shares: riding waves

A theory claims that various sectors show the best results in different phases of the economic cycle. During the crisis, the pharmaceutical and food production sectors always act as shelters for safe investments. However, when a growth tendency is detected, people immediately tend to invest in internet companies, start-ups and other trendy businesses.

At the moment, we are living in a period of recovery. Intellectually innovative sectors such as processing industries, the internet and communications are developing with positive dynamics. I think we may forecast a potential yield reaching the level of 12–15 per cent per annum. Assess the trendy sectors and start riding waves. Therefore, in an effort to meet our clients' needs, we have made a decision to launch two new stock funds, investing into certain sectors of the national economy. Russian stocks? I would not consider this market to be attractive in 2014. First of all, it is influenced by active devaluation of the rouble and by a substantial part of investors leaving the market; secondly, by a worsening situation in the economy.

Bonds: less risk

There are the two new ABLV funds. Investment in bonds has already become our traditional business. We have expanded a line of funds by global corporate bonds, primarily by American bonds. The market in America has recovered: companies have gained back their earlier undermined credibility and the banks are full of funds. According to risks and yield, this segment suits in between our existing programmes: reliable government bond fund with low yield and more risky CIS corporate bond fund. Our rate of return is around 5 per cent annually, whereas government bonds are aimed at 4 per cent and CIS corporate bonds strive to 6–7 per cent per annum.

All of our investment programmes are rather conservative. Last year bond funds ensured a 3 per cent yield, and stock funds reached the yield of 8 per cent. We think it is unnecessary to offer our clients more risky instruments, as they have to face many risks in their everyday business. On the contrary, our aim is first to preserve funds and then to increase their capital.

Attraction to gold

Usually everybody is curious about gold: "What will be happening with prices?" Now, we are witnessing that current demand for this metal is proportionate to price dynamics. When the price of gold was growing, everyone thought that it was "a safe harbour" and it was worth buying. However, when prices began to fall, and the theory of "a safe harbour" shattered, the demand for gold also dropped. Today, there is a growing rather than a falling demand for gold. We suspect in 2014 the demand for gold might return.

Not so long ago, gold was considered to be the main savings instrument. Over last 40 years, it hasn't lost its aura, even during the crises. Many people believe that good savings should be tangible. Therefore, buying property is often considered a good savings option, as people tend to think that it won't disappear or nobody will take it away. This opinion is certainly very subjective. There is no savings instrument that can give you 100 per cent confidence. What will happen in 10 years with the US dollar, the euro, property (e.g. property is being flooded in London now) or with gold, nobody knows.

Time as an ally

The old truth says: "time is the main ally of an investor." Those who can afford to wait, sooner or later, will earn. Nevertheless, in the markets short-term fluctuations were, are and will always be. Therefore, it is important to manage your assets wisely. We are developing this part of classical *private banking* as well. As everyone has a family doctor, each client has a family banker. It's essential when people can come to the bank, talk about what is happening in the markets and think about what they can do better.

More often our clients want to earn rather than just to keep funds in deposits. What instruments to use? This is our task to offer the best options.

We could see thousands of new Latvian companies

Developing the holding regime since 2013, Latvia can hardly compete with the Netherlands in attracting global business grants. Our niche is supplying services to companies with a turnover of more than 10 million euro. Head of Asset Structuring Department in ABLV Corporate Services, Vladislavs Hveckovičs speaks about the nature of doing business in Latvia.

Dozens of holding companies have chosen Latvia

The holding regime in Latvia has already existed for more than a year, and it turned out to be in demand among ABLV Bank clients. Latvian companies are predominantly established to invest in business located in CIS states. These companies are used to finance business activities abroad either by loans or with share capital injection.

How many holding companies have been established in a year? If we talk only about the bank's clients, they are dozens of companies, a relatively small amount. Yes, right now, it is not critical mass, not hundreds or thousands. But there is definitely an interest; our clients are contacting us regarding this matter all the time. In these circumstances ABLV Corporate Services always examines the client's need in detail, and if, for example, instead of a Latvian company another jurisdiction is needed, we advise on the most suitable one.

ADVISORY

Vladislavs Hveckovičs (in the middle) with colleagues from ABLV Corporate Services

Cyprus: difficult to find an alternative

Has the demand for Cyprus jurisdiction changed? I should say that often when we mention Cyprus, a lot of our clients make a face, their reaction is strongly negative. Even those clients who worked through Cyprus companies without opening accounts in local banks and who did not suffer any losses as a result of the partial deposit nationalization, even those clients treat this area with great caution. Perhaps many don't even remember real problems but still remember that such existed.

Of course, the Cyprus banking system suffered severe losses. But we have to give credit to Cyprus for their company law. Cyprus holding regime remains one of the best in the European Union. The legislation is rather liberal and focused on delivering services to non-residents and legislation is easy to understand and, in general, it is very pro-business.

However, it may also happen like this: a client is willing to find out about all jurisdictions except Cyprus. But as a result, having examined all alternatives, we still have to choose Cyprus. Certainly, those who have got their fingers burnt in local banks most probably would not like to work there again. However, those who have not suffered any losses often still choose Cyprus.

Working with Cyprus for our clients is easy also because two ABLV Group subsidiaries are present there.

Follow the Netherlands' good example

In spite of Cyprus' popularity, I don't think that this jurisdiction in terms of regulations is the one Latvia has to use as an example. 10 years ago it was an offshore zone, and this past still resonates with Cypriots. For example, Cypriot auditors themselves confirm that to get an annual report prepared within half a year in their country is just impossible, though we have become used to it here in Latvia. It takes 18 months to draw it up there. Latvia has a tangible advantage in the issues of documentation management and, in general, in the approach to record keeping.

I would rather compare Latvia with such prestigious jurisdictions as the Netherlands and Luxembourg. In these countries there is thought-over legislation focused on rendering services to international business. They are not afraid to attract transnational companies. As a result, around 80 per cent of the largest global players such as Exxon, Google and Facebook have their subsidiaries or holding companies in the Netherlands. Even Russian Lukoil has more than 10 subsidiaries there as well.

Certainly, in competition for big businesses such as Exxon or Google, Latvia cannot compete with countries that have been professionally working in this area for more than 20-30 years and getting support from the state. Our niche is companies with a turnover of 10-50 million euro. No matter how trivial it may sound, our main advantage is low costs — Latvian accountants and administrators get lower salaries than their Dutch counterparts but work similarly well.

Consistent rules of the game

It is crucial to ensure a feeling of stability for investors. Therefore, it is essential to avoid a situation in which in a couple of years the regulations in the holding regime are suddenly changed. If the state clearly states: "Yes, we welcome holding companies in our country", then the situation when we attract thousands of holding companies to Latvia within several years becomes realistic. Right now we see this interest. Our clients, who did not even think about structuring their businesses in the international arena before, very often choose to do so today due to instability in their region.

The Latvian legislation is much better than legislation in classical holding jurisdictions. For example, in the developed holding regime of the Netherlands there are many complicated legal norms that require a lawyer's attention. At the moment our regulation is much simpler, bearing few "risk zones". In reality this means that expenses for company maintenance are significantly lower, as legal rulings are not required on every deal.

> "Our clients, who did not even think about structuring their businesses in the international arena before, very often choose to do so today due to instability in their region."

Turnkey service

We offer a complete set of services. When contacting the bank, a client may know nothing about Latvian companies and legislation, or how to establish a company — we deliver all these services. We produce everything ourselves, starting with the registration of a company, including changes in the statutes; accounting; and finishing with tax advisory. This is a true "one stop" service — we answer all questions and deal with the client's problems ourselves.

At the moment we have more than 10 accountants in ABLV Corporate Services who deal with the accounting operations of our clients, delivering outsourced service. All of our accountants speak Russian and know tax law very well. We offer the services of professional directors as well: we help to find a local director who as a member of the board will manage a Latvian company.

Well-known trading companies

As a rule our client is a businessman from one of the CIS states working in trading business. Working, as the ABLV Group with trading clients for many years, we have gained valuable experience.

The registration of a trading company in Latvia is a rather easy task. In our country value added tax (VAT) fully complies with the EU VAT directive. Latvian companies easily receive VAT registration number and with that — a free access to the European market. If a Latvian company exports goods or services to Russia, for example, it can directly buy goods without paying VAT in all EU countries, using a so-called 'reverse mechanism'. There is no need any longer to look for particular trade partners or apply for VAT recovery. In current international trade with correct document execution, VAT simply does not appear.

If a client works simultaneously in Russia, Ukraine, Belarus and Kazakhstan, it is rather difficult to manage business from the country of residence due to bureaucracy and currency controls. To establish a trading company in Latvia is easy for operations and with an outlook to get into the market of cheap financing. As a matter of fact, here we also follow the successful example of the already mentioned Netherlands. As you know, that country historically developed its economy by trading, and Riga has a similar history, being one of the most important international trade centres in the past.

In the nearest future we believe our clients will establish several thousands trading companies in Latvia. Fundamental infrastructure, including banks, logistics, and legislation, already exists — the physical presence of trading companies is the last missing element in the overall picture. The clear, currently growing demand for trade companies and our clients' recommendations are the main factors that develop our business. Clients are satisfied with the quality of services, price, and absence of painful surprises.

We are pleased that our clients, who in the past were not physically present in Latvia, decide on opening back-office and production centres here. In general, the reason is clear: salaries in Moscow, St. Petersburg, and Kiev have increased significantly, and office rent is very high. Therefore, a small back-office in Latvia costs fairly little. Finding a team of 5-10 employees is not a problem at all. Work culture and discipline in Latvia are traditionally at a high level, but salaries are lower than in Moscow. And don't forget — almost everybody speaks fluent Russian and English.

Pillar: enough work for the next 30 years

In 2013, Pillar, a part of the ABLV Group, sold 613 properties. Whereas, 70 per cent of the buyers of the apartments in new projects were non-residents, mostly people receiving residence permits in Latvia. Ieva Valtere, Chief Executive Officer of Pillar Management, tells about possible development of the property market in the light of changes in the residence permit programme in the future.

The year of active sales

How was the past year for Pillar? Well, it was successful; we did a lot of sales. A healthy growth of prices was noted in all residential property segments, both in apartment blocks and new projects. Nevertheless, Pillar had a clear vision how to develop. Last year we sold 613 properties — and it was two and a half times more than previous year. In monetary terms it equalled 38.6 million euro, including 134 apartments sold in new projects.

Talking about our new projects, we should note that 70 per cent of all buyers are foreigners, in most cases, applying for a residence permit. Usually our buyer is a ABLV Bank client, who is using a complete spectrum of banking services. For such clients we are looking for better options to invest in property. A lot of people buy apartments in new projects as pure investments, in order to rent them later out. These cases comprise two third of the total number.

For our clients we manage a complete process of property purchase; if needed, we can find tenants. All the routine is our responsibility. In fact, we do all the job — our clients will have to receive rent payments. Very often, a client initially thinks that he/she buys an apartment as an investment. But having come to Riga and Jurmala several times, a client starts liking here. And in the end, he/she decides to live in the apartment himself/herself.

About residence permits

The fact, that those who are applying for a residence permit may buy several apartments totally equalling 150 thousand euro, is very favourable. In real life, it works as following: a client buys two apartments: big and smaller, one is intended for rent, and another is for personal usage, in other words, accommodation. However, recently accepted amendments to Immigration law imply that this situation will last till 1 of September 2014. Then, the level of investment will be raised up to 250 thousand euro. But, worst of all, a client will not be able to buy several apartments to equal this amount. We believe this to be the most negative change that will affect the whole property market.

It will definitely have a negative impact on developers as well. It isn't a secret that the developers are mainly focusing on buyers from Russia and the CIS states. Therefore, apartments in Riga by space and planning are designed, in such a way, so that their total price amounts 150 thousand euro. Or two apartments with the total price of 150 thousand euro are constructed in one building, so that a buyer can get a residence permit having purchased them both.

The raise of investment level to 250 thousand euro will seriously affect all projects that are being built in the areas neighbouring the city centre. Now we tend to claim that property prices have grown due to

PROPERTY

the demand of non-residents, especially in the segment of average price tier. Now it will afflict more expensive properties, mainly located in the 'quiet' centre in Riga and in Jurmala.

Let's conclude by saying — this draft law on a residence permit has already caused great uncertainty in the property market. The main activity in the property market in Jurmala is, mainly, ensured by foreigners. Very few locals can afford to buy properties there. But now fierce competition among developers is prevailing in the market.

Expensive centre. Forecasts

Today, the market supply in the 'quiet' centre of Riga is limited. It is rather difficult to buy anything in good places. These amendments in the law on residence permit will affect the whole property market, including the work of Pillar. However, our company is in a better position: we have always worked with long-term plans in our mind, taking decisions that advance the development of the market. For example, the projects, that have been already commissioned, are almost sold out. There are not more than 1-2 available apartments in each project.

At the same time, a new project *Miera Park House,* which we are building today, will be commissioned at the end of the year. And as it is a premium class apartment block with relatively large apartments, the price level will reach 250 thousand euro. Therefore, we feel secure about the amendments in the law. Major changes are likely to influence the segment where today apartments are sold at the price of 150 thousand euro.

The correction of prices

There are many projects in Riga, where e.g. prices of a two bedroom apartment with 65-70 square metres are overvalued and pulled up to this level. After the raise of investment level, there will be no sense to pay 150 thousand euro for these properties. In these apartments the real price of a square metre is 1.5-1.8 thousand euro, while nowadays they are being offered at more than 2 thousand euro per square metre. In this regard, the number of buyers in the market will shrink causing a fierce fight for a client among developers. One of the effective tools of attracting clients will be a price fall. As a result, developers and the construction industry, in general, will suffer financial losses. Correspondingly, a large apartment in an expensive segment now costs 200–220 thousand euro, then its price will be boosted to 250 thousand. This segment might anticipate a serious fight for a client.

The situation in Jurmala is opposite where now active construction works are taking place. Prices in new projects are high enough with apartments being sold for 250 thousand euro. Our projects in Jurmala have been sold out, with only a couple of available apartments left.

Property purchase: with or without a mortgage?

Among a wide spectrum of banking services we offer mortgages. No doubt, for non-residents our interest rates are more attractive than those of Russian banks. However, I wouldn't say that a lot of non-residents obtain mortgages in order to buy property — these cases make up less than half the deals. Our property buyers as a rule have enough of their own funds.

At the same time, more and more local clients are taking bank's mortgages, comprising 85 per cent of the total number of the buyers. In 2012, a lot of deals were executed with own funds while properties were purchased as investments. However, last year we noticed a strong trend — Latvian residents strived to improve their living conditions rather than just to invest. Who was that local buyer? As a rule, it was a middle-income family looking for a two or three-bedroom apartment at the price of 800 euro per square metre in apartment blocks somewhere in the residential districts in Riga, whereas local clients with higher income chose apartments in new projects paying 1500 euro per square metre. A moderate growth of prices was a positive factor in comparison with a rapid one witnessed before the crisis. Now a square metre in apartment blocks costs 800 euro, in comparison with prices in 2007 that skyrocketed 2100 euro.

And in these market circumstances we continue to grant mortgages.

It is worth mentioning that we are the only ones in the market who are actively developing earlier overtaken unfinished objects, as well as projects bought in the market. We invite best designers; as a result we cooperate with a great number of professionals. Well yes, other banks also renovate overtaken apartments in new projects, as they understand that to sell partially and fully finished properties is difficult. We came to this conclusion long ago. Our client wants to have a ready-made apartment with the only thing left to be done by him/her — the choice of furniture. Therefore, all projects that we overtook in the crisis were finished and sold out some time ago. Even today we continue constantly to receive positive feedback from our clients. That is the way how we have gained enough experience to start our new grand project — financial and business centre *New Hanza City* in the centre of Riga.

New Hanza City — a new financial and business centre

What are the deadlines for this project? Well, when I am answering this question, I usually joke and say that we will have enough work for the next 30 years. The territory is huge equalling 24.5 hectares. Of course, this is a big challenge for us — this is the only project in Riga of this size. The first stage of the project, the construction works of the main bank building and administrative building, will be started within a year. Now we are finalizing last agreements, then construction works will take 3-4 years.

The second stage of the project is the construction of a central part of the quarter, residential houses and a city garden, that is planned to be open during the day and close at nights. Now we are getting ready for a contest. In 2 years' time we will know how this part of the quarter will look like. I believe by 2019-2020 both stages will have been completed.

Last year we brought the materials that would be used for the exterior finishing of the bank building; out of them we constructed a so-called mock-up. We follow the best world practice: at least during a year we will be assessing how different exterior finishing materials react in the city open-air environment. We take real care choosing materials very thoroughly. Different natural stones in various colours for façade, and different types of glass for windows have been chosen and erected — now we are observing — how they look today, tomorrow, in a month, in a year…

We will continue to build and develop

As to remained properties on our balance sheet: there are apartments in apartment blocks and new projects in various residential districts of Riga. In this segment apartments are mainly bought by local residents. We expect 2014 to be as active as 2013. We don't forecast any obstacles yet that can prevent prices from growing by 5–10 per cent. Meanwhile, our property portfolio, which was formed in the crisis, is declining year after year. Approximately, in 2 years' time we are planning to sell it out.

What are we going to do after we finish *New Hanza City*? Taking into account our well-established structure with a knowledgeable team that is constantly developing — certainly, we will continue working in the far future. For sure, we won't undertake any new projects as long as we have enough work in *New Hanza City.* Bearing in mind the size of the project, 'enough work for the next 30 years' might be although an exaggeration, but a slight one.

The territory of the future business and financial centre, New Hanza City; The mock-up made with sample materials for the facade of a new ABLV Bank building

First impression — elegance in each and every detail

In our life details matter — they make regular things and events unique. Last year we paid particular attention to the participation of ABLV Group companies in exhibitions and conferences. "With attention to detail we have developed a new concept of the ABLV stand", tells Marketing Department's Brand Manager, Natālija Hramčenko.

Every year ABLV Bank participates in a large range of international exhibitions and conferences, mainly in the countries of Eastern Europe and Latvia. In 2013 ABLV took part in ten international conferences in Moscow, Yekaterinburg, Baku, Kiev, Odessa, Donetsk, Almaty and Riga.

The main aim of a new exhibition stand was to raise the ABLV brand awareness and increase clients' loyalty. The primary focus was given to a thorough approach to details. It helped to create unique and elegant harmony; and it highlighted the level of quality. In ABLV Bank we believe that every detail matters — details create uniqueness. Attention to detail can be felt in every single element in the interior of the ABLV headquarters at 23 Elizabetes street. At first sight it is apparent that qualitative materials, reliable and well-known brands, exclusive accessories are important to us. When developing a new concept we kept in mind as a benchmark — our main front or "face" — the design of the headquarters in Riga. As far as possible we tried to implement its design elements and the convenience of service at a new stand.

Specially for exhibitions the concept of a small stand (12–18m²) — a lightweight modular construction — has been developed. The size of the background stand is easily adjustable depending on available space. This has become easy to realize as a stand construction consists of light 60*60 cm aluminium sections. The design and placement of advertising panels, along with storage lockers and shelves can be adjusted to specific needs of a particular event. To equip our stand we have chosen exclusive furniture of well-known brands: arm-chairs and a coffee table by Fritz Hansen, high stools by Jim Montis, solid furniture from oak veneer sheet by a Latvian company — MD Noass. There is similar furniture in the meeting rooms in the lobby of our headquarters.

The first large-scale project was the bank's participation in the Transport and Logistics Exhibition and Conference "TransRussia 2013". In 2013 the bank's stand of 66 m² was located in the Latvian national pavilion sharing it with the largest Latvian transport and logistics companies: LDZ Cargo, Man-TESS, Baltic Trans, the Freeport of Riga Authority, the Freeport of Ventspils and Liepaja Authorities, and others.

The design of our stand was worked out by a Moscow company, ComUnit, with our vision taken into account. The stand design mirrors the design of the headquarters in Riga. Designer furniture, qualitative mouldings, exclusive accessories, and a customary level of service created the atmosphere of reliability and convenience. Plants in pots, warm aroma of coffee, ripe apples and welcoming smiles of our staff also helped to make the place warm and cozy.

Paying particular attention to the approved quality, we think about you — about our clients. You are the ones who matter to us.

ABLV Bank employees at TransRussia 2013 Exhibition, Moscow

Labor Omnia Vincit

In September, to celebrate the 20th ABLV Bank anniversary, in the territory of the currently under construction financial and business centre, New Hanza City, the sculpture of a bronze bull was erected. The sculpture's motto Labor Omnia Vincit (*Work conquers all*) symbolises the power of work, determination, self-belief, and confidence in our chosen path. This motto is 'inherited' from the one placed at the bank headquarters — the Art Nouveau building at 23 Elizabetes street.

The sculpture was created by a famous Latvian artist — Gļebs Panteļejevs (1965), who used the Latvian Brown breed as a prototype, thus emphasizing that the roots of sustainable wealth are to be found in this land, and in hard and persistent work. "To meet bulls in the streets is close to impossible, so I had to contact a bull breeding specialist, Māris Līdaks," describing his research of a prototype, says the sculptor. "He took me to Sigulda's Artificial Insemination and Stock Breeding Station where I could watch and take photos of extremely beautiful specimens." Beginning his work, the sculptor explored available information on the depiction of bulls in the world sculpture — from the ancient Egyptians to the Wall Street *Charging Bull*, an angry bronze bull of 3200 kg weight, created by Arturo di Modika, an American artist born in Sicily, who dropped it off in front of the New York Stock

Exchange in 1989 in violation of city permits. The sculpture is still present there. However, the Egyptian samples inspired Gļebs Panteļejevs most of all.

"The customer clearly defined what he wanted: it had to be the sculpture of a bull; however, it did not have to be aggressive or similar to the existing samples of this genre. All the rest was left to my expertise," says the artist about the cooperation with ABLV Bank. "Out of three compositions a sketch with the temporal title *Bridge over Troubled Water* was chosen. That was how the monument on a 10-metre pedestal, representing persistent, goal-oriented, challenging, cautious work; and consistent, positive development in this restless world, was created. The motto Labor Omnia Vincit given by the customer perfectly reflects the essence of the sculpture. The bull is 2.2 metres high, 3.85 metres long, and 1.1 metres wide in the shoulders."

The accomplishment of the bronze bull sculpture from idea to handwork took nine months, during which the sculptor did everything by hand. "Art is, first of all, my profession. Work with the bronze bull meant 100 per cent professional fulfilment to me: from the first sketches, conversations with the customer, to the last screw in the protected construction." Bronze, being an extremely flexible material especially in the initial years after its erection, can easily change tones and colours in the environment and under its influence. Therefore, Gļebs Panteļejevs comes to visit the bull regularly: "It is very interesting; and I am watching it attentively. Unlike other materials, changes in bronze are very natural. Over time it becomes even more sublime."

In terms of its size, the sculpture is one of the largest bronze sculptures created in Latvia during the last 20 years. It testifies to the development of the city environment — so that Riga could become a cultural metropolis. By setting it free from exhibition halls and letting it exist in public places, art can enrich people's everyday lives and broaden new horizons. For the first time in history, art was welcomed in public places with the decline of modernism. Modernism offered people convenience, but as it came out society demanded more. People needed space to nurture ideas, and art can ensure a creative environment where everybody can express their personalities. The role of initiatives, the support of the city and private investors in the development of the modern social environment is invaluable. Without them, this idea would never have been implemented as art for public places is always large-scale.

"By setting art free from exhibition halls and letting it exist in public places, it can enrich people's everyday lives and broaden new horizons."

What does it mean for an artist to contribute to the city environment? "It means responsibility," says Gļebs Panteļejevs. "But it does not mean that your work will be appreciated by everyone. This is rather a professional responsibility: respect towards the language of art, yourself, and the customer." As a magnificent example, the sculptor mentions the ancient Greek sculptures with their backs turned to building façades thus invisible to spectators, but perfect anyway. "They were created for Gods not humans. And Gods see through everything. Certainly having accomplished work, one realizes that some things could have been done differently. Ruthless pursuit of perfection is a usual condition for an artist, but it is rather imperative, not granted. My God is the language of art — that is why I am in this profession."

The financial and business centre *New Hanza City* is being developed on the area of 24.5 ha between Pulkveža Brieža, Hanzas, Skanstes and Sporta Streets, in the territory of a former railway goods depot. There will be several office buildings, including the ABLV Bank office, a hotel and a conference centre. It is also planned to have a green space in the territory, which will become a new city park in the future. Until today more than 28 million euro has already been invested in the project. *New Hanza City* is planned to be completed by 2033.

"By unveiling this bronze bull sculpture, we mark the first stage of our financial and business centre *New Hanza City* project. In planning *New Hanza City*, we aimed to create a well-equipped and friendly environment, suitable for work, living, sport, and entertainment. Since this idea first occurred to us and up until today — ten years have passed. During this period we have been consistently working to implement this idea. However, what has been achieved is only a small part of our goal, and a lot still has to be done. Therefore, in future we will need the power, determination, and persistence that are embodied in this bull," said Ernests Bernis, ABLV Bank Chief Executive Officer, as he unveiled the sculpture.

The art of celebration

One of the most vivid and exciting memories of the past year is a faerie celebration of the 20th ABLV Bank anniversary. Agnese Laganovska, the Head of Marketing Department, tells us how magic was created in the atmosphere of mutual creativity.

The sequence of remarkable events

Last autumn several significant events preceded the bank's anniversary. On 17th of September in the territory of currently built financial and business centre *New Hanza City* a bronze bull sculpture was unveiled, created by Gļebs Panteļejevs. The sculpture has become a symbolic foundation for a future business centre. On 19th of September an exhibition "…for an occurrence become an adventure…" was opened in the exhibition hall *Rīgas Mākslas Telpa*. It was the first time when a collection for a future Contemporary Art Museum gathered by the bank, was introduced to a wider public. In addition to the exhibition, all displayed works were published in the art book.

However, the climax of anniversary events was a dinner party, held on the 20th of September.

A symbolic place for celebration

We started preparations for the dinner party a year and a half before the event. We wanted to celebrate the bank anniversary together with people, who over 20 years have been helping the bank to grow and become the largest private bank in the Baltic region. We wanted to celebrate its anniversary in a very special environment.

Pie klavierem Maestro Raimonds Pauls, dzied Intars Busulis

For that purpose we could have rented a castle or a large events hall, but it would not be an extraordinary decision. Then a brilliant idea crossed our mind, we decided to hold an event in the territory of *New Hanza City*. We thought this place to be suitable, symbolic and perfect to express our gratitude to our clients and partners for the years that we have spent together. It was a big challenge for us to bring to life an empty territory and to turn it to a gorgeous oasis for celebration.

Just imagine — a wild field. There were none of utilities — no electricity, no water, no sewage…To make our vision come true we started to work hard and invited a lot of experienced professionals who were sharing our belief: “Nothing is impossible!” In the end, together we managed to make this dream come true.

