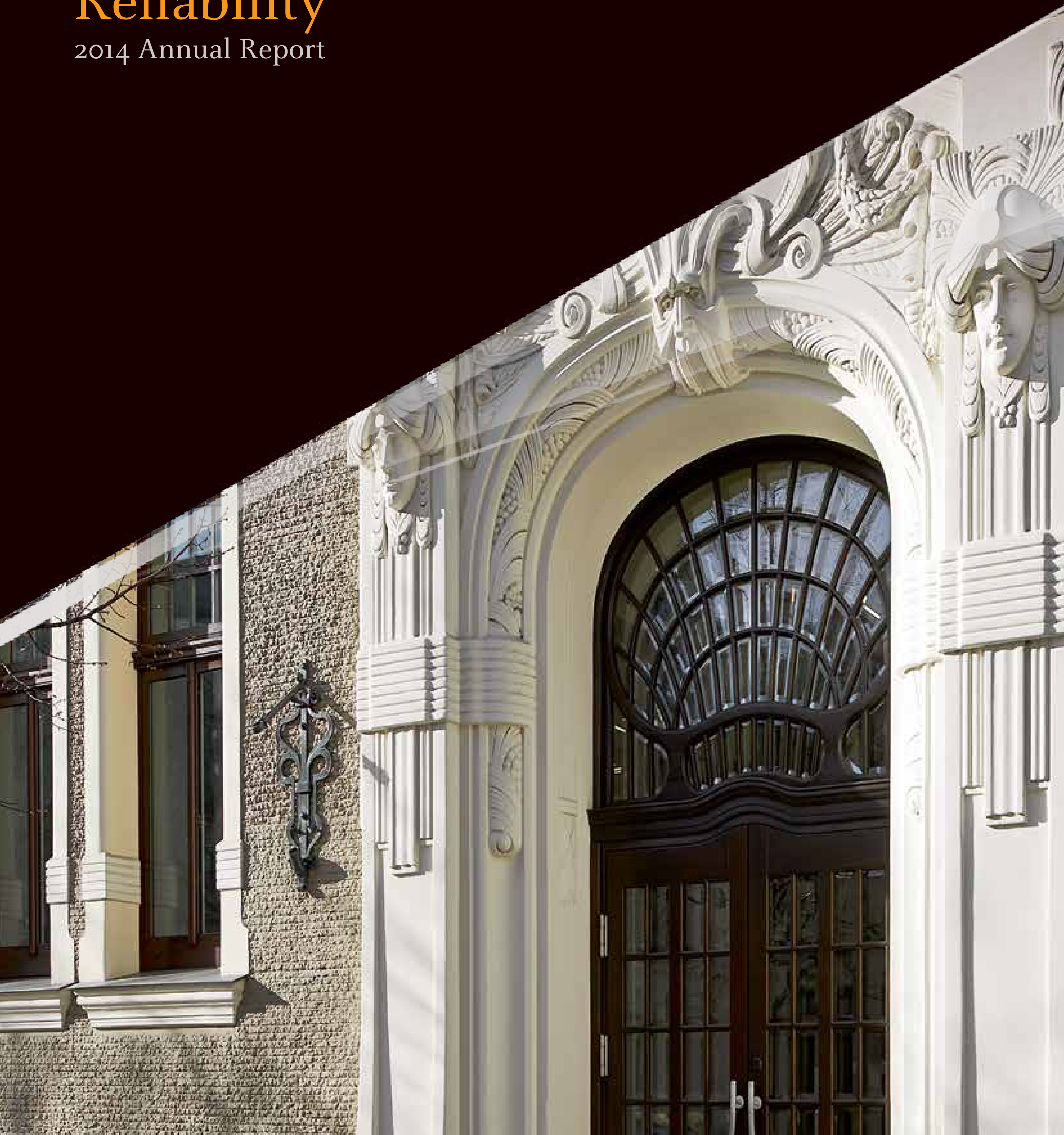
ABLV

BANKING / INVESTMENTS \ ADVISORY

Reliability

2014 Annual Report



ABLV

Table of Contents

Creative team: Arnis Artemovičs, Ernests Bernis, Jānis Bunte, Anna Celma, Ilmārs Jargans, Agnese Laganovska, Sergejs Mazurs, Jūlija Surikova, Romans Surnačovs
Project managers: Anna Celma, Anda Kārkliņa, Jūlija Surikova
Interviews: Una Griškeviča, Degi Karajevs, Romāns Meļņiks, Sergejs Pavlovs, Vadims Reinfelds, Arnis Rītups, Romans Surnačovs
Text authors: Vincent Alamartine, Leonīds Aļšanskis, Jānis Bunte, Aija Daugavvanaga, Jevgenijs Gžibovskis, Vladislavs Hveckovičs, Frank Lendorf, Sergejs Mazurs, Natālija Moisejenko, Vadims Reinfelds, Dace Rūķīte-Kariņa, Jūlija Surikova, Romans Surnačovs, Ieva Valtere
Photography: Jean-Luc Andrin, Arnis Artemovičs, Uldis Bertāns, Krišjānis Eihmanis, Kristofers Karlauskis, Sergejs Mazurs, Vadims Reinfelds, Gatis Rozenfelds, Ansis Starks, Polina Viljun, ECB press photo, Rūndale Palace press photo
Translators: Marina Bormane, Natālija Hramčenko, Lidija Marsova, Valentīna Obuhova, Jūlija Surikova, Jeļena Vititņeva
Design: Anna Aizsilniece, Valters Horsts
Project contractor: SIA Anonymous Publishing
Printed by SIA Jelgavas tipogrāfija

Time derivative

Romans Surnačovs
ABLV Bank Chief Operating Officer (COO)
Editor of 2014 Annual Report

The more complex a mechanism is, the more comprehensive and multifaceted the concept of reliability is. When we say we have a reliable car, we utterly and completely rely on the car to be safe, convenient and easy to maneuver on the road…There can be no doubts about the engine starting, or whether there is sufficient seating for kids. We rely on the whole car, and we spend no time thinking about how an individual component, such as windscreen wiper, could spoil our journey. Reliability is a complex notion!

When we say that the bank is reliable, we speak about a comprehensive picture of a reliable and complex mechanism. A reliable bank is a bank that you can easily put your faith in, one in which you can entrust your assets, one in which it is easy to make everyday transactions and where trust is an integral part of relationship. In such a bank, everything works well — starting from the secretary who meets you with a smile at the reception and up to the top managers who take part in operations at every level. All mechanisms are well-oiled and work consistently.

Every day for more than 21 years, we have been proving that same reliability to our clients and partners through our work and our special approach. In 2014, we among other 130 leading European banks were checked for reliability by the European Central Bank within the framework of the European Banking Union, established to take care of the reliability of the whole banking system of Europe. We successfully passed this assessment, too.

The scope of our interests is constantly widening, and the mechanism is getting more complex. Nevertheless, as before, we remain uncompromising on the issues of quality and the intricacy of details — be it the art of commodity trade finance, or fully listing the parameters of gold bars in our Internetbank, or planning out the new premises of the Mortgage Loans Service Department.

Nevertheless, our main function is to reliably preserve and increase the capital of our clients. Therefore, we simultaneously work in many business directions. We create new mutual funds. Our subsidiary bank in Luxembourg offers asset management services with three levels of client participation in the decision-making process: classic brokerage, advisory asset management and discretionary portfolio management. Moreover, big businesses choose reliable banks not only for the placement of funds but also for borrowing. We were the bank that financed the biggest purchase of capital shares at the Ventspils terminal, which deals with the transshipment of liquid ammonia, and many others large deals. It gives us the ground to position ourselves as a key player in the area of commercial financing in the local market, as well.

In addition, in our digital era, the reliability of information systems is a cornerstone of immaculate quality and safe services. Developing our IT technologies, primarily, we purposefully invest millions of euros in the security of client data and funds. We constantly teach and improve upon the skills of our risk analysts, who manage complicated online monitoring systems that stand on guard for settlements. We diligently explain to our clients and inform them about security issues, precautionary measures, and the necessary protection of computer systems that clients use outside the interaction with the bank in order to protect them from mutating and pervasive cybercrimes.

However, this complex mechanism would not be able to operate efficiently without reliable support, the mainstay of our bank around which everything starts and ends — our people. Ours is a professional team that proves its reliability at any challenging time, whether during a tough period of crisis or during explosive growth.

BIG INTERVIEW

To act with comprehension

I met the co-owner and CEO of ABLV Bank, Ernests Bernis, in a bar in Riga's quiet centre, where the traditions of London bars merge with the exclusive Art Nouveau architecture. By chance, I recalled a statement about the environment shaping our behavior. The surroundings prompted topics such as the unlimited potential of the market, the ambience, the borders of imagination, and the tireless work that allowed the bank to overcome its competitors.

What sets your bank apart?
Our approach. We always try to perform beyond expectations. We always try to surpass ourselves.

How does this "performance beyond expectations" influence your banking services?
First, they are easy to use and elegant. (*Smiles*) Besides, our efforts give us, the bank's employees, a feeling of self-confidence. We always try to do everything that's asked of us, most of which we can do but sometimes going beyond our capabilities. Moreover, if something goes wrong, we don't regret not having done some important things well.

What makes your services so special?
In recent decades in the banking business, nothing new has really been invented. The last significant innovation was the ATM (automated teller machine), but that has already been around for 30 years or so. Therefore, banking products and services are functionally quite similar. However, the unique peculiarity of each bank is the way in which these services are delivered, the way a client is approached, and how the relationship between a client and the bank is established and maintained. These features make each bank unique.

We are proud that the majority of our employees and clients have been working together for over 20 years.

Why do you pay particular attention to big clients?
First, we pay particular attention to both small and big clients. Second, the area in which we currently work is too small for us. Therefore, we tend to choose more complex and larger projects. In addition, in order to keep up with the times and succeed, we constantly need to set ourselves more challenging tasks and ambitious objectives.

What is the connection between these tasks and big business?
The areas we are currently working in are infinite. Thus, there is a limitless number of opportunities to grow our business.

Do you mean international markets?
Yes. However, there are also many projects here in Latvia. People tend to put borders on themselves — the borders of imagination and opportunities. In Latvia, they say big businesses should be the clients of our Scandinavian counterparts. This is exactly what happens when the borders of imagination destroy faith in local banks. However, the size of our bank is not smaller than the size of our Scandinavian counterparts in Latvia. The quality of our services and pricing is the same. The professional level of our group's employees is very high. They prove it every day and I am proud of our people.

Therefore, I believe that the key to success is in broadening the borders of faith between clients and banks. In order to ensure this, we have to constantly broaden the borders of imagination of both our employees and our clients.

In other words, if you change your attitude towards a situation, you are able to change the situation?
Yes, exactly. However, you have to be able to realise what you offer. Over the last 20 years, we have overtaken many of our peers and approached the most powerful players in the market.

How do you explain it?
Since the first day, we have worked as an international bank, not limiting ourselves by the borders of our country.

Do you mean you worked for the West or the East?
We started off by working in the markets we knew and understood. 20 years ago we knew the eastern market better. However, four years ago we started a project in Luxembourg. Now our subsidiary bank operates there, where new colleagues with western educations, western working experience and western ways of thinking work.

What do you think most influenced the growth of the business?
Our constant efforts. Over 20 years, we did not waste a single day. Every day we did more than was required of us. We thought about our people, tried to motivate them. Nowadays, the level

In order to keep up with the times and succeed, we constantly need to set ourselves more challenging tasks and ambitious objectives.

The majority of banking mistakes and world catastrophes happened because people did not understand what they were really doing.

of remuneration for many jobs in our bank is at European level. And, last but not least, we did things that we knew in-depth. It was not easy. Recently, the banking business has been getting more complex.

Are these difficulties connected with regulations?
With regulations, different approaches, and other issues. We have always been guided by the principle: if we undertake to do something, we need to be at our best in both understanding the issue and its realisation. There were situations when we had our doubts and, in those cases, we simply passed up on them.

For example, we give mortgage loans in Latvia, but our clients often ask us to finance the purchase of real estate in France, Finland or Spain, offering good terms. However, we do not know the settings of the market in these countries! We do not know their regulations and limitations. We cannot forecast the same good results as we do in more familiar markets. If something is outside our current competence, we simply won't do it.

On the other hand, we finance real estate projects in Russia. In these situations, we are well aware of the mindset of our clients, and we know the legislation as we have been working there for over 20 years. Nevertheless, we get lawyers from Russia to work with us.

It is crucial to understand that we are ready to broaden the borders and go out into new markets but we will not put the trust and prosperity of our clients at risk by offering immature products.

When you do things you understand and know, making a mistake is harder. The majority of banking mistakes and world catastrophes happened because people did not understand what they were really doing.

Is it an advantage that the bank is located in Riga?
Riga is a great international city. Historically, many major trade routes went through Riga. It is crucial. You cannot build something out of nothing. History and traditions are important. For example, take the special environments of Western universities — of Oxford, Cambridge, Harvard or Stanford — these environments were not created in a year; they took hundreds of years.

In the last hundred years, the environment of Riga has been destroyed several times. Does the past influence present opportunities?
When we started, there were no big opportunities… However, I was born here and since my childhood, I have believed Riga to be a city of great opportunities.

Nowadays, there are direct flight connections to seventy destinations. Neither Vilnius nor Tallinn has the same

We are ready to broaden the borders and start working in new markets.

Weekly meeting of the Development Committee

connections. How come? I believe this is not accidental — it is mainly due to our geographical location. The fact that there was a large aviation institute here is also not accidental. It is important to our business that clients can reach us easily from seventy destinations.

Do you feel personally responsible for the city environment?

What is the environment? Firstly, it is good jobs. I feel glad whenever a new job is created. When I think of how many people were forced to leave this country because there weren't enough jobs, I feel sad. I believe the more inhabitants live in the city, the better. Currently, we are implementing one large-sized project — we are going to build a new office complex where our bank and many subsidiary companies will be located. Although we needn't have done this, we could have just rented premises. However, we are determined to make it happen — we want our employees and clients to experience it. It is important for us to influence the environment of our city, to become an integral part of this unique environment.

Why do you need it? To prove to everybody that you can do it as well...?

No, our aim is different. We want to build an office for ourselves — we want to create an office that is harmonious with the city environment. To create an ambience where it is great to both work and live. An environment where other offices, banks, blocks of flats, a park and a museum of contemporary art will be built, an environment where things will be humming.

What time perspective are you working towards, especially given your feelings of responsibility towards the environment?
You might be surprised, but our clear visions and plans are designed to come to fruition a year and a half from now. At the same time, everything we're doing, we're doing for the long-term. Our business is similar to the wheel of a water mill, it goes round and round… (*Laughs*)

Most modern people live with a short-term mentality; most of their businesses are current and short-term.
To explain my position regarding long-term and short-term projects, I would like to give you an example: ancient people lived from hunting and gathering food in the woods; later they started to farm. Which is easier: hunting or farming?

The answer is obvious — hunting. The development of agriculture and manufacturing led to new settlements. In a sense, the establishment of a city and the creation of its environment is the most complex human project.
Absolutely. If we are to choose between long-term and short-term projects, we always choose long-term. This kind of project is more difficult to realise and there is much at stake. However, if the project starts off well and turns out to be successful, soon you understand that it gives you much more than you expected or could ever have imagined.

For example, our bank spends practically nothing on advertising. We do not have it. Why? There is no need to advertise — if our client is happy with what we do, within five years he gives good feedback and brings new clients to us.

Why do you choose long-term goals?
They are more complicated, therefore, they are more exciting.

Why do you find challenges motivating?
People, as a rule, are afraid of complicated situations. Any difficult situation for me is a challenge. Moreover, I want to do exactly what nobody has done before or somebody failed to do. I believe this is interesting.

Development works at New Hanza City have been already started.

Our wish is to create a business that people will need as much in ten, twenty, fifty years time as they do today.

It is interesting indeed: difficulties and complications motivate you and demotivate others.
It is difficult to speak about other people. Perhaps we have just been luckier than others?! Our wish is to create a business that people will need as much in ten, twenty, fifty years time as they do today.

What role do your children play in your motivation system?
Children — are they a short-term or a long-term project? Children are the most complex! In business, everything is simpler than being at home with the kids. (*Laughs*) To direct children and help them find their way — this is the most difficult task.

What is the most important thing with relation to children?
You should treat children the same way you treat adults. Of course, you may spoil them but you should still speak with them the same way you would with adults! In addition, never forget about the example you're setting — they see everything their parents do and copy it. A lot is inherited in childhood. The succession of family professions is not rare: there are families in which granddad, dad, and uncle all are skillful doctors. Obviously, their choice was determined by their environment and family. Certainly, there are cases in the doctor's family where a talented financier is born. It happens, and it is good. In these cases, some family members directly or indirectly dealt with finances. Many people praise the German model of small- and medium-sized enterprises. Indeed, this is a very solid model of family business, a business based on the traditions of hundreds of years.

When you speak with your children as if they were adults, do you also mean that they should take responsibility for their actions?
Children need to be shown that they are responsible for their behaviour and actions — with each year this responsibility should grow. It needs to be taught. Therefore, you need to spend time with children. It is difficult!

For a busy person like you, who works every day, it must be difficult…
With me, it is simple. At seven o'clock, I stop working, and I do not work at the weekends.

What do you appreciate most of all in people?
Diligence and attention. In people, I also appreciate reliability, and I cannot bear betrayal.

Latvia needs to work on all fronts

Turning Riga into an exclusive place for both business development, and modern, convenient and culturally rich living, can become a solid base for the growth of the whole state, believes ABLV Bank co-owner and Chairman of the Council, Oļegs Fiļs.

Countries and cities compete with each other in order to attract large investors. Which of these factors are most important in business development — advantageous legal environment, well-developed infrastructure, security or culture?
The conditions for business development and the cultural environment that awaits an investor in a particular country are interdependent. Most recent investments in Latvia were connected with a place of residence and holidays. Along with the development of the real estate market, growth was observed in other inter-related sectors. New restaurants were opened, cultural life bloomed, and new museums appeared.

For example, in Pure, a chocolate museum was established. It is a great place to spend time with children. These kinds of investments are very important. People come to our country not only to work, but also to relax after work.

It is crucial that we've hosted numerous large-scale international events. In 2014, Riga was the European Capital of Culture. The vast number of events held in Riga drew attention from around the world. The "Born in Riga" concert was shown live on TV in nine countries, and world-famous artists from the Latvian capital took part. One of the greatest events of the summer should also be mentioned — the World Choir Games. This attracted 27 thousand participants from 460 choirs representing 73 countries from five continents. More than 23 thousand participants from 61 countries gathered to run together in the Nordea Marathon. In 2014, the new Latvian National Library was opened and, in the first half of 2015, it became the place for decision-making within the Latvian Presidency of the Council of the EU.

The weather in Riga is not always good. In southern countries, everything is simpler. Just four words "it is warm here" is an argument leaving no one indifferent. In Latvia, from October till

Riga is a financial centre where investors meet investees and where life is convenient.

March, the climate is not really pleasant; it's humid with little sun. Moreover, summers might also be rainy. Although, a mild climate has its own advantages, to position Riga only as an exclusive place for residence would be wrong.

We should speak about Riga as a financial centre where investors meet investees, and where life is convenient, due to infrastructure, public transport, beautiful well-maintained parks, and a well-developed service sector. Everything is well organised here: restaurants, beauty salons, sport clubs, etc. Various cultural events take place here, and people are happy. There are nice skiing resorts not far from Riga, new hotels being opened, and large facilities for shopping. For example, in large shopping malls, families can spend the entire day together.

There are exclusive boutiques as well. However, here I would like to highlight, this by itself has no value, as there are many large shopping malls and a wider scope of relaxation facilities in other cities. Only when we have ensured that all of these conditions are working together can entrepreneurs and investors live and develop business well. We can make Riga competitive in comparison to other European cities.

If there are certain drawbacks in climate, perhaps it is worth focusing on the advantages that can easily compensate them.

First, it is worth noting that for people who come from regions with freezing and harsh winters, our mild climate might seem quite pleasant. The second factor is the fact that happy people live in Latvia. This is not my subjective viewpoint. Last year, sociologists found out that 73% of inhabitants in Latvia feel happy. The third advantage is our language competence — we speak Latvian, Russian and English. Many acquired German in school. There are two French schools in Riga; therefore, a lot of people understand French as well. The knowledge of three or four languages is a huge advantage that we can offer. We appreciate it in Luxembourg where our subsidiary bank ABLV Bank Luxembourg is located. Almost every one of the 500 thousand inhabitants in Luxembourg speaks five languages. Therefore, it is not surprising that this country, being both geographically small and with a low population, became one of the richest countries in the European Union while possessing no oil, natural gas, or developed agriculture. Human potential, knowledge, and the skill of selling services, along with active support from the state in the development of a financial centre, ensured enormous growth for Luxembourg.

Will there be enough people in Latvia to realise something similar in future?

We need to choose the right strategy. We want to reach the German level of industrialisation, but obviously, this

The new building of the National Library of Latvia that in the first half of 2015 became the place for the EU decision-making.

Human potential, knowledge, and the skill of selling services, along with active support from the state in the development of a financial centre, ensured enormous growth for Luxembourg.

is close to impossible. Latvia remains outside the industrial global map. The tendencies of the last 10–20 years show that even German industry is declining because Asian countries have learnt to make the same things well for less money.

The second choice is the service sector. In many areas, we can prove our competitiveness. Banks deliver financial services which have high added value all over the world. However, it goes without saying that we cannot rely exclusively on the financial services sector; we need to develop other service sectors. Latvia can reach its potential in IT, project management, pharmaceuticals and telecommunications. As for high-speed Internet, we are one of the world leaders. This can become a good base for the development of data processing. The development of this sector requires us to be brave and invite "brains" from abroad, for example, from Belarus. Our own manpower may be insufficient with the existing brain drain to better paying countries.

Do we have to invite "brains" as other countries do?

We need to actively develop. Otherwise, we will not have a competitive advantage; on the contrary, we will lose time, people, money, our economy and everything else. It concerns each sector. Take food for example. We all believe that our products are fresh, biologically sound, ecological, etc. That's good! However, there should be an economic force that drives our bio-, eco- and other products to be sold not for 50 cents in the Central Market, but for 5 euro as it is in Switzerland and Luxembourg. This will be possible when our economy is operating efficiently. In order to develop other sectors, we need brokers, bankers, lawyers, highly-paid specialists who, on leaving their skyscrapers, buy expensive, high-quality food products on the way home, thus developing dozens of related industries: food, shops, agriculture, logistics, etc.

What is the role of the bank in the attraction of investors?

Investors come to the service sector in two ways: they are attracted either by the bank or the state. According to recent research, Latvian banks have over 130 thousand foreign clients; 70 thousand of these are enterprises and 50–60 thousand are individuals. When foreigners have an account in a Latvian bank, at least they know something about the country, have faith in it, and pay regular visits. The majority of these 130 thousand clients are involved in active business in their home countries. Thus, they may be interested in not only selling their products or services through Latvia, but also in, perhaps, opening a rep office, a subsidiary, a management company or a production facility. We possess the contacts, potential clients, and prospects to work in the EU market and abroad. This is one of the marketing channels. The second way is through

It is important that experts think of Riga as a place offering prospects for growth, enterprise, and the potential to make a profit.

attracting investors established by the state, for example, with the facilitation of the Investment and Development Agency of Latvia (LIAA).

We know that the state is striving to improve its competitive advantages, but there are still some drawbacks. The fundamental principles of the export promotion programme adopted in 2013 is a bright example. An investor who is seeking support from the state needs to go through a long list of institutions to come up with a business plan with private consultants that later needs to be approved at various levels in LIAA. Afterwards, he needs to wait for approval from the Ministry of Economics. If he gets final approval, the issue is taken for further discussions to the government. Later, this businessman will have to meet the prime minister, organise a press conference or, perhaps, an official ceremony with the president of Latvia. This endless bureaucratic procedure takes time, time he is losing; maybe the situation in the market changes, or his mood may also change. The risk of unsuccessful investments is getting bigger. The support system needs to be easily manageable and more efficient.

Last year, we helped to organise a meeting in Riga between representatives of the Ministry of Finance and the State Revenue Service, with experts from the Netherlands who, practically from scratch twenty years ago, established a group that was attracting investors. Please note, they did not create an independent organisation, but just a team in the Tax Service of the Netherlands. They started to work in a small group of five people following one and only aim — to attract, by any means, investors to the country. The experts told us how efficiently they check business ideas and make decisions regarding granting preferential terms. A business plan is reviewed by one person; documents are passed to another expert for signature and approval. This is a one-stop principle. As a result, a decision is made, not within one year as happens now in Latvia, but less than 35 days from the moment of application. The president is not involved. We would like to implement a similar model in Latvia. Moreover, nowadays, representatives of businesses can share their experience with the Ministry of Finance and Ministry of Economics. They can indeed improve the country's competitiveness. For our part, we are ready to assist our clients in communicating with the ministries. Time invested now will bring benefits in the future.

In conclusion, I would like to advise investors from different sectors to include Riga on the list of potential cities for business development. I recommend that the people who are responsible for the country's development and its planning create conditions that will ensure Riga a top spot on this list — so that its presence on the list is not accidental but deserved.

With ABLV Bank financial support the main arteria of the Old Riga, Kaļķu street, will become more accessible for Rigans and guests and offer new shopping opportunities and vary leisure activities.

FINANCIAL CENTRE

Number of banks that still had shortfalls at the moment of SSM introduction (November, 2014)

Ireland
One bank still has a shortfall
Permanent TSB
EUR 0.85 billion

Belgium
One bank has a shortfall
Dexia
EUR 0.34 billion

Germany
None still has a shortfall

France
None still has a shortfall

Portugal
One bank has a shortfall
Banco Comercial Portugues
EUR 1.15 billion

Spain
None still has a shortfall

Italy
Four banks have a shortfall
Monte dei Paschi di Siena
EUR 2.11 billion
Banca Carige
EUR 0.81 billion
Banca Popolare di Vicenza
EUR 0.22 billion
Banca Popolare di Milano
EUR 0.17 billion

Slovenia
Two banks have a shortfall
Nova Ljubljanska banka EUR 0.03 billion
Nova Kreditna Banka EUR 0.03 billion

Greece
Two banks have still a shortfall
Eurobank EUR 1.76 billion
National Bank of Greece
EUR 0.93 billion

Austria
One bank has still a shortfall
Oesterreichische Volksbanken-Verbund
EUR 0.86 billion

Cyprus
One bank has still a shortfall
Hellenic Bank
EUR 0.18 billion

Number of banks based on capital shortfall at end 2013

European quality mark

How the European banking union was established, what the fundamental principle was and what changes to anticipate, tells Leonīds Aļšanskis, ABLV Asset Management, IPAS, Senior Financial Markets Analyst.

Last year turned to be full of events in the global banking sector. Main attention was drawn to effective measures of three leading central banks: of the USA, the euro area and Japan. The US central bank finally accomplished its quantitative easing (QE) programmes and passed on to discuss the beginning of interest rates increase. However, the other two central banks due to economic problems, on the contrary, were forced to significantly enforce their stimulating programmes. In this context, the European Central Bank (ECB) lowered its deposit rate into negative that has not been done before by any large central banks.

Against this background, another significant event in the banking industry remained undeservingly unnoticed — in the euro area, the banking union was finally established and started to work. It was the second largest step in the integration of financial systems of European countries after the launch of the single European currency.

The idea about the banking union appeared as early as in 2011, but the path to its realisation turned to be not easy and it underwent a number of changes. The idea was to ensure the centralisation of regulation and management of the banking sector in the euro area, or perhaps, the whole European Union (leaving the right to the countries outside the zone to enter the union voluntarily). The main aim of this union was to strengthen the stability of the European banking system and to encourage its competiveness in the global market. Among numerous tasks of the banking union, one was announced as following: to establish a mechanism that would exclude in the future the situations when taxpayers' funds would be used to save banks as it was done in the crises of 2008–2009, and in the long-lasting crisis in 2010–2012 in the euro area.

However, the refusal from Sweden and Great Britain to delegate its sovereign rights to manage the banking industry somehow weakened this idea and burdened the process of its realisation.

Drawing together the standpoints of various countries turned to be also complicated along with the elaboration of general principles of the union. For example, in 2013, right after the precedent of the salvage of Cyprian banks, a lot of this model supporters appeared. With reference to the banking union, a lot of followers started to support the model in which all hardships of the salvage of problem banks, in fact, were put on the shoulders of large investors. As the result, the "Cyprian model" was significantly improved and the list of "salvaging" subjects was significantly extended, including the establishment of a special interbank fund for the salvage of problem banks.

Consequently, three single mechanisms were established on which the banking union is based: the single supervisory mechanism (SSM), the single resolution mechanism (SRM) and the

European deposit insurance and resolution authority (EDIRA). In April 2014, necessary laws were adopted by the European parliament with the majority of voices.

The European deposit insurance and resolution authority that guarantees the return of deposits up to EUR 100 000 will start working in July 2015. Funds into this fund will be gradually transferred from the national deposit insurance funds maximum over 20 years, and later it will become the single deposit guarantor.

From January 2016, the single resolution mechanism will start working, the fund of which within 8–10 years will gather the amount equalling 1% of all deposits (in 2014 it amounted to EUR 55 billion) from banks in order to render help or/and save problem banks.

The SSM started to work in November 2014. Namely, the year of 2014 became the official year of the beginning of work of the banking union. The ECB fulfils its functions of single supervision along with the national regulators that are not abolished and continue to supervise banks now in cooperation with the ECB. In addition, from 6 000 banks of the euro area 130 largest and most significant banks fell under the direct supervision of the ECB. The banks with assets over EUR 30 billion, or the banks that make 20% of GDP, or three largest banks in the country were included into the list of directly supervised banks.

Before the SSM came into force, within the year the main performance indicators of 130 leading European banks were tested and assessed. The comprehensive assessment was carried out by 6 000 authorised auditors and controllers. This time applied approach was stricter in comparison to prior ECB stress-tests. The auditors did not purely rely on the figures presented by the banks; but they did their own checks of overall capital reliability and banks' assets.

The reliability of banks was checked (in case of macroeconomics worsening) according to six various scenarios, whereas four scenarios were based on scenarios similar to the prior crises: the Asian crisis in 1997–1998, the recession in 2001–2002, the global financial crisis 2007–2009 and the debt crisis in the euro area of 2010–2012. They assessed the positions of banks as at the end of 2013, their capabilities to survive in a potential crisis in next three years.

The assessment was successfully passed by the three largest banks in Latvia, including ABLV Bank, AS, the only private bank with national capital in the Baltics that came under the direct supervision of the ECB.

The participation of our country in this union will essentially enforce the reliability of the Latvian banking system.

In spite of the fact that after the crisis the main European banks tried hard to strengthen their reliability, 25 out of 130 banks failed to pass the assessment.

Although by November 2014, twelve of the banks managed to compensate their shortfall in capital, thirteen have not yet. However, they will have to do it until the middle of 2015.

The majority of problem banks was discovered among Italian banks: nine failed the test (however, five compensated their shortfalls by November 2014). According to recent macroeconomic indicators of this country, including the state debt and economy growth rate, this country still remains an outsider. It may cause serious problems in the future for the whole euro area.

Among 24 largest German banks subject to the assessment, only Münchener Hypothekenbank failed the test, but it managed to compensate its shortfall by the beginning of November 2014.

The assessment was successfully passed by the three largest banks in Latvia, including ABLV Bank, AS, the only private bank with national capital in the Baltics that came under the direct supervision of the ECB.

Certainly, this carried out assessment is not an indulgence from new crises for banks that successfully passed it, but undoubtedly, it is a so-called quality mark that indicates the high reliability of banks.

The work of the European banking union has to improve the reliability of the whole banking system in the euro area. The participation of our country in this union will essentially enforce the reliability of the Latvian banking system. Belonging to the euro area and our membership in the banking union will radically reduce a possibility of the repetition of the banking crisis in 2008.

Under the ECB supervision

Aija Daugavvanaga, the Head of ABLV Bank Financial Accounting Division, tells about arranging the bank's work in the context of the ECB direct supervision, about close cooperation with local regulatory authorities, about adapting to new situation, and about the bank's advantages resulting from coming under the ECB direct supervision.

The benefits of comprehensive assessment

The ECB single supervisory mechanism ensures better availability of information on the banks' situation and thus boosts confidence in the financial sector in general. This supervision provides additional sense of safety for us and our clients, and it will also add to the bank's further development. We are glad that ABLV Bank, together with its subsidiary bank in Luxembourg, is the only private bank from the Baltics that is subject to the single supervisory mechanism among the largest and famous European banks. This is the result of our dedicated work during more than 20 years and the evidence of correctly chosen development strategy.

Before the ECB single supervisory mechanism became effective, the banks underwent the comprehensive assessment, including the review of ABLV Bank exposures related to corporate financing in Latvia, real estate financing in Latvia and Russia, lending to large companies in Russia, and mortgage loans granted in Latvian private sector, as well as the group's real estate portfolio, which altogether constitute the most considerable part of ABLV Bank risky assets. Conservative interpretation of the effective International Financial Reporting Standards was used for asset quality review. The ECB has set higher capital thresholds, which were used as a benchmark for assessing the review results. The capital benchmark was a bank's Tier 1 equity amounting to 8%, also including additional capital requirement of 1%, since the banks subject to comprehensive assessment are important and significant for the respective country's financial system.

All systems go

We have seriously prepared for the ECB comprehensive assessment, especially as regards the asset quality review, and have timely expanded our team. However, we were not ready to processing such volume of requests within so tight deadlines.

Under the comprehensive assessment, the bank had to summarize the information on its assets and indicators characterising risk management. There were approximately 450 different reports completed in total, and those contained about 1 million of individual indicators. I would like to note that the ECB requested the information to be presented from the perspective uncustomary for us, which complicated the data selection. Some reports had to be completed manually.

The greatest challenge for the bank was the speed of request processing, as well as changing requirements. Some matters had to be resolved very quickly, as well as both the ECB requirements and understanding of particular items were constantly changing.

We make a joke: now bankers have no time for sleeping. The most difficult thing is to begin all processes and ensure the interaction.

Our people

In 2013, given the growing number of requests and requirements of the regulatory authorities, we made structural changes in the bank, establishing the Financial Control Department in the Financial Accounting Division. One of the main tasks of this department is to ensure cooperation and communication with the institutions supervising the bank's operations — the Financial and Capital Market Commission and the European Central Bank. The work is arranged so that all correspondence and requests are processed via the single register and with one contact person. Currently, there are five officers in the Financial Control Department; some of them are engaged in maintaining relationship and coordinating the work of supervision units. The Financial Control Department closely cooperates with the Risk Management Department and the Financial Analysis Department, ensuring precise and prompt responding. Great support under processing and submitting the information is provided by officers of the Recordkeeping Department as well.

Given the way gone, it can be said with certainty that there are highly skilled professional officers working in the bank, and they are able to concentrate in increased stress and pressure situations, as well as work with high intensity and precision. It is greatly appreciated by the bank's management.

Daily cooperation with the ECB

Everyday work still is dynamic. Although labour-consuming process of the ECB comprehensive assessment has been already completed, daily cooperation with the ECB is intensive, the number of requests is high, and the deadlines for submitting the information — short. Whereas management structures of the European Union are believed to work without hurry, this is not true for the financial supervision. Since the new supervision unit is just starting to study the information about our bank, its risk profile, and risk management model, we are asked plenty of questions that require detailed answers.

Given the high work intensity, officers work overtime, striving to timely prepare the lengthy documents requested by the regulatory authority. We make a joke: now bankers have no time for sleeping. The most difficult thing is to begin and arrange everything, ensure the interaction, and enable efficient functioning. It takes time and meticulous work. Now we are exactly at this stage, but we understand that after putting everything in order the interaction will be much more successful.

Pros and cons of direct supervision

Supervision by the ECB is an additional guarantee of the bank's quality, transparency, and reliability, since the single supervisory mechanism establishes a new system of financial control to ensure the security and stability of the European banking sector. By means of this mechanism, we adopt the strict procedures set internationally, single principles, and advanced methodology used by the largest and most significant European banks. It gives us a great opportunity to improve daily work in the field of risk management and internal control system.

Involvement in the single supervisory mechanism enables our officers to assess their ability to comply with the ECB standards and requirements, as well as master the innovations in the control field. To establish efficient relationships with the new supervision authority, we need additional efforts and resources, both technological and human ones.

Commodity trade finance is an art!

To discuss our new business line and prospects of development, we have invited our Swiss consultant Vincent Alamartine, a commodity trade finance (CTF) expert. "Vincent has 25 years of valuable experience in the banking sector, including 12 years in energy and commodity finance. Now Vincent advises ABLV Bank on the issues of establishing, piloting and managing this financial service," says the dCEO of ABLV Bank, Vadims Reinfelds.

Vincent, many of our clients are interested in finding out what trade finance is, and what the essence of this service is...
The purpose of trade finance is to provide working capital to traders for the purchase and sale of commodities such as petroleum, metals and agricultural products. In a few words, CTF ensures fluidity in the commodities market. Commodities trade flows are strategic in foreign trade. Many intermediaries bring profits to suppliers before the goods are refined by industrial companies. Commodity trade finance is a vital lifeline of international trade.

Commodity trade finance is usually developed by specialist banks that provide liquidities (loans against documents) or contingent commitments (issuance of letters of credit) to traders. As a rule, CTF is short-term (it usually takes between 30 and 90 days), credit facilities are "self-liquidating" (which means that repayments come from sales proceeds that are assigned to the bank), and security is taken on goods that are "pledged" or collateralised to the bank until a full repayment is made.

The essence is indeed simple but CTF is actually a very sophisticated and highly specialised activity. What you finance is not only goods, but also logistics and transformation. Believe me, CTF is a kind of art!

We know that over the years Geneva has been the centre of CTF operations, although there are no logistic routes going through Switzerland. Can you explain the phenomenon that is Geneva?
There is a historical reason for it. The first trading houses appeared in this region in the 20s, because the Trans-Europe-Express train from London to Istanbul made a stop in Lausanne, where Nestlé was operating. Pioneering companies such as André started to import and trade goods. After the Second World War, Switzerland was the only country in Europe with an excellent infrastructure and no currency exchange control. These conditions were attractive to business people who had left their home countries due to political uncertainties (the countries of eastern Europe, Turkey and Egypt). After the first oil shock of the 70s, Geneva became a hub for international trade: many oil traders from the Middle East decided to settle in Geneva where they found a favourable environment to do business. International organisations facilitated contacts, and specialised service companies supported businesses providing inspection services, shipping and supplying access to credit.

As a matter of fact, at that time, Paribas re-introduced the Letter of Credit — a tool already forgotten, but used in the Middle Ages as a major instrument to support trade finance.
Over time in Geneva, a dense community of commodity traders was developed in successive waves (Turkish,

Vincent Alamartine (on the left) and Vadims Reinfelds

Egyptian, Lebanese, Persian, Russian… and nowadays companies from Central Asia or even Brazil), not to mention European headquarters of large multinational companies, such as Cargill, Bunge, Noble, Louis Dreyfus, Lukoil, etc. The market faces new challenges that affect the choice of country — these challenges are binding regulations, restriction of immigration and higher costs. Now banks need more capital than before to finance commodity trade, and they have to cope with political paradoxes. Some Swiss and French banks have changed their strategies and cut down their CTF activities, having left risky territory. This, however, does not facilitate the development of business.

In this frame of mind: is there still some room for newcomers?
Despite the difficulties, I strongly believe there are opportunities for new CTF players, in Switzerland or elsewhere!

Today we observe the blending of two phenomena. On one hand, there is the consolidation of traders. Big traders become bigger and more integrated; middle-size traders either disappear or more likely merge; small traders with specific specialisations, however, remain. This happens due to their added value: they are more flexible in new conditions and do business that large traders are not necessarily equipped for, or do not want to do.

On the other hand, banks tend to customise behaviours in the market, in particular, the decisions to divest from emerging markets.

However, trade finance is very much about emerging countries and tailor-made transactions. Traders, by nature, need to secure cost-effective and predictable financial sources, especially in the context of high commodity prices. Therefore, we see a credit crunch for commodity traders. This is especially true for small-to-medium size companies.

At present, it is estimated that only 10 to 20 large international banks are active in the global trade finance market, and perhaps, there are not more than 10 banks that have significant portfolios at the moment. Today, lenders that offer to provide liquidities and short-term CTF solutions to small and medium-sized traders will be a great success. A typical feature of CTF is that you can lend large amounts of money to companies with very little equity, because the creditor's security relies on the goods rather than on the borrower's balance sheet. It gives great opportunities to newcomers who understand the complex geopolitical challenges of business and who are ready to allocate professional and agile CTF resources that will meet the market's requirements. Actually, niche banks are well suited to the CTF alchemy.

According to your expertise, what capabilities does ABLV Bank have to be equipped with to become a newcomer and be able to offer high-quality CTF services?
Well, 20 years of banking experience have definitely allowed ABLV Bank to develop a solid business intelligence. Moreover, ABLV Bank has gained valuable experience in asset financing, and, geographically, it is very well located between Europe and the CIS countries. Along with the other Baltic countries, Latvia has long-standing experience in the transit, storage and export of goods; it offers state-of-the-art infrastructure and sufficient capacities. I believe this interesting mix of awareness of different cultures (East and West) and the implementation of best practices by all parties may become a bridge to the commodity trade business.

In this frame of mind, the network of ABLV Group representative offices is a real competitive advantage that helps to develop market intelligence and establish new contacts with clients, be it in Russia, Belarus, Ukraine or Kazakhstan. Recently, some CTF banks have decided to stop financing commodities

Becoming a CTF bank takes years, it does not happen overnight.

in certain countries where they are not physically present. These recent changes certainly provide additional opportunities for ABLV to make a dent in the CTF market.

In terms of organisation, I believe the top management of ABLV Bank is close to the business, and that is a real asset. In addition, the team is flexible, young, well-educated, multi-lingual and multi-cultural. Using these assets and focusing on specific countries, goods and deals, the bank can establish a reasonable development strategy and allocate a reasonable amount of capital to this activity in order to build up expertise, based on a diversified and balanced CTF portfolio of small to medium-sized traders. I believe, in time, ABLV will establish a good and profitable CTF service.

However, it calls for a prudent and selective approach: focusing on in-land financing, storage financing or financing of small sailing cargoes with individual credit lines of around USD 5 to 20 million on a stand-alone basis.

With all of the instability in place in this part of the world, how does trade finance succeed in crises? How does this type of activity perform in terms of risk and profitability in crises?
In this issue, two things matter. Firstly, the volatility of prices can be seen as a risk or as an opportunity. The business of traders is actually to make money on volatility. Therefore, we should not be afraid of volatility but we should make sure it is well managed and closely monitored. The main risk is driven by bubbles and the moment they burst. Secondly, there is a country risk. How do creditors face a sudden export ban, an unexpected political crisis, a conflict or social unrest?

Commodity finance went through many crises in the past during periods of instability: in Africa during the decolonisation period and later, in South East Asia in 1997, in Russia in 1998, and Brazil in 2002. As history shows, even in the deepest moments of crisis, goods were still exported, whether it was from Nigeria, Indonesia or Ukraine. Of course, banks keep an eye on the ratings of countries and assess political risks (and sometimes manage to sell these risks to insurers). However, they analyse both performance and market risks, because they know that the export of commodities is crucial for particular countries. In addition, trade is a primary vector of improving balance-of-payments. We should also remember that during troubled times, commercial debt enjoys preferable treatment and short-term debts are usually the first to be repaid to creditors.

On a practical basis, I believe it is always possible to find a solution to finance international trade. I still remember the crisis in Russia in the late 90s, when no one would lend a single dollar to Russian clients. We found USD 10 million in 30 days for one of them. It was a client with a big name. Twenty years later, this client still remembers and remains among the loyal clients of the bank. This is beyond a business relationship; it is about trust and each party's ability to understand each other…

What else can we expect in 2015? What are the prospects for CTF? What is a realistic scenario for the second half of the year?
Becoming a CTF bank takes years, it

does not happen overnight. The bank needs to make sure that the team is able to deliver services, to take smart risks and build up a diversified portfolio. I believe the right way to develop CTF is to set up transactions one by one; first, simple operations, then more complex, and to gain experience and credibility over time. By the end of 2015, it would be good to have a rolling portfolio of 10 to 20 deals.

That sounds promising. I believe that, at some point, along with high-quality private banking services, we will become famous as a reputable CTF bank. How do private banking and trade finance coexist? Do they supplement each other?
It is indeed a symbiotic model: you know your clients on a private basis, many of them are involved in trade activity, so you can always suggest using CTF services when a situation is suitable. On the other hand, there is also a cross-selling factor — when you deal with a trader who makes money, he might want to invest in Latvia or Luxembourg rather than in his home country.

In conclusion, what is your advice to us as a CTF newcomer to ensure a successful launch for the new product? What should we count on to succeed with our ambitious plans?
Enthusiasm, discipline and patience. "Rome was not built in a day," as they say. You don't become a CTF bank overnight. It take years. It requires knowledgeable staff, a specific organisation structure consisting of various teams who work hand-in-hand, who are committed to business and able to provide trading companies with impeccable service. Therefore, I recommend following a selective approach, gaining expertise, developing market intelligence over time, and getting recognition in the market. Reputation is very important in the commodity trading community. With 20 years of successful experience and steady growth, you, as a bank, know better than anyone else that hard work and professionalism are important but not enough for clients. Traders are very demanding clients and they require customised cooperation day after day. However, traders may turn into very faithful clients if the bank can demonstrate two things: a comprehensive understanding of their business and a genuine commitment over the long term. In spite of all of the technicalities, it is, after all, a work of passion. You, in the bank, are very enthusiastic about this project so I am very optimistic about its success!

In 2015, we are going to offer our clients a brand new service — commodity trade finance, which we created and developed throughout 2014.

Port in Ventspils

Financed by ABLV Bank object — The terminal Ventamonjaks, Ventspils, Latvia.

When it is raining, everyone gets wet...

The economic slowdown in Russia has had a certain impact on everyone; however, we do not expect massive defaults amongst the clients of ABLV Bank. Anton Marčenko, the Head of ABLV Bank Project Financing Department, talks about the keys to successful financing in Latvia and to the East of it.

Russians have become more cautious

What were the growing tendencies last year?

The major tendency was the decline of non-residents demand for financing. First, these are the clients from Russia. A year ago, we planned a more aggressive approach to financing — intending to allocate EUR 200 million, half of this amount — to foreign clients. However, life has introduced its adjustments. The Russia's economy started to slowdown at the end of 2013, while the last year events in Ukraine dramatically changed the situation. Russian businessmen sensed upcoming changes and became much more cautious about investment strategies even before the climax of the Ukrainian conflict.

Our financing projects in Russia are comparatively large transactions and clients. Moreover, we have elaborately approached the choice of financing areas and the pledge. We have financed only the best. However, even this qualitative demand for financing has started to drop long before the final stage of rouble devaluation. At the beginning, we were a bit upset about the situation, but, eventually, it became certain that our conservative lending policy in Russia was justified.

Were there any defaults amongst your clients last year?

Negative consequences for the Russia's economy are yet to come up, and the problems will affect absolutely everyone. At the moment, one can observe the first signs of the recession: in the commercial property sector, clients renegotiate agreements due to new lessees. I take it calmly: we have always granted financing conservatively with a safety cushion.

Lesson of the 2008 crisis

If you don't mind my asking, what is the size of the cushion?

In general, the situation is the following: monthly loan repayment is 50–70% of one's actual earnings. Therefore, if earnings drop, there is a certain accumulated safety cushion. Moreover, we closely follow our clients' alternative sources of cash flow, other precious assets in the holding. This allows us to feel at ease.

Do you forecast non-payments crisis in 2015?

When it is raining outside, everyone gets wet. The question is whether we have an umbrella, and if the client has got a raincoat. In any credit portfolio, there maybe situations when some clients fail to meet their obligations. Then we are ready to face the music, both in terms of infrastructure and psychology. However, this will not be a mass phenomenon.

The ABLV team of credit managers went through the financial crisis of 2008–2009s, and since then we have drawn relevant conclusions, learnt how to deal with loan delinquency and corporate defaults. It is significant that we have a substantial experience, as long as your reaction in a difficult situation inefficient — you will lose money; however, if you are too fast — you will also lose money.

Mortgage as a security feature

In what way do loans of ABLV differ from financing offered by Russian banks?
We focus only on high-quality borrowers, all active market players of the Russian banking sector are fighting to get such borrowers as well. Why are we more attractive? First of all, we are ready to extend long-term money — in Russia these are loans granted for 10 years. Secondly, business environment in Russia is quite peculiar; therefore, a client perceives pledging one's asset in a European bank, as an additional protection element of one's property. In other words, apart from obtaining long-term cheap money from a European bank, the client also gets a reliable long-term business partner.

"Cheap money" in terms of Russia's market — what interest rates are these?
Last year an average bank interest rate amounted to 7%. Now, as risks have increased, interest rates have risen to 8–9%.

Is there the demand for financing in Ukraine and Belarus?
Granting loans in Ukraine is absolutely out of the question. For obvious reasons: at first, there should be stability in the country and its economy. Belarus seems more attractive. This is our neighbouring country with the growing commercial real estate market and the demand for financing is rather high. This reminds the situation in Latvia 10 year ago — new trading centres are growing fast there…

Last autumn we were in Minsk to meet market participants. The demand for financing is apparent — and for substantial amounts. However, so far we've decided to refrain from risks. Our motives are clear: the economy of Belarus largely depends on the Russia's economy. It means similar risks — the issues of oil, sanctions, the devaluation of the national currency. Consequently, financing projects are put on hold. Loans are the money of our investors and shareholders; therefore, we cannot take unjustified risks.

We are well known in the real estate market

What was the situation with lending in Latvia last year?
One of our major achievements last year was raising ABLV brand awareness for financing large businesses in Latvia. We managed to prove this with particular deals. For instance, the largest M&A transaction in transit and cargo transportation sector in the Baltics, when a strategic investor from Russia became the controlling shareholder of the biggest ammonia terminal "Ventamonjaks" located in Ventspils; for this purpose, ABLV granted financing in the amount of EUR 33 million.

Was the local business previously aware of your project financing services?
Historically, ABLV was actively involved in corporate financing of large clients following the crises of 2008–2009s.

At first, we started with commercial property gradually expanding our activity to other economy sectors. Currently, being the second largest bank in terms of assets in Latvia, we have plenty of opportunities to offer for big businesses as compared to 10 years ago.

Recently, we have made a real breakthrough in commercial property market. We are well-known to all professional market players, we take part in major events connected with large commercial property. One of such examples — the auction on the selling of ex-Krājbanka premises last year.

Financed by ABLV Bank object — Eiropas Biznesa centrs

Even before the auction was scheduled, we were the only Latvian bank proactively declaring that any potential buyer interested in the acquisition of the object, was invited to contact ABLV for obtaining financing in the amount of 75% of the property value. We even directly addressed most aggressive potential buyers with a credit offer. Eventually, representatives of LNK Holding contacted us — they were the winners of the auction, having bought the premises both for their own needs and for rental purposes.

Harbors, transit, manufacturing and trading

In the area of commercial property, large-scale project financing by ABLV is your strong point, but what about financing leading industrial enterprises?

It is a challenge for us for the next few years. We intend to expand our lending activities and call on large companies in other economy sectors. Currently, we are mainly talking about harbors and transit infrastructure, however someday, it can also be manufacturing.

What are your competitive advantages?

For large business financing requires fast and successive solutions because any delay in financing means unearned money. We reach decisions quickly; there is no complex hierarchy in contrast to local subsidiaries of Scandinavian banks. Even if we talk about financing projects up to EUR 50m, in ABLV decision-making process in credit granting is carried out by Loans Committee, there is no need to wait for the approval from Stockholm. One more our advantage — attractive loan pricing.

What interest rates do you mean?

In comparison with Russia, interest rates on the Latvian market are much lower — at the level of 2–4%.

Could you render more details about credit granting procedure?

Any project financing application is reviewed by Project Financing Division. We carry out initial financial analysis of the project, offer the Credit Committee to consider the project from the conceptual point of view and give a tentative reply to the client whether the bank is ready to participate in the transaction, specifying the amount of financing, term and interest rate. Such reply the client receives in 2 weeks time. The terms of signing the agreement depend on the following details: we make pledge appraisal, financial analysis, check facts — perform the audit. Afterwards the application goes to the Loans Committee for the final approval. Last year there were no cases when the applications approved during the first stage were finally turned down. We are very proud of this.

Does the client usually apply to several banks simultaneously?

Certainly, for large-scale projects the negotiations are normally carried out in several banks — this is a usual practise. It is worth mentioning that in the second half of the last year, other banks' activity increased considerably on the local market. We face an intense competition for a strong borrower, which has successfully overcome the crisis. And this is absolutely understandable, we do not live on an island.

There are minimum 4–5 active players offering similar products and having certain ambitions in lending. But we are ready to compete fiercely. For example, last year there were several attempts to offer our clients refinancing, however, they remained only attempts. We fight for our clients, making concessions in terms of certain questions within reasonable bounds. On the other hand, we aspire to grow our business, actively offering clients of other banks to take a closer look at ABLV financing conditions and tailored solutions.

Mortgaged property in Jurmala

Among your products there is refinancing of real estate property. What is the difference from ordinary commercial mortgage?

Traditional commercial mortgage is granted for commercial properties with established cash flows. Alternatively, cash flows are generated by the client's business. However, the borrower may have a property without established cash flows, for example, real estate in Jurmala. The peculiarity of this service — a wide range of collaterals, mainly residential real estate property of the bank's clients primarily located in Latvia.

For what purposes are such loans taken?

Let us imagine a situation: A client's business has earned a million, which the client decided to invest in real estate — let's say a house in Jurmala. After the purchase, the money is frozen. The business grows requiring working assets. Or there are some new ideas or projects. All these ask for money. The first option — to sell one's property. The second option — to slow down business growth. The third option — to take a mortgage loan.