First of all, a part of the territory chosen for the installation of the hall was cleaned and covered with asphalt. Then electricity was supplied. The hall, a construction of 2200 square metres including conveniences, was delivered from Estonia at the beginning of September. The construction of the hall was completed by 150 people with the help of lifting cranes and hoisting machines. 56 cargo trucks delivered constructions, decorations, sound and light systems, and stage equipment. The cargo was delivered from Estonia, Sweden, Finland, and Latvia — all in all having covered 15 000 km. The hall was built within a week. Backstage rooms for artists, comfortable cloakrooms, a beautiful glass-sided atrium for smokers were built next to the main construction. To make our guests feel at home necessary conveniences were constructed similar to ones of an exclusive restaurant. Portable water and drainage systems were installed; and powerful generators of alternate power were brought to the premises.

Then we started to recreate an atmosphere of a beautiful ball inside the hall. As if by magic the hall was changed. To decorate the hall 6000 large red roses and 2000 other flowers and plants were delivered from Latvia, Holland, France, South Africa and America…It looked really impressive. To create a notion of a natural environment, the carpet of green grass was cultivated especially for this occasion.

What is going on in Riga?

Next to the hall there was a huge screen installed — a screen of 720 square metres that consisted of 180 small screens. We could see from the Jupiter Centre how it was being built, scaffolding growing higher and higher. On the day of celebration, 3D show was projected onto the gigantic screen. The show reflected the main values of the bank. This was the climax of celebration that ended with grand fireworks.

“56 cargo trucks delivered constructions, decorations, sound and light systems, and stage equipment. The cargo was delivered from Estonia, Sweden, Finland and Latvia – all in all having covered 15 000 km.”

To ensure a smooth flow of celebration, we had a dress rehearsal the previous day. The show was so impressive that people saw its glow in Purvciems and Pardaugava. Next day we could feel that the city 'got excited' — everyone was asking: "What was it? What is happening in Riga?"

To exclude light disturbances, we agreed with the city municipality to switch off the billboards and street lamps in the neighbouring streets on Friday evening. The show was grand. Moreover, the weather favoured us as well — the night was calm and warm as in summer.

Polishing every detail

An immaculate result and attention to detail have been always important to our bank. Therefore, we paid attention to every single detail including paper for invitations, setting of a table, a show program — all was ideal and impeccable, designed in one style and thought through to the slightest nuances.

The dinner party was organised for 500 guests with 50 round tables set for dinner. The management of the bank took an active part in the organisation of the event. The last two months before the event we met every week and discussed everything to get even the small details right. The dinner was prepared by 'BIBLIOTĒKA N°1' restaurant and the chef, Māris Jansons, for whom cooking for such an event on a grand scale was also first time experience. Together we discussed and edited a menu. While compiling the menu, we aimed at offering more than one main course as it usually happens at such kind of events. In the end, we offered to our guests four main courses.

To achieve the full effects of *look and feel* there was a gorgeously set restaurant table for 10 persons placed in our meeting room — a prototype of the dinner table. In the meetings we were sitting at this nicely-set table to make sure that everyone would feel comfortable and have enough space. We even tasted water.

A serious challenge for us was to find identical dishes to serve 500 people. We were ready to bring them from Sweden and Poland, but, fortunately, we found them in Latvia. Besides, dishes were high-quality and better than we could find in the neighbouring countries.

150 bank employees were involved in the process of preparation. The last week before the event half of the employees helped to get everything ready, as we had to arrange a lot of things for our guests: meeting at the airport, transfer, car rental service, accommodation…

The dress code for the dinner party was Black Tie. This fact curiously affected the city's life in September, as shop assistants of fashionable shops in Riga noticed a remarkable demand for dinner jackets. But what an ambience was on the day of celebration, when men in black dinner jackets and ladies in long evening dresses came together!

The evening with Maestro

This was the first event in the bank's history to which both clients and partners were invited. Moreover, they were speaking three languages: Latvian, Russian and English. But communication was not complicated by this fact; on the contrary, conversations were very successful during the whole evening, not least because of the conferenciers: Andrejs Žagars and Marija Naumova. One spoke Latvian, another addressed the audience in Russian, and both of them spoke fluent English.

In the programme of the dinner party, we wanted to show the best of what we had in Latvia. We asked Maestro Raimonds Pauls to give a concert to our guests, and we were delighted when he accepted the invitation. We needed to arrange the best musical instrument for Maestro — and we delivered the *Steinway* piano with great care from *Latvijas Radio*. The concert, at what Maestro performed together with Intars Busulis, Marija Naumova and a world famous guitar player Al Di Meola, was perfect. The celebration was staged in an elegant, peculiar to the bank style.

"…it was great responsibility for us. We had to strengthen the reputation of the bank. We had no plan B, therefore, we did enjoy that everything went well."

The rules of etiquette in perfect observance

Just imagine what means to serve 500 people at the table! The service was delivered by 70 waiters, 30 cooks, 8 bartenders, 6 waiters' assistants and 6 head waiters. Only waiters of *A level* were invited to serve the dinner, such as from 'BIBLIOTĒKA N°1' restaurant and other glorious restaurants of Latvia. The tables were divided into certain areas; each area had its own head waiter, a waiter and an assistant. A thorough scheme was elaborated how to take and sort orders, and deliver dishes to guests simultaneously. We succeeded: all guests were served with course meals within 20 minutes. The work of waiters was accurate, well-coordinated and perfect.

The size of the event is well reflected in numbers — e.g. 900 tissue papers and 12 654 glasses have been used. We strictly observed the rules of etiquette: each drink — water, champagne, wine, martini, cognac, brandy — was served in a corresponding glass.

The official part ended at one o'clock at night. But the party lasted till three o'clock in the morning: in a sincere and exclusive atmosphere people were having rest, talking and dancing. Our foreign guests expressed their compliments on a great evening and perfect service.

After the event a memorable album 'Without walls', containing the works of art, collected by the bank for a future Contemporary Art Museum, was sent to each guest. The next day all guests were invited to pay a private visit to the exhibition — '…for an occasion become an adventure…'.

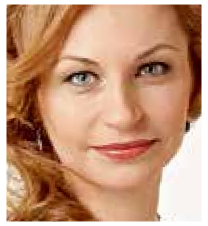
The reflection of bank's values

The next evening the anniversary hall hosted 700 ABLV Bank employees, who ensure successful work of the bank everyday. This was a rare and nice opportunity to meet each other and spend time in an informal atmosphere.

Looking back at what has been done, I can say, it was great responsibility for us. We had to strengthen the reputation of the bank. We had no plan *B*, therefore, we did enjoy that everything went well.

Nowadays, passing by the territory of *New Hanza City*, which is empty again, I recall our experience — as if it was a dream. It is difficult to imagine that there were a red carpet, luxurious cars, gorgeously dressed people…But it has all happened! I am sincerely happy that we've managed to realise this idea in Latvia using our own resources and energy. The event reflects the style and values of the bank: everything that we do — we do with maximum attention and efficiency, therefore, the result is perfect.

More colours on the palette of good deeds



ABLV Charitable Foundation Chairperson of the Board, Zanda Zilgalve, discusses what was done in the past year and writes about new creative charitable initiatives.

A new visual image

The ABLV Charitable Foundation has been successfully working for eight years already. At the end of the past year, a new visual image, a logo, was created with the cooperation of the creative agency *Guilty*. The logo's colours stand for different spheres of charitable work: orange represents charitable work in the social sphere, in the "Children and Family" project; red symbolizes contemporary art; blue represents education.

A new homepage was designed in a similar visual style: www.ablv.org is brief yet informative, attractive and easy to use. We regularly publish our latest news on actual events in the Foundation's life as well as report on supported projects and expenses in the "Help hear!" and "Help grow!" programmes.

For children and their families

Every year we invite bank employees and clients to take part in our annual Christmas fund drive. Donations are doubled by the Foundation in cooperation with ABLV Bank, thus setting

An exhibit at the "...for an occurrence become an adventure..." exhibition in *Rigas Mākslas Telpa* an annual budget for the main charity programmes in the social sphere "Children and family", "Help hear!" and "Help grow!" The past year was extremely successful for us: thanks to our contributors' responsiveness during the Christmas charity event in 2012, we could deliver 78 digital hearing devices to 43 kids, almost as many as the total number of hearing devices in all previous years, and we could organise a summer camp called "You are one of us", at which 70 hearing-impaired children and their family members could get acquainted and receive psychological help.

The "Help grow!" programme raised more funds than ever before. As a result, we ensured 704 children from low-income families had the opportunity to spend quality time in summer camps.

Right after the tragedy in Zolitude, when on 21st of November 2013 54 people were killed in a shopping mall roof collapse, both bank clients and employees expressed their wish to raise funds to help those who suffered injuries and losses. Therefore, we started the 2013 charity programmes earlier than usual. That year, we did so in November, adding a third programme, "Help 21.11", to the two existing ones. People's compassion had no borders. We are very grateful to all our contributors. Our special words of gratitude to the Boris and Ināra Teterev Foundation and ABLV Bank, both of which donated 50 000 lats (about 71 000 euro) to the "Help 21.11" programme.

In general, we should note that this past year's Christmas fund drive drew unheard-of support, raising almost twice as much funding as in the previous actions for each of the main programmes. As it was announced, the amount of donations was doubled for the "Help hear!" and "Help grow!" programmes. The total amount of donations for the three programmes reached 334 866 euro.

Occurrence that became an adventure

Referring to our origins, it is worth noting that the idea of the Charitable Foundation crossed the minds of our founders, Ernests Bernis and Oļegs Fiļs, in 2005, when ABLV Bank (at that time Aizkraukles banka) entered into a long-term agreement of cooperation with the Ministry of Culture to invest one million lats (1 422 880 euro) to acquire works of art for the future Latvian Contemporary Art Museum. Today, the Foundation is taking part in the working group formed by the Ministry of Culture that works on the establishment of the Latvian Contemporary Art Museum. The Foundation is helping to grow the collection by holding committee meetings with international art experts, cooperating with artists and helping the bank to purchase selected works for the future museum.

With pleasure we accepted an invitation to support the "…for an occurrence to become an adventure…" exhibition, dedicated to ABLV Bank's 20th anniversary, open last autumn from 20th of September to 27th of October in the *Rīgas Mākslas Telpa* art gallery. It was the first time the collection, which brought together selected works for the museum, became available to the public. Now the collection includes 204 works by 31 artists. At the exhibition all artists whose works were selected for the ABLV Bank collection for the future Latvian Contemporary Art Museum were presented, but as available space was limited works were exhibited partially. Only around 60 per cent of all exhibits were displayed. Sixty people were involved in the preparation of the exhibition; over the course of five weeks, the exhibition was visited by almost 7 thousand guests.

Our cooperation with exhibition supervisor Solvita Krese, the Director of the Latvian Centre for Contemporary Art (the LCCA), developed into a fruitful relationship. During the exhibition, the LCCA organized several satellite events, including breakfasts with the

artists. At these meetings the artists spoke about their works, introducing the collection in an informal and exciting way. We aimed at holding not only a perfectly organized event but also making it a valuable gift to society.

Applying our expertise, we supported the publication of the bank's anniversary book, a 432-page art album called "Without Walls" published by *Neputns*. This high-quality catalogue includes all works purchased so far for the collection that is being created.

Successful steps toward new

One of the Foundation's priorities is education and the growth of the audience for the future Latvian Contemporary Art Museum so that this audience will be able to anticipate the day when the museum opens its doors. Therefore, by employing advanced educational tools, we strived to make the "…for an occurrence to become an adventure…" exhibition interesting for the young audience. During the exhibition, we launched a unique educational project, an exciting interactive game for pupils of forms 9–12. In cooperation with young teachers and artists whose works were selected for the collection, we developed an application for tablets that demonstrates a connection between works of art and different school subjects: physics, chemistry, biology, history, informatics, and the history of civilization in a virtual guided tour.

The interest in this project was great: within 5 weeks the exhibition was visited by 252 classes from 100 Latvian schools; the number of visitors totalled 3 236 pupils. We were happy to find out that many youngsters were interested in contemporary art. Before, they hadn't had a chance to learn it in such an exciting way.

Both the exhibition and the educational game were of superior quality; therefore, we decided to create a unique 360° virtual exhibition tour so anyone could visit the exhibition virtually and play the game even when the event was over. This virtual tour is indeed unique, both because of the way it was recorded *live* in the real environment and because of its informational value: art experts tell about artists and their works in the voice-over narration. This virtual tour is already available on our website in Latvian and Russian; soon the English version will be added, thus allowing people who are interested to enjoy it online.

The "Help hear!" and "Help grow!" programmes, summer 2013

This project became our success story, and we decided to undertake a new sphere of charitable activities and education along with the existing ones. This decision was preceded by several projects directed at forming the perception of contemporary art within society and raising awareness. One of these events was implemented in a fruitful cooperation with the Indie Culture Project Agency that started last year. As a result an internet portal devoted to contemporary art, Arterritory.com, was created. We grant financial support to the authors of the portal to carry out interviews with famous foreign contemporary artists. Once a year the best interviews are gathered into a hard copy edition. Last year the second edition of "Arterritory Conversations" was published in Latvian, Russian and English, and we are very glad that we have supported this event.

Our second project of informing society about interesting cultural events is carried out in cooperation with *Dienas Nākotnes Foundation*. Within this project we publish online a vast majority of the articles from the *Kultūras Diena* periodical, so they become available to a wider audience free of charge.

Within this project, every week during the course of a year users are able to learn about artists whose works are selected for the future Contemporary Art museum. This helps to promote the concept of the future museum and maintain public interest in the collection that is now being gathered.

Support of contemporary art

We continue to support the formation of the Contemporary Art Museum collection. Meetings with international art experts are held regularly. Last year, the 18th meeting took place, at which point the decisions about which works should be selected for the museum collection were made. Works of art partially are donated to the collection. We help to purchase the rest: we look for artists, meet them and discuss terms. This work usually takes around a year.

Since the very beginning, we have been paying particular attention to organizing tenders that aim to get grants for small exhibitions. The goal of these projects is to develop contemporary art, to make it dynamic and alive, to promote creativity and initiate new works for the future museum collection. Annually, we support around 4–7 exhibitions. Last year our tender attracted 30 applicants, and this year it attracted 55.

At the moment the ABLV Charitable Foundation is expanding its borders and starts to support various contemporary art events. Last year we supported the *Homo Novus* and *Rīgas Laiks* festivals. This way we are promoting the idea that contemporary art is not only visual art. Often these events become multidisciplinary, presenting various forms of art in fusion.

Results of long-term cooperation

For four years the Foundation has worked in cooperation with the Art Academy of Latvia, supporting the exhibitions of master's degree graduates and publishing an annual catalogue with AAL graduates.

With our support, the exhibition of a world famous fashion historian, Alexandre Vassiliev, has been held in Riga for six years already. Last year's exhibition, "From War to Peace: Fashion of the 1940s and 1950s", available for a shorter period of time than previous years, attracted a record-breaking number of visitors — 23 335 visitors in two and a half months.

Since May a new exhibition by Alexandre Vassiliev, "Rebellion in a Boudoir: Fashion of the 1970s", has been ongoing. It tells about the victory of stylistic versatility over fashion in the revolutionary 1970s. For the first time, Vassiliev's collection features male garments alongside female clothing. The exhibition will continue till the 27th of July.

"One of the Foundation's priorities is education and the growth of the audience for the future Latvian Contemporary Art Museum so that this audience will be able to anticipate the day when the museum opens its doors."

ABLV

Consolidated financial report for 2013

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Bank's Management Report

Dear shareholders of ABLV Bank, AS!

Due to consequent implementation of the group's development strategy, ABLV Bank, AS, and other ABLV Group companies continued to grow in the reporting period. The growth was also facilitated by favourable overall economic conditions and upswing in our customers' areas of operations.

In 2013 the global economy growth continued to slow down: the global GDP increase is estimated to be less than 3,0% in 2013, whereas in 2012 it amounted to 3,5%. Growth pace decrease affected the world's largest economies: USA, China, Japan, and Germany. Furthermore, the major problem of the global economy — public debt increase in developed countries — was not solved in 2013.

However, Latvian economy continued to grow. In 2013, Latvia still was the leader in terms of GDP increase among all countries of the European Union. During the first three quarters of the year, Latvian GDP grew by 3,8%, 4,3%, and 4,5% respectively. This increase also boosted the optimism among local businessmen and investors, which is essential for further economic upturn. Such economic growth allowed decreasing the public debt to GDP ratio from 41,0% to 35,0%.

Overall Latvian investment environment and public debt servicing were positively influenced by Latvian credit rating upgrade by the leading rating agencies in 2013. The current rating is only one notch lower than during the period from 2004 to 2007. Whereas, Standard&Poor's decided to upgrade Latvian outlook from stable to positive at the end of 2013, preserving the current rating of BBB+, and thus in 2014 the country will be able to regain its highest rating so far.

Latvian economy is also positively affected by the programme of granting residence permits for investments in real estate and companies. It is difficult to calculate the exact economic effect of this programme, however according to approximate estimates the overall amount of funds attracted to the economy reaches several hundred million euros. For example, the programme directly affected the real estate sector, which grew by 11,6% in Q3, and construction of residential properties rose by 83,0% compared with the previous year. The programme also stimulated personal consumption.

Long-awaited implementation of single European currency, the euro, was also important for Latvian economy and financial market. This will definitely make Latvian economy more attractive for investors from both the West and the East. It is supposed to ensure considerable benefits for the country in the long term. Whereas establishment of the European Central Bank direct supervision over three largest banks – including ABLV Bank, AS, — will increase the stability, safety and reliability of those banks and Latvian banking system in general.

In autumn 2013, we celebrated ABLV Bank 20-year anniversary. We started operations being one of the smallest banks, and due to the steadily pursuing elaborated strategy our bank managed to successfully overcome all crisis situations, meanwhile retaining its independence, and became the largest private bank and one of the three biggest banks in Latvia.

One of the most significant events during the reporting period was another issue of ABLV Bank, AS, shares, under which there were 6 570 ordinary voting shares issued, and the bank's equity was increased by LVL 11,5 million (EUR 16,4 million) consequently. Also there were 2 400 employee shares issued. After completing the issue, the bank's share capital is comprised of 127 170 ordinary voting shares and 13 400 employee shares without voting rights attached. The sale price of one newly issued share equalled LVL 1 755 (EUR 2 499), and 38 current shareholders of the bank participated in the issue. Compared with the share issue performed in 2010, the price of one share of the bank increased 2,7 times. This clearly evidences financial return ensured by the shareholders' contribution. The funds obtained as a result of the share issue were invested in the bank's further development.

Continuing gradual replacement of long-term deposits with bonds, there were several new bond issues performed during the reporting period. In total, there were four issues of subordinated 10-year bonds for the sake of raising the capital performed in 2013, their size being USD 55,0 million and EUR 20,0 million, as well as six issues of straight 2-year bonds, amounting to USD 175,0 million and EUR 40,0 million. These bonds have been also included in the NASDAQ OMX Riga stock exchange list of debt securities. As at the end of 2013, investors held ABLV Bank, AS, bonds worth LVL 216,7 million (EUR 308,4 million), and 15 bond issues were included in the NASDAQ OMX Riga list of debt securities.

The efficiency of the business strategy chosen by us is also evidenced by the research performed by one of the most influential publications in the field of global capital and financial markets, Euromoney, which named ABLV Bank, AS, the best bank in Latvia. The appraisal was given to our bank under Euromoney Awards for Excellence 2013. According to Euromoney, ABLV Bank, AS, is one of the strongest banks in the region in terms of capital, and it maintains steady growth and works with proportionate profit.

Since ABLV Bank, AS, and other ABLV Group companies are constantly developing, both business volume and number of officers are growing. In 2013, ABLV Group staff was increased by 90 officers, and 58 of those started their work at the bank's structural units. As at 31 December 2013, there were 698 officers working in ABLV Group, and 571 of those — in the bank. Therefore, a decision on moving part of the bank's structural units to new premises — the business centre Jupiter Centre, at 7 Skanstes Street — was taken. Now the bank has two administrative buildings in Riga — at 23 Elizabetes Street and 7 Skanstes Street.

Financial results

The bank's major financial indicators for 2013 reached their historic maximum, and those evidence stable growth. ABLV Bank, AS, is the largest bank in Latvia with local capital and is ranked third in terms of the amount of assets.

- The bank's profit in 2013 amounted to LVL 30,7 million (EUR 43,7 million). Whereas the profit for 2012 was equal to LVL 16,5 million (EUR 23,4 million).
- The bank's operating income before allowances for credit losses totalled LVL 77,5 million (EUR 110,2 million). Compared with 2012, operating income has increased by 27,3%.
- The amount of customers' deposits equalled LVL 1,95 billion (EUR 2,78 billion) as at the end of the reporting period.
- The amount of the issued debt securities reached LVL 216,7 million (EUR 308,4 million).
- As at 31 December 2013, the amount of the bank's assets equalled LVL 2,33 billion (EUR 3,32 billion). Over the year, the amount of assets has grown by 8,9 %, the total assets increased by LVL 190,8 million (EUR 271,5 million).

The bank's major financial indicators for 2013 reached their historicalmaximum, which evidences stable growth. By the end of 2013, deposits reached EUR 2,78 billion, and the level of asset liquidity composed 79,20%.

- The bank's loan portfolio equalled LVL 535,0 million (EUR 761,3 million), as at the end of December.
- The bank's capital and reserves amounted to LVL 131,4 million (EUR 187,0 million).
- Assets under management and customers` financial instruments amounted to LVL 651,3 million (EUR 926,7 million).
- As at 31 December 2013, the bank's capital adequacy ratio was 17,53%, whereas liquidity equalled 79,20%.
- ROE reached 26,29%, and ROA — 1,36%, as at 31 December 2013.

The bank continued investing in securities. The total amount of the securities portfolio was equal to LVL 983,8 million (EUR 1,40 billion), as at 31 December 2013. The bank's securities portfolio is mostly composed of fixed-income debt securities, and 69,1% of the portfolio is constituted by securities having credit rating AA- and higher. In terms of the major countries, securities are allocated as follows: USA — 21,8%, Russia — 13,8%, Germany — 12,3%, Canada — 11,6%, Sweden — 8,8%, Latvia — 7,9%, Netherlands — 3,5%, Norway — 2,2%, Switzerland — 1,6%, and Great Britain — 1,4%. Whereas, 6,6% is constituted by securities issued by international institutions — the European Commission, EBRD, etc. In the reporting period, annual yield of the bank's securities portfolio amounted to 1,8%.

In 2013, Internetbank application for iPhone was made available to customers. Using the Internetbank for iPhone, customers will be able to view an account report and information on blocked amounts, payment card data, with an option to change the card status, as well as to make intrabank payments, to send currency exchange orders, and to perform other transactions.

In 2014, we will also offer Internetbank for iPad. Its functionality will be similar to that of standard Internetbank, from viewing account balances to managing of investment portfolios. Accounts, payment cards, deposits, investments, and credits will always be at hand, whereas convenient mailbox will keep customers informed of messages and reports sent by the bank. In order to facilitate the application use in different lightening conditions, the application is developed in accordance with our corporate style and it will be allowed to choose between two high-contrast versions — dark and light ones, as well as between landscape and portrait layout.

Improving work of our Client Line, from December 2013 we ensure the possibility to contact us any time — 24/7, calling at +371 6777 5555. Recognizing the growing significance of data protection, we implemented a number of new technologies and procedures for improving security in our Internetbank. For the utmost convenience, the new service implying the remote preparation of applications and payments for customers was launched.

It should be noted that under the euro

According to the NASDAQ OMX Riga data, in 2013, ABLV Bank, AS, ensured 85,86% of bond trading turnover in the Riga Stock Exchange.

implementation in Latvia on 1 January 2014 we also successfully switched the bank's systems, products and services to the new currency.

Investments

In 2013, ABLV Bank, AS, affiliate companies ABLV Capital Markets, IBAS, and ABLV Asset Management, IPAS, worked hardly on launching new products and improving existing ones.

During 2013, the range of our open-end mutual funds was expanded by four new funds. Those include two corporate bond funds, ABLV European Corporate EUR Bond Fund and ABLV Global Corporate USD Bond Fund, which have moderate investment strategy and balanced risk level, and are aimed at achieving capital growth considerably higher than that ensured by deposit interest rates, by investing the funds' assets in corporate bonds with high coupon yield and high liquidity. There were also two new stock funds added, ABLV European Industry EUR Equity Fund and ABLV US Industry USD Equity Fund, with moderately aggressive investment strategy and increased risk level, which are aimed at achieving long-term capital growth. Just like existing mutual funds, the new funds are also managed by ABLV Asset Management, IPAS.

As at the end of 2013, the total asset value of the open-end mutual funds reached LVL 61.8 million (EUR 87,9 million). Since the beginning of the year, the total value of funds has increased by 72,4%, i.e., approximately by LVL 26,0 million (EUR 36,9 million). The growth of the funds' value was due to the high interest in financial markets and customers' willingness to diversify their investment portfolios by acquiring shares of ABLV funds, as well as due to establishment of four new funds mentioned before.

As at the end of 2013, the total assets under ABLV Asset Management, IPAS, management amounted to LVL 65,5 million (EUR 93,2 million), of which LVL 61,8 million (EUR 87,9 million) were customers' investments in mutual funds managed by the company, and LVL 3,7 million (EUR 5,3 million) were customers' funds invested in individual investment programmes.

ABLV Capital Markets, IBAS, which executes customers' instructions for purchasing and selling all types of financial instruments in the world's major stock markets, gained profit of LVL 2,3 million (EUR 3,3 million) in 2013. As at 31 December 2013, the total assets of the company's customers invested in financial instruments were equal to LVL 548,5 million (EUR 780,4 million).

We continued expanding the opportunities of obtaining financing against pledge of investment portfolio, and we offer it not just in USD and EUR currencies, but in RUB currency as well.

The bank's affiliate company ABLV Private Equity Management, SIA, continued its development; this company establishes and manages risk capital mutual funds for making investments in share capital of promising Latvian and foreign companies. ABLV Private Equity Management, SIA manages ABLV Private Equity Fund 2010, KS.

Due to the contribution of ABLV Private Equity Fund 2010, KS, Orto clinic was opened in Riga in 2013 which is the first newly built private traumatology and orthopedics centre in Latvia. The total project costs were about LVL 3,5 million (EUR 5,0 million), where LVL 2,7 million (EUR 3,8 million) were spent on the building construction, and LVL 0,8 million (EUR 1,2 million) — on acquiring medical and other necessary equipment. The project financing was ensured by ABLV Private Equity Fund 2010, KS, investments in the share capital of Orto klīnika, SIA, and by the bank loan.
Earlier, ABLV Private Equity Fund 2010, KS, made investments in Depo DIY, SIA (construction materials retail chain), Vaiņode Agro Holding, SIA (agricultural holding) and Grindeks, AS (pharmaceutical company).

At the beginning of December 2013, ABLV Bank, AS, established a new company — AmberStone Group, AS, investing LVL 3,4 million (EUR 4,9 million) in its share capital. This will be a holding company, managing own investments. The objective of establishing AmberStone Group, AS, is to separate the business not related to rendering financial and banking services from ABLV Group. It is planned that till the end of 2015 the share capital of the new company will be increased to EUR 25,0 million, also due to attracting new shareholders from ABLV Bank, AS, shareholders, customers, and partners. The members of the company's board will be Agris Grīnbergs, who is appointed the Chairman of the Board, and Kārlis Kavass and Māris Kannenieks. Whereas ABLV Bank, AS, Chief Executive Officer, CEO, Ernests Bernis will be the Chairman of the company's council.