There are multiple examples, when our foreign clients first opened accounts with ABLV Bank, then came to Latvia, fell in love with Jurmala, bought there a real estate, and now they come here with their families and friends — eventually they invest money in some business here.

These are creative people interested in doing something new. And we help such people with financing their new ideas. Many such examples could be found for the past 3–4 years. In February with the financial support of ABLV, the biggest reproductive health center was opened: our clients who are professionals in this area, decided to set up such centre in Latvia. And we have supported such investment in Latvia's economy.

We have plenty of opportunities to offer for big businesses as compared to 10 years ago.

One should extend financing on a case by case basis

What is your financing budget for 2015?

We have already refined our plans, decreasing our annual budget to EUR 120m. One should take into consideration the events no one could have predicted a year ago. In Russia we are planning to allocate 30% of the total amount, whilst in Latvia — 70%. Previously this proportion was 50/50.

The difficulty is that Latvia's economy is also slowing down. And during such periods of economic uncertainty, the lending strategy should be more selective and conservative. Therefore, our approach on the local market is the same as abroad: high-quality borrowers and large transactions starting from EUR 1m.

Isn't large local business going to put on hold further development and investments under economic uncertainty?

It depends on the type of business and its target market. If it is local Baltic manufacturer for the domestic market or exporter to Europe — the situation looks more stable.

Agricultural industry is also on the safe side. M&A transactions. We are going to look for potential clients in these areas.

The bank's major business-model is based on private banking and tailored financial services — are there any "gourmet" lending offers?

Financing a yacht business for personal needs as well as financing of the merchant fleet for the professional players of the sector is available for the bank's clients.

We continue to keep our fingers on the pulse of credit demand, evaluating risks and our readiness to expand financing of our clients' projects.

Beyond standard business solutions

Modern technology simplifies and boosts cooperation between a client and the bank, keeps financial costs down. Is it possible to manage without a man in the world of figures? Should a man be left outside automated procedures? Curiously enough, one should not. A man still remains the key element of the system. In fact, a man is the one who defines the levels of security and reliability of transaction. Only owing to personalised approach of a private banker to client's needs, modern technology is a safe tool for multiplying one's assets. Aleksejs Savko, Head of Corporate and Private Clients Service Division tells about a man, technologies and cooperation with the bank.

What is the role of a human being in a modern bank? Is it simply a banking operator acting as an interface between a human and a PC or is it something more?
Let me draw an analogy. In the world of electronic books, despite all their benefits, there are still people preferring paper editions. There is a certain element of authenticity. If you replace a human being in banking sector, it is quite possible that banking services will not be the same. One needs a banker. I am strongly convinced. The same point of view is shared by many of our clients for whom technology cannot replace a private banker — for they are used to cooperating with the bank in a classical way, or even opt for human relations. It is vital to note that according to our policy a private banker cooperates with a client on equal grounds — the relations is not just businesslike, but rather is based on partnership and friendship. There are many situations which cannot be classified as standard. Maybe some day

there will be artificial intellect to solve non-standard, unconventional tasks, but this is yet in the future.

May we conclude that everyone requires private banking?
We do not offer private banking services on a mass market where a human being could be replaced by technology — for us it would be too much or even a hinderance. In turn, for a large-scale client a private banker is not just a bonus handing staff — no! As I have already mentioned he is rather a business partner interested in most fruitful and mutually successful cooperation.

In other words is private banking — a Maybach of banking services?
If one associates this car brand with reliability, comfort and prestige, then yes. However, there are no perfect cars. Sometimes you need a sports car, but occasionally — a tractor. Private banking could offer unique flexibility due to human factor. It certainly looks prestigious, however, the level of responsibility and knowledge should be very high. We clearly understand the tasks we face and our approach in tackling these tasks is result-oriented maintaining high level of services.

With the development of technology, the role of the private banker is constantly growing — he is an assistant, an advisor, a "private doctor" of a client. But in the first place he is the face of the bank. Very frequently, a private banker — the only person at the bank who the client knows. Among his functions are monitoring, controlling and taking responsibility for any transactions on the client's account. It includes not only sales and consulting services, but also protection from fraudulent activities. It is not a secret that modern technology induces side effects — the increasing number of various types of fraud.

The relations with a client and understanding his goals play a crutial role in accomplishing these tasks.

Such relations are established even before a visitor becomes our bank's client. None comes from the street to open an account with us. We do not open accounts to anyone. We ask for recommendations because we want to know why a client has chosen us, what goals and tasks he has got and how he is willing to solve them. And who is to build the relationship? A private banker. Accordingly, a private banker has the right not only to open accounts and render services to the client, but also the right to turn down client's request for certain banking services. By delegating the responsibility and the rights to a private banker, we simultaneously impose high requirements on them.

HR management — extremely important in our bank. To become a private banker, it is required to go through a long way, to learn a lot of things, to obtain experience in other positions. At the beginning, an employee works as a private banker's assistant, executing mainly technical tasks. Gradually, he/she undertakes more complex assignments in various areas, the level of responsibility and trust also increases. Being promoted to the position of a senior assistant, the employee is allowed to perform some client's orders. Only afterwards one can become a private banker.

Our private bankers work in triples — two experienced specialists and one senior. A senior private banker manages the team, being its major coordinator in cooperation with a client. This career ladder is pretty long and it takes a lot of time. Besides we try not to employ private bankers from other banks, opting to bring up our own staff members. And this is a sort of guaranteed protection against outsiders.

Coupled with modern technology, you get a fully equipped team representing your bank's and clients' interests...
Absolutely right. We are constantly developing our IT solutions, since it is obvious that without modern

We aspire to reach symbiosis, harmony between classic and contemporary trends: human intelligence and digital solutions.

technologies, using only manual labour, it is impossible to achieve excellent results. That's why we aspire to reach symbiosis, harmony between classic and contemporary trends — human intelligence and digital solutions.

At the same time, the Internet and IT in general massively generate potential threats — phishing, fraud, and other weird and unknown things. How could the bank's team minimise potential risks?
Our bank, similar to any other finacial institutions, sometimes faces the attempts in some or other way, including forged emails, to intentionally deceive a client or try to get access to the internet banking or his money. Therefore, we constantly repeat to our clients that any suspicious cases of fraud, should be immediately reported to the bank. This could be done via your private banker. Even at midnight. We believe that saving on security is unacceptable, that's why we are ready to take actions and receive calls and emails at any time of the day or night.

Occupancy analysis system of our 24/7 Client line allows to analyse, predict and manage the load, ensuring well-coordinated work and competent assistance to our clients.

If a fraud event is reported by a client, we evaluate the risks, analyse them, understand the level of danger and make a relevant decision. As a result, we either appeal to the police, or give seminars to our staff, or spread recommendations among our clients.

Where does security start?
The basics are well-known to everybody, but we never cease repeating it. The bank shall never request via the email any confidential client's information such as — access codes, passwords, details of payment cards or any other similar sensitive information, which under no circumstances should be given away to the third parties. To mitigate inherent risks, we prefer to avoid email-writing — communication with clients is carried out via protected channel in the Internetbank. Nonetheless, such situations still occur...

Our message to clients: even if one has received an email with a request to some action, it is highly recommended to read the information several times and check the Internetbank. Thus, any suspicion will be dismissed as to who actually has sent the email. However, a client makes the decision on his own without asking our permission. If a client, despite all our warnings, yields to the temptation and enters his personal information in the fraudulent request, we cannot protect him from such actions. At this stage IT solutions could be helpful.

If a fisher/cybercriminal has gained client's details and is trying to use them, the transaction will be blocked due to security reasons and a private banker will get the information about an attempt to execute highly unusual transaction: money transfer to the account never used previously, the transaction amount is very large, dangerous benificiary location etc.

How does this collaborative engagement — between a private banker and IT — look like in real life?
There is a defined set of parametres, logical situations created for identifying fraudulent transactions. Accordingly, if we notice unusual client's behaviour, we may both block the transaction and deny the access. For example, with payment cards. There are fraud risk statistics countrywise. Countries, most dangerous from the point of fraud, are blocked — it means even if a client has disclosed his payment card details, one would not be able to avail of them in these countries. Definitely, there could be a situation, when a client himself travels to these countries and faces certain restrictions. It is then worth evaluating the level of inconvience with relation to security and protection. However, it is enough to notify your private banker in advance, and the card transactions in this country will be temporarily allowed.

Owing to such hybrid approach, we have achieved high levels of payment cards fraud prevention, and we even have to "offer excuses" to MasterCard for this. They are surprised at a low volume of fraud with ABLV Bank cards, which is much lower than average indicators in the sector.

Reliability is improved due to regular communication and direct contact with clients. Our private bankers constantly keep in touch with clients and could recognise them by voice. Of course, it is not sufficient for transaction authorisation, but could be used as an additional element of security.

In other words, in a situation when a private banker has some doubts — one does not recognise the client's voice, and in case of mismatching of other security elements such as authorisation codes or even telephone number, could the rendering of services be denied?
In theory, such situation is quite possible. Truly speaking, this most probably will be an attempt of fraud. By the way, one of the most important requirements to a private banker — the ability to calm down an annoyed client.

Irritation, dissatisfaction — a common reaction to the denial of rendering services. But if a private banker finds the right words, in due time the client will be grateful and will say thanks for security is above all.

Could there be some situations, when a private banker helps to come over sophisticated anti-fraud tools?
Let's consider a situation, when the system blocks a card transaction, for example, occuring in an unusual location. A client will receive a denial at the transaction execution moment. And a private banker will also get a notification. This event is quite unusual, and does not have a standard decision procedure. Therefore, a private banker contacts

The volume of fraud with ABLV Bank cards is much lower than average indicators in the sector.

The team of ABLV Bank senior private bankers

We aspire for a longterm cooperation, that's why we are interested in satisfying clients' needs.

the client to find out whether its his transaction and if it should be executed. Very often, while the client is wondering why the transaction is being delayed, he/she gets a phone call from the bank.

It looks pretty frightening, as if it were spying...
We assume that there should be no secrets between the bank and a client. The relations should be frank. We respect, value and trust our clients. When a new client comes to the bank, we do not consider him to be a dishonest person and do not put minuses for the incompliance with some formal parametres. On the contrary, there are only pluses on the list. Nevertheless, the statistics say that we turn down about 8% of potential clients. But this in no way means that these people are dishonest or have wicked intentions. No! Simply they fall beyond our client's policy, which we closely observe. This could be a retail client — and we are not a retail bank. Or a person is unwilling to disclose some required information, and we are not confident in the frankness of our relations. Starting the relationship with a client, we are trying to predict what to expect judging from our previous experience. An ideal combination — a bank employee and a bank client. When the relations between the bank and a client are trust-based, when potential threats are timely recorded. It is exactly the level of service a client is expecting.

But if a cybercriminal has gained unauthorised access to the funds, knows well anti-fraud tools, is a positive outcome possible for the hacker?
Modern technologies indeed allow to instantly transfer money from one account to another — it could take only seconds, especially intra-bank payments. However, what you see in films, when the funds are transferred to several banks simultaneously and then are withdrawn in Cayman islands, is just fiction. Firstly, cash services are not welcome worldwide. Secondly, cash transactions with large amounts should be transparent and fair. Thirdly, banks have the right or even the obligation to find out the purpose of payment. There are very strict regulations in banking sector, all market players should be licenced. Besides, it is a usual practice to have large compliance and monitoring departments. Therefore, in practice a private banker is the one to promote fast transaction execution, and not the technology.

In other words, your private bankers' team safeguards your clients' money...
Not really. The role of the controller — is just one of the responsibilities of a private banker. Their primary task — to facilitate banking business by increasing sales. The position of a private banker is very proactive. If a client does not call the bank, then the bank will get in touch with a client to offer its new products and banking services.

Furthermore, there is always a healthy balance of cooperation — no one is going to force a client to invest his money under disadvantageous conditions, because for us it is equally unbeneficial. We aspire for a long-term cooperation, that's why we are interested in satisfying clients' needs. We do not offer products or services of the third parties — only our own, therefore, we could be sure about the reliability and attractive conditions of the transactions. Besides, a private banker is treating client's money with more care than his own.

Guarding settlements

Natālija Moisejenko, Head of ABLV Bank Payment Card and Internetbank Transactions Department tells how the bank takes care of transactions security, about risk engines and countries where using payment cards should be avoided.

The major goal of the monitoring is preventing suspicious transactions and minimising financial losses owing to precisely detecting fraudulent activities with payment cards and internet banking. Precautionary measures help us prevent fraud attacks — cybercriminals fail to take over our clients' money.

Risk engines are effective tools for fighting back against the latest threats. The bank currently runs two risk engines — for payment cards and Internetbank. Both engines work in offline and online modes. It means that we not only analyse and control transactions detected as questionable but also online decline card transaction identified as suspicious or stop payments in the internet banking until circumstances are clarified, thus preventing possible fraud.

Managing risk engines

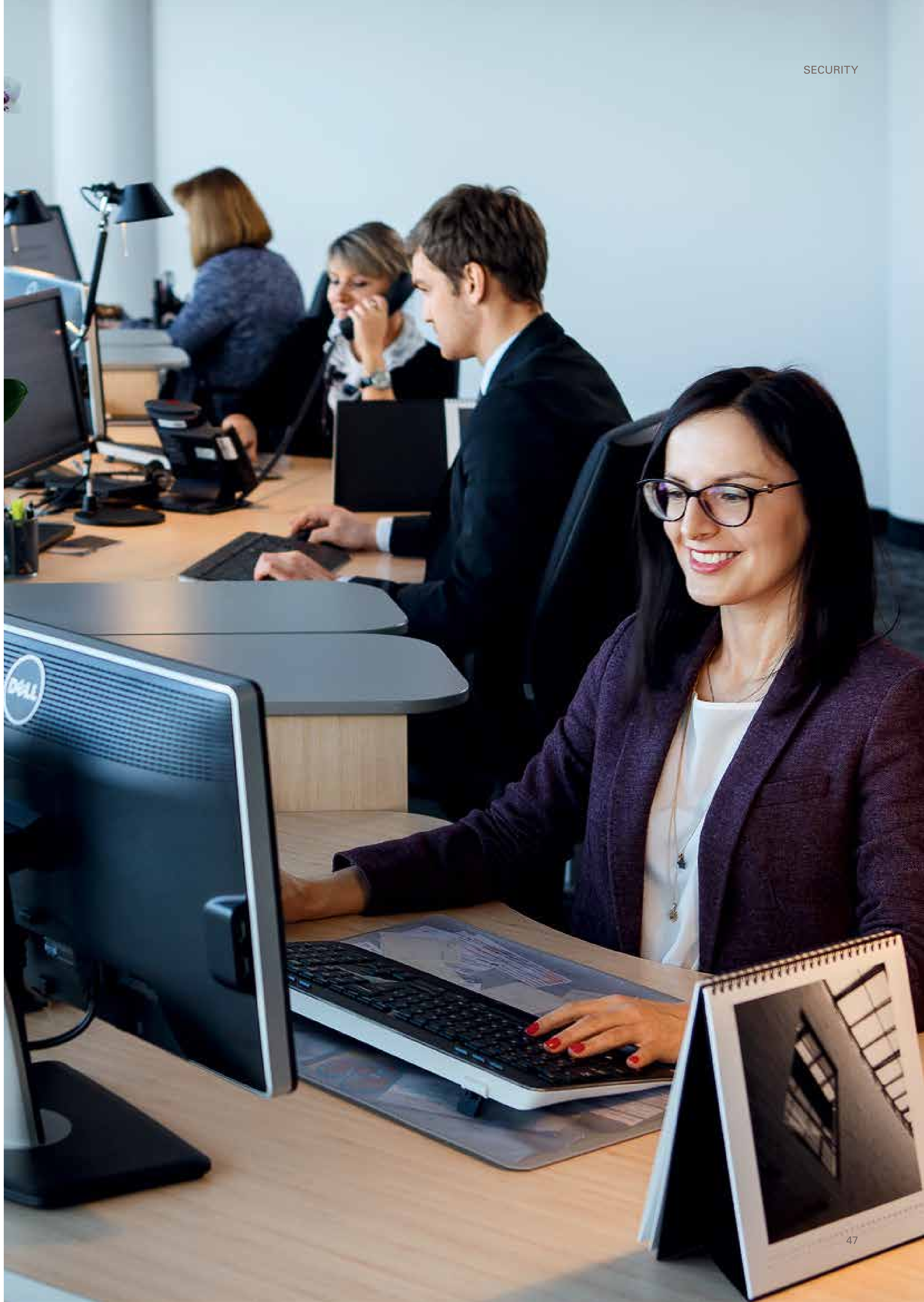
For detecting fraudulent transactions, a set of certain parameters reflecting characteristic features of fraud, is created in the rule-based risk engine online. If the transaction matches these parameters, then the risk engine declines a card transaction or payment order. For instance, speaking about payment cards, we do not only analyse where and how fraud attacks occur, but also closely collaborate and exchange information with risk-analysts of other banks. As soon as information about new fraud locations, types of fraud, or some sophisticated scheme appears and is confirmed by several banks, we create a new online-rule in our risk engine as a preventive measure. The new online-rule will reject card transactions, corresponding to this fraudulent tendency. For example, this could be an ATM transaction in a certain risky country, where fraudsters are using fake cards for withdrawing cash; or some transaction at a merchant's in a certain country, where a client has recently paid with his credit card and hackers gained access to his credentials from an unsecure merchant.

Locations attractive for fraudsters

Countries and regions which have not so far introduced chip technology or introduced it partially, seem to be more attractive for fraudsters. It is easier both to copy data from the magnetic stripe and to clone cards in these regions, and to use these forged cards without its owner's knowledge.

For example, in the US as a result of a sophisticated hacker attack on a retail network Target (in December 2013) and The Home Depot (in September 2014), fraudsters stole millions of cards credentials, having used these illegally cloned cards later in the US. Another zone of risk — ATMs in Asia and South America.

Speaking about Europe, where chip technology was launched long ago, fraudulent activities mostly occur in the Internet. It is worth saying that since chip technology is gradually being introduced worldwide, fraudsters prefer the Internet. And this trend has been observed both in our bank and payment systems statistics for several years.



ABLV Bank Payment Card and Internetbank Supervision Department. On the foreground — Natalija Moiseenko

Online-banking fraudulent transactions

A major trend being observed at present — hackers use advanced malware to compromise the victim's email account. Then cybercriminals interact with the client in the name of his business partner by means of forged email address resembling a real one, or simply read emails. When payment details are being provided, fraudsters enter their beneficiary details either in the email text or in the invoice attached to the email. All other actions are taken by the victim — he creates and sends a payment order with fraudulent beneficiary details.

In other words, cybercriminals have understood that instead of breaking through banking security systems, it is much easier to compromise the email account of an accountant or a procurement division in a large company and replace the beneficiary details in the invoices. In such a case, the remitter bank does not matter!

A client should be very attentive! Replacing beneficiary details, fraudsters could leave the name of a real business partner — whilst the beneficiary bank and account number will be replaced. In some instances, beneficiary details are replaced in full: beneficiary name, account number, beneficiary bank. Therefore, it is crucial to pay attention to new banking details to which transactions have not been made previously. It is necessary to compare new banking details received via the email and contact the supplier via alternative channel, for example, via the telephone to verify the banking details. Prior to executing a second payment, using new banking details, it is vital to make sure that the first payment has been received by the supplier.

It is equally important to give heed to the reason of banking details replacement of one's existing business partner. Most frequently, fraudsters would mention the following reasons: "the account number has been changed resulting from our current account audit by the bank…", "we have some temporary problems with our account and incoming transfers are not accepted…" etc. This should arouse suspicion and a client should check the correctness of banking details more thoroughly.

Bank's valuable contribution to settlements' security

In order to help a client identify suspicious transactions in online-banking and prevent similar fraud events, ABLV has online risk engine blocking suspicious transactions. A private banker then gets in touch with a client asking him to give heed to this transaction and recommending to verify payment details via the phone. Further, everything depends on the client's responsibility and wish.

The bank takes extremely seriously the security of its IT systems — especially internet banking, constantly updating and introducing various anti-fraud tools. However, when a client pays little attention to the protection of his work computer or the computers of his employees, no actions taken by the bank can protect client's account from fraudulent activities. It is therefore utterly important to adjust security settings of one' email account as well as to permanently update operating system and anti-virus programs, to understand how fraudsters act, and certainly to attentively check banking details received via the email.

Risky countries for using payment cards

While traveling to one of these countries, notify your private banker in advance about your trip. We will release a block of this region, and you will be able to use your payment cards without hindrance.

In 2014 we prevented fraudulent attacks on cards for the amount of EUR 962 thousand, in addition we saved EUR 245 thousand by detecting and blocking credit cards in due time.

Our website has a special section on "Safe Account Management" under General Rules, dedicated to general threats and security in the Internetbank. We update the information on a regular basis, and highly recommend all our Internetbank's users follow this information on possible threats and their prevention to be fully equipped against fraud attacks.

Payment fraud statistics in 2014

In total clients submitted 64 payment orders with fake banking details amounting to EUR 4,1m. Likewise, 40 payment orders with fake banking details totalling EUR 2.8m were blocked by our rule-based risk engines. Out of which:

- 5 fraudulent transactions in the amount of EUR 415.6 thousand were prevented. Clients following the recommendations of their private bankers double checked the beneficiary details and detected fraud. Payment orders were not executed.
- 35 fraudulent transactions with fake banking details totalling EUR 2.4m were sent by clients, despite the recommendations of the private bankers to verify banking details by phone.

Payment card fraud statistics in 2014

- 78% of the cards exposed to mischief, fraudulent attacks were prevented (no financial losses were suffered). 63% out of this, fraudulent transactions were detected and declined by risk engines according to online-rules. In the rest of cases, fraud events were prevented due to payment card replacement and monitoring.
- 962 thousand of clients' funds were protected against cybercriminals due to prevented transactions and EUR 245 thousand on credit cards which were blocked in due time.
- 69% of total volume of fraud occurred in the Internet, 31% — with fake credit cards at merchant's or ATMs.

New edges of remote services

Sergejs Mazurs, the Head of ABLV Bank Product Development Division, tells us about the development of our Internetbank, iPhone and iPad applications and revolutionary changes in remote services that will be implemented in the next two years.

The essence of our brand and the approach towards work, which are represented in the jewel in the ABLV logo, are also visible in all our services, offers and novelties that we create for our clients. Even changes caused by legislation requirements aimed at strengthening the client data protection, which, at first sight, could complicate the daily work of a client, we try to implement with maximum benefit, comfort and appeal.

Bright palette of Internetbank forms

Two years ago, we launched the Internetbank application for iPhone, not long after we were the first in Latvia, who introduced the full-scale Internetbank for iPad. It is not just a tribute to the fashion of mobility. It is the implementation of our intention to be closer and convenient for the client. It is the scope of various means of remote work with the bank meeting the requirements of client's diversified life. The interaction with ABLV should be easy, simple and secure everywhere — while working on computer at work or at home, on a trip or during vacation, when computer is not at hand, in bad lighting conditions or, on the contrary, at bright sunlight. The functions and the design of both applications were chosen with common to us accuracy and attention to details. Lifting the veil, I could say that three different prototypes of iPad application were initially created by three work groups. This competitive development results were evaluated by more than 20 employees, and in the end, the exclusive design that you see now in our application has won and is updated.

The brightness of the ABLV logo inspired us to create two contrasting colour palettes for the interface that can be easily switched over both on the iPhone and iPad. Apart from satisfying aesthetic preferences, this function also has a very practical meaning — to provide the client comfort while working in different lighting conditions.

It is interesting but the size limitation of the working area on a tablet computer and especially on a smartphone does well both for clients and us. It forces us to simplify the display of information: to reduce texts, to delete minor details, to replace explanations by compact icons — in other words, to keep only the most important within the client's sight. The influence of this necessary simplification for smartphones we also extend to the main Internetbank that seems to be large enough. This possibility to present the information as briefly, clearly and brightly as possible saves the client's attention and allows him to concentrate on the essence of personal and business finances. As we all know, excess information complicates and slows down decision-making.

In the Internetbank application for iPhone, clients are able to track the status of all their accounts and they can create, review and submit payments and applications to the bank, including those prepared by private bankers upon their request. By the way, this solution — private banker's assistance in filling in documents in Internetbank on behalf of a client — reflects the brightness of our services as well. The client should agree with the private banker on the key points of transaction, but all necessary details will be filled in by the private banker, saving time and attention of the client that are so valuable in achieving success in business and personal life.

We intentionally created Internetbank for iPad in full-scale — a tablet computer, unlike a smartphone, has all possibilities and conditions for permanent work. Therefore, it includes not only the information about accounts, cards and payments, but also loans, deposits and investment portfolios. We can say that this iPad application has incorporated the best features — laconism and convenience of iPhone Internetbank and the complete functionality of traditional Internetbank.

We constantly improve the security, functionality and ease of use of Internetbank based on our clients' feedback and the comparison with competitive products; its updates are issued at least twice a year.

Transparency in account management authorisation

In the middle of 2015, we will start introducing large-scale changes in remote recognition of clients and their representatives that, in the end, will make our remote services even more secure, simple and diversified. Yes, this all is possible at once.

One of these innovations is the two-factor recognition of Internetbank user upon logging Internetbank or, in scientific terms, the two-factor authentication. It means that we put the second lock at Internetbank login and to log in the user will have to indicate not only his login and password (first factor that a person knows), but also the code from the code card or Digipass device (second factor that a person owns).

This standard of client data protection that is obligatory as of today, on the one hand, as if complicates the user's logging in Internetbank, but, on the other hand, allows simplifying the work inside it. Strengthening the lock on the outer doors, we can afford taking it off the inner doors. For this reason, we will stop asking the authorisation code for all operations in Internetbank, as a result of which the owner of funds does not change (payments between one client's accounts, placement of deposit, buying or selling of financial instruments).

Another significant, demanded by our clients and promising change is the connection of Internetbank to all representatives of the client to those who are authorised to operate the accounts and are willing to obtain it. For example, in a company with three representatives, each representative will get his own Internetbank and own Digipass with access to the company accounts. Depending on the distribution of powers, each representative will be able to operate the accounts either independently, or together with one or two other representatives. Each of them will have a chance to see, who exactly and when has signed any payment or application, as well as how many signatures should be gathered until the document submission to the bank.

The linking of Internetbank to particular users — individuals — will also allow to simplify uniting of access to the accounts of several clients in one Internetbank. A representative, who has the signature rights on behalf of several clients, will be able to do it, submitting the application in Internetbank and then using only one common Internetbank and Digipass.

Besides that, each representative of the client will have a chance to receive as many authorisation tools as necessary, to create additional user codes, to link Digipass to them and to restrict the rights — by clients, accounts, agreements, investment portfolios, available functions and many other aspects of work in Internetbank.

All these complex changes that will be realised within the next year are aimed at organising, both flexibly and transparently, the system of remote management of the client's funds, providing the client an opportunity to decide on his own about the work rules of his personnel in Internetbank.

Autorisation set for an account at ABLV Bank: code card, business card, PIN-code, card with account number

The obligatory standard of client data protection is the two-factor Internetbank user's recognition upon logging, or the two-factor authentication.

Complexity of code cards of new generation

For even more reliable and secure remote account management in 2015 we will replace the code cards with printed values by an electronic code card — Digipass GO 100 that generates unique figure combinations for transaction authorisation. This revolutionary instrument is worth special attention.

On the one hand, Digipass GO 100 is as thin and of the same shape as an ordinary code or payment card and it can be easily kept in a purse. In use, this authorisation tool is even easier: unlike the ordinary code card, the right value on which one should still find, Digipass GO 100 displays the only right value on its display when the single button is pressed.

Along with comfort and ease of use, the new electronic code card has the high level of security. The unicity of authorisation codes generated by the device allows us to expand the range of use of this card far more — to recognize with its help the client's representative and to conclude transactions not only in Internetbank, but also over the telephone and Skype.

Our ordinary code cards that were issued before will continue to be in service. By the end of 2016 we will gradually and free of charge substitute them by the electronic code cards in the most convenient way — we will send them by post or distribute them personally to the client's representatives.

We will continue to improve the mobility and convenience of remote interaction with our clients, by widening in the nearest future the range of authorisation tools — along with electronic code cards adding a new — virtual Digipass. Our Internetbank applications for iPhone and iPad will be updated with Digipass functionality; we will create an application for smartphones operating on Android.

Each Internetbank user, at his own discretion, will have an opportunity to use up to three authorisation tools simaltaneously — for example, the electronic code card and virtual Digipass on iPhone and iPad. It is both convenient, because allows using the device that is currently at hand, and secure, because allows using an alternative device in case of discharge of another.

The entire set of upcoming changes that I described above is a challenging and complex teamwork, which results are always aimed at ensuring our clients complexity, transparency and bright emotions, when managing their funds in our bank. Needless to say that we will continue development in this direction in the future.

Preserve and increase

Jevgenijs Gžibovskis, ABLV Asset Management, IPAS, deputy chairman of the board, the Head of Investment Management Department, tells about the ways of preserving and increasing the clients' available assets by means of diversifying their investment portfolios into safe financial instruments.

ABLV mutual funds

Major task of ABLV Asset Management, IPAS, in general and the Investment Management Department in particular is to facilitate preservation and increase of the clients' available assets that are not used for business development.

One of the most popular tools of achieving this objective is investing in financial markets through collective investment funds. Establishment and management of such funds is the primary type of operations of ABLV Asset Management, IPAS. We started offering the first mutual funds as early as in April 2007. Currently, there are ten mutual funds available to our clients: these are four stock funds, two emerging markets government bond funds, two CIS corporate bond funds, and two global market corporate bond funds.

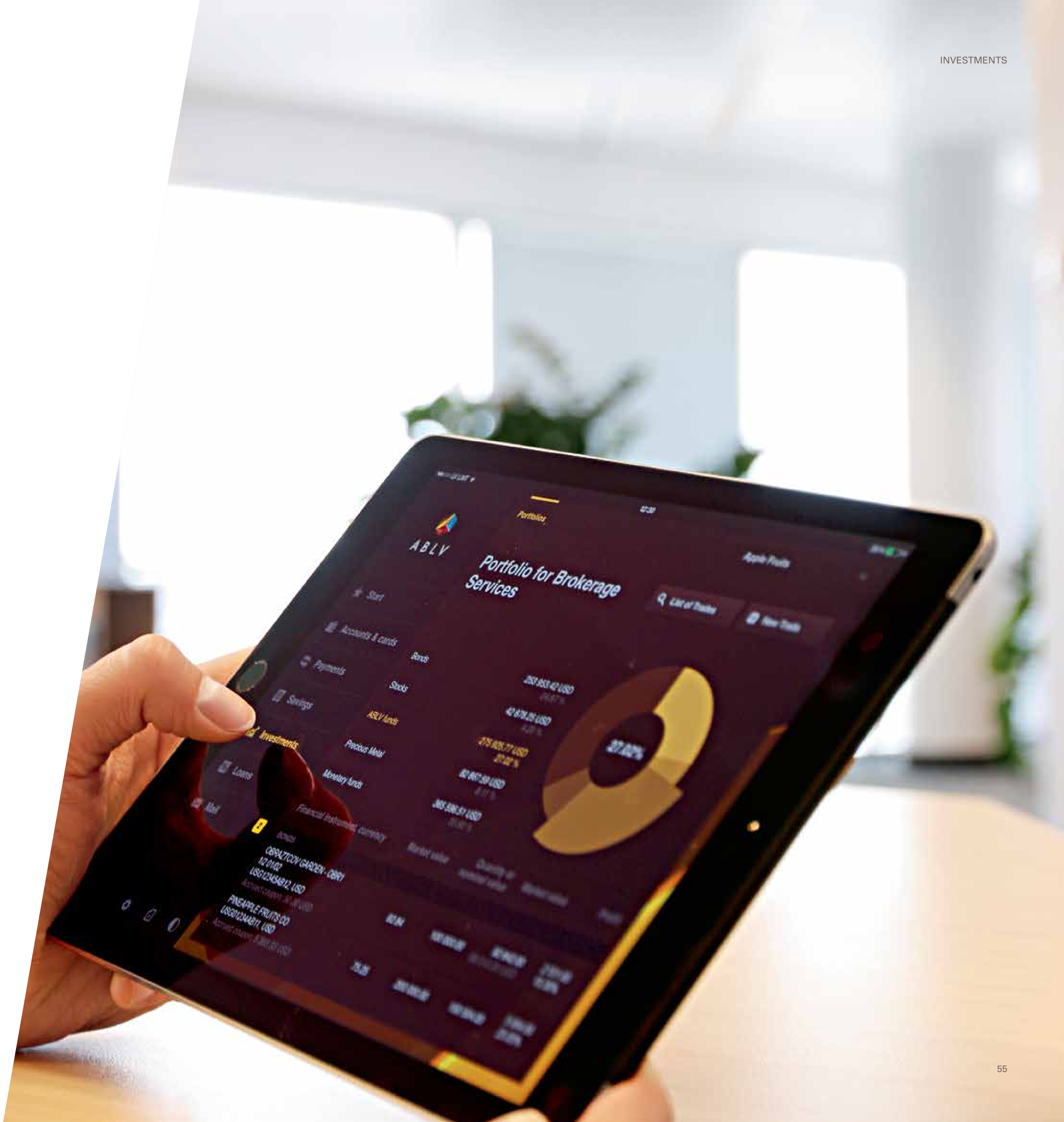
In 2014, we continued implementation of our development strategy, under which there was new fund established — a total return fund (registered with the FCMC at the very beginning of 2015), in which share of bonds and stocks varies according to the economic cycle stage and market trends.

New funds are established due to both growing clients' demand for our products and our intention to provide a much broader range of financial instruments for making investments and diversifying the clients' investment portfolios. At the same time, our aim is to offer new opportunities and not just merely increase the number of funds. In pursuing this aim, we rely on general values of ABLV Bank: being collaborative, intuitive, and valued. Adherence to these values furthers the growth of both assets under management and the number of clients.

The milestone of 100 million passed

A vivid example of taking intuitive approach is the establishment of the global market corporate bond funds in the second half of 2013. Earlier, in the corporate bond segment we offered the funds making investments in the bonds of the CIS states. However, having considered the fact that most clients do face quite many risks associated with running business in these countries, we made the decision to expand the geography of investments, in order to reduce the risk. The time has shown that it was absolutely correct and timely decision. Given the geopolitical tension, there was a sharp increase in demand for the bonds of the countries and corporations located outside the conflict area, so to speak.

Thus, the new funds became the most demanded by the clients last year, especially ABLV Global Corporate USD Bond Fund, which demonstrated impressive dynamics in terms of both the asset growth and the increase in the number of investors. The assets of the fund almost tripled,



The investment policy of our funds is aimed at generating income in the long term.

and the number of clients investing in the fund grew more than four times. As at the end of 2014, the total assets under management of ABLV Asset Management, IPAS, increased by 21% and exceeded EUR 100 million — despite complicated geopolitical and macroeconomic situation, which caused strong price fluctuations in financial markets now and then. The said growth is another evidence of the correct approach to developing investment services used within ABLV group.

Currently, taking into account many years of practical experience in financial markets, we believe that the range of funds managed by ABLV Asset Management, IPAS, covers all major asset classes and is sufficient for satisfying virtually all needs of our clients. Nevertheless, the sky is the limit, and we plan to offer new investment opportunities. This was the objective of establishing ABLV Multi-Asset Total Return USD Fund (which started its operations in Q1 2015), and its investment policy is aimed at gaining income in the long term through using different asset classes, depending on the market conditions.

New opportunities in the bond market

We also plan to offer new opportunities in the bond market — our traditional and the most developed line of business. We place the priority on the bond market because in the phrase “preserve and increase” it is “preserve” that comes first, and safe fixed-income financial instruments are best meeting this purpose. Moreover, we continue following one of the main principles of our operations — focus on the markets and financial instruments that we know, understand, and have most experience in. This approach best describes our attitude towards money that our clients entrust to us.

Investment policy of our funds is aimed at generating income in the long term

New funds are established due to both growing demand for our products and our willingness to ensure wide range of financial instruments for investments of our clients.

As evidenced by history, investments in the bond market can ensure satisfactory income even in case of rather conservative approach. For example, our first bond funds ABLV Emerging Markets USD Bond Fund and ABLV Emerging Markets EUR Bond Fund, operating for more than 7 years already, demonstrated annual return since inception of 4.97% and 3.98% respectively, as at the end of 2014. Over these years, there were many events in the world’s financial markets that once caused panic among investors. These were a heavy global financial crisis in 2008–2009, debt problems in the euro area, and sporadic geopolitical tensions in different regions of the world. Nevertheless, investments in those funds ensured pretty good long-term return. Even ABLV High Yield CIS USD Bond Fund, which mostly invests in corporate bonds of Russian issuers, has the return of 2.5% p.a. since inception in 2007, notwithstanding the events of 2014 and the subsequent dramatic price decline. Certainly, “long-term” is the operative word here, since short-term market fluctuations are almost inevitable. Therefore, the investment policy of our funds is aimed at generating income in the long term.

We diversify capital and invest in Luxembourg

Romans Surnačevs, the Chief Operating Officer of ABLV Bank, has invited Frank Lendorf, the Chief Investment Manager of ABLV Bank Luxembourg, to discuss investment moods in global markets, evaluate the investment achievements of 2014, and to discuss new investment products in Luxembourg and the preferences of our clients.

Frank, it has already been two years since you joined ABLV Bank in Luxembourg. How do you evaluate these years?
These two years have been both an interesting and a challenging experience. Helping to build up a bank from scratch was a new experience for me. Besides essential components, such as the workforce and the strong financial background of the ABLV group, we needed to comply with the regulatory requirements imposed by the authorities and to develop attractive banking products. I am proud to be a part of the team that managed to establish this. My task was to develop investment products that meet our clients' requirements. We understood rather quickly that most of the clients who come to Luxembourg are interested in capital preservation. They get returns of 30, 40 or even 50% a year, primarily from their business. However, the money in Luxembourg is meant for savings and, if needed, liquidity. Therefore, we started to think about strategies for how to preserve capital and to help our clients to invest in a safe, risk-free manner and to make money.

Did your previous experience help you significantly?
Sure. For nine years, I worked for Deutsche Bank in Berlin and Frankfurt, then I joined WestLB in 2005, one of the largest German banks at that time. This move was my first step towards Luxembourg. During all of those years, I worked for private banking clients. I led a portfolio management team and, at that time, I was responsible for portfolios worth EUR 2.5 billion. This experience indeed helps you to treat the client's money in the most responsible way. After WestLB Luxembourg was taken over by another German bank, DekaBank Deutsche Girozentrale, I decided to join ABLV Bank Luxembourg.

You have considerable experience of working with clients from western Europe and now the clients with whom you work are mostly based in the CIS countries. How much does their choice of investment strategies differ? Our clients have some risk involved in their business; when they come to Luxembourg they seek capital preservation. Is it similar in western Europe?
It depends very much on the client, and it varies from client to client. In my previous experience, I worked with mostly risk-averse clients. The main thing was not to lose money. Clients usually had this kind of attitude: "I want to invest, earn and get my money back." Certainly, there were clients who were looking for high yields, but rarely for double-digit returns. The majority of clients were interested in capital preservation but, as you can imagine, they were more than happy when we achieved double-digit returns in very good years. (*Smiles*)

Our ABLV clients are somewhat similar, as they chose Luxembourg for the reason of safety. It is a very prestigious place where one can have safe investments. However, many clients still believe in cash. Sometimes it is

Frank Lendorf (on the right) and Romans Surnačovs not easy to make them understand that they could gain higher yields without having too much risk. Cash is sometimes riskier than an investment portfolio. For example, in the recent extreme case with Cyprus: people who had cash in their accounts suddenly lost almost everything. An investment portfolio does not bring this kind of risk because your assets are not on the bank's balance sheet. Besides, cash loses its value due to inflation. Inflation slowly takes away your purchasing power. However, when you invest, you can cope with inflation and make more money. Investing in a balanced portfolio is a good and solid way of preserving and growing capital. People should not be afraid to invest.

This was an issue for our clients; they weren't used to investing in portfolios and financial instruments. They preferred to secure their assets in banking deposits. In Riga, it took us a couple of years to show our clients the benefits of investing in bonds that are similar to deposits. Now, we are the biggest issuer of bonds in the Baltics.
This is another crucial topic for us — we prefer liquid investments. We don't like buying investments that are difficult to sell. The investments that we choose are usually the ones that are easy to sell even in times of trouble. Of course, we cannot predict the future, or when the next crisis will happen, but we have an idea of what will be liquid and illiquid. If things are illiquid now in a normal market, they will be difficult to sell in a volatile market as well. Therefore, we look carefully at this aspect. Normally, clients should be able to get their money back at the current price within one week (at the latest).

In talking about strategies, we mean definite banking products. In this particular case, we're talking about active investment advisory. What strategies do you apply and how do you decide on portfolio composition?
When building up investment portfolios for our clients we offer three strategies of portfolio composition: balanced, defensive and capital preservation. Together with a client, we define strategic allocation: we need to understand what priorities a client has and when he wants his money back. The crucial thing here is the individual profile of the client.

We've created several strategies depending on the period the client chooses. For a five-year period, we recommend around 30% of equities; for a client who wants his money back in a year, we prefer to have 10% of equities instead. Then, on a monthly basis, we do forecasts to advise our clients. At this point, the whole expertise of the ABLV group kicks in. The team, consisting of the Head of the Investment Management Department, Jevgenijs Gžibovskis, Senior Financial Markets Analyst, Leonīds Aļšanskis, the Head of the Treasury Department, Andrejs Jočuns, and myself, comprises our forecasting investment group.

In our rather small team, we forecast the markets of bonds, equities, precious metals, crude oil, commodities and currencies. We do market forecasts for the next twelve months. With this knowledge of what we expect from the markets, we allocate portfolios. The portfolio always consists of the best idea of the market! Besides, the portfolio's composition is adjusted at least every month, if needed, or if something terrible is happening in the market, we react immediately. Our fundamental principle is capital preservation.

It reminds me of the story of a famous German football trainer, Otto Rehagel, who has been working for Werder Bremen for a long time. He led the Greek national team to victory in the European Championships in 2004. "Otto the King" was famous for one thing — he wanted a "controlled offensive". It was more important to have no goals against them rather than to score. We do similar things: we want client portfolios that we coach not to lose but to win. We call it "controlled risk".

You monitor client portfolios on a daily basis. How do you manage the work of your team? Do you follow the statement of a portfolio?
Portfolios are under constant control. We track their performance every day and we take a closer look when either bad or good changes occur. Knowing the types of assets in clients' portfolios, we keep monitoring the markets and evaluating whether it is time to sell or buy. If it is needed, we advise a client to act.

Can a client decline your proposal?
Yes, of course. This is the idea of active investment advisory — the client always maintains control. We may advise him, but the client can always say "yes" or "no" for one good reason or another. If the client says "no", then this is "no". In the end, it is always up to the client whether he wants to follow our advice or not.

In your experience, do clients often follow your advice?
So far, in the overwhelming majority of cases, our clients have followed our advice. This is a kind of confirmation that our advice is sound and convincing. (*Smiles*)

How does it happen?
Technically, a client has to say "yes" and sign an order through Internetbank. Many of our clients say, "You always call me for decisions on investments, but I trust you. Can you just do it for me?" That was how we decided to launch another service, in which the client delegates the decision-making to us and we retain complete transparency. We call it "discretionary portfolio management". The client gets reports on his positions — what we buy, at what price, and when.

Everything is the same as with active investment advisory, just one thing differs — we don't call clients to ask for agreement on our advice. We just do the transactions that are advantageous for a client. We do not face situations when clients are on holidays or unavailable. With this service, we have excluded a time burden; it gives us the advantage of being able to act immediately on the client's behalf.

What amount of investment does a client need to make in order to qualify for this service?
For active investment advisory, this amount equals EUR 250 000 or US dollars. We believe this amount to be the minimum required to compose a diversified and balanced portfolio.

Do you charge brokerage fees separately on operations you perform?
We charge separately in active investment advisory; in discretionary portfolio management, we have an all-in-fee system, which means that management, brokerage and custody fees are included in the price. We charge a client one fee, no matter how often we do transactions, whether we trade once a month or, due to the market, adjust more often. This is the same price and it does not cost extra.

This should be clear to the client — that you are not interested in increasing brokerage fees.
Yes, it is fair and transparent. I think this is something that our clients deserve. The client entrusts his money to us to manage, and we want to give him a very transparent pricing structure. We do not earn just by making transactions. Everything is included, so there is a harmony of aims between the clients and the bank.

Let's get back to portfolio structure. Warren Buffet once said, "Never invest in something that you do not know." What about our clients? Can they choose assets for the portfolio? Do you advise clients on the areas of business they know?
In active investment advisory, everything is flexible. If a client is a specialist in the car industry, we can offer the bonds of a car manufacturer to him.

What regions do you look at when forming portfolios?
We look at the entire world with a traditional focus on the developed markets. Currently, 1/3 of our equity portion is in the US, 1/3 is in Europe and 1/3 is in the emerging markets. As for the bond portion, we focus on the developed markets, especially on the corporate bonds of big corporations, such as Microsoft and JPMorgan; in Europe, these are the corporate bonds of BMW and Siemens.

We always diversify risks and, in most cases, advise our clients to buy mutual funds that invest, for example, in the bonds of 100 different issuers. If one goes bust, it will not be a big problem. However, if you take a single bond, and this one goes bust, then you are in trouble. Therefore, we try to spread the risks, especially when they concern low-quality bonds and equities in the emerging markets.

We want client portfolios that we coach not to lose but to win. We call it "controlled risk".

We have excluded a time burden and can act immediately on the client's behalf.

In Riga, we offer our clients only ABLV mutual funds. In Luxembourg, you have an open architecture and you include funds of third parties in portfolios, don't you?
Yes, our ABLV mutual funds are good, but no asset manager can claim to be the best in all markets. This is why we look for other best products in the market. How do we do it? We do quantitative research and analyse figures: performance figures, risk-adjusted returns and drawdowns. We keep an eye on the managers who've earned a lot taking little risk. This is a good match. We are interested in funds that have a very low maximum loss. Let's say, when conditions are similar, we prefer funds with temporary losses of 3% rather than drawdowns of 10%.

The second pillar is a qualitative approach when we talk to fund management companies and fund managers. In Luxembourg, it is common practice to have round-table meetings with fund managers. It is interesting to listen to their philosophy and to look at the approach they take. We always check how their philosophy and the figures they produce match.

How does the client find out about the performance, assets, or rebalancing of the portfolio?
The client gets information on the portfolio from the performance sheet sent by email. It contains the account statement with the positions in the portfolio. The performance sheet always shows yields after the deduction of all fees. The most efficient way is to look at the portfolio in Internetbank, which is updated every day. A performance sheet is not the only thing that our client gets. Right after every meeting of the Investment Strategy Committee, we prepare and send two types of investment letters: a letter of recommendations and a forecast letter.

Was 2014 a good year for our investment clients?
The year 2014 was rather good for investments. For those clients who started active investment advisory at the beginning of the year, the performance was about 7%, as the first half of the year was better than the second half. However, these dynamics are typical to financial markets. When you possess a portfolio, it means there are months when it goes down and months when it goes up. Our task is to ensure that, overall, months when it grows are in the majority and the portfolio delivers a positive performance.

INVESTMENTS

It is more reliable to invest in what you believe in...

Following the events in Ukraine, our clients have begun actively investing in American shares, investing less actively in Europe and avoiding any investments in rubles. Jevgēnijs Kārkļiņš, Deputy Chairman of the Board of ABLV Capital Markets, IBAS, discusses where to earn in 2015.

A "perfect storm" in Russia

What kind of year was 2014 for your clients?

The year was predictable to a certain extend. However, there were some unexpected events, which changed the situation significantly. The predictable news is — good performance of High Grade bonds and the equity markets of the developed countries. The unexpected one is — the actions taken by the monetary authorities in the euro area, aiming at improving the economic situation, including Quantitative Easing (QE) measures.

The behavior of our clients and the market in general last year, can be characterised briefly with the expression "risk aversion". Therefore, we watched money outflow from the emerging markets and inflow to the United States. The market in the second half of the year was marked by declining oil price and the worsening of the geopolitical situation, along with unforeseen actions by monetary authorities. These three factors most likely will remain the main drivers in 2015.

How much did the events in Russia and Ukraine influence the investment strategy of your clients?

This is indeed an important issue. The majority of our clients are clients from Russia and the CIS countries. We noticed a certain dynamic among our clients — they chose to abandon the local markets and invest in less risky markets. The events in the ruble area influenced the business of investors significantly, affecting their investment preferences. We watched our clients being active in getting rid of holdings in rubles and investments in shares of Russian companies. The amount of new investments was few, but those clients who have been there before, in general, are keeping their positions…

Isn't it too late to leave the market when the Russian equity market in US dollars dropped by half?

Our clients from Russia are wealthy people. If there is no necessity to take these funds out of the market, they will most likely wait not to realise big losses now. I believe that the Russian market after the drop in the last year is a place to stay without fear of new big recessions. Therefore, many investors are anticipating these kinds of events, after which usually "greediness wins over fear" and the market starts to grow again. Fundamentally, it is difficult to expect 2015 to be positive: A perfect storm happened in Russia — all negative factors matched together. The way out of this situation depends on the skillful actions of the authorities or positive environment. So far it has been difficult to anticipate neither of them.

A period of cheap oil

On the one hand, any recession provides an opportunity to earn...

Certainly, there are winners and losers in any situation. Let's consider decline in oil price — it is obvious now that exporting countries lose a lot, but importers benefit. The significant decrease in oil price is beneficial for the majority of Asian countries. The question is not how much more the oil price will drop,

ABLV Capital Market, IBAS, Brokerage Department but rather how long oil will be cheap. In 2015, its prospects are weak. The current oil price is determined by several factors — fundamental ones, currency, geopolitical.

It significantly decreased the interest of Russian clients in Russian securities. On the other hand, the weakening of the ruble undoubtedly will increase the profitability of companies focusing on export. If the situation stabilises, investors will look for "blue chips" that can be found in any markets.

It is said that there has not been any price correction by more than 10% for several recent years on the American stock exchange, and it is high time for the market to go down.
Indeed, the growing trends have not changed since 2011 in America. At the end of 2014, the S&P 500 index reached its historical maximum. The current growth of shares should be backed by a corresponding growth in the profitability of American companies. Next year, we may witness an increase of volatility. There are several reasons for this — a forecasted increase of benchmark interest rate by the Federal Reserve, the dynamic of oil price, actions taken by European and American authorities. Is it good or bad? On the one hand, volatility, like any movement, is good — this is life. However, too rapid movements either up or down may push many players out of the market. Recently, we watched the situation with the Swiss franc, when the Swiss Central Bank made a decision to drop the exchange rate cap, and the Swiss currency grew 30% versus the euro instantly. As a result, a lot of brokerage companies in the Forex market went bust.

Apple, Google and Facebook

Can you say that clients invest in growing markets and, therefore, they prefer the USA that outperforms European indices that stagnated last year?
This is true. Clients are attracted by growing markets. However, a few clients invest in growing India, China, Turkey — usually, professional investors work with these markets. Honestly, a few of our CIS clients keep an eye on India, whose share market grew by 30% last year, or the Shanghai Exchange, which grew by 50%. However, everyone knows and hears about Apple, Google and Facebook.

Do you think clients will start showing interest in the Russian Exchange when we notice a significant growth there?
Yes, it is not a bad model of behavior to follow the market trend. A large number of investors will return to the recessed market right after the U-turn and the beginning of growth is confirmed. We can observe this kind of behavior in the ruble, in which we now see a rapidly descending trend, and in the dollar, when investors believe in its future continuous growth.

Gold bars in Swiss safe deposit boxes

Last year ABLV Bank started to offer an exclusive service in the Baltics — investment gold in safe custody in a Swiss bank, Credit Suisse. It seems that this service would have been in higher demand during the crisis in 2009. However, in recent years investors have preferred to get rid of falling gold and go for American shares.
Certainly, gold is in higher demand during crisis periods, when markets collapse and clients stop believing in anything. That is what happened in 2009. We do not say that now is the best time to invest in gold. It is a rather logical development of our services, a good tool for wealthy clients to diversify their investment portfolios. Those who buy "unallocated gold" as an entry on the account usually plan to get some yield at price growth. However, those who buy gold bars are investors of a conservative nature. They are not going to sell their bars in a year. This is a kind of "untouched reserve" or a "financial safety cushion" that they keep in a respectable Swiss bank. Although this gold is unallocated, it is tangible. Clients can easily trade with it. At any time, it can be easily sold, and money can be returned.

Is this service unique because ABLV Bank offers an opportunity to transfer unallocated gold on the account into tangible gold bars in Swiss deposit boxes and vice versa? How much does this service cost?
The commission is fixed and is around 300 US dollars per bar. As we offer investment gold in safe custody and in standard gold bars, weighing from 350 to 430 XAU (oz troy) (around 12 kg), the commission for conversion is relatively low.

To earn on Europe and Asia

What investment ideas are promising in 2015 — where can one earn?
For example, European exchange indices are underestimated: Last year, they barely grew in comparison to American ones. With the background of the ECB's economic stimulus measures, the European equity markets should start growing. Therefore, we believe that making these investments is a rather conservative strategy, in particular if investing in one of the strongest European economies — in Germany and the German market index, DAX. It is more reliable to invest in what you believe in — everybody believes in German production and technologies.

The second option is to pare losses from falling oil. Oil importing countries benefit from this situation. Primarily, one should watch the share market in Asia. One can invest in these markets through ETF-funds that our bank offers. However, the main question is how long the period of cheap oil will last.