Real estate management

Other companies of ABLV Group also continued to grow. The year 2013 was successful for the whole Latvian real estate sector, but real estate development and trading group Pillar outperformed the market in 2013, achieving great results. Its sales increased 2,5 times, i.e., by 141,0%. According to different estimates, the overall market growth is estimated 30,0%. In 2013, the company made the total of 613 property sale transactions, amounting to LVL 27,1 million (EUR 38,6 million). Whereas, during 2012 Pillar sold 254 properties for LVL 11,0 million (EUR 15,7 million).

The customers' activity has considerably grown in respect of all residential property segments — premium class, new projects, and especially existing homes. Among sold properties, 134 were the apartments in new and renovated projects, including 14 premium class apartments in Elizabetes Park House project. There were 476 apartments sold in existing homes (in 2012—125 apartments), as well as 2 commercial property sale transactions and one private house sale transaction made. During last year the number of transactions with apartments in existing homes increased by 280,0%, whereas price growth in this sector was approximately up to 10,0%.

Pillar real estate development and renovation line of business continues to advance. By taking over and performing complete renovation of apartment blocks, private houses, and individual apartments, Pillar ensures their high-quality interior finishing. Totally, EUR 14,0 million has been invested in property renovation. Our renovated real estate development portfolio includes such special projects highly appreciated by customers as Elizabetes Park House, Saules Rasa, Pine Breeze, Mārtiņa Nams 2, Liesmas Apartment House, Dārza Apartment House, Lielezeres Apartment House, etc. The quality of our work is evidenced by the fact that most of the properties have already been sold off.

Active development of the project important for the whole ABLV Group — the financial and business centre New Hanza City, where ABLV Bank main building will be constructed in future — was continued. At the beginning of 2013, first construction works were started in Riga, at 28a Pulkveža Brieža Street, and Pillar will be able to move to its new office building at the project territory already in February 2014. Till now, more than LVL 20,0 million (EUR 28,5 million) have been invested in the project.

Advisory

We always try to stay close to our customers, and therefore in 2013 we continued expanding the network of our representative offices abroad. The representative office of ABLV Consulting Services, AS, was opened in Vladivostok (Russia), as well as territorial structural unit in Limassol (Cyprus) started its operations.

Vladivostok is an important transportation hub at the Russian Far East, which services huge flow of goods transported by sea and railroad. The city has been rapidly developing during recent years, and volumes of goods turnover are increasing, therefore our presence in the city is a significant support to the customers whose business is related to Vladivostok, their cooperation partners, and other businessmen from all over Far East.

Whereas Cyprus was chosen since many customers from Russia and CIS states making business in Cyprus, also use the services rendered by companies registered there.

Having opened two new representative offices, currently ABLV Group has 12 representative offices in 8 countries — Russia, Ukraine, Belarus, Kazakhstan, Tajikistan, Azerbaijan, Uzbekistan, and Cyprus.

The service of obtaining residence permit in Latvia remains to be the most popular one among those rendered by ABLV Corporate Services, SIA. For convenience of foreign legal entities and to ensure cost reduction, in 2013 ABLV Corporate Services, SIA, started offering the opportunity of establishing a company in Latvia. Foreign legal entities can reduce their expenses by using tax benefits allowed for Latvian holding companies, as well as obtain more favourable lending conditions and payment fees.

Customers of ABLV Corporate Services, SIA, are also enthusiastic about getting advice on establishment of holding structures and assistance in changing their tax residence.

It should be noted that during the year specialists of ABLV Group participated in various international conferences, exhibitions and seminars: the largest Russian transport and logistics exhibition TransRussia, conference Intax Forums, Intax Expo, conference Inter Legal in Kiev, Kazakhstan conference Invest Pro — Kazakhstan 2013, as well as international conference and exhibition Intax Wealth Latvia, which was held in Riga for the first time. During those events, ABLV Group services were presented to existing and prospective customers.

Luxembourg

In September 2013, which is the month of ABLV Bank 20-year anniversary celebration, ABLV Bank subsidiary bank in Luxembourg, ABLV Bank Luxembourg, S.A., started rendering services to customers. Alongside traditional banking products, customers are also offered services, developed especially for customers of the Luxembourg bank: fiduciary deposits, overnight deposits, advisory investment management, etc. ABLV Bank Luxembourg, S.A., combines the high level of ABLV customer service and traditions of the largest European investment centre.

The subsidiary bank in Luxembourg was established in order to develop the existing customer base and strengthen their loyalty, providing larger range of investment and fiduciary services, as well as to attract new customers. ABLV Bank, AS, is the first bank from the Baltic countries to establish a subsidiary bank in Luxembourg.

The subsidiary bank in Luxembourg, ABLV Bank Luxembourg, S.A., started rendering services to clients.

Plans for 2014

Given the understanding that pressure of various unfavourable factors and complications in banking business are constantly growing, as well as requirements of supervisory authorities are increasing, the most important in such situation is to ensure stable growth and development of the bank, meanwhile constantly improving risk management and taking care of protection of the customers' interests.

In 2014, we plan to increase the bank's operating income at least by 15,0%. Due to expansion of the operations, 147 new jobs are supposed to be created in ABLV Group.

For society

On 27 November 2013, ABLV Bank, AS, became a member of the Latvian Employers' Confederation. Joining the Confederation, we want to highlight that we are a socially responsible company, with high sense of responsibility to the state and willing to develop in a long term. The status of the Confederation member allows participating in development and adoption of the state policy planning documents and normative acts both domestically and internationally, thus bringing the changes that will have beneficial effect on development of the whole banking sector. In the Confederation, ABLV Bank, AS, will work on such issues as finance, operations of credit institutions, financial and investment services, securities and real estate transactions, and tax matters.

In 2013, ABLV Bank, AS, in cooperation with ABLV Charitable Foundation, continued supporting various socially important projects.

At the beginning of the year, the ABLV Bank, AS, collection supposed for future Latvian Contemporary Art Museum that is being created in cooperation with ABLV Charitable Foundation has been considerably increased. Due to acquiring new artworks, the collection became more diverse, comprising art of various genres: paintings, graphics, photos and videos, special artworks, and sculptures. Currently, the collection includes 204 works by 31 artists. On the 20th of September, the exhibition "...for an occurrence to become an adventure..." was opened in Riga Art Space, and works of all those artists were presented there. The exhibition aroused great public interest, and there were more than 5 600 visitors in total. We have also issued the art album "No Walls", which includes all the acquired artworks.

In July, we supported fifth exhibition of the dress collection brought by fashion historian Alexandre Vassiliev, which took place in the Museum of Decorative Arts and Design. This time the exhibition was named "From war to peace. Fashion of the 1940s and 1950s". Our customers had an opportunity to view the exhibition accompanied by Alexandre Vassiliev.

At the end of August, the bank's traditional golf tournament, ABLV Invitation Golf Tournament 2013, took place in Ozo Golf Club. There were 93 golfers participating in the tournament — they were our customers from Latvia and abroad, cooperation partners, bank's officers, and also prospective customers of the bank.

On 17 September 2013, the bank celebrated its 20th anniversary – during these 20 years of operations we have gained valuable experience. Celebrating this, there was a bronze bull sculpture placed in the territory of the future financial and business centre New Hanza City in Riga. The sculpture motto is Labor Omnia Vincit (Work conquers all), and it stands for the power of work, determination, self-belief, and confidence about the chosen path. The sculpture was created by famous artist Gļebs Panteļejevs.

At the end of 2013, ABLV Charitable Foundation in cooperation with ABLV Bank, AS, for the seventh time arranged Christmas fund drive, during which our customers and officers made donations to two main social programmes of the fund: "Help hear!" (for acquiring hearing devices) and "Help grow up!" (for children camps). The fund together with ABLV Bank, AS, doubled the amount donated to both programmes — "Help hear!" and "Help grow up!". Besides these programmes, ABLV Charitable Foundation launched a new one – "Help 21,11" — to ensure a long-term support for children whose parents died or were severely injured in a result of the tragedy in Zolitude. ABLV Bank, AS also made the first donation to the programme equal to LVL 50,0 thousand (EUR 71,1 thousand).
In January 2014, after the fund drive was completed, we discovered that the total amount of donations under this fund drive reached incredibly high level exceeding EUR 333 thousand. Therefore, this year we will be able to make dreams of even more children willing to hear or go to a summer camp come true.

In 2013, the bank allocated the total of LVL 1,2 million (EUR 1,7 million) to charity.

Statement of corporate governance is published at the bank's home page www.ablv.com.

We express our gratitude to our shareholders and customers for their loyalty and to all officers for their contribution to the bank's and the group's growth!

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 24 February 2014

The council and the board

The council of the bank:

Chairman of the Council:
Oļegs Fiļs — Date of election: 01/04/2013

Deputy Chairman of the Council:
Jānis Krīgers — Date of re-election: 01/04/2013

Council Member:
Igors Rapoports — Date of re-election: 01/04/2013

The board of the bank:

Chairman of the Board:
Ernests Bernis — Chief Executive Officer (CEO) — Date of re-election: 17/10/2011

Deputy Chairman of the Board:
Vadims Reinfelds — Deputy Chief Executive Officer (dCEO) — Date of re-election: 17/10/2011

Board Members: — Date of re-election:
Aleksandrs Pāže — Chief Compliance Officer (CCO) — 17/10/2011
Edgars Pavlovičs — Chief Risk Officer (CRO) — 17/10/2011
Māris Kannenieks — Chief Financial Officer (CFO) — 17/10/2011
Rolands Citajevs — Chief IT Officer (CIO) — 17/10/2011
Romans Surnačovs — Chief Operating Officer (COO) — Date of election: 17/10/2011

There were no changes in the board of the bank during the reporting year.

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 24 February 2014

Statement of management's responsibility

The council and the board of ABLV Bank, AS (hereinafter — the bank) are responsible for the preparation of the financial statements of the bank as well as for the preparation of the consolidated financial statements of the bank and its subsidiaries (hereinafter — the group).

The financial statements set out on pages 111 to 191 are prepared in accordance with the source documents and present truly and fairly the financial position of the bank and the group as at 31 December 2013 and 2012, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The council and the board of the bank (hereinafter — the management) are responsible for the maintenance of proper accounting records, the safeguarding of the group's assets, and the prevention and detection of fraud and other irregularities in the group. The management of the bank are also responsible for operating the group and the bank in compliance with the Law of the Republic of Latvia on Credit Institutions, Regulations of the Bank of Latvia and the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 24 February 2014

Income statements and other statements of comprehensive income for the years ended 31 December 2013 and 2012

EUR '000

	Notes	Group 01/01/2013—31/12/2013	Group 01/01/2012—31/12/2012	Bank 01/01/2013—31/12/2013	Bank 01/01/2012—31/12/2012
Interest income	3	58,877	55,159	58,679	54,707
Interest expense	3	(16,235)	(21,865)	(15,936)	(21,840)
Net interest income		**42,642**	**33,294**	**42,743**	**32,867**
Commission and fee income	4	61,687	45,987	55,363	41,549
Commission and fee expense	4	(10,775)	(8,845)	(15,283)	(12,442)
Net commission and fee income		**50,912**	**37,142**	**40,080**	**29,107**
Net gain on transactions with financial instruments and foreign exchange	5	21,993	20,790	22,200	20,997
Gains on sale of non-financial assets held for sale	6	4,769	1,330	24	-
Other income	7	18,403	8,315	3,089	1,625
Income from dividends		105	10	2,079	1,998
Impairment allowance for loans	8	(9,466)	(17,698)	(9,466)	(17,450)
Operating income		**129,358**	**83,183**	**100,749**	**69,144**
Administrative expense	10	(55,573)	(43,042)	(42,445)	(34,099)
Amortisation and depreciation		(4,744)	(2,908)	(2,800)	(2,039)
Other expense	7	(8,214)	(4,380)	(841)	(741)
Provisions		-	(481)	-	(481)
Impairment of financial instruments		(1,218)	(458)	(1,218)	(458)
Impairment of other assets	9	635	(3,707)	(2,002)	(2,588)
Operating expense		**(69,114)**	**(54,976)**	**(49,306)**	**(40,406)**
Profit before corporate income tax		**60,244**	**28,207**	**51,443**	**28,738**
Corporate income tax	11	(9,246)	(5,633)	(7,767)	(5,326)
Net profit for the year		**50,998**	**22,574**	**43,676**	**23,412**
Attributable to:					
Equity holders of the bank		50,304	22,917	-	-
Non-controlling interests		694	(341)	-	-
Other comprehensive income:					
Other comprehensive income which already is or could be recognised in profit or loss					
Changes in fair value revaluation reserve of available-for-sale financial assets		(3,061)	6,791	(3,061)	6,791
Charge to income statement as a result of sale of available-for-sale securities		18	(23)	18	(23)
Charge to income statement due to recognised impairment of available-for-sale securities		1,095	487	1,095	487
Change in deferred corporate income tax		292	(1,087)	292	(1,087)
Other comprehensive income, total		**(1,656)**	**6,168**	**(1,656)**	**6,168**
Total comprehensive income		**49,342**	**28,742**	**42,020**	**29,580**
Attributable to:					
Equity holders of the bank		48,648	29,085	-	-
Non-controlling interests		694	(341)	-	-
Earnings per share attributable to the equity holders of the bank, EUR		**346.08**	**230.78**	**-**	**-**

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 24 February 2014

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Statements of financial position as at 31 December 2013 and 31 December 2012

EUR '000

Assets	Notes	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Cash and deposits with central banks	12	356,768	307,461	356,747	307,446
Balances due from credit institutions	13	640,325	559,043	619,037	553,020
Derivatives	17	451	115	451	115
Financial assets at fair value through profit or loss	14	16,794	4,742	16,794	4,742
Available-for-sale financial assets	15	738,655	779,388	731,659	779,388
Loans	18	750,097	711,133	761,268	716,574
Held-to-maturity financial assets	16	653,037	500,612	651,411	500,612
Investments in subsidiaries and associates	19	6,635	3,796	132,829	127,457
Investment properties	20	33,358	29,675	24,330	24,620
Tangible fixed assets	21	32,672	27,903	9,745	6,981
Intangible fixed assets	21	5,639	5,437	5,016	4,815
Current corporate income tax receivables		124	101	-	-
Deferred corporate income tax	11	710	575	-	105
Non-financial assets held for sale		72,157	79,745	622	1,217
Other assets	22	8,655	19,863	5,457	16,736
Total assets		**3,316,077**	**3,029,589**	**3,315,366**	**3,043,828**

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 24 February 2014

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Statements of financial position as at 31 December 2013 and 31 December 2012

EUR '000

Liabilities	Notes	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Derivatives	17	2,046	6,515	2,046	6,515
Demand deposits from credit institutions		10,654	1,376	14,491	3,423
Term deposits from credit institutions		3,633	3,173	-	11,959
Deposits	23	2,768,169	2,649,944	2,776,457	2,659,191
Current corporate income tax liabilities		5,303	1,811	5,125	1,504
Other liabilities		17,348	22,645	11,098	12,816
Deferred corporate income tax	11	795	101	169	-
Provisions		408	481	408	481
Issued securities	24	308,386	177,601	308,386	177,601
Subordinated deposits	25	10,149	18,372	10,149	18,372
Total liabilities		**3,126,891**	**2,882,019**	**3,128,329**	**2,891,862**
Shareholders' equity					
Paid-in share capital	26	30,003	28,088	30,003	28,088
Share premium		41,485	26,480	41,485	26,480
Reserve capital and other reserves		2,134	2,134	2,134	2,134
Fair value revaluation reserve of available-for-sale financial assets		983	2,639	983	2,639
Retained earnings brought forward		60,381	61,600	68,756	69,213
Retained earnings for the period		50,304	22,917	43,676	23,412
Attributable to the equity holders of the bank		185,290	143,858	187,037	151,966
Non-controlling interests		3,896	3,712	-	-
Total shareholders' equity		**189,186**	**147,570**	**187,037**	**151,966**
Total liabilities and shareholders' equity		**3,316,077**	**3,029,589**	**3,315,366**	**3,043,828**
Memorandum items					
Contingent liabilities	27	7,890	10,027	7,898	10,034
Financial commitments	27	60,439	42,915	60,799	43,079

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 24 February 2014

Statement of changes in shareholders' equity of the group for the years ended 31 December 2013 and 31 December 2012

EUR '000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the Bank	Non-controlling interests	Total shareholders' equity
As at 1 January 2012	**23,478**	**7,476**	**2,134**	**(3,529)**	**91,133**	**120,692**	**715**	**121,407**
Total comprehensive income for the reporting year	-	-	-	6,168	22,917	29,085	(341)	28,744
Dividends paid	-	-	-	-	(27,185)	(27,185)	-	(27,185)
Issue of personnel shares	2,348	-	-	-	(2,348)	-	-	-
Issue of shares	2,262	19,004	-	-	-	21,266	-	21,266
Increase of non-controlling interests	-	-	-	-	-	-	3,338	3,338
As at 31 December 2012	**28,088**	**26,480**	**2,134**	**2,639**	**84,517**	**143,858**	**3,712**	**147,570**
As at 1 January 2013	**28,088**	**26,480**	**2,134**	**2,639**	**84,517**	**143,858**	**3,712**	**147,570**
Total comprehensive income for the reporting year	-	-	-	(1,656)	50,304	48,648	694	49,342
Dividends paid	-	-	-	-	(23,560)	(23,560)	-	(23,560)
Issue of personnel shares	512	-	-	-	(576)	(64)	64	-
Issue of shares	1,403	15,005	-	-	-	16,408	-	16,408
Decrease of non-controlling interests	-	-	-	-	-	-	(574)	(574)
As at 31 December 2013	**30,003**	**41,485**	**2,134**	**983**	**110,685**	**185,290**	**3,896**	**189,186**

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 24 February 2014

BANK'S MANAGEMENT REPORT

Statement of changes in shareholders' equity of the bank for the years ended 31 December 2013 and 31 December 2012

EUR '000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
As at 1 January 2012	**23,478**	**7,476**	**2,134**	**(3,529)**	**98,746**	**128,305**
Total comprehensive income for the reporting year	-	-	-	6,168	23,412	29,580
Dividends paid	-	-	-	-	(27,185)	(27,185)
Issue of personnel shares	2,348	-	-	-	(2,348)	-
Issue of shares	2,262	19,004	-	-	-	21,266
As at 31 December 2012	**28,088**	**26,480**	**2,134**	**2,639**	**92,625**	**151,966**
As at 1 January 2013	**28,088**	**26,480**	**2,134**	**2,639**	**92,625**	**151,966**
Total comprehensive income for the reporting year	-	-	-	(1,656)	43,676	42,020
Dividends paid	-	-	-	-	(23,356)	(23,356)
Issue of personnel shares	512	-	-	-	(512)	-
Issue of shares	1,403	15,005	-	-	-	16,408
As at 31 December 2013	**30,003**	**41,485**	**2,134**	**983**	**112,433**	**187,037**

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 24 February 2014

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

Cash flow statements of the group and the bank for the years ended 31 December 2013 and 31 December 2012

EUR '000

Cash flow from operating activities	Group 01/01/2013— 31/12/2013	Group 01/01/2012— 31/12/2012	Bank 01/01/2013— 31/12/2013	Bank 01/01/2012— 31/12/2012
Profit before corporate income tax	60,244	28,207	51,443	28,738
Amortisation and depreciation of fixed assets and investment properties	4,744	2,908	2,800	2,039
Allowance for impairment of assets	9,466	17,698	9,466	17,450
Impairment of other assets	(635)	3,707	2,002	2,588
Decrease in financial instruments	1,218	458	1,218	458
Interest (income)	(58,877)	(55,159)	(58,679)	(54,707)
Interest expense	16,235	21,865	15,936	21,840
Other non-cash items	195	7,130	1,101	(995)
Net cash flow from operating activities before changes in assets and liabilities	**32,590**	**26,814**	**25,287**	**17,411**
Decrease/ (increase) in balances due from credit institutions	4,705	(27,642)	10,532	(27,224)
(Increase) in loans	(54,587)	(59,055)	(60,515)	(63,499)
(Increase) in financial assets at fair value through profit or loss	(11,632)	(16,066)	(11,632)	(16,066)
Decrease/ (increase) in other assets	18,395	(14,331)	12,967	2,188
Increase/ (decrease) in balances due to credit institutions	269	(1,861)	(11,951)	10,259
Increase in deposits	186,923	409,949	188,434	408,237
(Decrease)/ increase in derivatives	(4,804)	17,824	(4,804)	17,824
(Decrease)/ increase in other liabilities	(5,310)	4,069	(2,437)	(433)
Net cash flow from operating activities before corporate income tax	**166,549**	**339,701**	**145,881**	**348,697**
Interest received in the reporting year	70,887	47,003	70,887	47,505
Interest (paid) in the reporting year	(22,566)	(17,972)	(22,278)	(17,972)
Corporate income tax (paid)	(4,229)	(582)	(3,381)	-
Net cash flow from operating activities	**210,641**	**368,150**	**191,109**	**378,230**
Cash flow from investing activities				
(Purchase) of held-to-maturity financial assets	(181,749)	(350,482)	(180,124)	(350,482)
Redemption of held-to-maturity financial assets	13,985	20,824	13,985	20,824
(Purchase) of available-for-sale financial assets	(926,238)	(1,090,224)	(919,241)	(1,090,224)
Sale of available-for-sale financial assets	929,734	905,942	929,734	905,942
(Purchase) of intangible and tangible fixed assets and investment properties	(13,513)	(23,941)	(5,841)	(3,173)
Sale of intangible and tangible fixed assets	649	7,779	364	75
(Purchase) of investments in other entities	(912)	(3,348)	(8,465)	(33,739)
Decrease in participation in subsidiaries	219	-	55	6,919
Net cash flow from investing activities	**(177,825)**	**(533,450)**	**(169,533)**	**(543,858)**
Cash flow from financing activities				
Increase in subordinated loans	3,459	3,322	3,459	3,322
(Repayment) of subordinated loans	(11,446)	(15,481)	(11,446)	(15,481)
Sale of issued securities	200,725	128,556	200,725	128,556
(Repurchase) of issued securities	(61,619)	(25,723)	(61,619)	(32,481)
Dividends (paid)	(23,554)	(27,177)	(23,349)	(27,177)
Issue of shares	16,407	21,266	16,407	21,266
Net cash flow from financing activities	**123,972**	**84,763**	**124,177**	**78,005**
Net cash flow	**156,788**	**(80,537)**	**145,753**	**(87,623)**
Cash and cash equivalents at the beginning of the year	**812,932**	**906,961**	**805,267**	**906,379**
Gain from revaluation of foreign currency positions	(7,891)	(13,492)	(7,891)	(13,489)
Cash and cash equivalents at the end of the year	**961,829**	**812,932**	**943,129**	**805,267**

EUR '000

Cash and cash equivalents	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Cash and deposits with central banks	356,768	307,451	356,747	307,446
Balances due from credit institutions	615,715	506,857	600,873	501,244
Balances due to credit institutions	(10,654)	(1,376)	(14,491)	(3,423)
Total cash and cash equivalents	**961,829**	**812,932**	**943,129**	**805,267**

Information about balances due from credit institutions, that does not cash equivalents, is shown at Note 13.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2013

Note 1

General information

ABLV Bank, AS was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company. At present, the legal address of the bank is Elizabetes Street 23, Riga.

The bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence issued by the bank of Latvia that allows the bank to render all the financial services specified in the Law on Credit Institutions.

The group's and bank's main scope of activity is investment services, settlement products, asset management, financial consultations and real estate management.

The group and the bank operate the central office and one lending centre in Riga, subsidiary bank in Luxembourg, as well as foreign representation offices/ territorial structural units in Azerbaijan (Baku), in Belarus (Minsk), in Kazakhstan (Almaty), in Cyprus (Limassol), in Russia (Moscow, St. Petersburg, Yekaterinburg and Vladivostok), in Ukraine (Kyiv with a branch in Odessa), in Uzbekistan (Tashkent) and Tajikistan (Dushanbe).

The following abbreviations are used in the notes to these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Accounting Standards Board (IASB), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

These consolidated and separate financial statements contain the financial information about the bank and its subsidiaries as well as separately about the bank. The bank's separate financial statements are included in these consolidated financial statements to comply with legal requirements. The bank is the parent of the group.

The consolidated financial statements of the group and the separate financial statements of the bank for the year ended 31 December 2013 were approved by the bank's board on 24 February 2014.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 2

Information on principal accounting policies

a) Basis of Preparation

These consolidated and separate financial statements are based on the accounting records made pursuant to the legislative requirements and prepared in conformity with International Financial Reporting Standards and IFRIC Interpretations as adopted by the European Union, on a going concern basis.

These financial statements are prepared on a historical cost basis, except for financial assets and liabilities (available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, and derivatives) which are reported at fair value.

During the year ended 31 December 2013, the group and the bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in Adoption of new and/ or changed IFRSs and IFRIC interpretations in the reporting year.

The accounting policies are applied consistently by all entities of the group.

The functional currency of the bank and its Latvian subsidiaries is the monetary unit of the Republic of Latvia (LVL). Transactions of the bank's foreign subsidiaries are accounted for in the currency of their economic environment. The presentation currency of the group and the bank is the lat (LVL).

From 1 January 2014 Latvia became a member of European Monetary Union. Starting from 1 January 2014 the bank`s and its subsidiaries` functional currency is EUR.

These consolidated and separate financial statements are reported in thousands of lats (LVL'000), unless otherwise stated. Information given herein in brackets represent comparative figures as at 31 December 2012 or for the year ended 31 December 2012 respectively.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the bank's and group's financial statements were as follows:

Reporting date	USD	EUR	RUB
31 December 2013	0,515	0,702804	0,0156
31 December 2012	0,531	0,702804	0,0174

BANK'S MANAGEMENT REPORT

b) Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations
During the year the group and the bank has adopted the following IFRS amendments:
- Amendment to IAS 1 Financial Statement Presentation — Presentation of Items of Other Comprehensive Income (OCI).
- Amendments to IAS 19 Employee Benefits.
- Amendment to IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities.
- IFRS 13 Fair Value Measurement.
- IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.

Amendment to IAS 1 Financial Statement Presentation — Presentation of Items of Other Comprehensive Income (OCI).
This amendment changes the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's and the Bank's financial position or performance. Since the Group has just one OCI item, the change to its presentation is minimal.

Amendments to IAS 19 Employee Benefits.
These amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. This amendment did not impact the financial statements of the Group and the Bank, because the Group and the Bank does not have material defined benefit obligations.

Amendment to IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. This amendment did not impact the financial statements of the Group and the Bank, because the Group and the Bank does not have netting arrangements.

IFRS 13 Fair Value Measurement.
The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The implementation of this standard did not have a material impact on the amounts recognised in these financial statements, however it resulted in additional disclosures (see Note 31).

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.
This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). This interpretation had no impact on the Group's and the Bank's financial statements, as the Group and the Bank is not involved in mining activity.

The IASB has issued the Annual Improvements to IFRSs 2009—2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS.
- IAS 1 Financial Statement Presentation. Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- IAS 16 Property, Plant and Equipment. Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments: Presentation. Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- IAS 34 Interim Financial Reporting. Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment and disclosure at interim financial reports.

c) Standards issued but not yet effective
The group and the bank has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

IAS 19 Employee Benefits (Amended)
Amendment is effective for financial years beginning on or after 1 July 2014. The amendments address accounting for the employee contributions to a defined benefit plan. This amendment has not yet been endorsed by the EU. Since the group's and the bank's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the group and the bank.

IAS 27 Separate Financial Statements (Amended)
Amendment is effective for financial years beginning on or after 1 January 2014. As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The implementation of this amendment will not have any impact on the financial statements of the group and the bank.

IAS 28 Investments in Associates and Joint Ventures (Amended)
Amendment is effective for financial years beginning on or after 1 January 2014. As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the group and the bank.

IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities (Amended)
Amendment is effective for financial years beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The group and the bank have not yet evaluated the impact of the implementation of this amendment.

IAS 36 Impairment of Assets (Amended)
Amendment is effective for financial years beginning on or after 1 January 2014.This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the group and the bank, however may result in additional disclosures.

IAS 39 Financial Instruments: Recognition and Measurement (Amended)
Amendment is effective for financial years beginning on or after 1 January 2014. The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment will not have any impact on the financial position or performance of the group and the bank, since it does not apply hedge accounting.

IFRS 9 Financial Instruments
The new standard is effective for financial years beginning on or after 1 January 2015. IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. This standard has not yet been endorsed by the EU.The group and the bank has not yet evaluated the impact of the implementation of this standard.

IFRS 10 Consolidated Financial Statements
The new standard is effective for financial years beginning on or after 1 January 2014. IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The group and the bank have not yet evaluated the impact of the implementation of this standard.

IFRS 11 Joint Arrangements
The new standard is effective for financial years beginning on or after 1 January 2014. IFRS 11 eliminates

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The group and the bank have not yet evaluated the impact of the implementation of this standard.

IFRS 12 Disclosures of Interests in Other Entities
The new standard is effective for financial years beginning on or after 1 January 2014. IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The group and the bank have not yet evaluated the impact of the implementation of this standard.

IFRS 14 Regulatory Deferral Accounts
The new standard is effective for financial years beginning on or after 1 January 2016. It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. This standard has not yet been endorsed by the EU. The implementation of this standard will not have any impact on the group and the bank.

IFRS 10, IFRS 12 and IAS 27 — Investment Entities (Amended)
The amendments are effective for financial years beginning on or after 1 January 2014. The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the group, as the parent of the group is not an investment entity.

IFRIC Interpretation 21 Levies
Interpretation is effective for financial years beginning on or after 1 January 2014. This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. This amendment has not yet been endorsed by the EU. The group and the bank have not yet evaluated the impact of the implementation of this intepretation.

In December 2013 IASB issued a number of amendments of standarts. Therefore, the adoptions of amendments are subject to change in accounting policy or disclosure. The applying of amendments is mandatory, but non-urgent. Amendments to the following standards have bean made:
• IFRS 1 First-time adoption of IFRS;
• IFRS 2 Share-based Payment;
• IFRS 3 Business Combinations;
• IFRS 8 Operating Segments;
• IFRS 13 Fair value Measurement;
• IAS 16 Property, Plant and Equipment;
• IAS 24 Related Party Disclosures;
• IAS 38 Intangible Assets;
• IAS 40 Investment property.

The group and the bank is in the process of assessing the impact of the guidance on the financial position or performance of the group and the bank.
The group and the bank plan to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

d) Significant estimates and assumptions
The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable.

The significant areas of estimation and assumptions relate to calculation of deferred corporate income tax, determining the allowance for credit losses and the collateral (pledge) value, estimation of impairment of other assets, and the fair value of financial assets and liabilities.

e) Basis of Consolidation
At the year end, the bank had investments in subsidiaries in which the bank owned, directly or indirectly, more than 50% of the share capital and voting power and, therefore, bank has control of these entities. The bank is the parent of the group. These consolidated financial statements include all subsidiaries controlled by the parent. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases. The entities of the group are listed in Note 19. Investments in subsidiaries are presented in the bank's separate financial statements in accordance with the cost method.

The bank's and its subsidiaries' financial statements are consolidated in the group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication of impairment. Non-controlling interests represent the portion of profit or loss, as well as the equity in a subsidiary not attributable, directly or indirectly, to the bank. The profit or loss attributable to non-controlling interests is separately disclosed in the consolidated statement of comprehensive income. Non-controlling interests are also presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. The bank's subsidiaries comply with the bank's policies and risk management methods.

In the consolidated financial statements, the cost of acquisition of a subsidiary acquired from a business combination is attributed to the fair values of the acquiree's identifiable assets, liabilities, and contingent liabilities at the acquisition date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the difference (discount on acquisition) is recognised directly in the statement of comprehensive income in the year of acquisition. Following initial recognition by the group, goodwill arising from the business combination is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date.

f) Recognition and Derecognition of Financial Assets and Liabilities
A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The group recognises financial assets and liabilities in its statement of financial position when, and only when, the group or the bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the group and the bank have transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.
A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account.

g) Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the group's and bank's financial assets and liabilities is presented in Note 31.

h) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

i) Income and Expense Recognition

All major income and expense items are recognised on an accrual basis. Interest income/ expense is recognised in the statement of comprehensive income for financial assets/ liabilities measured at amortised cost using the effective interest method.

Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income/ expense directly attributable to financial assets/ liabilities measured at amortised cost. For these assets/ liabilities the respective commission and fee income/ expense form an integral part of the effective interest rate.

Commission and fee income received once in a year for the whole reporting period is recognised in the statement of comprehensive income systematically on a straight-line basis during the period.

j) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at exchange rates set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at exchange rates set by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as profit or loss from revaluation of foreign currency positions.

k) Taxation

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the bank's financial statements or tax returns. The deferred tax liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on fixed assets, accrual for employee vacation pay, and revaluation of items of the statement of financial position, including securities revaluation and fair value revaluation reserve, and temporary difference in securities in excess of set limits and tax losses carried forward for the subsequent years. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

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l) Financial Instruments

Loans and receivables

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 the bank intend to sell immediately or in the near term and those that the group and the bank upon initial recognition designate as at fair value through profit or loss;
- those that the group and the bank, upon initial recognition, designate as available for sale; or
- those for which the group and the bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment expense) as presented in Note 8. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process.
For the purposes of these financial statements, finance lease receivables are classified as loans.

Held-to-maturity investments

Held-to-maturity portfolio represents non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market. The group/ bank has the intention to hold the financial assets included in the held-to-maturity portfolio to maturity with the purpose of generating profit from coupon and principal payments.
The financial assets of the held-to-maturity portfolio are initially recognised at cost and subsequently measured at amortised cost using the effective interest method, less impairment loss. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through the amortisation process. Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process.

Available-for-sale financial assets

The group and the bank acquire available-for-sale securities to hold them for an undefined period. The available-for-sale portfolio includes fixed income securities, investments in shares and investment funds.
Available-for-sale securities are divided into two portfolios:

- liquidity portfolio, which is aimed at forming the bank's liquidity reserve with a minimum interest rate risk and credit risk;
- investments' held for undefined period portfolio, which consists of investments not classified as a part of other portfolios.

After initial recognition at fair value, including direct transaction costs, available-for-sale securities are measured at fair value. The revaluation result is charged through the statement of comprehensive income to the shareholders' equity as the fair value revaluation reserve of available-for-sale financial assets. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

For available-for-sale securities acquired at a discount (premium), the respective discount (premium) amount is amortised on a systematic basis, using the effective interest method. Amortised amounts are charged to the statement of comprehensive income as interest income from debt securities.

Any gain or loss resulting from disposal of available-for-sale securities and the fair value revaluation reserve accrued until such disposal are included in the statement of comprehensive income as net realised gain/ (loss) from available-for-sale financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are assets that are held for trading. Financial assets held for trading are included in the trading portfolio. Fixed income securities of the trading portfolio are held by the group and the bank for the purpose of selling and/or acquired for generating profit in the near term from the expected spread between purchasing and selling prices. The financial assets and liabilities to be included in the trading portfolio are defined by the bank's trading portfolio policy.

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the statement of comprehensive income under "Net gain/ (loss) from financial assets at fair value through profit or loss". Meanwhile, interest income earned and/ or accrued is charged to the statement of comprehensive income as interest income from debt securities using the effective interest rate method while dividend income is recorded as income from dividends if the right to the payment is established.

Derivatives

In the ordinary course of business, the group and the bank use derivative financial instruments: currency swaps, futures, and forward foreign exchange rate contracts.

BANK'S MANAGEMENT REPORT

Derivative financial instruments are carried at cost and restated at fair value at the date of recognition and beyond. Derivative financial instruments are presented in the statement of financial position in a separate caption "Derivatives" under assets and liabilities respectively. The mark-to-market value is defined based on the quoted market prices or discounted cash flow models. Any gain or loss resulting from fair value movements of derivatives is recognised in the statement of comprehensive income as "Net gain/ (loss) from financial assets at fair value through profit or loss".

Issued debt securities

The group and the bank recognise issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are stated at fair value, including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method. When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

m) Non-financial Assets Held for Sale

Non-financial assets held for sale represent real estate taken over by the group/ bank for the purpose of selling as collateral for the outstanding loans or acquired in the ordinary course of business. Such assets are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

n) Finance Leases — Where the Bank is Lessor

Finance lease receivables are recognised as assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Income from finance leases is recognised over the lease term to produce a constant periodic return on the remaining balance of the liability. Lease payments are charged to the statement of comprehensive income on a straight-line basis over the lease term.

o) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the group and the bank are involved in off-balance sheet financial instruments comprising loan and credit line commitments, financial guarantees, as well as commercial letters of credit. Such financial instruments do not involve outflow of the bank's economic benefits, thus they are not recorded as the bank's liabilities. These financial instruments are presented in the financial statements as memorandum items upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph (o) below.

p) Provisions

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

q) Impairment of Financial Assets and Financial Commitments

The group/ bank issues loans to its customers. Troubled debts are defined as loans and financial commitments with regard to which, based on the monitoring activities performed or other information obtained, the management of the group and the bank believe that the contractual interest and principal due might not be collected or customers might default on other contractual conditions, which might result in an outflow of resources embodying economic benefits. Non-performing loans are defined as loans, which have delay of its contractual payments more than 90 days or are planed to start the credit recovery process, fore example, forced sales of loan collateral, and also loans whose collaterals already has been realized.

According to the approved impairment assessment policy, the group and the bank determine allowance for credit losses (impairment allowance). When a loan has been classified as non-performing, an allowance for credit losses is established for that specific loan or amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the group's and bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advances collectability and collateral values. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance. The group and the bank determine individual and collective (portfolio) impairment.

The above estimates are reviewed periodically. As changes of the allowance become necessary as a result of the review made, respective allowance changes are taken to the statement of comprehensive income of the reporting period. The management of the group and the bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available facts and information.

The individual impairment allowance is determined after individually reviewing all credits for potentially uncollectable amounts. Individual assessment is made for credits that individually have objective evidence of impairment, based on the borrower's financial position, value of collateral, and fulfilment of the loan agreement.

The collective (portfolio) allowance relates to existing credit losses, as well as 'incurred, but not yet known to the bank'. The collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account changes in collateral values, and general economic and market conditions or events that have occurred prior to the reporting date and that indicate an adverse impact on the future cash flows from certain loans and receivable balances outstanding. This method permits attributing each group of loans with similar credit characteristics to historical loss experience and observable market data reflecting current circumstances.

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

The group/ bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired. Based on the estimates of the management of the group/ bank, a decline in the fair value of the instrument by more than 20% below its cost or for more than one financial year is treated as objective evidence of significant and prolonged impairment of available-for-sale financial instruments. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

r) Impairment of Non-financial Assets

The bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase amount constitutes reversal of impairment losses.

s) Intangible Fixed Assets

Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.

The group and the bank have applied the annual rates ranging from 5% (5%) to 20% (20%) to amortise their intangible assets.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

t) Tangible Fixed Assets
Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. When calculating depreciation of the buildings that are classified as tangible fixed assets, the buildings are divided in separate parts (components). Each component is depreciated separately over its estimated useful life. Fixed assets, including leasehold improvements under construction and preparation, are not depreciated. Land is not subject to depreciation.

The group and the bank have applied the following depreciation rates:

Category	Annual rate
Buildings and property improvements	1,3%—20%
Vehicles	20%
Office equipment , EDP equipment and software	10%—33%
Production equipment	5%—10%

Costs of maintenance and repair are charged to the statement of comprehensive income as incurred. Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

u) Investment Properties
Investment properties comprise land and buildings, as well as costs of the investment property development project in progress that are not used by the group and the bank, and are held with the main purpose to earn rentals, as well as gain on value appreciation. Such investments are classified as investment property and are accounted for using the cost model of accounting for investment properties. Investment properties are carried in the statement of financial position at their cost value less accumulated depreciation. The annual depreciation rate applied to investment properties, except for land which is not depreciated, is 5%.

v) Employee Benefits
Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and allowances, as well as life insurance premiums are charged to the statement of comprehensive income as administrative expense in the period when the services are provided.

The accrual for employee vacation pay is estimated for the group's or bank's personnel based on the total number of vacation days earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

w) Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

x) Subsequent Events
Post-year-end events that provide additional information about the group's/bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

y) Reclassification
1. During the previous reporting periods, the group recognised penalties related to late repayment of loans in profit or loss as other income. From 2013, such penalties are included in the effective interest rate calculation for respective loans and recognised in profit or loss as interest income.
2. During the previous reporting periods, the group recognised customer attraction costs in profit or loss as other expense. From 2013, such expense is recognised in profit or loss as commission and fee expense.
3. During the previous reporting periods, the group recognised income and expense from transactions with non-financial assets held for sale in profit or loss as other income or expense, respectively. From 2013, all income and expense related to operations with non-financial assets held for sale are reported seperatly in Income Statement as Gains on sales of non-financial assets held for sale.
4. During the previous reporting periods, the group recognised impairment of accrued income from financial instruments and other assets in profit or loss as impairment allowance. From 2013, impairment has been reclassified in line with the asset category.

Table of reclassification effect:

EUR '000

		Group 01/01/2012—31/12/2012			Bank 01/01/2012—31/12/2012		
	Reference	After reclassificaton	Change	Before reclassificaton	After reclassificaton	Change	Before reclassificaton
Interest income	1.	55,159	659	54,500	54,707	655	54,052
Commission and fee expense	2.	(8,845)	(3,257)	(5,588)	(12,442)	(7,429)	(5,013)
Gain on non-financial assets held for sale	3.	1,330	1,330	-	-	-	-
Gain on disposal of tangible and intangible fixed assets		-	(33)	33	-	(26)	26
Other income	1., 3.	8,315	(15,435)	23,751	1,625	(629)	2,254
Impairment allowance for loans	4.	(17,698)	1,403	(19,101)	(17,450)	1,387	(18,837)
Other expense	2., 3.	(4,380)	16,736	(21,115)	(741)	7,429	(8,170)
Impairment of financial instruments	4.	(458)	28	(487)	(458)	28	(487)
Impairment of other assets	4.	(3,707)	(1,431)	(2,275)	(2,588)	(1,416)	(1,172)

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 3

Interest income and expense

EUR '000

Interest income	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Interest income on available-for-sale financial assets at amortised cost				
on loans and advances to customers	30,537	31,819	30,359	31,379
on held-to-maturity securities	20,442	14,266	20,440	14,266
on available-for-sale securities	5,343	7,234	5,343	7,234
on balances due from credit institutions and central banks	2,555	1,840	2,537	1,828
Total interest income on available-for-sale financial assets at amortised cost	**58,877**	**55,159**	**58,679**	**54,707**
Total interest income	**58,877**	**55,159**	**58,679**	**54,707**
Interest expense				
on the deposit guarantee fund	6,164	8,438	6,152	8,438
on subordinated liabilities	5,488	5,485	5,488	5,485
on debt securities issued	3,093	1,057	3,093	1,120
on deposits from non-bank customers	1,343	6,736	1,160	6,746
on balances due to credit institutions and central banks	147	149	43	51
Total interest expense	**16,235**	**21,865**	**15,936**	**21,840**

The group's and the bank's interest income on impaired assets totalled EUR 2,3 (3,8) million.

Note 4

Commission and fee income and expense

EUR '000

Commission and fee income	Group 01.01.2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
commission on payment transfer handling on behalf of customers	31,406	23,219	31,399	23,220
commission on account service	10,454	5,754	10,512	5,754
commission on handling of settlement cards	8,971	7,934	8,971	7,934
commission on brokerage operations	5,691	3,842	-	-
commission on asset management	2,156	1,668	817	1,060
commission on documentary transactions	845	946	845	946
other commission and fee income	2,164	2,624	2,819	2,635
Total commission and fee income	**61,687**	**45,987**	**55,363**	**41,549**
Commission and fee expense				
commission on customer attraction	2,971	3,257	8,557	7,429
correspondent bank service charges	4,542	3,058	4,543	3,058
commission on transactions with settlement cards	2,110	1,928	2,110	1,928
commission on brokerage operations	968	545	-	-
other commission and fee expense	184	57	73	27
Total commission and fee expense	**10,775**	**8,845**	**15,283**	**12,442**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 5

Net gain on transactions with financial instruments and foreign exchange

EUR '000

Financial assets at fair value through profit or loss	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Gain/ (loss) from revaluation of financial assets at fair value through profit or loss	616	290	616	275
Derivatives	21	27	21	27
Securities	595	263	595	248
Gain/(loss) from trading with financial assets at fair value through profit or loss	462	(47)	462	(47)
Derivatives	115	(64)	115	(64)
Securities	347	17	347	17
Net gain/ (loss) from financial assets at fair value through profit or loss	**1,078**	**243**	**1,078**	**228**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	(18)	23	(18)	23
Net realised gain from available-for-sale financial assets	**(18)**	**23**	**(18)**	**23**
Foreign exchange				
Profit from foreign currency exchange	21,521	20,076	21,713	20,295
(Loss)/gain from revaluation of foreign currency positions	(588)	448	(573)	451
Net result from foreign exchange trading and revaluation	**20,933**	**20,524**	**21,140**	**20,746**
Net gain on transactions with financial assets and foreign exchange	**21,993**	**20,790**	**22,200**	**20,997**

Note 6

Net gain on non-financial assets held for sale

EUR '000

	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Proceeds from disposal of assets held for sale	35,407	14,533	370	-
Cost of sold assets held for sale	(29,142)	(11,928)	(346)	-
Net profit form sales	**6,265**	**2,605**	**24**	**-**
Proceeds from lease of assets held for sale	512	276	-	-
Expense related to disposal of assets held for sale	(275)	(485)	-	-
Expense related to management of assets held for sale	(1,733)	(1,066)	-	-
Net gain on non-financial assets held for sale	**4,769**	**1,330**	**24**	**-**

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Note 7

Other operating income and expense

EUR '000

Other income	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
other income from the sale of products by related companies	9,471	3,789	-	-
repurchase of liabilities	2,901	-	-	-
recognition of associates under the equity method	2,496	1,295	-	-
financial consulting, legal and accounting services	1,665	1,148	-	-
sale of companies	312	820	642	240
sale of services to subsidiaries	-	-	2,012	982
other operating income	1,558	1,263	435	403
Total other income	**18,403**	**8,315**	**3,089**	**1,625**
Other expense				
other expense related to the sale of products by related companies	6,958	3,129	-	-
membership fees	802	696	655	596
other expense	454	555	186	145
Total other expense	**8,214**	**4,380**	**841**	**741**

Note 8

Allowances for loan impairment

EUR '000

Category	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Loans — individual allowances	(265)	2,153	(265)	1,905
Loans — portfolio allowances	10,286	15,189	10,286	15,189
(Recovery) of write-offs/ loss during write-offs	(555)	356	(555)	356
Impairment allowances establsihed during the reporting year, net	**9,466**	**17,698**	**9,466**	**17,450**

The table below presents changes in impairment allowances of the group in 2013:

EUR '000

	Mortgage loans	Business loans	Consumer loans	Other loans	Total
Allowances at the beginning of the year	**53,574**	**10,143**	**77**	**3,681**	**67,475**
Increase/ (decrease) in allowances for the year	9,873	(751)	31	868	10,021
(Decrease) in allowances for the year due to currency fluctuations	(7)	(40)	-	-	(47)
(Elimination) of allowances for the year due to write-offs	(23,895)	(2,659)	(50)	(760)	(27,364)
Allowances at the end of the year	**39,545**	**6,693**	**58**	**3,789**	**50,085**
Individual allowances	1,224	6,178	-	545	7,947
Portfolio allowances	38,321	515	58	3,244	42,138
Total gross loans	**404,646**	**366,168**	**1,521**	**27,847**	**800,182**

As at 31 December 2013, the impairment allowances formed 6,4% (8,6%) of the group's loan portfolio.

The table below presents changes in the impairment allowances of the group in 2012:

EUR '000

	Mortgage loans	Business loans	Consumer loans	Other loans	Total
Allowances at the beginning of the year	**61,121**	**20,422**	**90**	**1,837**	**83,470**
Increase/ (decrease) in allowances for the year	17,137	(2,237)	23	2,419	17,342
(Decrease) in allowances for the year due to currency fluctuations	(10)	(24)	-	-	(34)
(Elimination) of allowances for the year due to write-offs	(24,674)	(8,018)	(36)	(575)	(33,303)
Allowances at the end of the year	**53,574**	**10,143**	**77**	**3,681**	**67,475**
Individual allowances	1,374	9,560	-	548	11,482
Portfolio allowances	52,200	583	77	3,133	55,993
Total gross loans	**458,930**	**294,583**	**1,797**	**23,298**	**778,608**

The table below presents changes in impairment allowances of the bank in 2013:

EUR '000

	Mortgage loans	Business loans	Consumer loans	Other loans	Total
Allowances at the beginning of the year	**53,574**	**10,143**	**77**	**3,681**	**67,475**
Increase/ (decrease) in allowances for the year	9,873	(751)	31	868	10,021
(Decrease) in allowances for the year due to currency fluctuations	(7)	(40)	-	-	(47)
(Elimination) of allowances for the year due to write-offs	(23,895)	(2,659)	(50)	(760)	(27,364)
Allowances at the end of the year	**39,545**	**6,693**	**58**	**3,789**	**50,085**
Individual allowances	1,224	6,178	-	545	7,947
Portfolio allowances	38,321	515	58	3,244	42,138
Total gross loans	**404,647**	**377,338**	**1,521**	**27,847**	**811,353**

The table below presents changes in impairment allowances of the bank in 2012:

EUR '000

	Mortgage loans	Business loans	Consumer loans	Other loans	Total
Allowances at the beginning of the year	**61,121**	**20,669**	**90**	**1,837**	**83,717**
Increase/ (decrease) in allowances for the year	17,137	(2,484)	23	2,419	17,095
(Decrease) in allowances for the year due to currency fluctuations	(10)	(24)	-	-	(34)
(Elimination) of allowances for the year due to write-offs	(24,674)	(8,018)	(36)	(575)	(33,303)
Allowances at the end of the year	**53,574**	**10,143**	**77**	**3,681**	**67,475**
Individual allowances	1,374	9,560	-	548	11,482
Portfolio allowances	52,200	583	77	3,133	55,993
Total gross loans	**458,930**	**300,024**	**1,797**	**23,298**	**784,049**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 9

Impairment of other assets

The group's and bank's management have carried out valuation of non-financial assets — the real estate taken over for sale and other assets, including investments in subsidiaries — to determine whether the carrying amount of the above mentioned assets does not exceed their recoverable amount. As a result it was established that the previously recognised impairment has changed. Based on the analysis carried out, in 2013 and 2012 the group and the bank recognised impairment of other assets.

The table below presents changes in impairment for other assets of the group and the bank:

EUR '000

Category	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Non-financial assets taken over for sale	434	2,083	-	(53)
Other assets	(1,069)	1,624	(1,090)	1,608
Investments in subsidiaries	-	-	3,092	1,033
Total impairment adjustment	**(635)**	**3,707**	**2,002**	**2,588**

Note 10

Administrative expense

EUR '000

Category	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Remuneration to personnel, incl. SSIC	35,084	27,799	27,797	23,270
Repairs and maintenance of premises	3,680	2,804	2,631	1,767
IT system expense	3,152	2,484	2,595	2,430
Advertising and marketing expense	2,832	2,534	2,555	2,379
Remuneration to the management,incl. SSIC	2,616	2,509	1,204	1,567
Donations	1,838	38	1,719	38
Other personnel expense	1,071	995	679	589
Other taxes	844	417	370	186
Communication expense	760	741	622	579
Other administrative expense	3,696	2,721	2,273	1,294
Total administrative expense	**55,573**	**43,042**	**42,445**	**34,099**

In 2013 and 2012, the group and the bank employed an average of 656 (575) and 545 (494) persons (full-time equivalent).

The following table specifies employees of the group and the bank at the year-end:

	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Management	18	17	10	10
Heads of divisions and departments	118	110	91	85
Other personnel	562	481	470	418
Total at the end of the year	**698**	**608**	**571**	**513**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

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Note 11

Taxation

EUR '000

	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Profit before corporate income tax	60,244	28,207	51,443	28,738
Theoretical corporate income tax	**9,037**	**4,232**	**7,715**	**4,311**
Permanent differences	(151)	1,251	(316)	737
Actual corporate income tax expense for the reporting year	**8,886**	**5,483**	**7,399**	**5,048**
Adjustments to prior-year corporate income tax	164	(128)	163	-
Adjustments to prior-year deferred tax	(9)	43	-	43
Tax paid abroad	205	235	205	235
Total corporate income tax expense	**9,246**	**5,633**	**7,767**	**5,326**

Deferred corporate income tax calculation:

EUR '000

	Group 31/12/2013 Amounts subject to temporary differences	Group 31/12/2012 Amounts subject to temporary differences	Bank 31/12/2013 Amounts subject to temporary differences	Bank 31/12/2012 Amounts subject to temporary differences
Accumulated excess of tax depreciation over accounting depreciation	14,927	12,225	7,345	6,158
Fair value revaluation reserve of available-for-sale financial assets	1,157	3,106	1,157	3,106
Revaluation of derivatives and securities	(1,598)	545	(1,598)	545
Revaluation of assets and accrual for vacation pay	(13,547)	(17,982)	(5,771)	(10,501)
Deferred tax asset on intra-group transactions	2,075	(3,180)	-	-
Tax loss	(16,081)	(11,986)	-	-
Unrecognised tax asset	13,630	14,119	-	-
Basis for calculation of deferred corporate income tax	**563**	**(3,153)**	**1,133**	**(692)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/ liability at the end of the year	**(710) 795**	**(575) 101**	**- 169**	**(105) -**

EUR '000

	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Deferred corporate income tax at the beginning of the year	**(575) 101**	**(4,818) 265**	**(105) -**	**(4,779) -**
Increase charged to the statement of comprehensive income	785	3,351	566	3,587
Increase/ (decrease) attributable to fair value revaluation reserve under equity	(292)	1,087	(292)	1,087
Adjustments attributable to retained earnings/ (accumulated deficit)	66	(359)	-	-
Deferred corporate income tax (asset)/ liability at the end of the year	**(710) 795**	**(575) 101**	**- 169**	**(105) -**

Taxes paid by the group and the bank:

EUR '000

Tax	Group 01/01/2013 — 31/12/2013	Group 01/01/2012 — 31/12/2012	Bank 01/01/2013 — 31/12/2013	Bank 01/01/2012 — 31/12/2012
Statutory social insurance contributions	8,781	7,881	7,299	6,995
Personal income tax	5,482	4,653	4,700	4,095
Real estate tax	507	443	228	186
Corporate income tax	4,229	582	3,381	-
Value added tax	1,826	635	312	287
Unemployment risk duty	3	3	3	3
Total	**20,828**	**14,197**	**15,923**	**11,566**

Note 12

Cash and deposits with central banks

EUR '000

	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Deposits with the Bank of Latvia	348,641	297,931	348,641	297,931
Cash	8,117	9,520	8,106	9,515
Deposits with the Banque de Luxembourg	10	10	-	-
Total cash and deposits with central banks	**356,768**	**307,461**	**356,747**	**307,446**

Deposits with the Bank of Latvia comprise the bank's correspondent account balances. In accordance with the resolution of the Council of the Bank of Latvia, credit institutions have to comply with the obligatory reserve requirement. During the period of the requirement, the average monthly balance of the bank's correspondent account with the Bank of Latvia must exceed the minimum reserve requirement. The bank was in compliance with this requirement as at 31 December 2013.