What scenario do your clients believe in?
The oil market attracts a large number of speculators, and they do not believe in anything. Depending on price variation, they are ready to sell or to buy. This is their decision; we do not offer any recommendations, and it is difficult to make any forecasts especially now.

> It is not a bad model of behaviour to follow the market trend. One should not hold too large of a position in one fund.

The third option is to look at the oversold Russian share and bond markets. The downgrading of Russia's investment rating may cause further shrinking of markets against a background of such bad news. In such circumstances, speculators will bring money to the market and for a certain time it may ensure some growth. Again, this is a speculative strategy; I would not recommend it for long-term investments. Equity markets in the leading European economies bring more satisfaction for those who have been already there — they do not need to worry every week about what happens there.

Finally, the currency exchange rates! The euro becomes cheaper, the US dollar gains in value, and this trend continues.

About risks and diversification

Around four years ago, your colleagues said that clients did not want to have any market risk exposure at all and chose Swiss deposits, even with a zero interest rate. Does this fear still exist?
People from the post-Soviet area have gone through many crises. The year 2014 was another shock. Everyone expected the worst. Those who have money are not ready to take on the risk and choose rather conservative investments. On the other hand, the decline in yield of a number of government bonds bringing the negative yield force investors to take on a certain level of risk.

Russian business is going through tough times now. Do clients withdraw their out of financial markets to cover their business costs?
No, we do not observe this tendency. I would rather say they take money out of risky assets and put it in less risky assets. To a greater extent, it has affected the mutual funds that invest in Russian corporate' bonds. Clients transfer the biggest parts of their investments into the funds of developed countries, both in equity and fixed income.

Is it worth leaving declining Russian assets?
Usually, if a person believes that everything will be fine with a particular asset despite a temporary decline, he/she stays with it. For example, a CIS corporate bond fund offers a coupon yield of 7–8%. It prevents losses and keeps brave even if the decline is 7–8% per year. However, last year Russian bonds fell deeper. We should not forget about diversification: One should not hold too large of a position in one fund. Summing up, let me quote John Templeton, who said once, "Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria." The moment of maximum pessimism is the best time to purchase, and the period of maximum optimism is the best time to sell.

Giving awards to the employees with 20 years of working experience in ABLV Bank.

Commemorative awards to our golden fund

Dace Rūķīte-Kariņa, the Head of Human Resources Department of ABLV Bank, tells about how 20 years with the bank has passed and about its golden fund.

Our brand essence is the value within. In practice, this means that we try to give the clients more than is expected of us, to understand them without words; we do not accept any compromises in quality and rely on more than 20 years of experience.

Gifts, events, materials, premises, and even the coffee served show our attitude, perfectionism and a willingness to meet you halfway again and again. At the same time the premises, gifts and printed materials are only the rim, a supplement to the most important thing — our staff. It is experience, professionalism and our staff attitude to work that is the real business card of our company. These are the qualities that make everything around alive and active — and they fill with the meaning the brand values stated on paper.

21 years have passed since our bank was founded. Over the years, the number of our employees increased dozens of times, exceeding 800 persons in the ABLV Group.

We are proud of the loyalty of our employees and low staff turnover, and this only proves that our employees are the right people in the right place, working with the proper attitude. Some of the colleagues have worked since the bank's foundation, so there are people in our ranks with experience of more than 20 years.

The bank's management appreciated this asset and had an idea for a special way of honouring the long-term, experienced employees who were loyal to the company and who would have been called the veterans of labour once. The question arose: what could be a truly memorable gift.

An original and all-purpose idea was given to us by the artist Gļebs Panteļejevs. In 2013, when a sculpture of a bull was erected in the area of the New Hanza City, as the author of this sculpture he suggested making miniature replicas of the large sculpture that could be used as gifts on special occasions. The idea was accepted and it was decided that the miniatures would be given exclusively to long-term employees.

It should be noted that the motto of the sculpture of the bull — Labor Omnia Vincit ("Work conquers all") — symbolises the power of labour, commitment and confidence in oneself and in the path chosen. This motto was "inherited" — it also decorates the Art Nouveau building at 23 Elizabetes, where ABLV Bank headquarters are located. This motto expresses aptly and succinctly the attitude of our entire team and each of our long-term employees to work. It is engraved on the small figurines as well.

As the celebration of long-term staff with the bull figurines being given as a gift was begun in 2014, in the first year we had to make about 200 such figurines — a whole army of bulls. For now, the figurines come in two sizes: small — for 10 years of work, and large — for employees who have served 20 years. Each figurine is a work of authorship — signed and numbered, and is meant for a specific employee.

It is not only the memorial gift proper that is of importance, but how it is presented. This is why the events organized by us for the employees of the ABLV Group are supplemented by a further particularly solemn event — a ceremony of awarding the figurines. This ceremony is a culmination of the festival of its kind because all employees whose length of service reaches 10 or 20 years in the current year are invited to the stage where the top management of the bank gives them a commemorative award. We plan to continue this tradition every year. And, over time, the series of figurines will be supplemented by another — a larger one — for 30 years worked.

Work for ABLV Bank: over 20 years of the value within

Among us there are colleagues who have been growing up together with the bank since the moment when it was founded — on 17 September 1993:

- deputy chairman of the Council **Jānis Krīgers**
- settlement specialist **Dzintra Liepiņa**
- settlement specialist **Rita Uzula**
- senior referent of the Secretariat of the Board **Vija Kazlauska**

20 years with the bank were rich in events. Over these years, our colleagues have had the opportunity to go through all stages of development of the commercial banking sector of Latvia and ABLV Bank. In gratitude for the valuable participation, we asked them to share their experience.

How did your cooperation with ABLV Bank begin?
D. Liepiņa: In August 1986, I started working as a cashier in Stučka Division of the USSR State Bank. Times changed, and the bank's name and ownership changed with them. I did not lag behind and tried to change as the bank developed as well.

R. Uzula: I began working in the banking system on 17 September 1991 — in the Aizkraukle Division of Agroprom-Bank, then in Aizkraukle Branch of the Bank of Latvia. From 17 September 1993 — in Aizkraukles Banka. I took part even in three currency changes. I withdrew Soviet rubles from circulation and introduced Latvian rubles, which were changed later to lats. I went after collectors to Ligatne, where Latvian rubles were destroyed. In 2014, I witnessed the third currency change, when Latvia adopted the euro.

V. Kazlauska: One can say that ABLV Bank is my only employer, however in time the name of the bank and its status changed. Over 31 years of work, I held different positions — the economist, the head of the credit department. When the Bank of Latvia informed about the reorganization of the banking system (in 1992), I was the chief economist. Just then, our team of the credit department had an idea to take a new, unknown road — the privatisation of the bank, although the chief manager, who worked at the time, did not support us. The first legal address of our bank was in Aizkraukle, at 4 Lāčplēša street, so the transition from one bank to another occurred without moving to other premises.

J. Krīgers: In the summer of 1993, I was offered by the employees of Aizkraukle Branch of the Bank of Latvia to take part in the privatisation of the bank branch. A small group of businessmen and the bank's employees were set up to establish the bank.

Do you remember the beginning of Aizkraukles Banka — what happened on 17 September 1993?
D. Liepiņa: The foundation meeting was held in the great hall of the company Selhoztehnika (Agricultural Machinery). On that day, the new board and council of the bank were elected. We, the employees, counted votes because the shares were owned by many people. The hall was crowded.

R. Uzula: I participated in person in the meeting held in the great hall of Selhoztehnika as well. Together with the colleagues, we counted votes.

V. Kazlauska: In the first half of 1993, we worked on ensuring the process of privatisation of the bank. The first Chairman of the Board Aleksandrs Bergmanis, Jānis Krīgers and other active people were invited, as well as potential shareholders were identified because for the bank to get started a certain amount of fixed capital was to be achieved.

A miniature copy of the sculpture of the bull Labor Omnia Vincit for long-term employees of ABLV Bank

The motto of the sculpture of the bull — Labor Omnia Vincit ("Work conquers all") — symbolizes the power of labour, commitment and confidence in oneself and in the path chosen.

J. Krīgers: In summer of 1993, we worked on convincing enterprises, local governments and people to apply for the purchase of the bank's shares. Personal relationships and reputation were of great importance. The foundation meeting attended by almost all of the bank's shareholders — 201 persons, was held on 24 August 1993 — it took all the decisions required for registration in the Register of Enterprises. At that meeting, I was elected to the Council. On 17 September 1993, we received the most important document of the bank — a registration certificate.

The bank has changed significantly over these years. If we compare the bank at that time and 20 years on — have any common traits, values, corporate culture been preserved?
D. Liepiņa: Throughout all these years, in my opinion, the most important thing has been that the bank has responded quickly and acted, bringing state-of-the-art technological advances to its work. It has kept up with the times, changing and improving the quality of its products and services, and the staff have been continuously trained.

R. Uzula: Employees with a high level of responsibility — motivated, independent and proactive — worked and continue to work for the bank. Different kinds of training were held and new technologies were implemented. Significant events have been held over all these years — let's take, for example, the New Year event!

V. Kazlauska: Of course, the bank has changed — in 1993 we did not even have computers. Now this seems ridiculous because we are the leading private bank in the Baltics. Over the years, the sense of responsibility of employees, their commitment, honesty and energy have not changed, but now professionalism, insight and understanding have been added. At that time, it was necessary to survive, and we were thinking about increasing the fixed capital in order to avoid liquidation, as happened to the Bauska, Valmiera and other privatised branches of state banks. We can be proud that we are working in such a bank as ours — ABLV Bank, where employees are motivated to work better and better.

J. Krīgers: The growth of the bank that turned from one in a small rural town into one of the largest private banks in the Baltics indicates that the right strategy has been chosen throughout all these years. Its personnel policy was successful as well, making it possible to hire employees with extensive knowledge and great diligence. Although the bank has changed over the years in terms of its appearance, changing its name too, but the sense of responsibility of its employees, striving to move towards the goals through hard work remained the same. During all these years, the bank's position remained unchanged — we work for our clients!

You have gone through all stages of the bank's development — which of them do you remember most?
D. Liepiņa: As a cashier and settlement specialist, I remember best the change of money — both Soviet rubles and kopecks and Latvian rubles, and now lats and santims. In addition, the implementation of computers as well.

R. Uzula: The bank has been growing and developing continuously. The time when we started to use computers in our work is unforgettable. A new phase for me began when I moved from Aizkraukle to work in the credit centre Rātslaukums where I found new colleagues, friends, and new knowledge.

The bank has changed over the years in terms of its appearance, changing its name too, but the sense of responsibility of its employees, striving to move towards the goals through hard work remained the same.

V. Kazlauska: All stages of the bank's development brought changes and

The bank has changed over the years in terms of its appearance, changing its name too, but the sense of responsibility of its employees, striving to move towards the goals through hard work remained the same.

new responsibilities into my life. The very beginning in 1993 is memorable because everything was strange and unknown. However, with such a boss as Aleksandrs Bergmanis, we managed to overcome all difficulties, although he was new to banking. It should be noted that each of the stages of the bank's development has had something that has made it unique.

J. Krīgers: Undoubtedly, this is the period when the bank was set up and the first years of its operation, when it was very difficult to develop the bank at a rate required under the regulations of the Bank of Latvia. It was virtually impossible in the countryside due to lack of funds. Therefore, we looked for the ways how to attract new active shareholders and employees. A huge role in those processes was played by the first Chairman of the Board Aleksandrs Bergmanis, who at that time managed to attract the current shareholders and executives Ernests Bernis and Oļegs Fiļs. I am glad that we have succeeded as it was easy to make a mistake.

Finally, I would like to ask you to say a few words as good wishes for the bank and your colleagues.
D. Liepiņa: The best gift that we can give to ourselves and others is development. I wish the bank and my colleagues to consider different solutions in any situation and not to be complacent!

R. Uzula: I am proud that I work for ABLV Bank! I am grateful to the management for the wonderful celebration and the memorable gift. I received many congratulations from my colleagues. I wish everybody to work with pleasure and enthusiasm, to pursue passionately the common goals and ideas, to be bold and not to be afraid to take risks!

V. Kazlauska: I wish the bank to follow the planned track and to achieve all of its goals, and I wish my colleagues to be satisfied with their work and happiness in their personal life!

J. Krīgers: I am very pleased that I have been with the bank from its first steps. I am proud of the bank's growth and the work done. I am very pleased that most of the bank's employees are young, positive and active people. I wish everybody to continue to be proud of their work and of the bank's achievements. In addition, I wish the bank to head for the planned high goals and to achieve them!

NEWS

Due to strict adherence to the conservative strategy of financing and asset evaluation, our bank has successfully passed the ECB comprehensive assessment.

ABLV Group news

Banking

Our bank has successfully passed the ECB comprehensive assessment

From 4 November 2014, the single supervisory mechanism became effective, under which the largest European banks are supervised by the European Central Bank (ECB). The mechanism is aimed at strengthening the reliability of the European banking system and increasing its competitiveness worldwide. In Latvia, the ECB together with the Financial and Capital Market Commission (FCMC) directly supervises ABLV Bank, which is one of the three largest banks in the country in terms of the amount of assets.

Before implementation of direct supervision, the banks underwent in-depth review of their balance sheets and stress testing. Conservative interpretation of the effective International Financial Reporting Standards was used by the ECB for asset quality review, and high equity thresholds were set. Our bank has successfully passed the comprehensive assessment. Our strict adherence to the conservative strategy of financing and asset evaluation played a big role.

Financial achievements

The bank's major financial indicators of 2014 evidence stable growth of the bank. ABLV Bank, AS, is the largest bank in Latvia with local capital and is ranked second in terms of the amount of assets. Over the year, the amount of ABLV Bank assets has grown by 25.8%, reaching EUR 4.17 billion.

During the first half of the year, the situation development was hard to predict, but we managed to achieve the best results in the bank's and group's history nevertheless.

- The bank's profit in 2014 amounted to EUR 58.7 million. Whereas in 2013 it equalled EUR 43.7 million.
- The bank's operating income before allowances for credit losses totalled EUR 122.4 million. Compared with 2013, operating income has increased by 11.1%.
- The amount of the clients' deposits equalled EUR 3.41 billion as at the end of the reporting period.
- The amount of issued debt securities reached EUR 454.6 million.
- As at 31 December 2014, the amount of the bank's assets was EUR 4.17 billion. Over the year, the amount of assets has grown by 25.8%, the total assets increasing by EUR 854.5 million.
- The bank's loan portfolio equalled EUR 790.2 million, as at the end of December.
- The bank's capital and reserves amounted to EUR 226.9 million.
- As at 31 December 2014, the bank's capital adequacy ratio was 18.80%, whereas liquidity equalled 74.74%.
- ROE reached 28.82%, and ROA — 1.60%, as at 31 December 2014.

Successful year for project financing in Latvia

Despite turbulent situation caused by geopolitical tension in Europe, declining economic activity in key sectors of economy of our closest neighbours, and investment activity slowdown in Latvia, the bank demonstrated growth of its corporate loan portfolio.

In summer, with the participation of ABLV Bank, the deal of selling capital shares of Ventamonjaks terminal, working with transhipment of liquid ammonia at Ventspils Free Port, was successfully completed. This was one of the most significant deals in the transit and cargo transportation area recently, and the financing provided by ABLV Bank constituted EUR 33 million.

In autumn, LNK Group used ABLV Bank financing of EUR 8.1 million to acquire modern office building for more than EUR 10.5 million.

As at the end of 2014, there were 69 new active loans amounting to EUR 127 million issued, and the overall growth of corporate loan portfolio was 12%, reaching the total portfolio amount of EUR 376.0 million.

Main Internetbank and Internetbank for iPad — even more convenient and secure

In 2014, we launched new version of our main Internetbank and improved application version for iPad. There are many innovations, and they all are aimed at increasing the safety, reducing the number of clicks, and ensuring more convenience for our clients.

The major improvements in the main Internetbank are the following:

- automatic determination of the beneficiary bank on the basis of the beneficiary's account number in IBAN format;
- possibility to send a message to private banker with file attachment of up to 5 MB;
- private bankers' and brokers' contact information displayed;
- payment card information provided in the table displaying account balances;
- possibility to view deleted payments and applications, for the sake of better Internetbank safety;
- possibility to make payments from card account to current account and to save the transactions report in XLS format;
- simplified form of application for card account opening and payment card receipt, now available to legal entities as well.

Nice improvements were also made in the new version of the Internetbank application for iPad. The following is now available to our clients:

- information at login page;
- private bankers' and brokers' contact information;
- automatic determination of the beneficiary bank on the basis of the beneficiary's account number in IBAN format;
- chart of investment portfolio asset allocation;
- possibility to copy an executed payment from the transactions report;
- information on derivative financial instruments;
- more details provided in confirmations on transactions in financial instruments, and displaying of blocked financial instruments.

New design of payment cards

In summer, debit and credit cards of new design and perfect quality became available to the clients. The elegant design is based on our corporate style image and elements, and it comprises a unique ABLV pattern — graphic picture created to reveal new facets of ABLV.

We added Investor Calendar to the bank's home page www.ablv.com.

The peculiarities of the new design are clarity, conciseness, multidimensionality, and transparency. To emphasize the card status, the pictures are different: the higher the payment card class — the larger the picture, and the more reserved and laconic the design. Additional effects are used for card production: covering with lacquer and mother-of-pearl.

ABLV Bank became primary dealer in Latvia

In spring 2014, ABLV Bank entered into primary dealer agreement with the Treasury, thus joining Latvian Primary dealers group. Now the bank is entitled to take part in the domestic bond issues and auctions arranged by the Treasury.

The bank currently holds one of the largest securities portfolios in the Baltics — it is worth more than EUR 2.15 billion. Since 2008, the bank also performs bond issues: their number has already reached 25, and their total amount is EUR 520.4 million, which enabled the bank to become one of the largest issuers of NASDAQ OMX Riga stock exchange.

New premises for rendering services to ABLV Bank mortgage borrowers

To improve the level of service ensured for mortgage borrowers of ABLV Bank, at the beginning of March their service centre was moved to new specially equipped premises located in exclusive project Elizabetes Park House at 21a Elizabetes Street. There are more than 30 officers working in the new premises and ensuring services for mortgage clients.

The investments in renovation and furnishing of the new premises exceeded EUR 800 thousand. The project was developed by architecture and design bureau H2E. Currently, the number of the bank's clients — mortgage borrowers is about 7.5 thousand, and as at 31 December 2014 ABLV Bank portfolio of mortgage loans equalled EUR 362.2 million.

ABLV Bank, AS, equity was increased by EUR 27 million

Significant events in the last year were the change of the currency in which ABLV Bank, AS, share capital is denominated from lats to euro, following Latvia's accession to eurozone, and also issues of shares, under which voting shares and personnel shares were issued. After changing the currency and completing the issues, the bank's share capital consists of 29 385 000 registered voting shares and 3 265 000 personnel shares without voting rights attached.

Investments

New bond issues

Continuing the bond issue programme, in 2014 we performed six new issues of coupon bonds: two of them under the Third Bond Offer Programme, and four — under the Fourth Bond Offer Programme. There was also one issue of subordinated bonds performed under the Fourth Bond Offer Programme. The total amount of all issues in 2014 constituted USD 225 million and EUR 80 million. The bank initiated gradual replacement of long-term deposits with bonds at the end of 2011. Including new bonds and those already redeemed, we have performed 25 public bond issues till the end of 2014. As at the end of 2014, there were 19 bond issues included in the NASDAQ OMX Riga list of debt securities.

Securities portfolio reached EUR 2.15 billion

The bank continued investing in securities. The total amount of the securities portfolio was equal to EUR 2.15 billion, as at 31 December 2014. The bank's securities portfolio is mostly composed of fixed-income debt securities, and 72.8% 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 — 26.4%, Germany — 13.1%, Canada — 9.7%, Russia — 9.7%, Latvia — 9.3%, Sweden — 9.2%, Netherlands — 3.5%, Denmark — 1.8%, and Norway — 1.7%. Whereas 5.3% is constituted by securities issued by international institutions — the European Commission, EBRD, etc. In the reporting period, average annual yield of the securities portfolio amounted to 1.4%.

ABLV mutual funds now available in Luxembourg

Upon receipt of permissions from financial sector supervisory authorities of Latvia and Luxembourg, ABLV mutual funds were admitted to Luxembourg securities market, where competition is incomparably higher, since thousands of mutual funds are available to investors in Luxembourg. Thus, now we offer our open-end mutual funds to clients of ABLV Bank Luxembourg as well.

New service: safe custody of investment gold bars

This summer, another service was launched — safe custody of investment gold bars weighing from 350 to 430 troy ounces (about 12 kg). This service is available to legal entities that use our brokerage services. Detailed information about investment gold bars is available in the client's investment portfolio statement, including unique number of each bar, its purity, manufacturer, and place of storage. Gold safe custody is ensured by our business partner — respectable Swiss bank Credit Suisse.

Trading platform for transactions in Russian stocks market

For our clients who wish to use trading opportunities ensured by Russian stock exchanges on their own, we offered trading platform Quik Trader ABLV. Using this platform, clients get access to online trading at Moscow Exchange (MOEX), performing settlements in Russian roubles. Quik Trader ABLV is an addition to two other trading platforms: J-Trader ABLV (for trading in derivative financial instruments at the US and European stock exchanges) and Orbis Trader ABLV (for trading in the US securities).

New level of providing information about investments

We offered a simple and convenient way of receiving necessary information to our investors — holders of bonds and shares. The approach is similar to that used by the world's largest investment companies. We have added Investor Calendar to the bank's home page www.ablv.com, where most important news about our bonds and shares are published — information on public offering, issue results, dates of coupon payments, bond redemption, meetings of shareholders, financial performance data, etc. The calendar allows filtering, so that clients can select the information about corporate events related to the bonds and shares they hold.

We have also improved the reports on investment portfolios, in which allocation of portfolio assets by types and currencies is presented to clients in percentage terms along with charts. In 2014, we started regular reporting of transactions in derivative financial instruments, which we ensure as a service provider. Pursuant to the European Market Infrastructure Regulation (EMIR), the reports should be provided by both the bank and the client. To

ABLV Bank Mortgage Loans Service Department premises after reconstruction

New premises for rendering services to mortgage borrowers of the bank have been opened in our most famous project — Elizabetes Park House.

ensure service convenience, we offer handling the reporting procedure on behalf of the clients.

Share capital of AmberStone Group increased

First increase of AmberStone Group, AS, share capital has been successfully completed, and thus the company's capital has been increased by EUR 9.1 million, reaching EUR 14.0 million in total. ABLV Bank, AS, as well as several clients and shareholders of the bank took part in the share capital increase.

ABLV Bank provided substantial support to performing this share issue, and the bank can arrange issues of AmberStone Group, AS, securities in future. Increase of the capital will allow AmberStone Group, AS, to secure the position of one of the leading holding companies in Latvia, as well as make new investments in capital of promising companies in the following year.

Holding company AmberStone Group, AS, was established to separate the business not related to rendering financial and banking services from ABLV group. The share capital of the company is planned to be increased to EUR 35 million by the end of 2015.

Growing awareness of ABLV Bank Luxembourg

In autumn 2014, there was conference on private banking opportunities and wealth management held in Luxembourg. ABLV Bank Luxembourg was represented by Chief Investment Manager Frank Lendorf, who made a presentation on ABLV as a Luxembourg bank focusing on clients from the CIS states. In general, it was noted that increasingly more banks from the Eastern Europe and Asia choose Luxembourg as the most advantageous centre for business development.

Advisory

Residence permits and citizenship of other countries

ABLV Corporate Services, SIA, provides advice on obtaining residence permits and citizenship of Latvia, UK, Saint Kitts and Nevis, and Malta. In 2014, ABLV Corporate Services, SIA, started offering new service — assistance in obtaining citizenship of Malta, available from February 2014. Currently, this is the only official EU programme allowing to obtain the EU citizenship within such a short period — from 6 to 24 months.

Citizenship of Malta provides a number of advantages, it is not prohibited to have other citizenship simultaneously, tax benefits are offered, no visa is required to enter more than 160 countries, social protection is ensured, as well as it is possible to permanently reside in all EU countries. Under this programme, citizenship is granted to all family members, including the spouse, children under 26 and parents older than 55.

ABLV group participation in conferences

Specialists of ABLV group took part in several international conferences, exhibitions and seminars, during which services of ABLV group were presented to existing and prospective clients. The list of international conferences and exhibitions attended last year is as follows:

- CIS Wealth Yekaterinburg, conference on tax planning and asset structuring;
- conference INTAX EXPO 2014 in Moscow;
- ABLV Conference Banking/Investments/Advisory arranged in Cyprus;
- international conference and exhibition Intax Wealth Latvia on individual wealth management and structuring of assets of wealthy clients;
- conference International Investments in Latvian Real Estate Market — 2014, which was held in Riga.

Wide geographic coverage of the attended conferences results from the fact that ABLV group has 11 representative offices and territorial structural units in eight countries — Russia, Ukraine, Belarus, Kazakhstan, Uzbekistan, Azerbaijan, Hong Kong, and Cyprus.

Real estate

Pillar new office

First construction works in New Hanza City territory were started in April 2013 — there was administrative building constructed for affiliate company Pillar dealing with real estate development and trading. In February 2014, the company moved to the new premises. At the same time, there was large parking for 435 cars equipped. The total area of premises is 809 sq m; there are 40 workplaces and 3 meeting halls in the building. The total construction costs amounted to EUR 2.67 million.

Real estate sales remained at the same level

For Pillar group, the year 2014 was productive and full of intense work. On the whole, Pillar managed to retain sales in 2014 at the level of 2013 and even slightly increase those: there were 626 sale transactions made, their total amount reaching EUR 33.5 million. Compared with 2013, the number of sales transactions has grown by 2%. The portfolio of uniform real estate has decreased from 836 to 583 properties over the year. The results of new projects sales were also good, since just about 8% of apartments in new projects developed by Pillar remained unsold as at the end of the year. There were 126 apartments in new and renovated projects sold, including five premium class apartments in Elizabetes Park House project. In addition, 48 transactions on sale of private houses and 11 transactions on sale of land plots were made in 2014.

New development projects of Pillar

To meet client demand, Pillar continued active work on managing the existing property portfolio, developing new projects, and implementing the renovation programme. At the beginning of 2014, Pillar completed all interior finishing works in the new modern apartment block Dārza Apartment House, as well as commissioned new apartment block Lielezeres Apartment House. Whereas in June reconstruction of 10 new apartments in the apartment block at 13A Akadēmiķa M.Keldiša Street in Riga was completed. Construction works at premium-class apartment block Miera Park Hous were completed at the beginning of 2015. Sale of apartments in this building is planned to begin in Q2 2015.

Architecture bureau Schaller Kyncl Architekten Riga included in Pillar group

Pillar group made investments in the project important for us — development of New Hanza City (NHC) financial and business centre. In August 2014, after taking the charge of developing NHC territory basic design, Pillar acquired Riga office of German architecture bureau Schaller Architekten Stuttgart. Thus, new company was added to Pillar group — Schaller Kyncl Architekten Riga. The aim of acquiring the architecture bureau was to concentrate all processes related to NHC project development at one place, which will allow structuring and optimizing Pillar work within this large-scale project. The task of Schaller Kyncl Architekten Riga

The founders of the Foundation will provide necessary financing of EUR 30 million for the museum construction.