As at 31 December 2013 and 2012, the bank had no balances due from central banks that would be past due.

Note 13

Balances due from credit institutions

As at 31 December 2013, the Bank had established correspondent relationships with 28 (27) credit institutions registered in the EU and OECD area, 5 (6) credit institutions registered in Latvia, and 28 (16) credit institutions incorporated in other countries.

As at 31 December 2013, the group's and bank's major balances due from credit institutions registered in the EU and OECD area were as follows: EUR 74,7 (68,0) million due from the Bank of Montreal, EUR 63,5 (5,8) million due from Deutsche Bank AG, and EUR 57,2 (33,6) million due from Commerzbank AG.

EUR '000

Demand deposits with credit institutions	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Correspondent account balances	349,567	292,564	340,775	286,961
Overnight deposits	-	471	-	471
Total demand deposits with credit institutions	**349,567**	**293,035**	**340,775**	**287,432**
Other balances due from credit institutions				
Term deposits	259,326	196,839	247,262	196,839
Other balances	31,433	69,170	31,000	68,750
Total other balances due from credit institutions	**290,759**	**266,009**	**278,262**	**265,589**
Total balances due from credit institutions	**640,325**	**559,043**	**619,037**	**553,020**

As at 31 December 2013, part of the balances due from credit institutions of the group totalling EUR 18,6 (48,4) million and part of the balances due from credit institutions of the bank totalling EUR 18,2 (48,0) million, that are not cash equivalents, were pledged for securing transactions with financial instruments. Cash equivalents does not include term deposits of the group totalling EUR 6,0 (3,8) million and term deposits of the bank totalling EUR 0 (3,8) million.

As at 31 December 2013 and 2012, the group's and bank's balances due from credit institutions were neither past due nor impaired. The maximum credit risk exposure of the balances due from credit institutions is equal to the carrying amount of these assets.

Note 14

Financial assets at fair value through profit or loss

EUR '000

Equity shares securities	Group/ bank 31/12/2013	Group/ bank 31/12/2012
Credit institutions	1,872	650
Corporate companies	1,369	1,154
Total investments in equity shares	**3,241**	**1,804**
Investments in funds	13,553	2,938
Total financial assets at fair value through profit or loss	**16,794**	**4,742**

The maximum credit risk exposure of securities designated at fair value is equal to the carrying amount of these assets.

As at 31 December 2013, the following financial instruments of all the financial assets at fair value were not listed on stock exchanges:

- EUR 28,5 (0) thousand — equity shares in of other countries;
- EUR 12,9 (1,9) million — investment certificates of open ended investment funds registered in Latvia, which are redeemable at net asset value.

Ten largest exposures as at 31 December 2013 amounted to 88,5% (88,7%) of the total group's and bank's financial assets at fair value through profit or loss.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 15

Available-for-sale financial assets

Issuer	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
				EUR '000
Fixed-income debt securities				
Central governments and central banks	429,317	426,761	429,317	426,761
Credit institutions	230,692	236,059	230,692	236,059
International organisations	40,245	88,698	40,245	88,698
State-owned enterprises	11,225	15,595	11,225	15,595
Financial auxiliaries and other financial intermediaries	7,513	3,109	7,513	3,109
Corporate companies	6,919	5,455	6,919	5,455
Municipalities	4,276	514	4,276	514
Total fixed-income debt securities	**730,187**	**776,191**	**730,187**	**776,191**
Equity shares				
Financial auxiliaries and other financial intermediaries	139	139	139	139
Total investments in equity shares	**139**	**139**	**139**	**139**
Investments in funds	8,329	3,058	1,333	3,058
Total available-for-sale financial assets	**738,655**	**779,388**	**731,659**	**779,388**

The maximum credit risk exposure of available-for-sale financial assets is equal to the carrying amount of these assets.

Most of these assets — 92,2% (93,3%) — have been invested by the bank in investment-grade securities. At the end of the reporting year, the weighted average duration of the bank's securities portfolio was 1,6 (2,1).

As at 31 December 2013, the following available-for-sale financial assets were not listed on stock exchanges:

- EUR 7,0 (0,3) million — investment certificates of open ended investment funds registered in the EMU member states, which are redeemable at net asset value
- EUR 139,4 (139,4) thousand – equity shares in companies registered in the EMU member states;
- EUR 567,7 (0) thousand — debt securities issued by international organisations;
- EUR 1,4 (3,1) million — investment certificates of private equity funds registered in other countries.

Ten largest exposures as at 31 December 2013 amounted to 81,6% (74,3%) of the group's total available-for-sale financial assets.

BANK'S MANAGEMENT REPORT

Note 16

Held-to-maturity financial assets

Issuer	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
				EUR '000
Fixed-income debt securities				
Central governments and central banks	243,285	152,678	243,285	152,678
Credit instituitions	173,105	172,718	172,027	172,718
Corporate companies	133,295	95,994	132,747	95,994
International organisations	52,843	38,510	52,843	38,510
Municipalities	43,107	33,048	43,107	33,048
State-owned enterprises	7,402	7,664	7,402	7,664
Total held-to-maturity financial assets	**653,037**	**500,612**	**651,411**	**500,612**

The maximum credit risk exposure of held-to-maturity securities is equal to the carrying amount of these assets.

As at 31 December 2013, the following held-to-maturity financial assets were not listed on stock exchanges:

- EUR 707,2 (718,6) thousand — debt securities issued by credit institutions of other countries;
- EUR 122,4 (0) thousand — debt securities issued by companies of other countries.

As at 31 December 2013, part of the held-to-maturity financial assets totalling EUR 27,6 (21,5) million were pledged for securing transactions with financial instruments.

Ten largest positions as at 31 December 2013 amounted to 42,6% (40,4%) of the group's total held-to-maturity securities

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 17

Derivatives

The table below presents the notional amounts and fair values of foreign currency exchange contracts and other derivative financial instruments. The notional amount of foreign currency exchange contracts is the amount receivable. The notional amount of other derivative financial instruments is the value of the underlying assets of these instruments.

EUR '000

	Group/ bank 31/12/2013			Group/ bank 31/12/2012		
			Fair value			Fair value
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Gold futures	683	21	-	942	27	-
Forwards	13,146	20	27	6,010	23	30
Swaps	228,527	410	2,019	210,488	65	6,485
Total derivatives	**242,356**	**451**	**2,046**	**217,440**	**115**	**6,515**

The bank uses foreign exchange derivatives to manage its currency positions. For the most part, the bank's counterparties in foreign currency exchange transactions are credit institutions. As at 31 December 2013, more than 96,3% (98,0%) of the foreign currency exchange contracts (assets at fair value) were attributable to credit institutions. As at 31 December 2013 and 2012, no payments associated with derivatives were past due.

Note 18

Loans

The breakdown of loans issued by the group and the bank by customer profile:

EUR '000

Customer profile	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Private individuals	447,195	495,608	447,194	495,607
Corporate companies	301,021	245,445	304,092	241,326
Financial auxiliaries and other financial intermediaries	51,966	37,555	60,067	47,116
Total	**800,182**	**778,608**	**811,353**	**784,049**
Impairment allowance	(50,085)	(67,475)	(50,085)	(67,475)
Net loans	**750,097**	**711,133**	**761,268**	**716,574**

More detailed information about allowances for loans impairment is available at Note 8.

The maximum credit risk exposure of loans issued to customers is equal to the carrying amount of these assets.

Ten largest exposures as at 31 December 2013 amounted to 21,9% (16,8%) of the total group's and bank's net loan portfolio. No individual impairment allowances have been established for these loans.

BANK'S MANAGEMENT REPORT

The breakdown of loans issued by the group and the bank by category:

EUR '000

	Group 31/12/2013			Group 31/12/2012		
Category	Carrying amount	Off-balance sheet amount	Total exposure, gross	Carrying amount	Off-balance sheet amount	Total exposure, gross
Ordinary loans	687,988	23,997	711,985	655,343	18,705	674,048
Credit lines	83,806	21,561	105,367	87,023	11,628	98,651
Balances due from financial auxiliaries and other financial intermediaries	23,799	-	23,799	19,456	-	19,456
Overdrafts	3,079	-	3,079	15,394	-	15,394
Payment cards	1,510	14,573	16,083	1,392	12,497	13,889
Total	**800,182**	**60,131**	**860,313**	**778,608**	**42,830**	**821,438**
Impairment allowance	(50,085)	-	(50,085)	(67,475)	-	(67,475)
Net loans	**750,097**	**60,131**	**810,228**	**711,133**	**42,830**	**753,963**

EUR '000

	Bank 31/12/2013			Bank 31/12/2012		
Category	Carrying amount	Off-balance sheet amount	Total exposure, gross	Carrying amount	Off-balance sheet amount	Total exposure, gross
Ordinary loans	699,160	23,997	723,157	651,223	18,705	669,928
Credit lines	83,806	21,868	105,674	87,023	11,742	98,765
Balances due from financial auxiliaries and other financial intermediaries	23,798	-	23,798	29,017	-	29,017
Overdrafts	3,079	-	3,079	15,394	-	15,394
Payment cards	1,510	14,626	16,136	1,392	12,547	13,939
Total	**811,353**	**60,491**	**871,844**	**784,049**	**42,994**	**827,043**
Impairment allowance	(50,085)	-	(50,085)	(67,475)	-	(67,475)
Net loans	**761,268**	**60,491**	**821,759**	**716,574**	**42,994**	**759,568**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

The breakdown of allowances established by the group and the bank by loan category:

EUR '000

Category	Individual allowances 31/12/2013	Portfolio allowances for impaired loans 31/12/2013	Portfolio allowances for not impaired loans 31/12/2013	Total 31/12/2013	Individual allowances 31/12/2012	Portfolio allowances for impaired loans 31/12/2012	Portfolio allowances for not impaired loans 31/12/2012	Total 31/12/2012
Mortgage loans	1,224	35,290	3,031	39,545	1,374	48,953	3,247	53,574
Business loans	6,178	243	272	6,693	9,560	583	-	10,143
Other loans	545	3,244	-	3,789	548	3,133	-	3,681
Consumer loans	-	58	-	58	-	77	-	77
Total allowances for loan impairments	**7,947**	**38,835**	**3,303**	**50,085**	**11,482**	**52,746**	**3,247**	**67,475**

The breakdown of loans issued by the group and the bank by industry profile:

EUR '000

Industry	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Mortgage loans to private individuals	357,908	397,723	357,908	397,723
Real estate management	139,837	91,307	139,837	91,307
Financial and insurance activities	98,114	61,731	106,215	74,637
Trading	51,546	63,755	51,546	63,755
Other loans to private individuals	42,383	35,674	42,299	35,590
Transportation and logistics	8,782	10,047	8,782	10,047
Agriculture and forestry	6,908	9,939	10,797	9,939
Manufacturing	6,582	4,644	6,582	4,644
Construction	2,045	3,317	2,045	3,317
Energy	-	77	3,365	4,007
Other industries	35,992	32,919	31,892	21,608
Net loans	**750,097**	**711,133**	**761,268**	**716,574**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Below is provided the collateral analysis for the group's loans:

EUR '000

Loan type	Total loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral
						31/12/2013
Mortgage loans	404,646	-	-	362,583	-	362,583
Business loans	366,168	3,598	229,276	409,929	17,590	660,393
Other loans	27,847	-	-	-	371	371
Consumer loans	1,521	4,592	-	-	-	4,592
Total loans	**800,182**	**8,190**	**229,276**	**772,512**	**17,961**	**1,027,939**
Impairment allowance	(50,085)	x	x	x	x	x
Total loans, net	**750,097**	**x**	**x**	**x**	**x**	**x**
Loan type						**31/12/2012**
Mortgage loans	458,930	-	-	409,228	97	409,325
Business loans	294,583	12,600	231,383	271,581	36,741	552,305
Other loans	23,298	-	-	-	-	-
Consumer loans	1,797	4,528	-	-	-	4,528
Total loans	**778,608**	**17,128**	**231,383**	**680,809**	**36,838**	**966,158**
Impairment allowance	(67,475)	x	x	x	x	x
Total loans, net	**711,133**	**x**	**x**	**x**	**x**	**x**

Below is provided the collateral analysis for the bank's loans:

EUR '000

Loan type	Total loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral
						31/12/2013
Mortgage loans	404,647	-	-	362,583	-	362,583
Business loans	377,338	3,598	229,276	409,929	17,590	660,393
Other loans	27,847	-	-	-	371	371
Consumer loans	1,521	4,592	-	-	-	4,592
Total loans	**811,353**	**8,190**	**229,276**	**772,512**	**17,961**	**1,027,939**
Impairment allowance	(50,085)	x	x	x	x	x
Total loans, net	**761,268**	**x**	**x**	**x**	**x**	**x**
Loan type						**31/12/2012**
Mortgage loans	458,930	-	-	409,228	97	409,325
Business loans	300,024	12,600	231,383	271,581	36,741	552,305
Other loans	23,298	-	-	-	-	-
Consumer loans	1,797	4,528	-	-	-	4,528
Total loans	**784,049**	**17,128**	**231,383**	**680,809**	**36,838**	**966,158**
Impairment allowance	(67,475)	x	x	x	x	x
Total loans, net	**716,574**	**x**	**x**	**x**	**x**	**x**

The principles for determination of the fair value of collateral are described in Note 34. During the reporting year, the real estate with a total value of EUR 12,9 (15,7) million was taken over.

Note 19

Investments in subsidiaries and associates

The group has shares in the following companies:

EUR '000

Company	Country of incor-portion	31/12/2013 Share capital	Equity	Group's share of total share capital, %	Carrying amount under equity method	31/12/2012 Share capital	Equity	Group's share of total share capital, %	Carrying amount under equity method
DEPO DIY, SIA	LV	7,501	22,829	25	6,631	7,501	15,790	25	3,796
Traumatoloģijas un ortopēdijas klīnika Ādaži	LV	3	13	30	4	-	-	-	-
Investments in associates	x	**7,504**	**22,842**	x	**6,635**	**7,501**	**15,790**	x	**3,796**

The bank has equity investments in the following companies:

EUR '000

Company	Country of incor-poration	31/12/2013 Share capital	Equity	Bank's share of total share capital, %	Carrying amount	31/12/2012 Share capital	Equity	Bank's share of total share capital, %	Carrying amount
Pillar Holding Company, KS	LV	90,000	91,815	100	90,000	90,000	90,681	99.9997	90,000
ABLV Bank Luxembourg, S.A.	LU	20,000	15,361	100	20,000	20,000	18,166	100	20,000
ABLV Private Equity Fund 2010, KS	LV	10,000	12,245	100	10,000	10,000	11,201	100	10,000
New Hanza City, SIA	LV	9,818	9,661	100	9,818	6,261	6,192	100	6,261
AmberStone Group, AS	LV	4,900	4,900	100	4,900	-	-	-	-
ABLV Consulting services, AS	LV	711	886	100	711	711	768	100	711
ABLV Capital Markets, IBAS	LV	640	3,973	90	576	569	2,684	100	569
ABLV Asset Management, IPAS	LV	569	935	100	569	569	556	100	569
ABLV Private Equity Mangement, SIA	LV	171	304	100	171	171	213	100	171
ABLV Corporate Services, SIA	LV	28	191	100	28	28	199	100	28
Pillar, SIA	LV	3	3	100	6	3	3	100	6
Pillar Management, SIA	LV	-	-	-	-	711	556	100	711
Total investments in subsidiaries and associates	x	**136,840**	**140,274**	x	**136,779**	**129,023**	**131,219**	x	**129,026**
Impairment allowance		x	x	x	(3,950)	x	x	x	(1,569)
Total investments in subsidiaries and associates, net	x	x	x	x	**132,829**	x	x	x	**127,457**

During the reporting year, the bank increased its investment in ABLV Capital Markets, IBAS by EUR 7,1 thousand; during the reporting year, ABLV Capital Markets, IBAS, issued registered non-voting shares (personnel shares) amounting to EUR 64,0 thousand.

The increase in the share capital of New Hanza City, SIA, of EUR 1,4 million, that at the end of the reporting period was paid according to the capital increase rules, was not registered with the Enterprise Register of the Republic of Latvia after the year end.

The movements in investments in subsidiaries and associates:

EUR '000

	Group 01/01/2013—31/12/2013	Group 01/01/2012—31/12/2012	Bank 01/01/2013—31/12/2013	Bank 01/01/2012—31/12/2012
Investments at the beginning of the year	**3,796**	**448**	**129,026**	**102,266**
New subsidiaries established	-	-	4,900	6
Investments in associates	912	2,500	-	-
Increase in investments in associates under equity method	2,496	1,295	-	-
Dividend payout from associates	(569)	-	-	-
(Decrease) in investments in associates consolidated during the reporting year	-	(447)	-	-
Investments in existing subsidiaries	-	-	3,564	30,311
Disposal of subsidiaries	-	-	(711)	(3,557)
Investments at the end of the year	**6,635**	**3,796**	**136,779**	**129,026**
Impairment allowance	-	-	(3,950)	(1,569)
Investments at the end of the year, net	**6,635**	**3,796**	**132,829**	**127,457**

As at 31 December 2013, funds of the customers of ABLV Asset Management, IPAS, managed by the said company based on the customers' authorisation amounted to EUR 93,2 (54,4) million. The value of financial instruments of the ABLV Capital Markets, IBAS, customers as at 31 December 2013 was EUR 780,4 (605,4) million.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

As at 31 December 2013, the group comprises of the following subsidiaries:

No	Company	Country of incorporation	Registration number	Business profile	"Share in the entity's capital (%)"
1	ABLV Bank, AS	LV	50003149401	Financial services	100
2	ABLV Bank Luxembourg, S.A.	LU	B 162048	Financial services	100
3	ABLV Consulting Services, AS	LV	40003540368	Consulting services	100
4	ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100
5	ABLV Corporate Services, LTD	CY	HE273600	Consulting services	100
6	Pillar Holding Company, KS	LV	40103260921	Holding company	100
7	Pillar, SIA	LV	40103554468	Real estate transactions	100
8	Pillar Management, SIA	LV	40103193211	Real estate transactions	100
9	Pillar 2, SIA	LV	40103193033	Real estate transactions	100
10	Pillar 3, SIA	LV	40103193067	Real estate transactions	100
11	Pillar 4, SIA	LV	40103210494	Real estate transactions	100
12	Pillar 6, SIA	LV	40103237323	Real estate transactions	100
13	Pillar 7, SIA	LV	40103237304	Real estate transactions	100
14	Pine Breeze, SIA	LV	40103240484	Real estate transactions	100
15	Pillar 9, SIA	LV	40103241210	Real estate transactions	100
16	Pillar 10, SIA	LV	50103247681	Real estate transactions	100
17	Pillar 11, SIA	LV	40103258310	Real estate transactions	100
18	Pillar 12, SIA	LV	40103290273	Real estate transactions	100
19	Lielezeres Apartment House, SIA	LV	50103313991	Real estate transactions	100
20	Pillar 18, SIA	LV	40103492079	Real estate transactions	100
21	Elizabetes Park House, SIA	LV	50003831571	Real estate transactions	91.6
22	Pillar Parking, SIA	LV	40103731804	Parking management	100
23	New Hanza City, SIA	LV	40103222826	Real estate transactions	100
24	ABLV Asset Management, IPAS	LV	40003814724	Financial services	100
25	ABLV Capital Markets, IBAS	LV	40003814705	Financial services	90
26	AmberStone Group, AS	LV	40103736854	Holding company	100
27	ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100
28	ABLV Private Equity Fund 2010, KS	LV	40103307758	Investment activities	100
29	Vaiņode Agro Holding, SIA	LV	40103503851	Holding company	70
30	Vaiņodes Agro, SIA	LV	40103484940	Agriculture	70
31	Vaiņodes Bekons, SIA	LV	42103019339	Agriculture	70
32	Gas Stream, SIA	LV	42103047436	Electricity generation	70
33	Bio Future, SIA	LV	42103047421	Electricity generation	70
34	Orto klīnika, SIA	LV	40103175305	Medical services	60
35	Orto māja, SIA	LV	40103446845	Real estate transactions	60

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 20

Investment properties

EUR '000

	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Investment properties	31,787	28,725	24,327	24,620
Prepayments for investment properties	1,571	950	3	-
Total investment properties	**33,358**	**29,675**	**24,330**	**24,620**

The movements in the group's and bank's investment properties in 2013 are as follows:

EUR '000

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
Acquisition value as at 01/01/2013	**27,076**	**1,723**	**28,799**	**24,386**	**309**	**24,695**
Additions	1,116	1,757	2,873	11	-	11
Reclassification	(209)	729	520	(209)	209	-
Disposals	-	(293)	(293)	-	(293)	(293)
Acquisition value as at 31/12/2013	**27,983**	**3,916**	**31,899**	**24,188**	**225**	**24,413**
Accumulated depreciation as at 01/01/2013	**-**	**75**	**75**	**-**	**75**	**75**
Depreciation charge	-	37	37	-	11	11
Accumulated depreciation as at 31/12/2013	**-**	**112**	**112**	**-**	**86**	**86**
Net carrying amount as at 01/01/2013	**27,077**	**1,648**	**28,725**	**24,387**	**233**	**24,620**
Net carrying amount as at 31/12/2013	**27,983**	**3,804**	**31,787**	**24,188**	**139**	**24,327**

The movements in the group's and bank's investment properties in 2012 are as follows:

EUR '000

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
Acquisition value as at 01/01/2012	**25,962**	**4,192**	**30,153**	**23,271**	**309**	**23,580**
Additions	1,116	743	1,858	1,116	-	1,116
Disposals	-	(3,211)	(3,211)	-	-	-
Acquisition value as at 31/12/2012	**27,077**	**1,723**	**28,800**	**24,387**	**309**	**24,695**
Accumulated depreciation as at 01/01/2012	**-**	**64**	**64**	**-**	**64**	**64**
Depreciation charge	-	11	11	-	11	11
Accumulated depreciation as at 31/12/2012	**-**	**75**	**75**	**-**	**75**	**75**
Net carrying amount as at 01/01/2012	**25,962**	**4,128**	**30,089**	**23,271**	**245**	**23,516**
Net carrying amount as at 31/12/2012	**27,077**	**1,648**	**28,725**	**24,387**	**233**	**24,620**

Rentals from investment properties in 2013 amounted to EUR 17,1 (31.3) thousand, whereas the related property maintenance expense was EUR 190,7 (143.7) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to EUR 169,3 (119,5) thousand.