Pictured (left to right): Ernests Bernis, Dace Melbārde (Minister of Culture of the Republic of Latvia), Ināra and Boris Teterev, and Oļegs Fiļs

is to develop all technical documentation necessary for the project, so that construction works in NHC territory can be started already in 2015.

For society

New programme of charitable foundation

In addition to existing programmes, ABLV Charitable Foundation has established a new one — "New Riga", which will be launched under "Urban Environment" area of focus. The Foundation raises funds for creation and operations of the Latvian Museum of Contemporary Art (LMCA), building a park and developing the territory around the LMCA, as well as for other significant projects in the field of urban landscaping in Riga centre, thus improving the cultural and aesthetic conditions and ensuring safe and comfortable living environment.

Donations under Christmas fund drive reached EUR 1.3 million

ABLV Charitable Foundation in cooperation with ABLV Bank arranges Christmas fund drive for eight years already. Under this fund drive, we welcome donations to the Foundation programmes by officers and clients of ABLV Bank, as well as any other person sharing our targets. The fund drive raised donations to three programmes: "Help hear!", "Help grow up!", and the newly established programme "New Riga" within "Urban Environment". The total amount of donations this year was high — the donations to the three programmes reached EUR 1.3 million. The breakdown of donations by the Foundation programmes is as follows: EUR 157.5 thousand to "Help hear!" programme, EUR 43.9 thousand to "Help grow up!" programme, and EUR 1.1 million to "New Riga" programme.

Creation of the Latvian Museum of Contemporary Art

In autumn 2014, during the official ceremony, the Minister of Culture of the Republic of Latvia Dace Melbārde and the founders of the Foundation of the Latvian Museum of Contemporary Art — Ināra and Boris Teterev, Ernests Bernis, and Oļegs Fiļs signed the protocol of intent on construction of the Latvian Museum of Contemporary Art. The Foundation of the Latvian Museum of Contemporary Art, established by ABLV Charitable Foundation and Boris and Ināra Teterev Foundation, will use the funds provided by its founders and other private and public persons to construct the Latvian Museum of Contemporary Art till 18 November 2021, and will also ensure the museum management, operations, and development, including creation, maintenance, and expansion of the museum collection. The museum will be open and accessible to public. It is planned that the Foundation founders will provide the financing of EUR 30 million necessary for the museum construction. The protocol of intent was signed following the successful long-term cooperation between the Ministry of Culture, ABLV Charitable Foundation, and Boris and Ināra Teterev Foundation, who are the major contemporary art patrons in Latvia, as well as ABLV Bank, being the main sponsor of creating the collection of the Latvian Museum of Contemporary Art, acting pursuant to the cooperation agreement made on 23 September 2005.

ABLV Bank supported renovation of Rundāle Palace

In 2014, there was reception held in Rundāle for 278th anniversary of Rundāle Palace and completion of renovation works in the museum complex, which lasted 50 years. Financial support by ABLV enabled renovation of the duke's library, the ceiling of which was in a sad condition. The renovation works were started by the State Inspectorate of Cultural Heritage Protection. Later, our bank provided financial support used for reinforcement of walls and ceiling in the library. After renovation of the library, all renovation works in the palace were completed. During the celebration, the bank's management presented a memorable gift to Rundāle Palace — the edition of complete works of Voltaire, which took pride of place in one of the bookcases in the renovated duke's library.

In acknowledgement of the provided support, the director of the museum complex Mr. Lancmanis presented a memorable gift to the bank — aerophoto of the renovated garden and museum complex.

The most attended exhibition in Riga was supported by ABLV Bank

From 15 May till 27 July, in the Museum of Decorative Arts and Design in Riga, there was exhibition of famous fashion historian Alexandre Vassiliev held — "Rebellion in the Boudoir", devoted to the fashion of 1970s. Our clients who came to Riga to take part in our summer meetings could join an interesting excursion about recent history, which was conducted by Alexandre Vassiliev.

According to the statistical data of the Latvian National Museum of Art (LNMA) for 2014, this exhibition aroused the greatest visitors' interest among the events arranged by the LNMA. It should be noted that ABLV Bank supports exhibitions of the collections brought by famous fashion historian Alexandre Vassiliev during six years already. The exhibition "Rebellion in the Boudoir" in the Museum of Decorative Arts and Design was attended by 21 363 visitors.

ABLV Bank gifted nine-storey building to Daugavpils city council

The bank gifted apartment block at 7 Gaismas Street and the respective land plot to the city. There are 105 apartments in the building, and its area is 8.7 thousand sq m. All utility lines are connected to the building, and partial interior finish is made; the remaining works will be completed by local authorities. The total value of the gift was almost EUR 380 thousand. Daugavpils city council showed interest in the building, since considerable number of new apartments would allow the city council to solve the critical problem of providing housing to people who need social support. When it became known to the bank, it decided to acquire the building from Pillar and present the same to the city.

ABLV Bank has gifted property earlier as well, under implementation of charitable projects. In March 2013, the bank presented an apartment in Liepaja to the University of Liepaja, so that the latter can ensure better accommodation for guest lecturers and researchers.

ABLV Bank and Pillar — now on Facebook

Presence of ABLV group companies in social networks became necessary, since people more and more use those for acquiring information and communicating. As one of our principles is to stay closer to the clients, we decided to use this opportunity as well. Having evaluated different social platforms, we made the conclusion that Facebook is the one best matching our image, communication style, and objectives.

Therefore, we created three corporate pages of ABLV Bank in Latvian, Russian, and English (ABLV Bank Rīgā, ABLV Bank в Риге, ABLV Bank in Riga), and also two corporate pages of Pillar in Latvian and Russian (Pillar Rīgā, Pillar в Риге).

Regulation and business

ABLV Corporate Services, SIA, Chairman of the Board Vladislavs Hveckovičs reveals the reasons why business regulation will become the topic of the year 2015 and tells about the steps business owners will have to take to comply with this regulation.

The life of a tax consultant has been boring and unexciting for a long, long time. At international taxation conferences year after year, the same people discussed the same trivial, in the mind of non-professionals, issues.

Everything changed just a couple of years ago. The reason — enormously increased speed of adoption of various legislative initiatives. If in the past, elaboration of legislative initiatives in the field of international law took literally decades, now it takes months if not days from the initial "brainstorming" to the enactment of the law. 2015 is the year of transition, when many business owners will have to review the way they are conducting business.

Is regulation required?

In the economic theory, you can find the Laffer Curve concept. It demonstrates that tax income will increase in response to the increase in the rate of taxation only up to a point. When in opinion of a country's residents the rate of taxation becomes too high, tax income starts to decrease rapidly. The effect is explained by the fact that a high rate of taxation suppresses entrepreneurial spirit and leads to the development of shadow economy. Regulation is another expense for the business. The more business owners are required to do to comply with the law, the more expensive entrepreneurship becomes. Of course, regulation is important and is required for development of the business environment, risk management and simply for a long-term positive economic effect. However, regulation also has its own Laffer Curve and if it goes beyond this limit, the effects for the business environment and economy become sharply negative. It seems that in pursuit of the theoretical offshore capitals many countries will go beyond this limit quite soon.

Principal legislative initiatives

Despite the fact that there are many various initiatives and they often require professional advice, for a businessman it is useful to understand the general concept of the upcoming changes. What legislative initiatives affect our clients most of all?

Controlled foreign companies regime

Controlled foreign companies (CFC) regimes are in effect in the majority of developed countries. Out of the group of twenty largest world economies (G-20) there is only one country — Saudi Arabia that still has not introduced a CFC regime. Looking at the post-Soviet landscape, CFC regimes are still an exception from the rule: in 2008, a CFC regime was introduced by Kazakhstan; from 2013, the law on CFC is in effect in Latvia and other Baltic states. And, of course, the event that may not pass unnoticed — coming into effect of the Law on Controlled Foreign Companies in Russia on 1 January 2015.

The CFC regime allows tax authorities to impose a tax on undistributed profits of non-resident companies. This tax is to be paid by an individual — the ultimate beneficiary of a non-resident company. This has been done to avoid tax deferral on profit accrued abroad.

Naturally, CFC regimes differ a lot. Thus, the black list of CFC jurisdictions exists in many countries — or, alternatively, the white list of jurisdictions, which do not fall under the CFC rules. If that's the case, everything is clear: if a client owns a company from the black list — he has to pay the tax. If not — he does not.

It should be noted that the CFC regime in Russia is one of the most complicated and does not leave the taxpayer any standard "loopholes" in the way of exceptions for public companies or a list of "forbidden" jurisdictions. Since the end of 2014, we have been explaining to our clients how the CFC regime in Russia will affect their activity and how to adapt to the new strict requirements.

A concept of a permanent establishment

No less important for business is also a relatively new concept for the countries of the post-Soviet space of the "permanent establishment".
Foreign companies engaged in the economic activities on the territory of another country may be recognized as tax residents in that country. Cases when a company may be recognized a tax resident or a company, which has created a "permanent establishment"; depend entirely on the laws of the country in question. For example, there is a law provision in Latvia, which requires recognizing the company to become a Latvian tax resident if an individual permanently residing in Latvia acts on its behalf.

Similarly, the mentioned Russia's Law on Controlled Foreign Companies contains provisions for foreign companies becoming tax resident in Russia. The list of criteria is substantial — a company may be recognized a tax resident in the Russian Federation if a company's CEO is a resident of Russia, if a company keeps company's documents in Russia, if a company maintains accounting records or recruits personnel in Russia or if a company lacks personnel and office in the country of registration.

Of course, if a foreign company creates, even inadvertently, a permanent establishment in another country, it has to pay taxes and submit financial reports in that country.

Applying the Double Taxation Treaties (DTT)

In the last 10–15 years, business was able to use the DTTs to decrease the withholding tax rate when paying dividends, interest and royalty. Quite frequently, companies from countries with the best agreements were used for such holding activity. For Russia and the majority of post-Soviet countries over a long period Cyprus was the best jurisdiction for establishing a holding company because of the best DTTs Cyprus managed to sign with the CIS countries.

> Popular subject of discussion with clients — moving to Latvia for doing business. Clients seek stability for their family, adequacy of the judicial system and tax authorities

> We explain to our clients how the CFC regime in Russian Federation will affect their activity and how to adapt to the new requirements.

Lately, tax authorities have started taking a more critical approach towards the analysis of the foreign companies enjoying the treaty rates. If a company, for example, from Cyprus lacks office and personnel and does not take independent decisions, it may be refused the lower DDT rates, especially if a tax resident of a country, from which the payment is sent, is hiding behind this company.

In order to comply with the requirements, independence of decision-making of a holding company should be ensured, as well as full presence in a country of registration — the so-called substance.

How to comply with the rules and lower the risk of doing business?

In the last year, the most popular subject of conversation with clients has been an opportunity to move to Latvia and do business from here. Clients seek stability for them and their families, adequacy of the judicial system and tax authorities. The main Latvia's advantage still is its geographic proximity and widely spoken Russian language — in fact, Russian is a mother tongue for more than 50% of the Riga (the capital) population.

In the coming years, the significance of the factors, which business owners paid little attention to before, will grow: the cost and ease of doing business in the country, efficiency of the state apparatus, public debt-to-GDP ratio, complexity of the legal system and simplicity of compliance, etc.
Latvian companies allow clients to diversify their business and not fall under the new requirements for controlled foreign companies, as the tax rate in Latvia passes Russia's "efficient rate" test and is set at 15%.

Surely, the use of Latvian companies is not the only way of ensuring compliance with the new legal requirements. Specialists of ABLV Corporate Services will be able to provide you with more precise recommendations after having learnt about the specific client's situation.

Mortgage with an individual approach

At Elizabetes street in Riga downtown, a new ABLV Mortgage Loans Service Department has been opened. What its objective is when the demand for mortgage loans in Latvia suffers a dramatic decline, tells the Chief Risk Officer (CRO) of ABLV Bank Edgars Pavlovičs.

Out of retail

Following the crisis of 2008, ABLV Bank rapidly decreased its activity in the mortgage lending market. Now a new specialized service department has been open. What is its objective?

The objective is simple — to offer clients a new service quality standard. If you have noticed, clients feel more comfortable here: there are six private meeting rooms on the ground floor. It means that there won't be situations when a client comes to discuss a mortgage and visitors in the entire customer service area can hear him. After all, a loan for home purchase is not a daily product and involves sensitive information about the income level and possibilities. Clients are sensitive to this.

In other words, no return to mortgage retail — the large-scale issue of mortgage loans — is expected in ABLV?

No, we apply an individual approach and are not aiming at being a universal bank. Our objective is to be the most qualitative and efficient bank in the niche. Including mortgage services.

What is your budget for the current year?

Last year we issued around EUR 10 million, as planned. The plans for 2015 are more modest — EUR 7.5 million. It is due to the changes in the law: on 1 March, amendments providing for the "dropped-off keys" principle took effect, according to which in case of problems a client may give away the mortgaged real estate to the bank, thus the client will be discharged of the obligations. A good thing is that the law leaves an opportunity to choose, the client may decide on its own whether he wants to take a mortgage loan with the "dropped-off keys" principle. If this norm referred to all loans, these changes would become negative for the entire sector. The availability of loans would reduce by two or three times — as the down payment for the mortgage has increased up to 30–40% of the property price.

Residence permits have come to nothing

Are you going to issue EUR 7.5 million primarily to the clients willing to acquire real estate of the bank's subsidiary company Pillar?

Not only. Our plan is to continue issuing loans to foreign clients in the private banking sector, who by the way choose Latvia not only because of the residence permit. As a rule, the apartments in new projects — and not only from the Pillar stock. Moreover, local clients — both existing and new ones — may approach the bank too. In addition, we do not impose extra requirements: we do not require our mortgage client to open a salary account with us, apply for cards or other services.

Talking about the clients who receive a residence permit in Latvia. Did the increase in the threshold of the real estate investment up to EUR 250 000 hit their demand for mortgage services hard?

Dramatically. Before the law amendments, only in our bank on average

five loans within the residence permit programme were issued on a monthly basis. Following the amendments, we have had only one request in three months. A dramatic decline. Accordingly, the segment of new buildings in Riga and Jurmala for non-residents has actually disappeared. Only rare individual deals remain. That's a big question what will happen with the housing prices in this segment. They are too high for a local buyer. It means that adjustment is possible.

Before the global crisis began, ABLV Bank was active in the large-scale mortgage market. The fact that there are no such ambitions anymore — is this a change of principle in the bank's development strategy or rather the policy of a moment?
Before the crisis, ABLV Bank, in fact, developed two principal directions — private banking and large-scale mortgage lending. After the crisis, we re-evaluated our objectives. First of all, there was no great demand on the part of the clients and the housing prices were slumping. Banks were not keen on dealing with the recovery of real estate of non-payers and the clients were scared of the income fall. For that reason, having evaluated this business, we deliberately addressed more target-specific mortgage service. Yes, now it is not our principal business; however, mortgage lending is in demand among private banking clients too.

Is this policy to stay? Never say never. Not once ABLV Bank has proven that it is capable of changing quickly and using the market situation. If we see interesting opportunities for business in this sector — I reckon we will use them.

Twice as cheap as rent

What is a portrait of an average local client?
On average, these are loans from EUR 16 000 to 30 000. Thus, these are amounts, which may be received against the pledge of 1–3 room uniform apartments. The same as before the crisis, the principal portfolio of the bank now is uniform apartments, after all this is the principal housing stock in Riga. For example, if taking EUR 30 000 for 20 years for a 3-room apartment — in fact, the client pays only about EUR 180 a month. If compared to the rent prices of the analogous housing, mortgage turns out to be twice as advantageous. Of course, not a single bank finances 100% of the object's price. However, as regards the subsidiary company Pillar, which owns a pool of property that has fallen under recovery due to default on payments by previous owners — the bank provides up to 90% of the price. In other cases — maximum 80%. If a client takes a mortgage with the "dropped-off keys" principle, the down payment comprises 30–40%.

Because of the adopted "dropped-off keys" principle, banks in first place think not about the solvency of the client and not about its income and credit history, but about the price of a pledge. Consequently, housing rent has already become slightly more expensive — approximately by 5–10%. Potential clients need to save up for the loan's down payment longer.

What mortgage rates does the bank offer?
Additional rate is individual for each client — 2–3%. We have excellently developed document-preparing service; we earn nearly nothing from it. We agree with an appraiser, notary, prepare a sale and purchase agreement. All that saves buyer's stress and time.

Banks will see everything

Last year ABLV Bank and five more Latvian banks established their own credit information bureau. What is the rationale if currently a client's pledge rather than its solvency is assessed anyway?
Solvency assessment, notwithstanding the law amendments, is still in place. For example, even if we issue a loan at 75% level from the price of real estate and later the client does not pay — a quick sale price of this property may fall even by 30%. Then we suffer losses. Moreover, the bank in any case is not interested in alienating the property. In addition, if the client anticipates difficulties with payments — the bank usually is ready to defer payments even for a year or two until the borrower resumes its solvency and finds a new job. There are plenty of solutions to the problem without losing a dwelling.

If going back to the topic of issuing new loans, it is still essential to assure the client's solvency, therefore information about it matters at the moment of agreeing a loan.

Is the information in the Credit Register of the Bank of Latvia insufficient?
This is the information about the loan liabilities of residents with the banks or their subsidiary companies. Yet there is also the information about the loans in the non-banking sector, utility debts, taxes, alimony — up to telephone bills. At present, a bank may not see this information that is why one common credit bureau, in which everything will be included, was established.

Portrait of a perfect client

Why is this information important?
If a client has not been paying, for example, for utilities already for half a year — how can the bank be sure that in future he will be accurate in repaying the loan? We were the first bank in Latvia to start collecting credit history about utility bills. If the client said that he had good income and we, in turn, saw that in the last six months he was accurate in paying all utility bills, — the bank offered the best conditions. On the contrary, if there were delays in payments — either the bank reduced the amount of the loan or refused it at all.

Today I can say that in particular the clients who were accurate in paying utility bills even during the crisis, have been and remain the best clients. Hence, information about credit discipline matters.

We plan to issue loans also to foreign clients who prefer Latvia.

When the client requests to issue a loan, doesn't he sign a document authorising the bank to check him in all databases?
When applying for a loan, an applicant had to specify his liabilities with other banks and organisations also before, as well as he or she had to provide references of utility payments. However, if previously the client had to collect all references to prove the lack of debt on his own, now there is no need to go anywhere — the entire scene will be available to us within ten minutes.

Is the bureau already working?
The preliminary stage is about to finish. We will start operation in the summer. And we are convinced that the new system will improve the payment discipline in the entire economy. For instance, a businessman willing to receive a loan will be aware that it is better to repay real estate tax debts in first place. This system will only be of a help to honest people. As for others, it will help to become more honest. (*Smiles*)

Insurance from ABLV

Since last year, there has been the Insurance Intermediation Department in the bank. What is this service about?
As known, it is required to insure the mortgaged property when receiving a mortgage loan. ABLV client has no need to rush from one insurance company to another — everything can be done onsite. In fact, the bank has been offering this service for ten years or so. However, now we are able to offer improved service.

The objective of the new department is to select cooperation partners in a more efficient way and get more beneficial conditions of insurance policies. Today we are preparing to take one more step forward and create our own branded insurance policy covering risks that are of the most importance to a specific client.

In addition, our corporate clients may be interested in insuring their apartments, cars, health as well. In other words, in the new department we will ensure centralized development of services in demand.

How does it work in practice? When receiving a loan, should the client take an insurance policy with you as well?
When the client receives a loan, he is offered to insure the property in the bank. Rates are quite similar to the market rates — a policy can be selected among several bank's partners. In other words, a borrower saves time and the only thing the client has to do is to transfer the required amount to the account.

What will change in the future?
The client will be able to choose a branded insurance policy of the bank, which will be more beneficial for a specific object. However, in case the insured event occurs, the bank will assist in receiving indemnity.

Development of Pillar and real estate market

Ieva Valtere, Chief Executive Officer of Pillar Management, tells about the stable demand on the unstable real estate market, about the reasons of the decline in demand by foreign clients and about the large-scale plans in New Hanza City.

For the Pillar Group engaged in project development and real estate trading, the previous year was successful and full of intense work. In spite of some instability and concerns for its further development, in 2014 Pillar managed to retain its sales at the annual level and even to increase them slightly. Overall, in 2014 we managed to conclude 626 sale transactions in the total amount of EUR 33.5 million.

Due to the investment of funds in reconstruction and landscaping, as well as due to intensive work for the real estate sale, the number of properties managed by Pillar has decreased significantly. This indicates that the strategy chosen by Pillar — to offer to clients high-quality finished and furnished accommodations — was justified. At the end of the year, only 8.15% of apartments in our own new projects were not sold. We also managed to reduce the secondary real estate portfolio to 620 units during the year.

As to the market trends over this period, it should be noted that local buyers continued to demonstrate stable demand for uniform apartments of the secondary market. At the same time, the interest of foreigners in property purchase in Latvia was affected by the government decisions regarding amendments to the programme of granting residence permits. Therefore, until the end of August these buyers showed haste and impetuosity, while during the last third of the year the interest on the part of such clients was much more reserved and applied mostly to properties of indeed good quality at the right price.

Our monitoring of the market indicates that in 2014 the transaction prices in the segment of private houses did not change and the prices for uniform apartments in less popular areas of Riga, in Jūrmala and outside Riga did not change either. In its turn, the upward trend in prices in the range from 5 to 10% was observed in the segment of uniform housing in the apartment blocks and in the city centre, as well as for apartments in new projects.

If we consider the external factors influencing the real estate market, the changes experienced by the immediate and more distant eastern neighbours of Latvia became noticed here. In this regard, it should be noted that Pillar will continue to position itself as a reliable business partner that understands the needs of foreign clients, can provide a full range of services for capital investment in the real estate — from assistance in the selection and purchase of property to the maintenance, management and letting of property of any size.

In the area of project development implemented last year, the new premises of Pillar Group should be mentioned, which, along with the new project of Pillar Parking, started the development of New Hanza City. As an important step towards the achievement of our goals, it should be noted that we have taken the

The first building in New Hanza City is Pillar's office

REAL ESTATE

In 2015 the construction of a new part of the city — New Hanza City — will gain momentum.

charge of processes of the area planning as well by acquiring a new company Schaller Kyncl Architekten Riga to the Pillar group of companies. The acquisition of the architectural bureau was aimed at concentrating all processes related to New Hanza City project in one place, thus making it possible to structure and optimise Pillar operations as part of this large-scale project. The task of Schaller Kyncl Architekten Riga is to develop the necessary design and technical documentation for the first stage of construction, which covers the construction of ABLV Bank headquarters and an office complex, as well as to start designing further stages of construction.

Pillar tasks for 2015

We anticipate the development of multiple lines of our operations in 2015. We plan to complete the sale of the remaining apartments in our own new projects Elizabetes Park House, Pine Breeze, Dārza Apartment House, Saules Rasa, Lielezeres Apartment House, and Liesmas Apartment House. We will begin selling apartments in the new premium-class project Miera Park House.
As a target audience for the offered properties we see local buyers who want to improve their living conditions by purchasing an apartment in a high-quality and well-served house and foreign buyers who can appreciate all the "extras" and the comfort that they will receive by purchasing any of premium-class properties from us.

At the same time, we will continue to sell secondary-market properties to sell out our accumulated objects, thus making it possible to allocate funds for the development of new projects with high added value.

The other major business that will gain momentum in 2015 is related to the construction of a new part of the city — New Hanza City. This project will be developed in a number of stages, and the first construction works in New Hanza City were already started in 2013. As a result, a new administrative building of Pillar was built. Owing to this, Pillar, being in charge of further development and maintenance of New Hanza City, is being in the centre of the developed territory every day.

The plan is to start the next stage, i.e. construction works beginning in 2015, with the construction of two new buildings — one of them to be ABLV Bank headquarters, and the other one — a multifunctional office and shopping centre. In parallel, during the second stage of construction the necessary underground utility lines will be installed throughout New Hanza City, providing for a separate connection to the street networks for each quarter.

A clearer idea of the third stage has also been shaped — during that stage the Latvian Museum of Contemporary Art, a new urban park, as well as exclusive apartments will be built in the area.

Currently, more than EUR 28 million has been invested in New Hanza City project. The plan is to complete the project in full by 2033.

Running is in vogue

"The more I run, the more I want to run, and the more I live a life conditioned, influenced and fashioned by my running. And the more I run, the more certain I am that I am heading for my real goal: to become the person I am," says George Sheehan, M.D., former columnist for Runner's World. Julija Surikova, PR specialist at ABLV Bank, tried to find out what running is all about and why our employees run.

A marathon is an urban extravaganza

In Riga, a keen interest in running became evident in the late 90s due to the development of "urban consciousness", but it was as hard to find a running club or a group of runners as it was to find good trainers. However, even then, working city-dwellers realised that a sedentary lifestyle and a lack of outdoor activities could have a negative effect. Sports clubs started mushrooming. More and more people became keen on sports, the most daring ventured out into the streets. Increasing numbers of amateur runners of different ages and in different physical condition appeared — they ran in any weather and in any season, alone or in a group. Year after year, running recruited more and more supporters of cardiovascular exercise — it became more and more popular.

Passion for running and marathons

The townspeople and the number of marathon runners in this city or that indicates much about its standard of living. Riga has vast experience of holding marathons — they go back almost as far as the bank does. The first official marathon was held by Riga City Council in 1991. It attracted 10 000 participants and, in 2015, Riga has hosted the 25th jubilee marathon.

2014 was a significant year for Riga, not only because of the "Riga — European Capital of Culture 2014" events, but also because the Nordea Rīgas Maratons 2014 attracted the largest number of participants — 23 193 runners from 61 countries. 1 485 sports people completed the full 42 km distance; 3 715 participants ran a half-marathon of 21 km; 5 666 people ran 10 km, and 12 327 participants conquered the 5-kilometre distance. On the day of the marathon, the city breathed with common lungs as it were, and the feeling of community and the atmosphere of a sports holiday reigned supreme.

The marathon route began with the 11 November Embankment clogged with athletes. They passed through the spring-fresh centre, past the bank's headquarters, over the Cable-Stayed Bridge to the green island of Ķīpsala and back, looped the Freedom Monument, where the participants were met by a choir in national costume, then continued along the main street — Brīvības — which delivered the runners to Old Riga, where the participants had to run on the cobbles, leading them to the bank of the Daugava River, the longest straightest stretch, where the light breeze cooled the hot bodies of the runners, then they turned and arrived at the final straight. The marathon runners did this route twice, and all finished on the Embankment. Along the route, apart from the fans, there were choirs, orchestras, commentators, photographers, water stations, thou-

Ainārs Aizpurietis (second from the left), Nordea Rigas Maratons 2014, 42 km distance

sands and thousands of fans who came to support their loved ones, friends and colleagues, and strangers who were simply united by the uniformly mighty spirit of sportsmanship that day.

It seemed the whole city took part in the marathon — Rigans, guests from other countries and the neighbouring towns cheered the runners, and the participants celebrated victories and personal records. The 2014 marathon was more than a sports event — it was a real city festival, the kind of extravaganza everybody wanted to be part of.

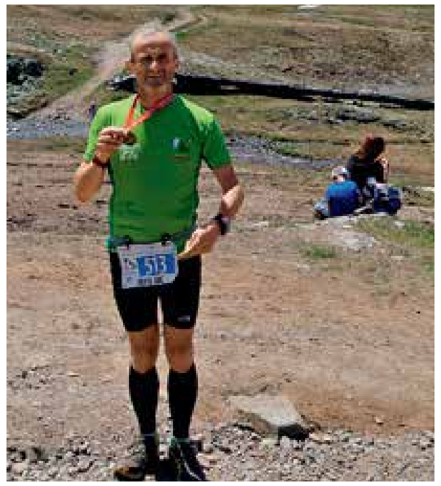
For the 58 employees of ABLV Group, this marathon became the sports event of the year. Many broke their own personal records and experienced emotions that will stay with them for a long time. Our runners took part in all distance categories, the largest group being enrolled for the 5 km distance. However, we also took part in the longest distance race. Three marathon runners — Aināīs Aizpurietis, Gatis Pļaviņš and Mārtiņš Allers — ran the 42 km marathon. Our four runners turned out to be the fastest in the "Men's 5 km" class, taking third place with a final time of 1:40:29.

Just a week later, the relay baton was passed to our colleagues in Luxembourg, who took part in the famous Night Marathon.

Running under cover of night

On 31 May 2014, our colleagues from the subsidiary ABLV Bank Luxembourg took part in the Luxembourg marathon, traditionally held at night. The motto of our marathon team, which was small for the marathon, but large for ABLV Bank Luxembourg, was football legend George Best's famous quote — "Pain is temporary, glory... lasts forever!"

Two teams of four people (three women and five men representing almost every department in the bank) participated in the colourful race. The route of the marathon went along Kirchberg Plateau, down to the residential blocks, through the old town, past the bank offices and back to Kirchberg. The runners had a hard time because the Luxembourg landscape is hilly and it is well known that running uphill is difficult. However, the festive atmosphere, and strong support from residents and passionate fans, provided an extraordinary feeling. Compared to the Riga Marathon, the Luxembourg Marathon has fewer participants — 10 000 people take part in it each year.



From left to right:
Vadims Reinfelds, Jūrmala Half-Marathon; Jean-Luc Andrin, Zermatt Marathon, 2014, Switzerland

Running is a good school of life because it is a constant challenge for you — this fosters discipline and will power.

Our Luxembourg colleagues made it into the TOP 150 (out of 768 teams) with a finishing time of 3 hours, 52 minutes. The result in terms of time was good, but that was not the goal. The participants said they gave it one hundred percent — and exceeded their own expectations.

ABLV Bank's well-known runners share their personal experience, impressions and advice:

- Head of Back Office of ABLV Bank Luxembourg, **Jean-Luc Andrin** (with 16 marathons to his credit)
- Deputy Chief Executive Officer of ABLV Bank, **Vadims Reinfelds**
- Assistant Lawyer of ABLV Bank, **Ainārs Aizpurietis**.

What does running mean to you?
J.-L. Andrin: I started running when I turned 40. Having received disappointing results from my health check, my doctor suggested that I should either go on a diet or start doing sports. I could not imagine going on a diet — I love eating too much! So I started running. To make it easier, I joined a group of women. After three months of four workouts a week, I was able to join a men's group. The male runners were much stronger but, in a couple of months, I caught up with them. At that time I started to participate in local races — all in all, there were about 50 races a year. Every Sunday, at ten in the morning, people could run two distances: 5–7 km and 10–21 km. Participating in those competitions gave me an incentive to improve.

For me, running is an opportunity to keep fit and to maintain my health. This solution allows me to continue enjoying life: to eat well, to drink good wine, to meet people with similar interests, to make new friends, and to share the fun with others, including my colleagues. Running is a good school of life because it is a constant challenge — this fosters discipline and will power.

V. Reinfelds: Running replaces a cup of coffee in the morning and a glass of champagne in the evening. Running is a super convenient sport; one can engage in it in virtually any conditions, regardless of whether you are at home or on the road, alone or with company, tired or alert.

A.Aizpurietis: It is a tool for health promotion, understanding oneself and the outside world. Also, if you run with your friends, you strengthen your personal relationships, especially if it is more difficult for your friend than for you.

Once I participated in an orienteering event with a corporal from the Latvian Army — a strong man, about two metres tall, basically, the Hercules of our time — but long-distance jogging was not his

ABLV Bank employees on the eve of Nordea Rigas Maratons 2014

LIFESTYLE

Run with your friends and praise them for their personal achievements, participate in running competitions, run outside your city, read books and watch films about running and try to beat your personal records!

strong point. At the end, he would switch to walking. Although I would often run ahead, I encouraged him as best I could and we ran the last kilometre shoulder to shoulder and finished as a team — we were the last. Someone even teased us, they said, how come? You were the clear favourites and faltered, but that did not matter because on that day, I gained more than a prize.

Participation in a marathon is comparable to...
J.-L. Andrin: Participating in a marathon is an unusual thing: preparation begins long before the event and takes about a year. The preparation for one's first marathon may take years. Then you decide to participate in a marathon in London, Paris or New York. At the same time, you learn the date of your marathon. Exactly 12 weeks before the marathon, you start training in accordance with a special programme for the time you want to make. You have from three to six workouts per week, despite the weather, in the evening, at night, after work, alone or with friends, always in a jacket with reflectors and with a torch on your head. Emil Zatopek, last century's famous runner said: "If you want to run, run a mile. If you want to experience a different life, run a marathon!"

V. Reinfelds: I started running only recently and have participated in just a handful of half-marathons. It feels like an exam — the excitement that quickly turns into intensive work aimed at a result.

A. Aizpurietis: ...a walk in the park after a long bed rest. Back in March 2013, I was able to run only a hundred metres, then a sharp outflow of blood would cause pain in my liver, my legs would feel heavy, it would be hard to breathe. Six months later I ran my first half-marathon, and in May 2014, a full marathon. It was not easy or fast, but that I was able to participate and finish was a great achievement. It made me feel satisfied with a job well done.

Running is an individual sport, sometimes it is difficult to find support or motivation for workouts. Where do you get your inspiration?
J.-L. Andrin: When the weather is bad or I feel low, I man up and run. My family has always supported me and I am very grateful to them for this. Sometimes I draw energy from the cohesion of the group. It is difficult to run long distances alone. Friends who run with you help a lot.

V. Reinfelds: I started running in a group, then had great support from sports friends through social networks, and now I have enough personal motivation. I am also motivated by the desire to get prepared for an important start, and after every workout I feel fit and in a good mood.

A. Aizpurietis: Running is not an individual sport; this is an illusion. Yes, at the beginning many people are ashamed or embarrassed to run with someone, but when this period passes, you become part of a community of very friendly and strong people. Scientists believe that our ancient ancestors hunted their food by running, or rather by pursuing the ancient savannah antelope collectively until they fell down as a result of a heart attack.

The success of such a hunt is closely related to teamwork, not least because that one person, after running twenty kilometres or more, would not have been able to carry the carcass of the antelope back to his village. Therefore, all the other members of the community ran after the young hunter and ate on the spot.

My advice is: run with your friends and praise them for their personal achievements, participate in running competitions, run outside your city, read books and watch films about running, and try to beat your personal records!

Of course, sometimes one faces difficulties. I ran my second marathon with an earache. At that time I was not thinking about motivation — I was just running. As one famous runner said, "Sometimes you just do things!"

Do you set any specific goals? Do you run for time, under the frequency principle, or do you set particular tasks for each workout?
J.-L. Andrin: It is becoming increasingly difficult to set more than two goals per year — I am 53 years old after all. Five years ago it was easier to recover after a marathon. Injuries are more frequent now. Last year I took part in the London Marathon, but I trained for only five weeks due to a muscle injury. In the thirtieth kilometre, I felt pain and the end result was not so good — 3 hours 37 minutes. Four weeks later, I ran the 35-kilometre La Bouillonnante race in Belgium. As little time had passed since the London Marathon and I hadn't fully recovered, my knees and shins ached.

In June 2015, I will participate in the Olympic triathlon in Annecy. The competition will include a 1 500-metre swim, 43-kilometres of cycling on a 1 050-metre plateau, and the fun will be completed by a 10-km race. For me, this is a new challenge — I have not cycled or swum since I was 15. Depending on how quickly I recover, I may participate in the marathon with a colleague of mine this autumn. That will be my 17th marathon.

Training for time is difficult — now I maintain my level and marathon time of 3 hours 30 minutes. This enables me to stay in the comfort zone during my workouts. Previously, I was trying to beat my personal best — 3 hours 10 minutes in Belgium and 3 hours 14 minutes in the Netherlands, but due to my age and starting sports quite late in life, I never reached the mystical time of 2 hours, 59 minutes and 59 seconds.

V. Reinfelds: The plan for this year is to take part in two marathons — in Riga and New York, I will run a half-marathon in Jūrmala and Luxembourg as well. I have a plan for every workout — whether in terms of time, distance, a particular pulse, intervals or exercise. Without a plan, it holds no interest for me.

A. Aizpurietis: My priority is distance running. Therefore, in most cases, I run somewhere, rather than for the speed. For example, last summer, twice a week after work, I ran six kilometres to Mežaparks where running training was held, and then about another seven kilometres. As a gift for my active participation in the training sessions, I was awarded a trip to Stockholm — a total win-win situation.

Do you agree that one can calm one's mind while running? What do you think about when you're running?
J.-L. Andrin: During short and long races, I try to run so as to be able to talk to my friends or other participants in the race. Some run alone and listen to music. I prefer to talk, staying in the group.

Depending on the intensity and duration of the workout, one can combine running with thinking, but you can wear yourself out so much that it is impossible to think about anything — then your mind is forced to rest.

In each marathon, one can run behind the leaders who set a specific pace. Usually whole groups run behind pace setters to reach the same running goals, and some runners are sure to communicate with each other. Conversation helps to pass the time. During the thirtieth kilometre, when the "real marathon" starts (it was just a warm-up before), I try to concentrate on the movements, posture and kilometres — and ignore the pain. I imagine the routes I run at home and compare them with the remaining kilometres. After the thirtieth kilometre, I look for my loved ones in the crowd of fans to get a bottle of Coca-Cola (at this moment Coke is the only drink I am able to swallow).

V. Reinfelds: Depending on the intensity and duration of the workout, one can combine running with thinking, but you can wear yourself out so much that it is impossible to think about anything — then your mind is forced to rest. Of course, more often than not, I manage to both run and meditate, to distract myself from unnecessary thoughts and to reflect on important issues.

A. Aizpurietis: I agree. While running, your thoughts become crystal clear and you can make important decisions. Sometimes you feel blue or worried, and you just go out and run and your worries fade and seem unimportant. Clarity of thought may be explained by the increased pulse rate, that is to say, your heart starts pumping blood faster, thus your brain gets more arterial blood, rich in oxygen and nutrients. While running, I think about how to become better — not only as a runner, but as a man.

Contemporary art should be accessible

More than half a year has passed since the protocol of intent was signed on 31 October 2014 by ABLV Charitable Foundation, the Boris and Ināra Teterev Foundation and the Ministry of Culture of the Republic of Latvia on the construction of the Latvian Museum of Contemporary Art. "The plan is to complete the construction of the museum by 2021, and for the time being this is the farthest objective. We believe this is quite a real deadline to go through all the processes," — said Romans Surnačovs, Chairman of the Board of the Foundation of the Latvian Museum of Contemporary Art, during our conversation having revealed his vision of what the museum should be like and what is done to implement it.

How was the Foundation of the Latvian Museum of Contemporary Art established, and who was the author of the idea?
If we talk specifically about the Foundation of the Latvian Museum of Contemporary Art — this is a brand new idea. Let me remind you that in 2005 ABLV Bank signed an agreement with the Ministry of Culture in support of the establishment of the museum using considerable funds to be allocated for the development of its collection. However, as Ernests Bernis, one of our patrons, pointed out in his speech on 31 October 2014, when the agreement was being signed it could never occur

"Our initiative to build the museum using private funds will make sceptics to believe that contemporary art can indeed bring fascinating personal experience and inspire the joy of cognition. We want to show that the museum can become a social condenser."

The audio of this statement was visualised in the photograph taken in the territory of the future museum.

to him that he would have to take part in the construction of the museum. In 2005, everybody was certain that the museum would be built by the state. Unfortunately, because of the crises, the state encountered many other tasks of higher priority that required immediate reaction and investments, and the construction of the museum was postponed for an indefinite period.

This was the time when the idea to establish the Foundation of the Latvian Museum of Contemporary Art first appeared — in the way it is perceived now and with current costs. ABLV Bank has been collecting the works of art for the museum already for eight years now; and the bank owns its own art collection because once it was planned to set up an art gallery or to provide premises for special exhibitions when a new building for the bank would have been designed. However, nobody thought about the construction of a museum! This kind of socially significant projects are usually implemented by the state, attracting patrons and sponsors from the private sector.

Last year, when the Foundations were planning their further work, their patrons — Boris Teterev, Ernests Bernis and Oļegs Fiļs — discussed potential assistance to be provided to the government in the construction of the contemporary art museum. At that time, the Boris and Ināra Teterev Foundation had just completed a large-sized support project of the restoration of Rundāle Palace, the restoration of its library was completed by ABLV Bank. Both parties have had joint projects before. Our friends, the Teterev family, were ready to take on another ambitious patronage project, and the founders of ABLV Charitable Foundation turned out to be prepared for it as well. Lucky circumstances and, maybe as in all large undertakings, a good chance played their role.

You mentioned that the bank started to set up its own collection of works of art.
The bank invests in the formation of the collection for the future museum under the above-mentioned agreement of 2005. It was assumed that one million lats or nearly one and a half million euros would be invested in the collection, which is being carried out purposefully. The expert committee formed by the Ministry of Culture of the Republic of Latvia selects the best works of artists and gives recommendations for their acquisition. Of course, the collection includes not only the works of Latvian artists — there are as well the works of artists from other Baltic countries, Russia and the countries from our cultural and historical archipelago. Some of the artists when they find out that their works have been selected for the collection of the museum sometimes offer themselves concessions to the bank.

Let's get back to the origins of the idea — to motivation why the bank has started gathering the collection and reasons why this agreement was signed in 2005. The major shareholders of the bank — Ernests Bernis and Oļegs Fiļs, being connoisseurs and cognoscenti of art, noticed how inert the art market in Latvia was. The trends they observed in the competition of artists and gallery owners in the fight for a client made them confused. They admitted with regret that it was easier to buy Latvian artists' works, for example, in London, Berlin or New York than in Latvia, that the artists went to work abroad because there they were recognised and were able to exhibit their works in galleries there. At that time, the art market in Latvia was not developed at all and the vast

Exhibition "...for an occurrence to become an adventure...", Art Gallery Rigas Mākslas telpa

We are united by a common goal — to make contemporary art accessible and to show how interesting, valuable and worthy of attention it is.

majority of society had a preconceived notion of contemporary art as such. One of the reasons why the bank decided to support the formation of a collection of national importance was the desire to break the stereotypes of contemporary art as of boring and confusing direction. Currently, the bank has assembled an impressive collection of works of art — there are more than 200 works of a total value exceeding EUR 600 000.

In your opinion, why do we need the Latvian Museum of Contemporary Art in Latvia? Should it not have been completed as early as last year, when Riga was the European capital of culture?
Of course, according to the plans of 2005, the museum was to be built by 2014, but one should not forget about the crisis and its consequences that are still being felt in macroeconomics. Moreover, there were objective reasons. In turn, to have or not to have the Latvian Museum of Contemporary Art as such is not a question for discussion. There are the Art Academy, wonderful artists recognised throughout Europe, in America and around the world, a large collection of contemporary art. It goes without saying, these works must be exhibited somewhere.

Was the collection accumulated by the bank accessible for public inspection?
To mark the 20th bank's anniversary, in September 2013 a larger part of the collection was exhibited in public at the gallery Rigas Mākslas telpa. The exhibition clearly proved that contemporary art may catch the interest of a very wide part of the audience, in terms of its themes and it showed that the modern means of expression are not so very absurd or incomprehensible. It was realised because much attention was paid to the explanatory materials, the educational program for schoolchildren and discussion opportunities. Sometimes people think that the works of contemporary art are understood only by their authors and their "unusual admirers". Let's face it — this is the way how many people think. By our collection, which does not contain any overly provocative works, we have shown that contemporary art may be beautiful, eye pleasing and clear. That was largely due to Solvita Krese, the curator of the exhibition, who managed to combine all in a logical order and to prepare a story of each work. It was only by understanding, analysing and evaluating everything as a whole that the visitors were able to discover the essence and purpose of the works and to begin contemplating beauty. During the exhibition, the ABLV Charitable Foundation created an educational program for schoolchildren, which includes an interactive game. During six weeks of the exhibition, the program attracted 3 500 schoolchildren. A large number of visitors, the critical acclaim and the public recognition confirmed that the public was interested in and needed

contemporary art. The audience was ready to get acquainted with it, to study and accept it. Those eight years have not passed in vain and the right direction was chosen. That made us truly inspired and encouraged to continue what we began.

The new museum will be built in New Hanza City — a district between Hanzas, Pulkveža Brieža and Skanstes streets, where a new business and recreational centre will be set up in several stages over the years. Why was this particular place chosen for the museum?
Such a large-scale project requires a vast area. Besides, it is important what will be around the museum in the future. This is why the NHC area was proposed for consideration to the Ministry of Culture of the Republic of Latvia. We believe the NHC area to be suitable for this kind of project. It is kind of a border between our old classical Riga and new industrial one. In other words, a sort of a meeting point where the bourgeoisie and the common people come together. We can draw interesting parallels — a clash of the classic and the modern because modern art is a challenge of its own kind. Besides, New Hanza City and the place where the museum will be built have interesting history: there was a freight station once — a sort of symbol of development and international trade.

According to the development plans of NHC, this area will become a new urban environment for active recreation, comfortable living and work. Therefore, such a project as the Latvian Museum of Contemporary Art with a park around it will fit very well into this ambitious project. The place is less than a ten-minute walk from central Riga, very close to the beautiful area with Art Nouveau buildings.

The vision of the state is to create a new, modern space working well with contemporary art that would attract and be interesting for people. We share the bank's credo — perfection in all our endeavours, the same approach is followed by the Boris and Ināra Teterev Foundation, so we will do our best for the future museum to become an interesting place for the public. The Ministry of Culture of the Republic of Latvia and the Foundation of the Latvian Museum of Contemporary Art are united by a common goal — to make contemporary art accessible and to show how interesting, valuable and worthy of public attention it is.

What should the Latvian Museum of Contemporary Art be like?
At this stage, we generate and summarise the ideas because before the construction of the museum is begun, we need to have a clear vision of what it will be like and what it will be about. The museum needs to have a special aura created from the very beginning; it needs to stand out from others. Of course, one of the objectives is to acquaint the people of Latvia and Riga with the works of our wonderful local authors, but it should be taken into account that people travel a lot and visit other museums in other countries.

Therefore, we need to create a special concept of our own because a modern museum is not just walls with paintings or rooms with sculptures, a ticket office, a cloakroom and a shop with a cafe. There is much more to this! A museum should be a meeting place as well. This phenomenon is called a social condenser — people come to the museum not only to enjoy art, but also, perhaps, to work. Everybody knows

Exhibition "…for an occurrence to become an adventure…", Art Gallery Rigas Mākslas telpa

how popular cafes become if they have a pleasant atmosphere, where people sit for days on end, exchanging ideas, not just creating art, but doing business. It often happens nowadays that museums attract people like a magnet. We need to create a museum that would be good for families with children and that would be interesting for schoolchildren as they are our young audience who will enjoy art in the future! All of the above is included in the tasks of the expert committee.

Who works on the committee?
The committee was formed from the selected experts in different areas according to the formula: two + two + three. Two experts were Zanda Zilgalve, Chairperson of the Board of the Foundation, and Kaspars Vanags, art expert, from ABLV Charitable Foundation, two — Helena Demakova, critic, and Elīna Vikmane, manager of the TÊTE-À-TÊTE program, from the Boris and Ināra Teterev Foundation, and three giants of art — Māra Lāce, director of the Latvian National Museum of Art, Jānis Dripe, architect and advisor to the Ministry of Culture, and Jānis Mitrēvics, artist and head of Dd Studio, were delegated by the Ministry of Culture. In general, we should acknowledge that the bank and the Foundation of the museum have developed successful cooperation with the Ministry of Culture of the Republic of Latvia, and we feel a great support from Dace Melbārde, Minister of Culture.

The first task of the committee is to create a brief concept and to draw a general idea of what the museum is about, what volume of works will be required for exhibitions, what areas should be provided for the museum building and how the collection will be managed. This is done to arrange the competition of architectural sketches, to set a direction for the architects participating in the competition. When the architects and project that suit best our expectations are selected, we will supplement the concept and shape a complete idea of how the museum will work in the coming years.

What will the Foundation do during the construction of the museum?
The Foundation will coordinate the construction process, develop the program of exhibitions and plan events for at least three upcoming years, as it is important to become a member of the international museum community, without which it is difficult to survive. To ensure the flow of people, displays should be changed and interesting exhibitions should be hosted. This is our main task. Everything is possible — one just needs to work. To bring interesting exhibitions, one needs either to pay a lot or to offer something for exchange. This is why during these years the expert committee will create clusters and will group the collection so that it may be included in the international network, in order to exchange the displays successfully and to show something new to people all the time. There is enough work.

You are the Chairman of the Board of the Foundation of the Latvian Museum of Contemporary Art — but what attracts you personally in this project?
For three years, I have been on the Board of ABLV Charitable Foundation, where I have worked quite a lot on projects aimed at supporting art. Perhaps, this is the main reason why the founders of the Foundation entrusted me with the leadership of this project at the initial stage. Certainly, I am interested in art as a person, as this is something new and often more exciting and unpredictable than my daily work. (*Smiles*) At first, I took little interest in contemporary art, I was rather a passionate admirer of the classics. However, when I started working for ABLV Charitable Foundation and looked at contemporary art through new eyes, I realised that it could be very exciting. In addition, this project is very ambitious, so to be involved in it is a great honour and a serious challenge.

CULTURE

Those were difficult, but wonderful years!

In 2014, Rundāle Palace celebrated the 50th anniversary of its reconstruction and its completion. We met with Imants Lancmanis, the keeper of the palace and the director of the museum for many years, to learn what the year 2014 is best remembered for, what periods in the history of the palace were most difficult, and, of course, to ask about plans for the future.

In last May, Rundāle Palace celebrated its current birthday and the 50th anniversary of the beginning of its reconstruction. However, as it was stressed repeatedly in the course of the conversation by the long-term owner of the palace (the truth is that we would want to call him that) Imants Lancmanis, who devoted his entire life to Rundāle Palace, that was not the end because the works related to the development, maintenance and extension of activities of the palace were sufficient for at least another four to five years. He also reminded us that without the help of friends and patrons — ABLV Bank and the Boris and Ināra Teterev Foundation — it would not have been possible to implement this.

Recently the palace has just celebrated another birthday — this time its 279th, which is traditionally celebrated on 24 May, besides, should the plan succeed, this year the memoirs of Imants Lancmanis dedicated to the construction of Rundāle Palace and its restoration will be published.

Rundāle Palace

If you are now asked to look back and try in a few words to describe these fifty years ...
In fact, a couple of words will not do — so diverse and extraordinarily difficult was this time. *(Smiles)* Right now, I have the opportunity again to go through its history as at present I finish writing my memoirs about the history of Rundāle since the beginning of its construction to the present day. So inevitably, I have to take a step back. I must admit that writing about the 18th century and the establishment of the palace is much more pleasant than about its restoration. *(Smiles)* Materials are found in the State Archives: they keep construction documents, Rastrelli's letters, reports... In the process of writing I realised that sometimes it was more difficult to remember something from the past 40 years than what happened 240 years ago. I could tell much more precisely, what happened during the construction of the palace in this or that year.

Have you found anything surprising or unusual when you studied archival materials that you would like to mention especially?
There is something unusual in the most usual things: in fact, everything was very difficult at all times. Everything seems brilliant to us, and at the sight of the palace it all seems very simple. But now, in my opinion, this cannot be repeated for any number of millions! On the other hand, after a closer look at the materials regarding the construction of the palace I came to the conclusion that it was terribly difficult even then. Just imagine coming to an empty space where there is nothing! They had to find materials on their own. However, what important was that raw materials, such as clay, they could find right under their feet. Therefore, four and a half million bricks were made from clay on the spot!

In fact, Rastrelli arrived to an empty space, and look — he built a palace! In my opinion, he managed to fulfil this task perfectly and, beyond doubt, he was worthy of the title of a genius in terms of management. He was responsible for everything — from screws, logistics, artisans who worked there, to the concept and the artistic image of the palace, its interior and decoration... Moreover, two years later the palace was topped up! Can you imagine that?! Now I read and do not understand how that could be carried out... *(Thinks)*

The Grand Gallery of Rundāle Palace. Imants Lancmanis, Director of the Museum of Rundāle Palace

As a rule, money just dissolves in the hustle and bustle of everyday — but it can be invested in something eternal because the palace will stand for many more centuries.

A priest from Mežotne, who led the consecration of the foundation stone, described in his little pamphlet that is still kept in the Academic Library what Rastrelli said, what songs were sung…and that at the end of the opening ceremony the barrels of strong drinks were rolled out for masons and artisans...

It took you fifty years to complete the restoration of the palace. How many years have you dedicated to writing your memoirs?
I have been working on them continuously. In 1965, I began looking through this pile of materials the first time, and their replenishment continues. Now it turns out that to describe the last few decades is the most difficult task. I just sit and add things — something has been forgotten... I do not want to deny history and do not intend to do so: everything will be in the book — the restoration of the palace will be described similarly to the description of its construction, I am describing every year. *(Thinks)* What we had to go through for all this to come true! In addition, it was not just due to the lack of resources or recession, but due to the opposition too — especially at the beginning, in the sixties, when the government could not decide whether Rundāle could be a museum... Now we only sigh, while recalling certain episodes.

As a rule, money just dissolves in the hustle and bustle of everyday — but it can be invested in something eternal because the palace will stand for many more centuries.