BANK'S MANAGEMENT REPORT

Note 21

Intangible and tangible fixed assets

EUR '000

	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Intangible fixed assets	4,953	4,865	4,562	4,483
Goodwill	229	229	-	-
Prepayments for intangible fixed assets	457	343	454	332
Total intangible fixed assets	**5,639**	**5,437**	**5,016**	**4,815**
Land	1,234	1,244	182	182
Buildings and property improvements	19,057	15,533	4,565	4,485
Production equipment	5,330	5,110	-	-
Office equipment and IT hardware	4,357	2,632	3,155	1,754
Vehicles	1,471	922	797	438
Leasehold improvements	589	117	589	117
Construction in progress	120	2,289	-	-
Prepayments for tangible fixed assets	514	56	457	5
Total tangible fixed assets	**32,672**	**27,903**	**9,745**	**6,981**

The movements in the group's intangible and tangible fixed assets in 2013 are as follows:

EUR '000

	Goodwill	Intangible fixed assets	Land	Production equipment	Construction in progress	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2013	**229**	**9,209**	**1,244**	**5,916**	**2,290**	**19,380**	**878**	**1,679**	**10,784**	**51,609**
Additions	-	1,299	41	827	104	2,321	569	1,161	3,125	9,447
Reclassification	-	-	(51)	30	(2,274)	2,267	-	-	43	15
Disposals	-	(788)	-	-	-	-	-	(756)	(1,621)	(3,165)
Acquisition value as at 31/12/2013	**229**	**9,720**	**1,234**	**6,773**	**120**	**23,968**	**1,447**	**2,084**	**12,331**	**57,906**
Accumulated depreciation as at 01/01/2013	**-**	**4,344**	**-**	**807**	**-**	**3,847**	**761**	**756**	**8,152**	**18,667**
Depreciation charge	-	1,211	-	636	-	1,064	97	319	1,380	4,707
Depreciation of disposals	-	(788)	-	-	-	-	-	(462)	(1,558)	(2,808)
Accumulated depreciation as at 31/12/2013	**-**	**4,767**	**-**	**1,443**	**-**	**4,911**	**858**	**613**	**7,974**	**20,566**
Net carrying amount as at 01/01/2013	**229**	**4,865**	**1,244**	**5,110**	**2,289**	**15,533**	**117**	**922**	**2,632**	**32,941**
Net carrying amount as at 31/12/2013	**229**	**4,953**	**1,234**	**5,330**	**120**	**19,057**	**589**	**1,471**	**4,357**	**37,340**

The movements in the group's intangible and tangible fixed assets in 2012 are as follows:

EUR '000

	Goodwill	Intangible fixed assets	Land	Production equipment	Construction in progress	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2012	**-**	**8,977**	**182**	**5,913**	**-**	**19,314**	**986**	**1,437**	**9,705**	**46,514**
Additions	229	1,377	1,061	4	2,289	92	-	583	1,800	7,435
Disposals	-	(1,145)	-	(1)	-	(26)	(108)	(343)	(721)	(2,344)
Acquisition value as at 31/12/2012	**229**	**9,209**	**1,243**	**5,916**	**2,289**	**19,380**	**878**	**1,677**	**10,784**	**51,605**
Accumulated depreciation as at 01/01/2012	**-**	**4,656**	**-**	**374**	**-**	**3,213**	**784**	**756**	**7,941**	**17,724**
Depreciation charge	-	828	-	391	-	465	75	282	855	2,896
Depreciation of tangible assets of the subsidiaries acquired in the reporting year	-	-	-	43	-	171	-	-	55	269
Depreciation of disposals	-	(1,140)	-	(1)	-	(1)	(98)	(282)	(700)	(2,222)
Accumulated depreciation as at 31/12/2012	**-**	**4,344**	**-**	**807**	**-**	**3,848**	**761**	**756**	**8,151**	**18,667**
Net carrying amount as at 01/01/2012	**-**	**4,321**	**182**	**5,539**	**-**	**16,101**	**202**	**681**	**1,764**	**28,790**
Net carrying amount as at 31/12/2012	**229**	**4,865**	**1,243**	**5,109**	**2,289**	**15,532**	**117**	**921**	**2,633**	**32,938**

As at 31 December 2013, the group owned intangible and tangible fixed assets having the net carrying amount of EUR 0 and the cost value of EUR 7,7 (8.3) million, while the cost value of such intangible and tangible fixed assets owned by the bank totalled EUR 7,5 (8,3) million.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

The movements in the bank's intangible and tangible fixed assets in 2013 are as follows:

EUR '000

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2013	**8,559**	**182**	**7,203**	**878**	**1,016**	**9,496**	**27,334**
Additions	1,205	-	387	569	544	2,503	5,208
Reclassification	-	-	-	-	-	43	43
Disposals	(788)	-	-	-	(388)	(1,589)	(2,765)
Acquisition value as at 31/12/2013	**8,976**	**182**	**7,590**	**1,447**	**1,172**	**10,453**	**29,820**
Accumulated depreciation as at 01/01/2013	**4,075**	**-**	**2,718**	**761**	**578**	**7,742**	**15,874**
Depreciation charge	1,127	-	307	97	171	1,087	2,789
Depreciation of disposals	(788)	-	-	-	(374)	(1,531)	(2,693)
Accumulated depreciation as at 31/12/2013	**4,414**	**-**	**3,025**	**858**	**375**	**7,298**	**15,970**
Net carrying amount as at 01/01/2013	**4,483**	**182**	**4,485**	**117**	**438**	**1,754**	**11,459**
Net carrying amount as at 31/12/2013	**4,562**	**182**	**4,565**	**589**	**797**	**3,155**	**13,850**

The movements in the bank's intangible and tangible fixed assets in 2012 are as follows:

EUR '000

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2012	**8,604**	**182**	**7,139**	**986**	**1,054**	**9,192**	**27,157**
Additions	1,088	-	68	-	248	1,002	2,406
Disposals	(1,134)	-	(4)	(108)	(286)	(697)	(2,229)
Acquisition value as at 31/12/2012	**8,558**	**182**	**7,203**	**878**	**1,016**	**9,497**	**27,334**
Accumulated depreciation as at 01/01/2012	**4,461**	**-**	**2,422**	**784**	**649**	**7,685**	**16,001**
Depreciation charge	744	-	296	75	175	737	2,027
Depreciation of disposals	(1,130)	-	-	(98)	(246)	(680)	(2,154)
Accumulated depreciation as at 31/12/2012	**4,075**	**-**	**2,718**	**761**	**578**	**7,742**	**15,874**
Net carrying amount as at 01/01/2012	**4,143**	**182**	**4,717**	**202**	**406**	**1,507**	**11,157**
Net carrying amount as at 31/12/2012	**4,483**	**182**	**4,485**	**117**	**438**	**1,755**	**11,460**

Information about contractual commitments on the purchase of intangible and tangible fixed assets is disclosed in Note 27.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 22

Other assets

EUR '000

	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Receivables	1,765	2,930	568	1,640
Prepaid expense	1,720	1,558	1,107	683
Cash in transit	1,619	3,624	1,619	3,624
Balances due from MFGlobal	726	11,475	726	11,475
Tax assets	450	65	1	-
Precious metals	360	514	360	514
Payments for financial instruments	43	20	43	20
Receivables from disposal of subsidiaries	-	-	588	-
Other assets	2,457	1,608	865	687
Total other assets	**9,140**	**21,794**	**5,877**	**18,643**
Impairment expense	(485)	(1,931)	(420)	(1,907)
Total other assets, net	**8,655**	**19,863**	**5,457**	**16,736**

Note 23

Deposits

EUR '000

Customer type	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Corporate companies				
current accounts	2,313,818	2,091,941	2,309,579	2,095,172
term deposits	37,756	203,082	37,756	203,967
Total corporate companies	**2,351,574**	**2,295,023**	**2,347,335**	**2,299,139**
Other financial intermediaries				
current accounts	5,481	21,162	20,148	26,293
term deposits	-	-	-	-
Total other financial intermediaries	**5,481**	**21,162**	**20,148**	**26,293**
Other customers				
current accounts	3,318	1,087	1,478	1,087
term deposits	-	999	-	999
Total other customers	**3,318**	**2,086**	**1,478**	**2,086**
Total deposits from corporate customers	**2,360,373**	**2,318,271**	**2,368,961**	**2,327,518**
Retail customers				
current accounts	382,347	305,196	382,047	305,196
term deposits	25,449	26,477	25,449	26,477
Total deposits from retail customers	**407,796**	**331,673**	**407,496**	**331,673**
Total deposits	**2,768,169**	**2,649,944**	**2,776,457**	**2,659,191**

The group's/ bank's top 20 customers in terms of the deposit amount account for 12,0% (17,3%) of the total deposits.

Of the total deposits placed with the group and the bank, 88,3% (88,0%) are from customers whose beneficiaries are CIS residents.

Note 24

Issued securities

Securities issued by the bank are as follows:

EUR '000

ISIN	Currency	Initial security emission amount Number	Par value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group/ bank 31/12/2013	Group/ bank 31/12/2012
Subordinated bonds								
LV0000800712	EUR	125,000	100	01.10.2008.	01.10.2018.	10.0	-	10,694
LV0000800720	USD	200,000	100	01.10.2008.	01.10.2018.	9.5	-	13,529
LV0000800845	USD	200,000	100	15.09.2010.	15.09.2020.	6.5	13,120	12,708
LV0000800936	EUR	150,000	100	22.12.2011.	22.12.2021.	4.8	13,016	12,420
LV0000800977	EUR	50,000	100	25.06.2012.	25.06.2022.	4.5	4,276	2,213
LV0000800985	USD	200,000	100	27.06.2012.	27.06.2022.	4.5	14,663	15,111
LV0000801124	USD	200,000	100	18.03.2013.	18.03.2023.	4.5	12,029	-
LV0000801173	USD	200,000	100	27.06.2013.	27.06.2023.	4.3	12,133	-
LV0000801181	EUR	200,000	100	27.06.2013.	27.06.2023.	4.3	12,419	-
LV0000801223	USD	150,000	100	23.10.2013.	23.10.2023.	4.3	10,891	-
Subordinated bonds, total							**92,547**	**66,675**
Ordinary bonds								
LV0000800910	EUR	10,000	1,000	20.12.2011.	20.12.2013.	1.5+Euribor 6m	-	9,664
LV0000800928	USD	30,000	1,000	21.12.2011.	21.12.2013.	1.5+Libor 6m	-	22,500
LV0000800969	USD	50,000	1,000	30.07.2012.	30.07.2014.	1.2+Libor 6m	33,742	38,075
LV0000801033	USD	25,000	1,000	15.10.2012.	15.10.2013.	1.15	-	17,675
LV0000801041	EUR	15,000	1,000	05.11.2012.	05.11.2014.	1.55	13,674	12,397
LV0000801058	USD	50,000	1,000	06.11.2012.	06.11.2014.	1.45	31,405	10,615
LV0000801108	EUR	20,000	1,000	25.02.2013.	25.02.2015.	1.68	12,918	-
LV0000801116	USD	50,000	1,000	25.02.2013.	25.02.2015.	1.70	34,021	-
LV0000801199	USD	50,000	1,000	21.06.2013.	21.06.2015.	1.73	35,556	-
LV0000801207	EUR	20,000	1,000	21.06.2013.	21.06.2015.	1.73	18,472	-
LV0000801215	USD	50,000	1,000	16.10.2013.	16.10.2015.	1.90	36,051	-
Ordinary bonds, total							**215,839**	**110,926**
Issued securities, total							**308,386**	**177,601**

The group and the bank retain the right to exercise early redemption of subordinated bonds according to the information provided in base prospectus of the respective programmes.

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Note 25

Subordinated liabilities

As at 31 December 2013, the group's and bank's subordinated liabilities of EUR 102,7 (85,1) million comprised subordinated bonds amounting to EUR 92,5 (66,7) million and subordinated deposits amounting to EUR 10,1 (18,4) million. Subordinated deposits consist from the total amount of USD 9,3 (20,7) million and EUR 3,3 (2,7) million.

The analysis of subordinated deposits as at 31 December 2013:

Lenders*	Deposit amount EUR '000	Accumulated interest EUR '000	Interest rate, %	Currency
non-residents	6,774	73	1.75—3.15	USD
non-residents	3,295	7	3.00—3.90	EUR
Total subordinated deposits	**10,069**	**80**	-	-

The analysis of subordinated deposits as at 31 December 2012:

	Deposit amount EUR '000	Accumulated interest EUR '000	Interest rate, %	Currency	Date of the agreement	Date of maturity
Harpic group Ltd	11,333	48	5.11	USD	14.08.2008.	19.08.2018.
Other lenders*						
non-residents	4,239	53	1.75—8.39	USD	-	-
non-residents	2,695	4	3.15—3.90	EUR	-	-
Other lenders in total	**6,934**	**57**			-	-
Total subordinated deposits	**18,267**	**105**	-	-	-	-

* The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. The remaining weighted average maturity of subordinated deposits from other lenders is 5,98 (4,58) years. Subordinated deposits are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the bank's share capital. The basic conditions of the subordinated bonds issued by the Bank are disclosed in Note 24.

Note 26

Paid-in share capital

In the reporting year, the bank issued 6,570 (10,600) voting shares in addition to the existing 120,600 (110,000) voting shares. The issue of the bank's share capital was intended to ensure steady development of the group/ bank in the future. All the newly issued shares had the par value of EUR 213.4 (213,4) each, while the share premium totalled EUR 2,284 (1,793). Most of the newly issued shares have been acquired by the existing shareholders of the bank — Cassandra Holding Company, SIA and OF Holding, SIA.

As at 31 December 2013 the paid-in share capital of the bank amounted to EUR 30,0 million (28.1 million). All the shares have the par value of EUR 213,4 (213,4) each. The bank's share capital consists of 127,170 (120,600) ordinary registered voting shares and 13,400 (11,000) registered non-voting shares (personnel shares).
As at 31 December 2013, the bank had 118 (119) voting shareholders.

The major shareholders of the bank and the groups of related shareholders are as follows:

	31/12/2013		31/12/2012	
	Share of the bank's share capital, EUR '000	Share of the bank's voting capital (%)	Share of the bank's share capital, EUR '000	Share of the bank's voting capital (%)
Group of shareholders related to Ernests Bernis				
Ernests Bernis	1,430	5.27	1,429	5.55
Nika Berne	246	0.90	240	0.94
Cassandra Holding Company, SIA	9,996	36.83	9,399	36.52
Group of shareholders related to Ernests Bernis, total	**11,672**	**43.00**	**11,068**	**43.01**
Group of shareholders related to Oļegs Fiļs				
SIA OF Holding	11,672	43.00	11,069	43.00
Group of shareholders related to Oļegs Fiļs, total	**11,672**	**43.00**	**11,069**	**43.00**
Other shareholders, total	3,799	14.00	3,603	13.99
Total voting shares	**27,143**	**100.00**	**25,740**	**100.00**
Non-voting shares (personnel shares)	2,860	x	2,348	x
Total share capital	**30,003**	**x**	**28,088**	**x**

The registered non-voting shares (personnel shares) are as follows:

	31/12/2013		31/12/2012	
	Number of employees	Personnel shares	Number of employees	Personnel shares
Chairman of the council and council members	3	-	3	-
Chairman of the board	1	-	1	-
Board members	6	7,250	6	5,850
Heads and deputy heads of divisions	17	6,150	15	5,150
Non-voting shares (personnel shares), total	**x**	**13,400**	**x**	**11,000**

Dividends declared and paid:

EUR '000

	Group/ bank 01/01/2013—31/12/2013	Group/ bank 01/01/2012—31/12/2012
Dividends declared	23,356	27,185
Dividends paid	23,349	27,177

EUR

	Group/ Bank 01/01/2013—31/12/2013	Group/ Bank 01/01/2012—31/12/2012
Dividends declared per share	174	225
Dividends paid per share	174	225

Note 27

Memorandum items

EUR '000

Contingent liabilities	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Outstanding guarantees	7,681	9,973	7,689	9,980
Letters of credit	209	54	209	54
Total contingent liabilities	**7,890**	**10,027**	**7,898**	**10,034**
Financial commitments				
Loan commitments	23,997	18,705	23,997	18,705
Unutilised credit lines	21,561	11,628	21,868	11,742
Undrawn credit facilities on settlement cards	14,573	12,497	14,626	12,547
Contractual commitments on purchase of non-financial assets	308	85	308	85
Total financial commitments	**60,439**	**42,915**	**60,799**	**43,079**
Total contingent liabilities and financial commitments	**68,329**	**52,942**	**68,697**	**53,113**

Note 28

Funds under trust management

As at 31 December 2013, funds under trust management by the group amounted to EUR 146,3 (196,1) million, while funds under trust management by the bank amounted to EUR 52,6 (141,9) million. The bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the bank. Meanwhile, the group's funds under trust management also include funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation and the funds under trust management of ABLV Bank Luxembourg, S.A.. For more detailed information on the funds of the customers of ABLV Asset Management, IPAS see Note 19.

The related credit risk and other risks remain fully with the customer, which provided these funds to the group and/ or the bank.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 29

Related party disclosures

Related parties of the group and the bank are defined as shareholders who have a qualifying holding in the bank, and chairman and members of the bank's council and board, staff of the Internal Audit Department, key management personnel of the group and the bank that are authorised to plan, manage and control bank's operations and are responsible for these functions, and spouses, parents and children of the individuals referred to previously, bank's subsidiaries and companies in which the bank has an interest, companies in which these individuals have a qualifying holding as well as other legal entities.

Group's transactions with related parties:

EUR '000

	31/12/2013				31/12/2012			
Assets	Shareholders	Management	Related companies	Other related individuals	Shareholders	Management	Related companies	Other related individuals
Loans	-	1,725	410	857	-	965	1,616	697
Liabilities								
Deposits	359	2,517	7,827	2,023	195	1,562	2,954	1,514
Ordinary bonds	-	-	-	43	-	-	-	1
Subordinated bonds	83	1,757	1,093	1,801	-	1,006	149	1,120
Memorandum items								
Undrawn credit facilities	-	165	300	94	-	168	85	83
Guarantees	-	188	-	-	-	189	-	-
Income/ expense	01/01/2013—31/12/2013				01/01/2012—31/12/2012			
Interest income	-	77	97	10	-	47	118	24
Interest expense	(7)	(101)	(31)	(53)	-	(50)	(14)	(28)
Commission and fee income	-	20	21	7	-	24	44	10
Net result of non-financial assets held for sale	-	(238)	(243)	(27)	-	-	-	-

Bank's transactions with related parties:

EUR '000

	31/12/2013					31/12/2012				
Assets	Shareholders	Management	Related companies	Subsidiaries	Other related individuals	Shareholders	Management	Related companies	Subsidiaries	Other related individuals
Loans	-	1,725	293	15,358	552	-	965	1,616	16,834	598
Liabilities										
Deposits	359	2,517	7,817	28,466	1,776	195	1,562	2,954	13,144	1,286
Ordinary bonds	-	-	-	20	43	-	-	-	-	1
Subordinated bonds	83	1,757	1,093	-	1,532	-	1,006	149	-	904
Memorandum items										
Undrawn credit facilities	-	165	300	360	84	-	168	85	162	80
Guarantees	-	188	-	7	-	-	189	-	7	-
Income/ expense	01/01/2013—31/12/2013					01/01/2012—31/12/2012				
Interest income	-	71	95	953	10	-	47	118	1,093	10
Interest expense	(7)	(100)	(31)	(9)	(34)	-	(50)	(14)	(37)	(7)
Commission and fee income	-	17	16	736	7	-	21	41	151	3
Commission and fee expense	-	-	-	(5,586)	-	-	-	-	(4,172)	-
Other operating income	-	-	-	2,012	-	-	-	-	982	-
Impairment allowances, net	-	-	-	-	-	-	-	-	248	-

Remuneration to the management is disclosed in Note 10, while information on registered non-voting shares (personnel shares) is presented in Note 26. Information on changes in investments in subsidiaries and associates is disclosed in Note 19.

Latvian banking legislation requires that the total credit exposure to related parties may not exceed 15% of credit institution's equity.

As at 31 December 2013, the bank was in compliance with the above statutory requirements.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 30

Segment information

The group and the bank believe that the group's operations are organised into four segments based on the core business activities as follows: banking services, advisory services, investment management services, and management of non-financial assets held for sale and investments in real estate. The group defines its operating segments based on its organisational structure. The bank views its operations as one single segment, without making any separate disclosures, while at the group level the bank and all its subsidiaries are attributed to the group's operating segments as follows:

- banking services: ABLV Bank, AS, ABLV Bank Luxembourg, S.A;
- advisory services: ABLV Consulting Services, AS, ABLV Corporate Services, SIA,
- ABLV Corporate Services, LTD;
- investment management services: ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, ABLV Private Equity Management, SIA, ABLV Private Equity Fund 2010, KS, Vaiņode Agro Holding, SIA, Vaiņodes Agro, SIA, Vaiņodes bekons, SIA, Gas Stream, SIA, Bio Future, SIA, Orto klīnika, SIA, Orto māja, SIA, AmberStone Group, AS.
- management of non-financial assets held for sale and investments in real estate: Pillar Holding Company, KS, Pillar, SIA, Pillar Management, SIA, Pillar 2, SIA, Pillar 3, SIA, Pillar 4, SIA, Pillar 6, SIA, Pillar 7, SIA, Pina Breeze, SIA, Pillar 9, SIA, Pillar 10, SIA, Pillar 11, SIA, Pillar 12, SIA, Lielezeres Apartment House, SIA, Pillar 18, SIA, Pillar Parking, SIA, Elizabetes Park House, SIA, New Hanza City, SIA.

Operating segment information is prepared on the basis of internal reports.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

Analysis of the operating segments of the group as at 31 December 2013:

EUR '000

Assets	Banking	Investment management	Advisory	Management of non-financial assets held for sale and investments in real estate
Cash and deposits with central banks	356,757	11	-	-
Balances due from credit institutions	640,115	169	41	-
Securities and derivatives	1,409,172	-	-	-
Loans	795,981	4,193	-	6
Investments in subsidiaries and associates	-	6,635	-	-
Tangible and intangible fixed assets, investment properties	39,837	22,072	434	9,326
Other assets	3,880	3,532	383	74,337
Total assets per internal reporting	**3,245,742**	**36,612**	**858**	**83,669**
Impairment allowance*	(50,740)	-	-	(64)
Total assets per IFRS	**3,195,002**	**36,612**	**858**	**83,605**
Liabilities				
Balances due to credit institutions	10,654	3,633	-	-
Derivatives	2,046	-	-	-
Deposits and issued securities	3,085,950	753	-	1
Impairment allowances and other provisions	51,148	-	-	64
Other liabilities	15,750	3,825	975	2,896
Total liabilities per internal reporting	**3,165,548**	**8,211**	**975**	**2,961**
Total liabilities and shareholders' equity	**3,349,775**	**21,992**	**1,315**	**(6,201)**
Impairment allowance*	(50,740)	-	-	(64)
Total liabilities per IFRS	**3,299,035**	**21,992**	**1,315**	**(6,265)**
Profit/ loss				
Net interest income	41,946	689	-	7
Net commission and fee income	44,957	5,965	(10)	-
Net result of transactions with financial instruments and foreign exchange	22,010	(3)	(14)	-
Net other income/ expense	(121)	8,416	1,625	269
Net gain/(loss) on disposal of assets taken over	24	-	-	4,745
Income from dividends	105	-	-	-
Administrative expense and depreciation	(47,913)	(4,658)	(5,713)	(2,033)
Impairment allowances and provisions	(9,466)	-	-	-
Impairment of financial instruments	(1,218)	-	-	-
Impairment of other assets	1,091	1	-	(457)
Corporate income tax	(8,122)	(956)	(58)	(110)
Net profit/ (loss) for the year	**43,293**	**9,454**	**(4,170)**	**2,421**

* For internal reporting purposes the impairment allowance is disclosed separately as a liability rather than impairment of the respective assets.

Analysis of the operating segments of the group as at 31 December 2012:

EUR '000

Assets	Banking	Investment management	Advisory	Management of non-financial assets held for sale and investments in real estate
Cash and deposits with central banks	307,455	6	-	-
Balances due from credit institutions	558,025	980	38	-
Securities and derivatives	1,285,218	-	-	-
Loans	767,212	11,315	-	80
Investments in subsidiaries and associates	-	3,796	-	-
Tangible and intangible fixed assets, investment properties	37,207	20,310	334	5,164
Other assets	16,594	3,294	269	82,085
Total assets per internal reporting	**2,971,711**	**39,701**	**641**	**87,329**
Impairment allowance*	(69,739)	-	-	(54)
Total assets per IFRS	**2,901,972**	**39,701**	**641**	**87,275**
Liabilities				
Balances due to credit institutions	3,128	1,421	-	-
Derivatives	6,515	-	-	-
Deposits and issued securities	2,842,346	3,571	-	-
Impairment allowances and other provisions	70,220	-	-	54
Other liabilities	13,728	3,921	612	6,296
Total liabilities per internal reporting	**2,935,937**	**8,913**	**612**	**6,350**
Total liabilities and shareholders' equity	**3,084,945**	**16,518**	**793**	**(2,874)**
Impairment allowance*	(69,739)	-	-	(54)
Total liabilities per IFRS	**3,015,206**	**16,518**	**793**	**(2,928)**
Profit/ loss				
Net interest income	31,827	1,562	-	(95)
Net commission and fee income	32,761	4,381	-	-
Net result of transactions with financial instruments and foreign exchange	20,782	(141)	(36)	185
Net other income/ expense	575	2,410	815	135
Net gain/(loss) on disposal of assets taken over	-	-	-	1,330
Income from dividends	10	-	-	-
Administrative expense and depreciation	(37,878)	(2,504)	(4,316)	(1,252)
Impairment allowances and provisions	(18,179)	-	-	-
Impairment of financial instruments	(458)	-	-	-
Impairment of other assets	(1,556)	-	-	(2,151)
Corporate income tax	(5,327)	(169)	(60)	(77)
Net profit/ (loss) for the year	**22,557**	**5,539**	**(3,597)**	**(1,925)**

* For internal reporting purposes the impairment allowance is disclosed separately as a liability rather than impairment of the respective assets.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 31

Fair value of financial instruments

Fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The group and the bank disclose the fair values of the assets and liabilities in such a manner so as to be able to compare the fair values with the carrying amounts.

Fair value of financial instruments, such as financial assets at fair value through profit and loss, available for sale financial assets and hold to maturity financial assets are mostly valued based on quoted price in active market. For some of the above mentioned financial instruments such price is not observable, as a result these instruments are valued based on observable price in market, where no active trading is done — this is applicable for several bonds and open ended investments funds which are redeemable at net asset value. Finally other valuation techniques are used for some available-for-sale financial assets not quoted in the market and for which no quoted prices for similar assets in active markets are available. For such financial instruments the fair value is estimated based on valuation modelswhich are based on the assumptions and estimates regarding the potential future income generated by the investment by taking into consideration the industry and geographical area risks in which the respective investment operates.Fair value of derivatives is calculated based on net present value method, where all inputs in the valuation model are observable, while exchanged traded derivatives, such as futures, as valued based on quoted price.

The management of the bank and the group believe that the most credible market value of investment properties was identified based on the evaluations presented by both external real estate appraisers and bank's real estate experts. Such experts use discounted cash flow method ("DCF") for valuation of its investment property. Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not properly developed in Latvia. For other assets and liabilities for which fair value is disclosed and with a short remaining maturity (less than three months), except for loans and receivables, the group and the bank assume that the fair value approximates to their carrying amount. This assumption also applies to demand deposits and savings accounts.

The fair value of loans and advances to customers is estimated by discounting the expected cash flows at the discount rate calculated according to the money market rates at the end of the year and the loan interest margins. The fair value of deposits is estimated by discounting the expected cash flows at the average market interest rates at the end of the year.

The carrying amounts and fair values of the group's assets and liabilities are as follows:

EUR '000

	31/12/2013		31/12/2012	
Assets at fair value	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives	451	451	115	115
At fair value through profit or loss				
Financial assets at fair value through profit or loss	16,794	16,794	4,742	4,742
Available-for-sale				
Available-for-sale financial assets	738,655	738,655	779,388	779,388
Total assets at fair value	**755,900**	**755,900**	**784,245**	**784,245**
Assets at amortised cost				
Cash and deposits with central banks	356,768	356,768	307,461	307,451
Balances due from credit institutions	640,325	640,325	559,043	559,053
Loans	750,097	748,441	711,133	702,513
Held-to-maturity financial assets	653,037	657,747	500,612	516,959
Investment properties	33,358	34,032	29,675	32,101
Total assets at amortised cost	**2,433,585**	**2,437,313**	**2,107,924**	**2,118,077**
Liabilities at fair value				
Derivatives	2,046	2,046	6,515	6,515
Total liabilities at fair value	**2,046**	**2,046**	**6,515**	**6,515**
Liabilities at fair value				
Demand deposits from credit institutions	10,654	10,654	1,376	1,376
Liabilities at amortised cost	3,090,337	3,089,501	2,849,090	2,854,824
Total liabilities at amortised cost	**3,100,991**	**3,100,155**	**2,850,466**	**2,856,200**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

The carrying amounts and fair values of the bank's assets and liabilities are as follows:

EUR '000

	31/12/2013		31/12/2012	
Assets at fair value	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives	451	451	115	115
At fair value through profit or loss				
Financial assets at fair value through profit or loss	16,794	16,794	4,742	4,742
Available-for-sale				
Available-for-sale financial assets	731,659	731,659	779,388	779,388
Total assets at fair value	**748,904**	**748,904**	**784,245**	**784,245**
Assets at amortised cost				
Cash and deposits with central banks	356,747	356,747	307,446	307,446
Balances due from credit institutions	619,037	619,037	553,020	553,020
Loans	761,268	759,611	716,574	707,954
Held-to-maturity financial assets	651,411	656,120	500,612	516,959
Investment properties	24,330	25,266	24,620	26,632
Total assets at amortised cost	**2,412,793**	**2,416,781**	**2,102,272**	**2,112,011**
Liabilities at fair value				
Derivatives	2,046	2,046	6,515	6,515
Total liabilities at fair value	**2,046**	**2,046**	**6,515**	**6,515**
Liabilities at amortised cost				
Demand deposits from credit institutions	14,491	14,491	3,423	3,423
Liabilities at amortised cost	3,094,992	3,094,157	2,867,123	2,872,858
Total liabilities at amortised cost	**3,109,483**	**3,108,648**	**2,870,546**	**2,876,281**

Hierarchy of input data for determining the fair value of assets and liabilities

The group and the bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

- **Level 1**: Quoted prices in active markets;
- **Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;
- **Level 3:** Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 1 instruments contain liquid securities and exchange traded derivatives. Level 2 instuments contain securities that do not have an active market, standardised OTC derivatives as well as certain open ended investment funds. Level 3 instruments contain private equity funds with no market price quotes, investment properties, term deposits and loans. For valuation methods and assumptions please see description above.

The group and the bank has made retrospective reclassification of certain fixed income securities classified as financial instruments as available for sale in amount of EUR 1,7 million and certain non-fixed income securities classified as fair value thorugh profit or loss in amount of EUR 1,8 million from Level 1 to Level 2.

There are changes in Level 3 assets that are recognised in financial statements at fair value, of which EUR 1,1 million is due to partial repayment and EUR 0,6 million is recognised through profit and loss as impairment expenses.

The group's assets and liabilities according to the hierarchy of input data for determining the fair value:

EUR '000

				31/12/2013				31/12/2012
Assets at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	21	430	-	451	27	88	-	115
Financial assets at fair value through profit or loss	3,903	12,863	28	16,794	2,851	1,891	-	4,742
Available-for-sale financial assets	717,479	19,656	1,520	738,655	774,442	1,749	3,197	779,388
Total assets at fair value	**721,403**	**32,949**	**1,548**	**755,900**	**777,320**	**3,728**	**3,197**	**784,245**
Assets at amortised cost								
Cash and deposits with central banks	356,768	-	-	356,768	307,461	-	-	307,461
Balances due from credit institutions	637,875	2,450	-	640,325	558,575	468	-	559,043
Loans	-	-	750,097	750,097	-	-	711,133	711,133
Held-to-maturity financial assets	640,829	12,208	-	653,037	498,150	2,462	-	500,612
Investment properties	-	-	33,358	33,358	-	-	29,675	29,675
Total assets at amortised cost	**1,635,472**	**14,658**	**783,455**	**2,433,585**	**1,364,186**	**2,930**	**740,808**	**2,107,924**
Liabilities at fair value								
Derivatives	-	2,046	-	2,046	-	6,515	-	6,515
Total liabilities at fair value	**-**	**2,046**	**-**	**2,046**	**-**	**6,515**	**-**	**6,515**
Liabilities at amortised cost								
Demand deposits from credit institutions	10,654	-	-	10,654	1,376	-	-	1,376
Liabilities at amortised cost	3,010,031	3,633	76,673	3,090,337	2,596,987	3,173	248,930	2,849,090
Total liabilities at amortised cost	**3,020,685**	**3,633**	**76,673**	**3,100,991**	**2,598,363**	**3,173**	**248,930**	**2,850,466**

The bank's assets and liabilities according to the hierarchy of input data for determining the fair value:

EUR '000

				31/12/2013				31/12/2012
Assets at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	21	430	-	451	27	88	-	115
Financial assets at fair value through profit or loss	3,903	12,863	28	16,794	2,851	1,891	-	4,742
Available-for-sale financial assets	710,483	19,656	1,520	731,659	774,442	1,749	3,197	779,388
Total assets at fair value	**714,407**	**32,949**	**1,548**	**748,904**	**777,320**	**3,728**	**3,197**	**784,245**
Assets at amortised cost								
Cash and deposits with central banks	356,747	-	-	356,747	307,446	-	-	307,446
Balances due from credit institutions	619,024	13	-	619,037	552,972	48	-	553,020
Loans	-	-	761,268	761,268	-	-	716,574	716,574
Held-to-maturity financial assets	639,203	12,208	-	651,411	498,150	2,462	-	500,612
Investment properties	-	-	24,330	24,330	-	-	24,620	24,620
Total assets at amortised cost	**1,614,974**	**12,221**	**785,598**	**2,412,793**	**1,358,568**	**2,510**	**741,194**	**2,102,272**
Liabilities at fair value								
Derivatives	-	2,046	-	2,046	-	6,515	-	6,515
Total liabilities at fair value	**-**	**2,046**	**-**	**2,046**	**-**	**6,515**	**-**	**6,515**
Liabilities at amortised cost								
Demand deposits from credit institutions	14,491	-	-	14,491	3,423	-	-	3,423
Liabilities at amortised cost	3,021,637	-	73,355	3,094,992	2,605,349	11,959	249,815	2,867,123
Total liabilities at amortised cost	**3,036,128**	**-**	**73,355**	**3,109,483**	**2,608,772**	**11,959**	**249,815**	**2,870,546**

Note 32

Capital management and capital adequacy

The primary objective of the group's and bank's capital management is to ensure that the group and the bank comply with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the group and the bank maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

The goals of the group's and bank's capital management are consistent with those of the previous years. According to the capital adequacy rules of Basel II, the group and the bank apply the standardised approach to calculate the capital requirements for credit risk and market risks and the basic indicator approach to calculate the capital requirement for operational risk.

Capital adequacy refers to the sufficiency of the group's and bank's capital resources to cover credit risk, operational risk, and market risks.

As at 31 December 2013, the group's capital adequacy ratio in accordance with the FCMC requirements was 17,02% (14,58%), while the bank's capital adequacy ratio was 17,53% (16,04%). The minimum capital requirement defined for the bank is 11,50% (12,40%), and the bank complies with it.

The group's and bank's equity consists of Tier 1 and Tier 2. Tier 1 comprises paid-in share capital, share premium, reserve capital, retained earnings, including current year's profit which is not to be paid in dividends, less negative fair value revaluation reserve of available-for-sale financial assets and intangible fixed assets. Tier 2 includes subordinated capital and positive fair value revaluation reserve of available-for-sale financial assets (45%).

The reserve capital is the value of the group's and bank's property, which, following the defined procedure, is accrued to cover unexpected losses or for other financing needs, based on the decision of the shareholders' meeting. There are no legal restrictions on utilisation of the reserves.

Apart from the calculation of the minimum capital adequacy ratio, the bank documents and assesses internal capital adequacy. The internal capital adequacy assessment (ICAAP) procedure performed by the bank comprises both quantitative capital adequacy assessment and qualitative aspects, including long-term business planning and formulation of the development strategy, identification of material risks, determination of acceptable risk exposure, development and improvement of risk management systems, as well as identification and control of risks inherent in the bank's business (risk profile) on an ongoing basis.
The methods employed for the ICAAP purposes and the calculation procedure are detailed in the Statement on Information Disclosure published on the bank's homepage www.ablv.com.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Calculation of equity and minimum capital requirements according to FCMC:

EUR '000

Tier 1	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
paid-in share capital	30,003	28,088	30,003	28,088
share premium	41,485	26,480	41,485	26,480
reserve capital	2,134	2,134	2,134	2,134
retained earnings	60,381	61,600	68,756	69,213
intangible fixed assets	(5,639)	(5,437)	(5,016)	(4,815)
non-controlling interests	3,896	3,712	-	-
current year's profit/ (loss)	50,304	22,917	43,676	23,412
specific decrease in Tier 1 pursuant to the FCMC requirements (50%)	(911)	(20)	(2,735)	(20)
Total Tier 1	**181,653**	**139,474**	**178,303**	**144,492**
Tier 2				
fair value revaluation reserve of available-for-sale financial assets (45%)	443	1,188	443	1,188
decrease in Tier-2 capital by the difference between the allowances pursuant CFMC requirements and the allowances pursuant to IFRS (50%)	(911)	(20)	(2,735)	(20)
subordinated capital (according to remaining maturity with adjustment level of 40%-100%)	91,282	69,748	90,520	72,113
Total Tier 2	**90,814**	**70,916**	**88,228**	**73,281**
Total equity	**272,467**	**210,390**	**266,531**	**217,773**
Capital charge for credit risk on banking book	100,500	93,406	102,053	95,048
Total capital charge for market risks on trading book	12,370	10,051	7,386	3,234
incl. capital charge for foreign currency risk	6,753	8,052	1,769	1,235
incl. capital charge for position risk	5,563	1,955	5,563	1,955
incl. capital charge for counterparty risk	54	44	54	44
Capital charge for operational risk	15,185	11,951	12,210	10,336
Total capital charge	**128,055**	**115,408**	**121,649**	**108,618**
Capital adequacy ratio (%)	**17.02**	**14.58**	**17.53**	**16.04**
Minimum capital adequacy ratio (%)	8.00	8.00	8.00	8.00

The group's and bank's capital charge for credit risk exposures by the following exposure categories:

EUR '000

Exposure category	Group 31/12/2013	Group 31/12/2012	Bank 31/12/2013	Bank 31/12/2012
Commercial companies	38,035	27,529	47,425	37,879
Other items	19,666	19,564	10,586	10,953
Institutions	17,873	19,259	19,116	19,162
Low risk portfolio	16,208	17,049	16,208	17,049
Central governments or central banks	4,092	3,941	4,092	3,941
Past due exposures	2,453	4,354	2,453	4,354
Regional or local governments	1,353	798	1,353	798
Secured by real estate	391	320	391	320
International development banks	270	225	270	225
High risk exposures	159	367	159	367
Total capital charge for credit risk	**100,500**	**93,406**	**102,053**	**95,048**

Note 33

Risk management

Risks are inherent in the group's and bank's business and risk management is one of the group's and bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the group and the bank. Managing risks permits keeping the group's and bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the group and the bank are exposed to various risks, the most significant of them being credit risk, liquidity risk and market risk (including interest rate risk, currency risk), as well as operational risk.
Risk management stands for identification, assessment and control of potential risks.
The risk management process includes the following:

- identification, assessment and measurement of the significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the group and the bank;
- regular revision and enhancement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the council. The introduction and efficiency of such policies are controlled by the board and the Chief Risk Officer (CRO), while the practical implementation is provided by the respective business structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

To create a highly disciplined, conservative and constructive risk management and control environment, training seminars for the staff are organised on a regular basis.

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the group's and bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the group's and bank's operational and financial market development. The improvement process is controlled by the Internal Audit Department on a regular basis.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Note 34

Credit risk

Credit risk is exposure to potential losses in case the group's or bank's counterparty or debtor will be unable to pay the contractual obligations to the group or the bank.

Credit risk management framework
Credit risk is managed according to the Credit Policy. The group and the bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

Before entering into any cooperation with the customers, the group and the bank perform a comprehensive review of the customer's solvency and collateral.

In analysing any potential cooperation with financial institutions, the bank assesses each potential counterparty, analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis. Meanwhile, to assess solvency of private individuals, the bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories. The group and the bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are also granted monitoring/ risk factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.

For effective credit risk management, the bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The bank analyses the quality of its loan portfolio on a regular basis to identify loss events. If a loss event is identified, the loan is assessed for impairment. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc. The loans are deemed impaired if the bank has established respective allowances as a result of loss events, as well as if the contractual payments are more than 90 days overdue or if the loan recovery process is being planned.

Collateral is appraised by an independent appraiser accepted by the group and the bank. The bank may adjust (reduce) the value defined by the independent appraiser if, in the bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the bank considers such reduced value. As collateral, the bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as the aggregation of property, etc. Based on the collateral type and liquidity, the group and the bank apply the maximum acceptable proportion of the loan to be issued.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

The table below provides the credit quality analysis for the group:

EUR '000

	Mortgage loans	Business loans	Consumer loans	Other loans	Total	Fair value of collateral
						31/12/2013
Neither past due nor impaired loans	280,870	341,159	1,205	23,974	647,208	922,968
Past due but not impaired loans, incl.:	46,733	10,510	205	-	57,448	47,824
less than 30 days	31,736	3,503	147	-	35,386	30,134
31 to 59 days	13,244	280	51	-	13,575	11,660
60 to 89 days	1,753	-	7	-	1,760	1,195
more than 90 days	-	6,727	-	-	6,727	4,835
Impaired loans	77,043	14,499	111	3,873	95,526	57,147
Total loans	**404,646**	**366,168**	**1,521**	**27,847**	**800,182**	**1,027,939**
Impairment allowance	(39,545)	(6,693)	(58)	(3,789)	(50,085)	-
Total loans, net	**365,101**	**359,475**	**1,463**	**24,058**	**750,097**	**-**
						31/12/2012
Neither past due nor impaired loans	280,714	250,406	1,441	19,562	552,123	788,491
Past due but not impaired loans, incl.:	66,607	14,401	286	-	81,294	88,329
less than 30 days	52,234	14,041	201	-	66,476	75,032
31 to 59 days	13,179	77	55	-	13,311	10,280
60 to 89 days	1,043	283	30	-	1,356	1,359
more than 90 days	151	-	-	-	151	1,658
Impaired loans	111,609	29,776	70	3,736	145,191	89,338
Total loans	**458,930**	**294,583**	**1,797**	**23,298**	**778,608**	**966,158**
Impairment allowance	(53,573)	(10,144)	(77)	(3,681)	(67,475)	-
Total loans, net	**405,357**	**284,439**	**1,720**	**19,617**	**711,133**	**-**

The table below provides the credit quality analysis for the bank:

EUR '000

	Mortgage loans	Business loans	Consumer loans	Other loans	Total	Fair value of collateral
						31/12/2013
Neither past due nor impaired loans	280,871	352,329	1,205	23,974	658,379	922,968
Past due but not impaired loans, incl.:	46,733	10,510	205	-	57,448	47,824
less than 30 days	31,736	3,503	147	-	35,386	30,134
31 to 59 days	13,244	280	51	-	13,575	11,660
60 to 89 days	1,753	-	7	-	1,760	1,195
more than 90 days	-	6,727	-	-	6,727	4,835
Impaired loans	77,043	14,499	111	3,873	95,526	57,147
Total loans	**404,647**	**377,338**	**1,521**	**27,847**	**811,353**	**1,027,939**
Impairment allowance	(39,545)	(6,693)	(58)	(3,789)	(50,085)	-
Total loans, net	**365,102**	**370,645**	**1,463**	**24,058**	**761,268**	**-**
						31/12/2012
Neither past due nor impaired loans	280,714	255,847	1,441	19,562	557,564	788,491
Past due but not impaired loans, incl.:	66,607	15,451	209	-	82,267	88,329
less than 30 days	52,234	13,936	138	-	66,308	75,032
31 to 59 days	13,179	71	43	-	13,293	10,280
60 to 89 days	1,043	283	28	-	1,354	1,359
more than 90 days	151	1,161	-	-	1,312	1,658
Impaired loans	111,609	28,726	147	3,736	144,218	89,338
Total loans	**458,930**	**300,024**	**1,797**	**23,298**	**784,049**	**966,158**
Impairment allowance	(53,573)	(10,144)	(77)	(3,681)	(67,475)	-
Total loans, net	**405,357**	**289,880**	**1,720**	**19,617**	**716,574**	**-**

Regular stress tests of the group's and the bank's loan portfolio, balances due from credit institutions as well as securities portfolio are performed to assess the credit risk exposure and identify potential critical situations. The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date. If the loan is secured against a financial instrument, its fair value is determined according to the market value of the respective financial instrument; if the loan is secured against a bank deposit, the fair value of the collateral is the nominal value of the respective deposit; if the loan is secured against real estate, its fair value is determined according to valuation provided by independent experts and adjusted (reduced) based on the bank's experience; the fair value of other collateral is their purchase value or carrying amount taking into consideration valuation provided by independent experts and the bank.

As at 31 December 2013, the gross amount of loans having the maturity date for principal or interest changed totalled EUR 61,3 (80,0) million. These changes were made on the basis of the agreements between the group or the bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is deemed to be restructured from the moment of signing the above mentioned agreement and until the moment when no contractual payments have been past due for at least a year or the loan has been subject to a loss event.

The group and the bank manage the credit quality of their financial assets by applying internal ratings. Loans to customers are assigned internal ratings where higher-rating assets are standard assets with a sound credit standing, while lower-rating assets are those assets which have doubtful credit quality and require close monitoring by the group and the bank. Meanwhile, balances due from credit institutions and securities are granted credit ratings assigned by rating agencies. Higher-rating assets represent investment-grade assets, i.e., assets having a rating of no lower than BBB-, while lower-rating assets represent assets rated below investment grade.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Financial assets of the group by risk rating:

EUR '000

	Financial assets neither past due nor impaired		Financial assets past due			
	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance but not impaired	Gross financial assets
Financial assets						**31/12/2013**
Cash and deposits with central banks	356,768	-	-	-	-	356,768
Balances due from credit institutions	574,857	65,468	-	-	-	640,325
Derivatives	451	-	-	-	-	451
Financial assets at fair value through profit or loss	-	16,794	-	-	-	16,794
Available-for-sale financial assets	723,813	14,693	269	-	-	738,775
Held-to-maturity financial assets	569,002	83,831	319	-	-	653,152
Loans to customers	627,660	19,546	17,695	78,567	56,714	800,182
Mortgage loans	278,568	2,301	2,440	74,604	46,733	404,646
Business loans	323,914	17,245	14,502	526	9,981	366,168
Consumer loans	1,203	-	208	110	-	1,521
Other	23,975	-	545	3,327	-	27,847
Total financial assets, gross	**2,852,551**	**200,332**	**18,283**	**78,567**	**56,714**	**3,206,447**
						31/12/2012
Cash and deposits with central banks	297,941	9,520	-	-	-	307,461
Balances due from credit institutions	526,215	32,828	-	-	-	559,043
Derivatives	-	115	-	-	-	115
Financial assets at fair value through profit or loss	-	4,742	-	-	-	4,742
Available-for-sale financial assets	769,018	10,397	87	-	-	779,502
Held-to-maturity financial assets	429,128	71,484	-	-	-	500,612
Loans to customers	551,020	1,106	41,768	113,112	71,602	778,608
Mortgage loans	279,611	1,106	2,623	109,059	66,531	458,930
Business loans	250,406	-	38,412	694	5,071	294,583
Consumer loans	1,441	-	214	142	-	1,797
Other	19,562	-	519	3,217	-	23,298
Total financial assets, gross	**2,573,322**	**130,192**	**41,855**	**113,112**	**71,602**	**2,930,083**

Financial assets of the bank by risk rating:

EUR '000

	Financial assets neither past due nor impaired				Financial assets past due	
	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance but not impaired	Gross financial assets
Financial assets						**31/12/2013**
Cash and deposits with central banks	356,747	-	-	-	-	356,747
Balances due from credit institutions	568,797	50,240	-	-	-	619,037
Derivatives	451	-	-	-	-	451
Financial assets at fair value through profit or loss	-	16,794	-	-	-	16,794
Available-for-sale financial assets	723,813	7,696	269	-	-	731,778
Held-to-maturity financial assets	567,376	83,831	319	-	-	651,526
Loans to customers	638,831	19,546	17,695	78,567	56,714	811,353
Mortgage loans	278,569	2,301	2,440	74,604	46,733	404,647
Business loans	335,084	17,245	14,502	526	9,981	377,338
Consumer loans	1,203	-	208	110	-	1,521
Other	23,975	-	545	3,327	-	27,847
Total financial assets, gross	**2,856,015**	**178,107**	**18,283**	**78,567**	**56,714**	**3,187,686**
						31/12/2012
Cash and deposits with central banks	297,931	9,515	-	-	-	307,446
Balances due from credit institutions	520,228	32,792	-	-	-	553,020
Derivatives	-	115	-	-	-	115
Financial assets at fair value through profit or loss	-	4,742	-	-	-	4,742
Available-for-sale financial assets	769,018	10,397	87	-	-	779,502
Held-to-maturity financial assets	429,128	71,484	-	-	-	500,612
Loans to customers	556,461	1,106	41,768	113,112	71,602	784,049
Mortgage loans	279,610	1,106	2,624	109,059	66,531	458,930
Business loans	255,847	-	38,412	694	5,071	300,024
Consumer loans	1,442	-	213	142	-	1,797
Other	19,562	-	519	3,217	-	23,298
Total financial assets, gross	**2,572,766**	**130,151**	**41,855**	**113,112**	**71,602**	**2,929,486**

Credit risk concentration

To mitigate concentration risk, the group and the bank apply diversification and a system of limits. The group and the bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits. The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the group and the bank treat as high the credit exposure exceeding 10% of equity.

For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

The credit risk inherent in the group's and bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers. The group's and bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

Apart from the effective management of credit risk concentration, the bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits.

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2013:

EUR '000

Assets	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisatons	Other countries	Total
Cash and deposits with central banks	356,758	10	-	-	-	-	356,768
Balances due from credit institutions	6,720	288,583	199,770	72,841	-	72,411	640,325
Derivatives	-	98	1	334	-	18	451
Financial assets at fair value through profit or loss	12,935	239	-	1,278	-	2,342	16,794
Available-for-sale financial assets	21,258	170,907	123,689	356,640	40,245	25,916	738,655
Loans	569,711	29,743	21,076	7,608	-	121,959	750,097
Held-to-maturity financial assets	76,670	80,178	70,678	168,038	52,843	204,630	653,037
Total financial assets	**1,044,052**	**569,758**	**415,214**	**606,739**	**93,088**	**427,276**	**3,156,127**
Liabilities							
Derivatives	-	462	6	1,578	-	-	2,046
Financial liabilities at amortised cost	415,750	269,761	561,400	26,655	-	1,827,425	3,100,991
Total financial assets	**415,750**	**270,223**	**561,406**	**28,233**	**-**	**1,827,425**	**3,103,037**
Memorandum items	**22,433**	**2,416**	**1,022**	**71**	**-**	**42,387**	**68,329**

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2012:

EUR '000

Assets	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisatons	Other countries	Total
Cash and deposits with central banks	307,451	10	-	-	-	-	307,461
Balances due from credit institutions	4,761	157,352	167,485	160,978	-	68,467	559,043
Derivatives	-	35	7	27	-	46	115
Financial assets at fair value through profit or loss	1,937	220	-	1,737	-	848	4,742
Available-for-sale financial assets	1,561	161,948	97,699	395,470	88,698	34,012	779,388
Loans	547,989	41,827	17,918	12,904	-	90,495	711,133
Held-to-maturity financial assets	38,483	67,493	39,372	122,297	38,510	194,457	500,612
Total financial assets	**902,182**	**428,885**	**322,481**	**693,413**	**127,208**	**388,325**	**2,862,494**
Liabilities							
Derivatives	-	925	1,060	4,493	-	37	6,515
Financial liabilities at amortised cost	276,108	325,553	547,855	32,382	-	1,668,568	2,850,466
Total financial assets	**276,108**	**326,478**	**548,915**	**36,875**	**-**	**1,668,605**	**2,856,981**
Memorandum items	**20,092**	**3,194**	**5,677**	**277**	**-**	**23,702**	**52,942**

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Analysis of concentration of the bank's financial assets and liabilities by geographical area as at 31 December 2013:

EUR '000

Assets	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisatons	Other countries	Total
Cash and deposits with central banks	356,747	-	-	-	-	-	356,747
Balances due from credit institutions	6,551	267,505	199,770	72,841	-	72,370	619,037
Derivatives	-	98	1	334	-	18	451
Financial assets at fair value through profit or loss	12,935	239	-	1,278	-	2,342	16,794
Available-for-sale financial assets	21,258	163,911	123,689	356,640	40,245	25,916	731,659
Loans	580,831	29,743	21,076	7,659	-	121,959	761,268
Held-to-maturity financial assets	76,670	78,552	70,678	168,038	52,843	204,630	651,411
Total financial assets	**1,054,992**	**540,048**	**415,214**	**606,790**	**93,088**	**427,235**	**3,137,367**
Liabilities							
Derivatives	-	462	6	1,578	-	-	2,046
Financial liabilities at amortised cost	439,122	274,096	560,283	26,655	-	1,809,327	3,109,483
Total financial assets	**439,122**	**274,558**	**560,289**	**28,233**	**-**	**1,809,327**	**3,111,529**
Memorandum items	**22,801**	**2,416**	**1,022**	**71**	**-**	**42,387**	**68,697**

Analysis of concentration of the bank's financial assets and liabilities by geographical area as at 31 December 2012:

EUR '000

Assets	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisatons	Other countries	Total
Cash and deposits with central banks	307,446	-	-	-	-	-	307,446
Balances due from credit institutions	3,781	152,347	167,484	160,978	-	68,430	553,020
Derivatives	-	36	6	27	-	46	115
Financial assets at fair value through profit or loss	1,937	220	-	1,737	-	848	4,742
Available-for-sale financial assets	1,561	161,948	97,699	395,470	88,698	34,012	779,388
Loans	564,745	30,512	17,918	12,904	-	90,495	716,574
Held-to-maturity financial assets	38,483	67,493	39,372	122,297	38,510	194,457	500,612
Total financial assets	**917,953**	**412,557**	**322,478**	**693,413**	**127,208**	**388,288**	**2,861,897**
Liabilities							
Derivatives	-	925	1,060	4,493	-	37	6,515
Financial liabilities at amortised cost	283,943	337,800	547,855	32,382	-	1,668,566	2,870,546
Total financial assets	**283,943**	**338,725**	**548,915**	**36,875**	**-**	**1,668,603**	**2,877,061**
Memorandum items	**20,263**	**3,194**	**5,677**	**277**	**-**	**23,702**	**53,113**

Note 35

Financial risks

Liquidity risk

Liquidity is the group's and bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the group's and bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Risk Officer (CRO) is responsible for liquidity risk management. The Risk Management Division is responsible for liquidity risk evaluation and control. The Chief Financial Officer (CFO) is responsible for liquidity management and the Financial Market Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted.

The key principles and procedures to timely identify, analyse and control liquidity risk are laid down in the liquidity management policy.
For ordinary liquidity risk management purposes, the bank applies the following indicators having certain limits and restrictions set:

- deposit coverage ratio;
- net liquidity positions by all currencies in total and by each separate currency;
- current liquidity ratio;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

To identify the potential deterioration in the liquidity position on a timely basis, an early warning indicators system has been designed:

- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of "Less than 30 days";
- simultaneous decrease of the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease of the proportion of liquid assets in the total assets of the bank;
- negative information reported in the mass media about the bank or its related parties that may harm the bank's reputation;
- the increasingly reported instances of limits reduced or annulled by counterparties.

As at 31 December 2013, the bank's liquidity ratio was 79.20% (62.51%). The FCMC stipulates that the bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the bank's total current liabilities.

Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, the Financial Market Division and the Risk Management Division. The group and the bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of bank's contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or a bank specific event. These plans ensure that all roles and responsibilities are clearly defined and the necessary management information is in place.

According to the internal classification of the group and the bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed which, if observed, also require certain actions to enhance liquidity.

The bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the bank's liquidity management documents need to be revised.

Liquidity gap analyses

The group and the bank have prepared these consolidated financial statements on a going concern basis. The group's and bank's management closely monitor and manage the group's and bank's liquidity position on a daily basis in accordance with the liquidity risk management framework. The liquidity gap analyses as disclosed in the following tables is prepared according to assumptions described below.

The liquidity gap analyses in below tables for assets, liabilities and memorandum items are disclosed into maturity bands according to the signed agreements, except as stated below. Securities in the bank's portfolio are disclosed in the maturity range in which they can be sold without loss, i.e. at market value, except for held-to-maturity assets. The securities of the held-to-maturity asset portfolio are disclosed in the maturity range based on the ability to perform repo transactions with these securities in exchange for a secured loan. The share of the securities qualifying for repo transactions is disclosed in the "on demand and up to 1 month" maturity range, while the share of the securities not qualifying for repo transactions is disclosed according to the maturity date.

According to the bank's experience, current accounts and other similar deposits constitute a sound source of financing. Current accounts and conceptually similar deposit types due "on demand" are disclosed according to the maturity range in line with the bank's experience regarding the life cycle of these deposits with the bank, although the customers are entitled to receive the demand deposits from the bank at any time and without any penalties. The breakdown of the demand deposits by maturity does not exceed 5 years and complies with the bank's historical experience regarding the length of the period and the extent to which the demand deposits outflow from the bank. This principle is not applied to demand deposits placed by large customers as the bank considers them less stable and for these deposits the maturity band of "on demand and up to 1 month" is applied.

Term deposits are disclosed according to the contractual terms, however, the customers are entitled to demand the term deposits from the bank before the end of the contractual term thus loosing part of the respective term deposit.

The assets, which have been impaired, are stated net of allowances.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Group's assets, liabilities and memorandum item liquidity gap analyses as at 31 December 2013:

EUR '000

Assets	On demand and up to 1 month	1—3 months	3—12 months	1—5 years	More than 5 years and undated	Total
Cash and deposits with central banks	356,768	-	-	-	-	356,768
Balances due from credit institutions	620,897	4,007	2,005	-	13,416	640,325
Derivatives	16	434	1	-	-	451
Financial assets at fair value through profit or loss	5,544	-	11,222	-	28	16,794
Available-for-sale financial assets	721,439	4,932	3,815	-	8,469	738,655
Loans	109,801	21,732	109,877	281,453	227,234	750,097
Held-to-maturity financial assets	510,394	5,353	6,390	68,757	62,143	653,037
Other assets	82,233	-	-	-	77,717	159,950
Total assets	**2,407,092**	**36,458**	**133,310**	**350,210**	**389,007**	**3,316,077**
Liabilities						
Derivatives	231	1,814	1	-	-	2,046
Financial liabilities at amortised cost	782,846	140,223	532,611	1,549,075	96,236	3,100,991
Other liabilities	17,662	-	6,192	-	-	23,854
Total liabilities	**800,739**	**142,037**	**538,804**	**1,549,075**	**96,236**	**3,126,891**
Shareholders' equity	-	-	-	-	189,186	189,186
Total liabilities and shareholders' equity	**800,739**	**142,037**	**538,804**	**1,549,075**	**285,422**	**3,316,077**
Total memorandum items	21,253	4,222	11,214	16,616	15,024	68,329
Net liquidity position	1,585,100	(109,801)	(416,708)	(1,215,481)	88,561	x
Total liquidity position	**1,585,100**	**1,475,299**	**1,058,591**	**(156,890)**	**(68,329)**	**x**

Group's assets, liabilities and memorandum item liquidity gap analyses as at 31 December 2012:

EUR '000

Assets	On demand and up to 1 month	1—3 months	3—12 months	1—5 years	More than 5 years and undated	Total
Cash and deposits with central banks	307,461	-	-	-	-	307,461
Balances due from credit institutions	506,849	3,779	-	-	48,415	559,043
Derivatives	62	53	-	-	-	115
Financial assets at fair value through profit or loss	3,632	-	1,110	-	-	4,742
Available-for-sale financial assets	753,783	7,156	3,909	-	14,540	779,388
Loans	121,489	24,929	75,647	230,269	258,799	711,133
Held-to-maturity financial assets	993	3,325	13,574	348,005	134,715	500,612
Other assets	129,322	-	168	105	37,500	167,095
Total assets	**1,823,591**	**39,242**	**94,408**	**578,379**	**493,969**	**3,029,589**
Liabilities						
Derivatives	705	5,810	-	-	-	6,515
Financial liabilities at amortised cost	972,137	344,783	480,821	1,038,593	14,132	2,850,466
Other liabilities	22,999	-	2,039	-	-	25,038
Total liabilities	**995,841**	**350,593**	**482,860**	**1,038,593**	**14,132**	**2,882,019**
Shareholders' equity	-	-	-	-	147,570	147,570
Total liabilities and shareholders' equity	**995,841**	**350,593**	**482,860**	**1,038,593**	**161,702**	**3,029,589**
Total memorandum items	31,020	2,363	2,156	11,000	6,403	52,942
Net liquidity position	796,730	(313,714)	(390,608)	(471,214)	325,864	x
Total liquidity position	**796,730**	**483,016**	**92,408**	**(378,806)**	**(52,942)**	**x**

Bank's assets, liabilities and memorandum item liquidity gap analyses as at 31 December 2013:

EUR '000

Assets	On demand and up to 1 month	1—3 months	3—12 months	1—5 years	More than 5 years and undated	Total
Cash and deposits with central banks	356,747	-	-	-	-	356,747
Balances due from credit institutions	606,040	-	-	-	12,997	619,037
Derivatives	16	434	1	-	-	451
Financial assets at fair value through profit or loss	5,544	-	11,222	-	28	16,794
Available-for-sale financial assets	721,439	4,932	3,815	-	1,473	731,659
Loans	109,800	21,732	117,697	284,811	227,228	761,268
Held-to-maturity financial assets	510,394	5,353	6,390	67,131	62,143	651,411
Other assets	5,590	-	-	-	172,409	177,999
Total assets	**2,315,570**	**32,451**	**139,125**	**351,942**	**476,278**	**3,315,366**
Liabilities						
Derivatives	231	1,814	1	-	-	2,046
Financial liabilities at amortised cost	794,971	140,223	532,611	1,545,442	96,236	3,109,483
Other liabilities	11,412	-	5,388	-	-	16,800
Total liabilities	**806,614**	**142,037**	**538,000**	**1,545,442**	**96,236**	**3,128,329**
Shareholders' equity	-	-	-	-	187,037	187,037
Total liabilities and shareholders' equity	**806,614**	**142,037**	**538,000**	**1,545,442**	**283,273**	**3,315,366**
Total memorandum items	21,622	4,222	11,214	16,616	15,023	68,697
Net liquidity position	1,487,334	(113,808)	(410,089)	(1,210,116)	177,982	x
Total liquidity position	**1,487,334**	**1,373,526**	**963,437**	**(246,679)**	**(68,697)**	**x**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Bank's assets, liabilities and memorandum item liquidity gap analyses as at 31 December 2012:

EUR '000

Assets	On demand and up to 1 month	1—3 months	3—12 months	1—5 years	More than 5 years and undated	Total
Cash and deposits with central banks	307,446	-	-	-	-	307,446
Balances due from credit institutions	501,246	3,779	-	-	47,995	553,020
Derivatives	62	53	-	-	-	115
Financial assets at fair value through profit or loss	3,632	-	1,110	-	-	4,742
Available-for-sale financial assets	753,783	7,156	3,913	11,339	3,197	779,388
Loans	121,489	24,929	75,656	235,791	258,709	716,574
Held-to-maturity financial assets	994	3,325	13,712	353,236	129,345	500,612
Other assets	16,615	-	168	105	165,043	181,931
Total assets	**1,705,267**	**39,242**	**94,559**	**600,471**	**604,289**	**3,043,828**
Liabilities						
Derivatives	705	5,810	-	-	-	6,515
Financial liabilities at amortised cost	981,337	209,901	626,583	1,038,593	14,132	2,870,546
Other liabilities	14,320	-	481	-	-	14,801
Total liabilities	**996,362**	**215,711**	**627,064**	**1,038,593**	**14,132**	**2,891,862**
Shareholders' equity	-	-	-	-	151,966	151,966
Total liabilities and shareholders' equity	**996,362**	**215,711**	**627,064**	**1,038,593**	**166,098**	**3,043,828**
Total memorandum items	31,191	2,363	2,156	11,000	6,403	53,113
Net liquidity position	677,714	(178,832)	(534,661)	(449,122)	431,788	x
Total liquidity position	**677,714**	**498,882**	**(35,779)**	**(484,901)**	**(53,113)**	**x**

In estimating the amount of expected financial liabilities, the group and the bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2013 and 2012 which is expected in the future but has not been assessed at the reporting date.

Financial liabilities, memorandum items and interest which is payable in the future, but has not been assessed, into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Analyses of undiscounted financial liabilities and memorandum items of the group as at 31 December 2013:

EUR '000

Financial liabilities	Up to 1 month	1—12 months	1—5 years	More than 5 years	Total
Demand deposits from credit institutions	10,654	-	-	-	10,654
Derivative inflow amount	(54,917)	(187,439)	-	-	(242,356)
Derivative outflow amount	54,624	188,649	-	-	243,273
Financial liabilities at amortised cost	2,721,232	130,361	162,368	121,192	3,135,153
Total financial liabilities	**2,731,593**	**131,571**	**162,368**	**121,192**	**3,146,724**
Memorandum items	21,254	15,435	16,616	15,024	68,329
Total financial liabilities and memorandum items	**2,752,847**	**147,006**	**178,984**	**136,216**	**3,215,053**

Analyses of undiscounted financial liabilities and memorandum items of the group as at 31 December 2012:

EUR '000

Financial liabilities	Up to 1 month	1—12 months	1—5 years	More than 5 years	Total
Demand deposits from credit institutions	14,491	-	-	-	14,491
Derivative inflow amount	(54,917)	(187,439)	-	-	(242,356)
Derivative outflow amount	54,624	188,649	-	-	243,273
Financial liabilities at amortised cost	2,729,815	130,361	158,736	121,192	3,140,104
Total financial liabilities	**2,744,013**	**131,571**	**158,736**	**121,192**	**3,155,512**
Memorandum items	21,623	15,435	16,616	15,023	68,697
Total financial liabilities and memorandum items	**2,765,636**	**147,006**	**175,352**	**136,215**	**3,224,209**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Analyses of undiscounted financial liabilities and memorandum items of the Bank as at 31 December 2013:

EUR '000

Financial liabilities	Up to 1 month	1—12 months	1—5 years	More than 5 years	Total
Demand deposits from credit institutions	1,376	-	-	-	1,376
Derivative inflow amount	(45,205)	(172,236)	-	-	(217,441)
Derivative outflow amount	45,842	177,008	-	-	222,850
Financial liabilities at amortised cost	2,486,020	233,173	148,666	37,853	2,905,712
Total financial liabilities	**2,488,033**	**237,945**	**148,666**	**37,853**	**2,912,497**
Memorandum items	31,020	4,519	11,000	6,403	52,942
Total financial liabilities and memorandum items	**2,519,053**	**242,464**	**159,666**	**44,256**	**2,965,439**

Analyses of undiscounted financial liabilities and memorandum items of the Bank as at 31 December 2012:

EUR '000

Financial liabilities	Up to 1 month	1—12 months	1—5 years	More than 5 years	Total
Demand deposits from credit institutions	3,423	-	-	-	3,423
Derivative inflow amount	(45,205)	(172,236)	-	-	(217,441)
Derivative outflow amount	45,842	177,008	-	-	222,850
Financial liabilities at amortised cost	2,486,020	233,173	148,666	37,853	2,905,712
Total financial liabilities	**2,490,080**	**237,945**	**148,666**	**37,853**	**2,914,544**
Memorandum items	31,191	4,519	11,000	6,403	53,113
Total financial liabilities and memorandum items	**2,521,271**	**242,464**	**159,666**	**44,256**	**2,967,657**

Market risks
Market risk is exposure to potential losses due to the revaluation of assets and liabilities and memorandum items caused by changes in the market prices of financial instruments resulting from the fluctuations of currency exchange rates, interest rates and other factors. Market risk identification, assessment and management are prescribed by several regulations, i.e., the Interest Rate Risk Management Policy, the Derivative Financial Instrument Policy, and the bank's Securities Portfolio Policy.

The "loss" indicator is used by the bank as one of the tools to manage market risk inherent in the securities portfolio in order to identify any reductions in the securities prices below the mandatory level in a timely fashion. Based on the above, the heads of responsible structural units may decide whether the affected securities should be sold or kept in the portfolio.

The exposure of the trading portfolio to market risk and the capital charge for market risk are determined according to the standardised approach described in the FCMC Regulations for Calculation of Minimum Capital Requirement, calculating the general position risk of debt securities under the maturity method.

Price risk
Non-fixed income financial instruments are held in the bank's trading portfolio. Price risk related to the non-fixed income financial instruments indicates to the potential fall of the market value of the securities during the holding period. To assess the risk level, the Bank applies the historical simulation method using a confidence level of 99%, considering the changes in the market value of the securities during the reporting year and the average security holding period in the trading portfolio.

In 2013, the estimated value-at-risk of the non-fixed income financial instruments totalled EUR 1,3 (0,7) million. The increase in the value-at-risk is related to the growth of the amount of the non-fixed income financial instruments in the trading portfolio.

Currency risk
The group and the bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The bank has major open positions in EUR (euro) and USD (US dollars). From 1 January 2014, Latvia has joined the European Monetary Union, hence the currency position in EUR is not subject to currency risk. The bank's open currency position in USD is rather small as it is hedged by using currency forwards/ futures. As at 31 December 2013, the bank's open currency position in USD was 3,0% (3,8%) of bank's equity and, therefore, the effect of changes in the USD exchange rate is insignificant, and the bank does not conduct a more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy. As at 31 December 2013, all the above limits were met.
The bank's Limits Policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

The group's currency position as at 31 December 2013:

EUR '000

Assets	LVL	USD	EUR	RUB	Other currencies	Total
Cash and deposits with central banks	140,416	2,812	213,321	-	219	356,768
Balances due from credit institutions	169	505,155	41,302	31,168	62,531	640,325
Derivatives	451	-	-	-	-	451
Financial assets at fair value through profit or loss	73	6,941	5,884	3,896	-	16,794
Available-for-sale financial assets	17,954	686,174	15,782	13,812	4,933	738,655
Loans	485	176,026	565,452	519	7,615	750,097
Held-to-maturity financial assets	-	562,093	72,790	17,736	418	653,037
Other assets	154,810	2,527	2,223	3	387	159,950
Total assets	**314,358**	**1,941,728**	**916,754**	**67,134**	**76,103**	**3,316,077**
Liabilities						
Derivatives	2,046	-	-	-	-	2,046
Financial liabilities at amortised cost	19,537	2,138,108	792,759	73,829	76,758	3,100,991
Other liabilities	21,333	408	2,062	33	18	23,854
Total liabilities	**42,916**	**2,138,516**	**794,821**	**73,862**	**76,776**	**3,126,891**
Net long/ (short) balance sheet position	**-**	**(196,788)**	**121,933**	**(6,728)**	**(673)**	**x**
Net off-balance sheet position from FX transactions	-	213,044	(221,214)	5,724	822	x
Net open (short)/ long currency position	**-**	**16,256**	**(99,281)**	**(1,004)**	**149**	**x**
Sensitivity gap if exchange rate against LVL drops by 10%	**-**	**(1,626)**	**-**	**100**	**(15)**	**x**

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

The group's currency position as at 31 December 2012:

EUR '000

Assets	LVL	USD	EUR	RUB	Other currencies	Total
Cash and deposits with central banks	121,072	3,045	183,220	-	124	307,461
Balances due from credit institutions	980	461,474	26,107	23,036	47,446	559,043
Derivatives	115	-	-	-	-	115
Financial assets at fair value through profit or loss	47	1,986	440	2,269	-	4,742
Available-for-sale financial assets	-	761,194	1,847	9,893	6,454	779,388
Loans	9,624	145,279	542,128	2,097	12,005	711,133
Held-to-maturity financial assets	-	468,275	15,566	12,992	3,779	500,612
Other assets	150,581	4,600	1,975	3	9,936	167,095
Total assets	**282,419**	**1,845,853**	**771,283**	**50,290**	**79,744**	**3,029,589**
Liabilities						
Derivatives	6,515	-	-	-	-	6,515
Financial liabilities at amortised cost	24,091	2,023,007	670,130	56,081	77,157	2,850,466
Other liabilities	19,861	3,943	724	415	95	25,038
Total liabilities	**50,467**	**2,026,950**	**670,854**	**56,496**	**77,252**	**2,882,019**
Net long/ (short) balance sheet position	**-**	**(181,097)**	**100,429**	**(6,206)**	**2,492**	**x**
Net off-balance sheet position from FX transactions	-	189,549	(202,823)	6,806	704	x
Net open (short)/ long currency position	**-**	**8,452**	**(102,394)**	**600**	**3,196**	**x**
Sensitivity gap if exchange rate against LVL drops by 10%	**-**	**(845)**	**10,239**	**(60)**	**(320)**	**x**

The bank's currency position as at 31 December 2013:

EUR '000

Assets	LVL	USD	EUR	RUB	Other currencies	Total
Cash and deposits with central banks	140,405	2,812	213,311	-	219	356,747
Balances due from credit institutions	-	497,895	27,469	31,151	62,522	619,037
Derivatives	451	-	-	-	-	451
Financial assets at fair value through profit or loss	73	6,941	5,884	3,896	-	16,794
Available-for-sale financial assets	17,954	686,174	8,786	13,812	4,933	731,659
Loans	485	176,026	576,623	519	7,615	761,268
Held-to-maturity financial assets	-	562,093	71,164	17,736	418	651,411
Other assets	53,331	2,368	121,912	1	387	177,999
Total assets	**212,699**	**1,934,309**	**1,025,149**	**67,115**	**76,094**	**3,315,366**
Liabilities						
Derivatives	2,046	-	-	-	-	2,046
Financial liabilities at amortised cost	29,064	2,138,118	791,714	73,829	76,758	3,109,483
Other liabilities	14,746	407	1,609	28	10	16,800
Total liabilities	**45,856**	**2,138,525**	**793,323**	**73,857**	**76,768**	**3,128,329**
Net long/ (short) balance sheet position	**-**	**(204,216)**	**231,826**	**(6,742)**	**(674)**	**x**
Net off-balance sheet position from FX transactions	-	213,044	(221,214)	5,724	822	x
Net open (short)/ long currency position	**-**	**8,828**	**10,612**	**(1,018)**	**148**	**x**
Sensitivity gap if exchange rate against LVL drops by 10%	**-**	**(883)**	**-**	**102**	**(15)**	**x**

The bank's currency position as at 31 December 2012:

EUR '000

Assets	LVL	USD	EUR	RUB	Other currencies	Total
Cash and deposits with central banks	121,066	3,046	183,210	-	124	307,446
Balances due from credit institutions	-	461,474	21,094	23,016	47,436	553,020
Derivatives	115	-	-	-	-	115
Financial assets at fair value through profit or loss	47	1,986	440	2,269	-	4,742
Available-for-sale financial assets	-	761,194	1,847	9,893	6,454	779,388
Loans	1,678	145,278	555,516	2,097	12,005	716,574
Held-to-maturity financial assets	-	468,275	15,566	12,992	3,779	500,612
Other assets	47,798	4,523	119,876	3	9,731	181,931
Total assets	**170,704**	**1,845,776**	**897,549**	**50,270**	**79,529**	**3,043,828**
Liabilities						
Derivatives	6,515	-	-	-	-	6,515
Financial liabilities at amortised cost	23,675	2,023,126	690,507	56,081	77,157	2,870,546
Other liabilities	9,969	3,874	457	411	90	14,801
Total liabilities	**40,159**	**2,027,000**	**690,964**	**56,492**	**77,247**	**2,891,862**
Net long/ (short) balance sheet position	**-**	**(181,224)**	**206,585**	**(6,222)**	**2,282**	**x**
Net off-balance sheet position from FX transactions	-	189,549	(202,823)	6,806	704	x
Net open (short)/ long currency position	**-**	**8,325**	**3,762**	**584**	**2,986**	**x**
Sensitivity gap if exchange rate against LVL drops by 10%	**-**	**(833)**	**(376)**	**(58)**	**(299)**	**x**

The Law on Credit Institutions requires that bank's open positions in each foreign currency may not exceed 10% of equity and that the total bank's foreign currency open position may not exceed 20% of equity.

As at 31 December 2013, the bank was in compliance with the above requirements of the Law on Credit Institutions.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

Interest rate risk
Interest rate risk represents the adverse effect of the market interest rate fluctuations on the bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted to cover, to the maximum extent possible, all risk elements — repricing risk, yield curve risk, basis risk, and option risk.
Interest rate risk is assessed both in terms of income and economic value. The term "economic value" means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:
- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/ maturity date;
- financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date;
- demand deposits are shown in those maturity bands which are determined on the basis of sensitivity to changes in interest rates, which the bank evaluates from the following two aspects:
  - by analysing the depositors' willingness to place their demand deposits under the terms of the bank's proposed term deposits, depending on the changes of deposit interest rates offered in the bank's price list;
  - by analysing the impact of market interest rate index changes on the demand deposit decay rate of the bank, stating the proportion of deposits that are sensitive to market interest rate index changes and their expected life cycle with the bank.

Derivatives are represented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.
The effect of interest rate risk on the economic value is calculated according to the duration method, i.e., the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit/ loss is analysed applying the gap analysis, i.e., analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The bank regularly conducts interest rate sensitivity analyses, applying the gap technique. Based on the results of this analysis, the bank's management assesses whether interest rate stress tests need to be performed and, if necessary, suggests stress testing scenarios for potential adverse changes in interest rates. These stress tests are aimed at assessing the effect of adverse changes in interest rates on the bank's income and economic value in the event of a tough market situation.

When assessing the effect of interest rate risk on the equity, the potential changes in the market value of the available-for sale debt securities due to market interest rate fluctuations are considered. The profit is affected by changes in interest income due to market interest rate fluctuations taking into consideration all the assets and liabilities exposed to interest rate risk.

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

The following table presents the group's and bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2013 and 2012:

EUR '000

		Group/ bank		Group/ bank	
		01/01/2013—31/12/2013		01/01/2012—31/12/2012	
		+100bps	-100bps	+100bps	-100bps
Total for all currencies	Effect of changes on equity	(9,462)	9,462	(8,503)	8,503
	Effect of changes on profit	1,259	(1,259)	1,592	(1,592)
USD	Effect of changes on equity	(9,108)	9,108	(7,810)	7,810
	Effect of changes on profit	1,480	(1,480)	1,524	(1,524)
EUR	Effect of changes on equity	(354)	354	(693)	693
	Effect of changes on profit	(221)	221	68	(68)

In view of the accession of Latvia to the European Monetary Union on 1 January 2014, the sensitivity to changes in the LVL interest rates are not disclosed separately.

Note 36

Non-financial risks

During the course of their operations, the group and the bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

Operational risk
Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.
Operational risk is inherent in all products, activities, processes, and systems of the group and the bank.
The Operational Risk Management Policy is approved by the council of the bank. The board of the bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the group and the bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations.
The key principles allowing efficient operational risk management are as follows:
- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

To manage the group's and bank's exposure to operational risk, an operational risk event database has been established. The key objectives of the database are as follows:
- collection of data about operational risk events and losses of the group and the bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the bank to identify potential losses and take all required measures to prevent such losses.

In the reporting year, an operational risk stress test was carried out to assess the related potential loss. The test was based on external, internal events registered in the risk event database and results of scenario analysis which supplemented the model with probable risk events and potential related losses. Individual risk assessment models were designed for low-risk events and low-probability (rare) events having a significant effect (potential losses). The scenarios included changes in the bank's operational environment affected by both internal and external factors and the bank assessed a potential effect on its income and ability to continue as a going concern in the event of any material deterioration of circumstances in the sectors having the highest operational risk concentration for the bank's risk profile.

During the reporting year, 2,084 (1,031) events were registered in the database, of which only 67 (73) events were those which resulted in actual losses amounting to EUR 107,0 (64,5) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the group's and bank's employees in the operational risk management and to the effectiveness of the control environment.

Money laundering and terrorism financing risk

Money laundering and terrorism financing (MLTF) risk is a risk that the bank may be involved in money laundering and terrorism financing.

MLTF risk management and control are delegated to the Chief Compliance Officer (CCO). Experts of the Compliance Division perform MLTF risk management and design and implement risk mitigation activities to ensure the bank's compliance with the existing anti-MLTF laws, regulations and standards and prevent any involvement of the bank and the group in money laundering and terrorism financing.

To ensure efficient customer monitoring and MLTF risk management, the bank has set up a permanent Customer Control Committee whose functions include approval of procedures and instructions related to customer identification, acceptance and due diligence, consideration of the results of investigating suspicious transactions and adoption of relevant decisions, analysis of KYC (due diligence) results within the limits of its competence and decision-making on abstaining from/ termination or continuation of business relationships with a certain customer, as well as presentation to the board of recommendations for improvement of the MLTF risk prevention system.

The Customer Policy defines the principles of customer attraction and servicing based on the bank's and group's operational strategy that are implemented according to the local statutory requirements as well as good banking practice.

To mitigate MLTF risk, the bank has formulated and documented an internal MLTF risk management and prevention system encompassing activities and measures aimed at ensuring compliance with the requirements of the Anti-Money Laundering and Counter-Terrorism Financing Law, Cabinet Regulations, FCMC Regulations and other applicable regulations. All the group's employees and authorised representatives involved in customer servicing and KYC processes are subject to the procedure prescribed by the aforementioned documents and relevant internal regulations.

- Bank's MLTF risk management regulations lay down the following:
- criteria to commence cooperation with customers and counterparties;
- potential customers;
- procedure for commencing business relationships;

The accompanying notes set out on pages 118 through 191 form an integral part of these financial statements.

- procedure for customer identification and establishing actual beneficiaries;
- indicators of unusual and suspicious transactions, the procedure for establishing and investigating such indicators;
- procedure for abstaining from and reporting suspicious transactions to the Financial Intelligence Unit;
- customer risk identification;
- KYC procedures;
- customer transactions monitoring and customer due diligence.

Reputational risk

Reputational risk is a non-quantifiable risk and the consequences and losses that may be caused by this risk can hardly be determined. Reputational risk management by the bank (measurement, applicable methods, control) is governed by the Reputational Risk Management Policy. The bank intends to set reputational risk indicators and aggregate information about their level and then formulate a methodology to quantify reputational risk. It should be also noted that reputational risk is closely linked to operational risk (including legal risk) and for this reason those risks are hard to distinguish. At present, the bank has decided not to segregate reputational risk and not to establish a separate capital charge for this risk.

Information system risk

The bank has formulated the Information Technology Security Policy, the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital charge for operational risk. The bank analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital charge for information system risk.

Note 37

Litigation and claims

In the ordinary course of business, the bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The management believe that any legal proceedings pending as at 31 December 2013 will not result in material losses for the bank and/ or the group.

Note 38

Events after reporting date

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto, except below mentioned.

From 1 January 2014, Latvia has joined the European Monetary Union and from 15 January 2014 the Latvian lats ceased to be a legal tender.

INDEPENDENT AUDITORS' REPORT

To the shareholders of ABLV Bank, AS

Report on the financial statements

We have audited the accompanying consolidated financial statements of ABLV Bank AS and its subsidiaries (the "Group") and the accompanying financial statements of ABLV Bank AS (the "Bank"), set out on pages 111 through 191 of the accompanying 2013 Consolidated Annual Report, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2013 (set out on pages 101 through 108 of the accompanying 2013 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2013.

We have assured ourselves that the Bank has prepared the corporate management report for the year 2013 and verified information presented in the report according to the requirements listed in the article 56^2 third paragraph clause 1 in the Law on Financial Instruments Market.

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Iveta Vimba
Latvian Certified Auditor
Certificate No 153
Member of the Board

Riga, 24 February 2014

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