Undoubtedly, good angels, patrons — the Boris and Ināra Teterev Foundation and ABLV Bank, which contributed greatly to the restoration of the palace, were of great importance in completing the reconstruction of the palace.
Yes, ABLV Bank provided considerable support as they came up at the time when we encountered great difficulties. In 2005, we concluded that the painting on the ceiling in the Duke's library remained unconserved and were in a very poor condition. In the course of earlier works, time after time this type of work was postponed. The ceiling was obviously in a bad way, it was repainted many times and it was peeling off gradually... Then in 2005, when we were in despair, the State Inspection for Heritage Protection allocated some funds to us to start conservation of the ceiling. That was when ABLV Bank came up, with whose support it became possible to prevent the peeling of the ceiling during one year. The situation was extremely dramatic: the painting was peeling off in pieces, and we could not see where the mouth or eye contours were in the image. We managed to conserve it at the last moment. When the repainted layer was removed, it was found that even less was preserved of the painting of the 18th century. That is how ABLV Bank saved the painting for us; we also managed to strengthen the walls of the

room due to the provision of funds. Other processes and other sources of support followed, but it all could have been much more dramatic without the support of the bank — the painting could have peeled off so that the reconstruction would be impossible. Let me remind you that the original image of the 18th century has been restored.

Another thing that ABLV Bank made was a gift to our library — the first historical edition of the collected works of Voltaire. We had nothing to put in our bookshelves of the library. Therefore, Voltaire became a true symbol of the entire Duke's library of the 18th century. Just imagine there was not a single library that could do without Voltaire at that time. The Duke was certain to have such books as well. It is not a secret that at that period, Voltaire was a kind of fetish, an icon of enlightenment and wisdom. It is obvious he had to be in libraries.

Besides, it is great that the top quality edition of all possible options was chosen. As a rule, some volumes are missing in such collected works — it is natural that some of the volumes are lost, discarded, stolen after so many years... However, we have a complete set, and in a stunning original binding of the time too! The books were printed from 1784 to 1789; therefore, the event itself is a phenomenon. De Beaumarchais built a special printing house for this occasion and ordered special paper. It was one of the reasons why in the 18th century many people would want to have those books in their libraries. And, this is why we are very proud to be able to demonstrate to our visitors a whole bookcase with the collected works of Voltaire. That was a good gift from the bank! This is perpetuation of your name in history, besides the patrons themselves were happy, and this example — helping Rundāle — has become very significant. After all, money will just dissolve in the hustle and bustle of everyday — but it can be invested in something eternal because the palace will stand for many more centuries.

Every year you have something new to surprise the visitors. What will you offer them this year?
If we cannot compete in terms of antiquities' collections created over the centuries, we can focus on something else. This year it is the theme of aromatic vases or potpourri — this way we will try to beat the collections of other museums and palaces by gathering a great number of such vases. There were such aromatic vases in the Duchess' apartments back in their day as well. Our best card, I believe, is that this will be the first exhibition of functioning aromatic vases. We want to put some of them outside the windows so that the visitors will be able to enjoy their scent.

Just as it was in the 18th century...
Hopefully, yes. We have used the recipes of that time. My sister Lauma found a description of the favourite mix of the Marquise de Pompadour dated 1753 in the Internet. The description of the mixture covers two pages and the best thing is that all ingredients are available! The first paragraph seemed unimaginable: take a handful of Florentine iris powder... Incredible! Where do you get it? However, it turned out one can find it in the Internet: a 50-gram pack costs 52 euros... All the necessary resins and oils are on sale as well, and even in our country. Of course, all the ingredients are to be added in a particular order, slowly: they take months to start interacting.

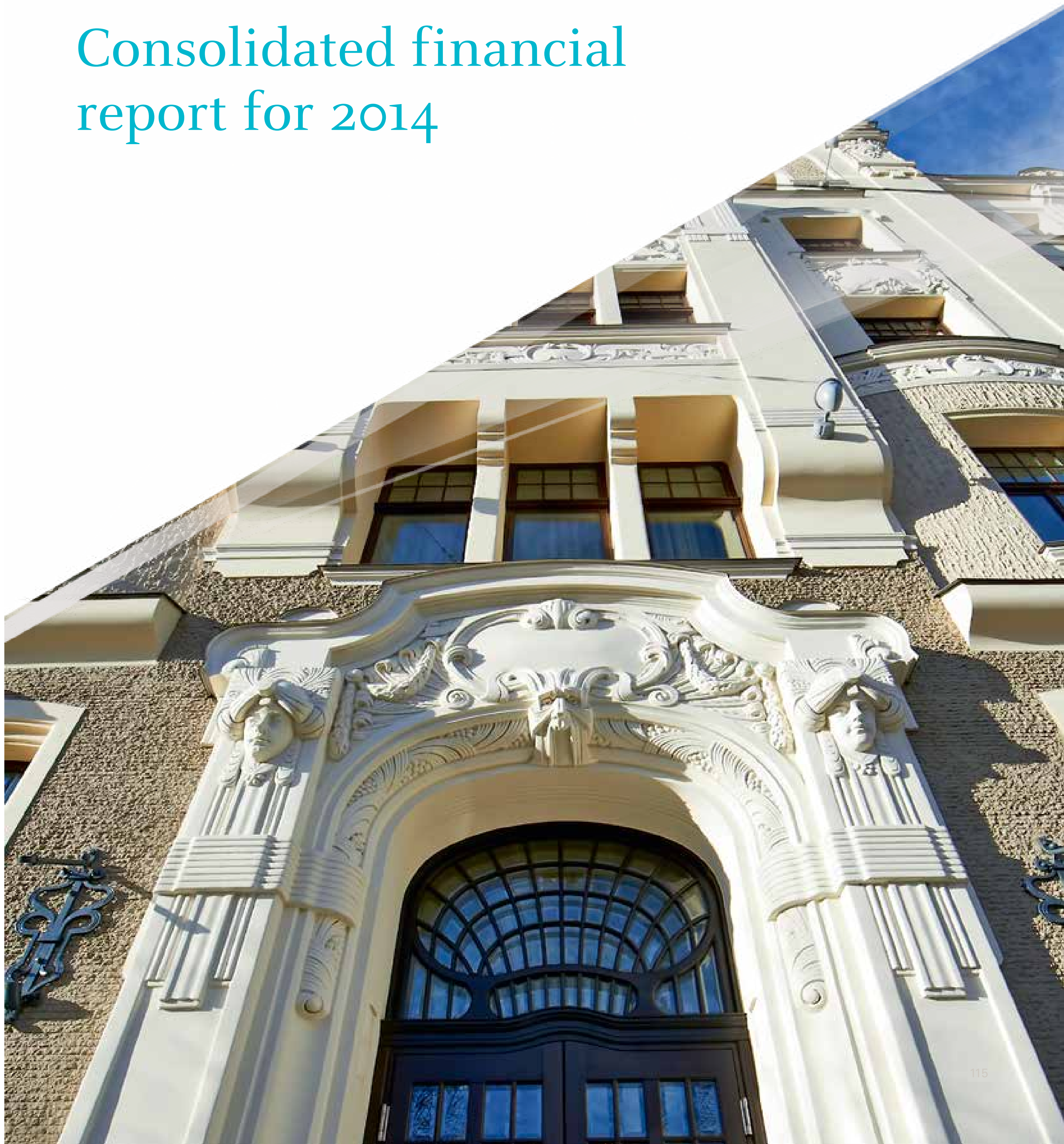
This unique entertainment will make it possible to stand out among other museums and palaces! We are curious to find out how it will eventually smell. You cannot understand this just from individual ingredients. We will enclose the original recipe in French and its translation. I think this will be a sensation because such things attract people. In short, this will be an interactive exhibition making people think about that age and its manners... We will remove the lid and release the fragrance. *(Laughs)*

What else do you dream of buying for the interior of the palace?
I dream about many things — for example, we want to get a number of paintings by famous artists. As it is well known, the Duke Peter owned a painting by Rembrandt that stayed in the palace for seventeen years. We are well aware that this work is currently in Hamburg. We also know that the prices for such paintings start from 30 million and over. However, there are other painters of that time, whose works may be bought, say, for twenty thousand. Therefore, we want to have such paintings which will help, even if partially, to imitate what was here in the days of Duke Peter; we want to raise the level in time in order to have not only good anonymous paintings, but works by front-rank artists as well. Perhaps, we will be able to agree with some museum, with unthinkable high insurance guarantees, to lend us some work by Rembrandt. This would be a true sensation — the return of Rembrandt to Rundāle! As they say, never say never. I think that it would be a beautiful event, but this is the future. In the meantime, we still want good front-rank Dutch authors, rather than Rembrandt.

BANKING / INVESTMENTS \ ADVISORY

ABLV

Consolidated financial report for 2014



Contents

Bank's Management Report

Ladies and gentlemen, dear shareholders of ABLV Bank, AS!

During 2014, the bank and other companies of ABLV Group continued to grow, due to consistent implementation of the group's development strategy. Although several our target markets were considerably affected by political and economic instability, we managed to achieve the planned results because of our thoroughly chosen business model, risk management, and cautious policy. According to the business model, we remained focused on rendering services to private and corporate customers in Latvia, as well as on exporting high-class financial services, provided mostly to customers from the abroad, especially from the CIS states.

On 4 November 2014, the single supervisory mechanism became effective, and the Eurozone largest banks came under direct supervision of the European Central Bank (ECB). By performing this supervision, the ECB monitors whether the strategy, procedures, and measures implemented by a credit institution ensure sufficient risk management and whether the credit institution's equity is adequate for covering current and possible risks inherent in its operations. In Latvia, ABLV Bank, AS, being one of the three largest banks in terms of the amount of assets, is also subject to joint supervision by ECB and the Financial and Capital Market Commission (FCMC). The ECB single supervision guarantee better availability of information on the banks' situation and thus boosts confidence in the financial sector.

Before ECB started performing supervisory functions, the banks underwent in-depth review of their balance sheets and stress testing — the comprehensive assessment, in which local supervisory authorities of each country and the European Banking Authority (EBA) were involved. Under the assessment, the ECB also applied correlation between asset quality review and stress test results in order to ensure even more critical evaluation of the banks' risky assets.

The assessment included the review of ABLV Bank, AS, exposures related to corporate financing in Latvia, real estate financing in Latvia and Russia, lending to large companies in Russia and mortgage loans granted in Latvian private sector, as well as the group's real estate portfolio, which altogether constitute the most considerable part of ABLV Bank risky assets. Conservative interpretation of the currently effective International Financial Reporting Standards was used for asset quality review.

Our bank has successfully passed the comprehensive assessment. Our strict adherence to the conservative strategy of lending and asset evaluation played a big role. We are glad that ABLV Bank, AS, together with its subsidiary bank in Luxembourg, is the only private bank from the Baltics that has fallen under direct supervision of the ECB among the largest and famous European banks. This supervision ensures additional sense of safety for our customers, and us and it will also stimulate bank's further development.

Significant events of the reporting period were: the change of the currency in which ABLV Bank, AS, share capital is denominated from lats to euro, following Latvia's accession to Eurozone, and also regular issues of shares, including the issue of voting shares and employee shares. As the currency was changed and issues were completed, the bank's share capital consisted of 29 385 000 registered voting shares and 3 265 000 employee shares without voting rights attached.

Continuing the bond issue programme, in 2014 we performed six new issues of coupon bonds: two of them under the Third Bond Offer Programme, and four — under the Fourth Bond Offer Programme. There was also one issue of subordinated bonds performed under the Fourth Bond Offer Programme. The total amount of all issues conducted in 2014, constituted USD 225 million and EUR 80 million. The bank initiated gradual replacement of long-term deposits with bonds at the end of 2011. Including new bonds and those already redeemed, we have performed 25 public bond issues until the end of 2014. As at the end of 2014, there were 19 bond issues included in the NASDAQ Riga list of debt securities.

On 25 April 2014, ABLV Bank, AS, entered into primary dealer agreement with the Treasury of Latvia, thus joining Primary dealers group. Primary dealers are cooperation partners of the Treasury entitled to take part in placement auctions of domestic sovereign debt securities arranged by the Treasury. During 2014, we have also acquired substantial amount of Latvian government securities, and currently we have Latvian government securities worth EUR 182,6 in our portfolio.

ABLV Bank, AS, and other ABLV Group companies are considered being significant employers and taxpayers. In 2014, there were 47 new jobs created in the bank only; and various tax payments made by the group to the state budget amounted to EUR 33.3 million, which is by 59,6% more than in 2013.

Financial results

The bank's major financial indicators of 2014 evidence stable growth. ABLV Bank, AS, is the largest bank in Latvia with local capital and is ranked second in terms of the amount of assets.

- The bank's profit in 2014 amounted to EUR 58.7 million. Whereas in 2013 it equalled EUR 43.7 million.
- The bank's operating income before allowances for credit losses totalled EUR 122.4 million. Compared with 2013, operating income has increased by 11,1%.
- The amount of the customers' deposits equalled EUR 3.41 billion as at the end of the reporting period.
- The amount of issued debt securities reached EUR 454.6 million.
- As at 31 December 2014, the amount of the bank's assets was EUR 4.17 billion. Over the year, the amount of assets has grown by 25,8%, the total assets increasing by EUR 854.5 million.
- The bank's loan portfolio equalled EUR 790.2 million, as at the end of December.
- The bank's capital and reserves amounted to EUR 226.9 million.
- As at 31 December 2014, the bank's capital adequacy ratio was 18,80%, whereas liquidity equalled 74,74%.
- ROE reached 28,82%, and ROA — 1,60%, as at 31 December 2014.

The bank continued to invest available funds in securities. The total amount of the securities portfolio was equal to EUR 2.15 billion, as at 31 December 2014. The bank's securities portfolio is mostly composed of fixed-income debt securities, and 72,8% 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 — 26,4%, Germany — 13,1%, Canada — 9,7%, Russia — 9,7%, Latvia — 9,3%, Sweden — 9,2%, Netherlands — 3,5%, Denmark — 1,8%, and Norway — 1,7%. Whereas 5,3% is constituted by securities issued by international institutions — the European Commission, EBRD, etc. In the reporting period, average annual yield of the securities portfolio amounted to 1,4%.

In 2014, we paid considerable attention to development of corporate lending. At the end of August 2014, with the participation of ABLV Bank, AS, the deal of selling capital shares of Ventamonjaks terminal, working with transhipment of liquid ammonia at Ventspils Free Port, was successfully completed. This was one of the most significant deals in the transit and cargo transportation area recently — the

The bank's profit in 2014 amounted to EUR 58.7 million

deal amount equalled EUR 55 million, with the financing of ABLV Bank constituting EUR 33 million. Whereas in September, LNK Group used ABLV Bank, AS, financing of EUR 8.1 million to acquire modern office building in Riga, at 15 J. Daliņa Street, for more than EUR 10.5 million.

During the reporting period, intense work was performed to improve the customer service quality. Internetbank for iPad tablet computers was developed; main Internetbank and Internetbank for iPhone smart phones were improved. Additionally starting from July 2014, we offer our customers debit and credit cards with the new, even more exquisite design. The new design of payment cards is based on ABLV brand graphic image and its stylistic elements.

In February 2014, the bank's Mortgage Loans Division moved back to the renovated premises at 21A Elizabetes Street in Riga. As for now, we will ensure the highest level of service in Latvia for mortgage customers.

Investments

Performance of open-end mutual funds managed by ABLV Asset Management, IPAS, was influenced by complicated geopolitical and macroeconomic situation caused by strong price fluctuations in financial markets during the year. Nevertheless, the investors' interest in our funds continued to grow, and as at the end of the reporting period more than 180 of our customers owned shares in our funds.

As at the end of the year 2014, the total value of assets of open-end mutual funds exceeded EUR 106.6 million. Since the beginning of the year, the total value of funds has increased by 21,2%, i.e., approximately by EUR 18.7 million. Such a growth is mainly caused by the frequently expresses wish of our customers to diversify their investment portfolios by acquiring shares of ABLV mutual funds, given low interest rates in the USA and Europe. This approach to investments enable substantial increase of the portfolio overall yield, compared with deposits.

We started offering mutual funds to our customers in April 2007. As at the end of 2014, there were 10 mutual funds available to our customers, including 4 stock funds, 2 emerging markets bond funds, 2 CIS corporate bond funds, and 2 global market corporate bond funds. The first ones of those — ABLV Emerging Markets USD Bond Fund, ABLV Emerging Markets EUR Bond Fund, ABLV High Yield CIS USD Bond Fund, ABLV Global USD Stock Index Fund, and ABLV Global EUR Stock Index Fund — have been operating for 7 years already.

Taking into account the growing demand for our products, we are planning to expand the range of offered funds by adding at least one new fund each year, so that customers have wider opportunities of investing in financial instruments. Therefore, in 2014, necessary preparation for establishing of the new mutual fund ABLV Multi-Asset Total Return USD Fund was performed, and the new fund was registered on 9 January 2015.

The year 2014 was also successful for ABLV Capital Markets, IBAS, which

As at the end of the year 2014, the total value of assets of open-end mutual funds exceeded EUR 106.6 million

executes the customers' instructions for purchasing and selling all types of financial instruments in the world's major securities markets. In the past year, profit of ABLV Capital Markets, IBAS, amounted to EUR 2.9 million. As at 31 December 2014, the total assets of the company's customers invested in financial instruments were equal to EUR 925.5 million.

For our customers who prefer using trading opportunities provided by Russian stock exchanges on their own, we offer trading platform Quik Trader ABLV. By using this platform, customers get access to online trading at Moscow Exchange (MOEX), performing settlement in Russian roubles. Quik Trader ABLV is an addition to two other trading platforms: J-Trader ABLV (for trading in derivative financial instruments at the US and European stock exchanges) and Orbis Trader ABLV (for trading in the US securities).

Given the high interest in the securities issued by ABLV Bank, AS, and the growing number of notifications on events concerning bonds and shares of our bank, we offer to our investors a simple and convenient way of receiving necessary information. We have added 'Investor Calendar' to the bank's home page www.ablv.com, where most important news about our bonds and shares are published — information on public offering, issue results, dates of coupon payments, bond redemption, meetings of shareholders, financial performance, etc.

During the reporting period, limited partnership dealing with investments, ABLV Private Equity Fund 2010, KS, gained profit of EUR 8.0 million. The greatest part of the profit was generated in a result of selling of DEPO DIY, SIA, company shares — the largest company in Latvia, operating at the sphere of retail of construction and finishing materials.

In the reporting period, first increase of AmberStone Group, AS, share capital has been successfully completed, and thus the company's capital has been increased by EUR 9.1 million, reaching EUR 14.0 million in total. ABLV Bank, AS, as well as several customers and shareholders of the bank participated in the share capital increase. ABLV Bank provided substantial support to arrangement of this share issue. Increase of the capital will allow AmberStone Group, AS, to secure the position of one of the leading holding companies in Latvia and also make new investments in capital of promising companies.

The holding company AmberStone Group, AS, was established to separate the business not related to rendering financial and banking services from ABLV Group. The company will also take over the investments of limited partnership ABLV Private Equity Fund 2010, KS. Therefore, shares of SIA Orto klīnika and SIA Vaiņode Agro Holding, previously owned by ABLV Private Equity 2010, KS, were sold to AmberStone Group, AS, at the end of December 2014. It is planned that till the end of 2015 the share capital of AmberStone Group, AS, will be increased to EUR 35 million, also due to attracting new shareholders from ABLV Bank, AS, shareholders, customers, and partners.

Real estate

For the real estate development group Pillar, the year 2014 was productive and full of intense work. In 2014, local buyers continued to demonstrate stable demand for uniform apartments in secondary market. Whereas foreigners' interest in property purchase was affected by government decisions regarding amendments to the programme of granting residence permits — during the last third of the year the interest of these customers was much more reserved. Overall, Pillar managed to retain sales in 2014 at the level of 2013 and even slightly increase those. Pillar managed to conclude 626 sale transactions, the total amount of which reached EUR 33.5 million. Compared with 2013, the number of sales transactions has grown by 2%. The portfolio of uniform real estate has decreased from 836 to 583 properties over the year. The results of new projects sales were also good, since just about 8% of apartments in new projects developed by Pillar remained unsold as at the end of the year. There were 126 apartments in new and renovated projects sold, including 5 premium class apartments in Elizabetes Park House project. In addition, 48 transactions on sale of private houses and 11 transactions on sale of land plots were made in 2014.

In order to meet customer demand, Pillar continued active work on managing the existing property portfolio, developing new projects, and implementing the renovation programme. At the beginning of 2014, Pillar completed all interior finishing works in the new modern apartment block Dārza Apartment House, as well as commissioned new apartment block Lielezeres Apartment House. Whereas in June reconstruction of 10 new apartments in the apartment block at 13A Akadēmiķa M. Keldiša Street in Riga was completed. Construction works at premium-class apartment block Miera Park Hous are also nearing completion. Sale of apartments in this building is planned to begin in Q2 2015.

There were also investments made in development of the project important for Pillar and the whole ABLV Group — New Hanza City (NHC) financial and business centre. In August 2014, after taking the charge of developing NHC territory basic design, Pillar acquired Riga office of German architect bureau Schaller Architekten Stuttgart. Thus, new company was added to Pillar group — Schaller Kyncl Architekten Riga. The aim of acquiring the architect bureau is to concentrate all processes related to NHC project development at one place, which will allow structuring and optimizing Pillar work within this large-scale project. The task of Schaller Kyncl Architekten Riga is to develop all technical documentation necessary for the project, so that construction works in NHC territory can be started already in 2015.

Advisory

ABLV Corporate Services, SIA, offers advice on obtaining residence permits and citizenship of Latvia, Great Britain, and Saint Kitts and Nevis. The company's customers also use other advisory services — advice on establishing holding structures (also in Latvia) and assistance in changing tax residency.

Specialists of ABLV Group took part in several international conferences, exhibitions and seminars, including the international conference and exhibition CIS Wealth Yekaterinburg, conference on tax planning and asset structuring INTAX EXPO 2014 in Moscow, as well as ABLV Conference Banking/ Investments/ Advisory arranged by the bank in Cyprus, and other. During those events, ABLV Group services were presented to existing and prospective customers.

ABLV Group has 12 representative offices and territorial structural units in 8 countries — in Russia, Ukraine, Belarus, Kazakhstan, Tajikistan, Azerbaijan, Uzbekistan, and Cyprus.

Luxembourg

The subsidiary bank in Luxembourg was established in order to develop the existing customer base, by providing wider 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 subsidiary bank in Luxembourg. The bank in Luxembourg started offering services to customers already in September 2013, and as at 31 December 2014 the bank's assets and assets under management amounted to EUR 129.3 million.

After successful completion of service testing, in summer ABLV Bank Luxembourg, S.A., started offering new fiduciary services to its customers: fiduciary deposits, which provide unique opportunities of placing term deposits with banks of the CIS and European states, and fiduciary loans, which allow lending to third parties.

The number of customers preferring one of the main services offered by Luxembourg — active investment advisory — is increasing. In 2015, the bank will also start offering discretionary portfolio management.

Having received the permission from financial sector supervisory authorities of Latvia and Luxembourg, ABLV mutual funds were admitted to Luxembourg securities market in 2014. Thus, our open-end mutual funds are available to customers of ABLV Bank Luxembourg, S.A.

These achievements were also appreciated at 'Gold Coin 2014' — innovative banking service competition arranged by the Association of Commercial Banks of Latvia and we were awarded the main prize — 'Gold Coin' — in the category 'Export of Financial Services'.

For society

In 2014, ABLV Bank, AS, in cooperation with ABLV Charitable Foundation, continued supporting various socially important projects.

The most important event of the year definitely was the protocol of intent signed on 30 October 2014, regarding construction of Latvian Contemporary Art Museum. Pursuant to this document, signed by the Republic of Latvia Minister of Culture Dace Melbārde and the members of the Council of Latvian Contemporary Art Museum Foundation Ernests Bernis, Oļegs Fiļs, Ināra and Boriss Teterev, until 18 November 2021 the Latvian Contemporary Art Foundation, established by ABLV Charitable Foundation and Boris and Ināra Teterev Charity Foundation, will perform construction of Latvian Contemporary Art Museum, using the funds of the founders and donations, as well as will ensure the Museum operations, management and development, including creation, maintenance, and increase of the Museum art collection. The Museum will be open to public. Founders of the foundation will ensure the necessary financing of EUR 30 million for the Museum construction. The decision on construction of the Latvian Contemporary Art Museum is a logical continuation of the agreement on compiling the contemporary art collection made between the bank and the Ministry of Culture in 2005.

At the end of December, the traditional Christmas charitable action arranged by ABLV Charitable Foundation and ABLV Bank, AS, was completed. In the previously mentioned action toom part hundreds of Bank employees and customers.The amount of donations under this fund drive was considerable — EUR 278 830.
The donations under the fund drive were as follows: EUR 157 531 to the programme "Help hear!", EUR 43 941 to the programme "Help grow up!", and EUR 77 358 to the programme "New Riga". In addition to the donations of the Christmas charitable action, ABLV Bank, AS, donated EUR 1 044 267 to the programme "New Riga". As previously ABLV Charitable Foundation doubled the amounts donated to the "Help hear!" and "Help grow up!" programmes.

In May 2014, there was a reception held in Rundāle for 278th anniversary of Rundāle Palace and completion of renovation works in the museum complex. The renovation of Rundāle Palace lasted 50 years, and ABLV Bank, AS, took part in financing of the works. We supported renovation of the palace library. The bank presented the original edition of complete works of Voltaire on the palace anniversary.

At the beginning of July, ABLV Invitation Golf Tournament 2014 was held in

In August 2014, after taking the charge of developing NHC territory basic design, Pillar acquired Riga office of German architect bureau Schaller Architekten Stuttgart.

Ozo Golf Club. 96 golfers participated in the tournament — ABLV customers from Latvia and foreign countries, the bank's partners and officers, as well as some members of Ozo Golf Club. The tournament was held according to the rules of the Royal and Ancient Golf Club of St.Andrews, separately for women and men.
The winners of the tournament were awarded bronze glass cups created by glass artist and designer Anda Munkevica.

At the end of November, ABLV Bank, AS, concluded the agreement with Daugavpils city council and gifted apartment block at 7 Gaismas Street and the respective land plot to the city. There are 105 apartments in the building, and its area is 8,7 thousand square meters. The total value of the gift was almost EUR 380 000. The considerable number of new apartments will allow Daugavpils city council to solve the critical problem of providing housing to people who need social support.

Plans for 2015

Positions of our bank are strong and stable, main indicators are demonstrating their historical maximum, therefore our aim for 2015 is to keep the net revenue from commission fees and the net profit at the level of the previous year. This is an ambitious, however achievable aim, that will require the cohesive and well thought-out work of each structural unit and the input of each employee.

In 2015, we are planning average growth of deposits for 10%, meaning that at the year the amount of deposits could reach EUR 4.1 milliards. Additionally, in 2015, we are planning to conduct several issues of bonds and to issue new commercial loans with the total amount of approximately EUR 130 million for financing of large-scale business projects. Therefore, the amount of net profit in 2015 is planned to be at the level of 2014.

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, 25 February 2015

The Statement of Corporate Governance is published at the bank's Internet home page www.ablv.com.

The council and the board

The council of the bank:

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

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

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

The board of the bank:

Chairman of the Board: Date of re-election:
Ernests Bernis — Chief Executive Officer (CEO) 01/05/2014

Deputy Chairman of the Board: Date of re-election:
Vadims Reinfelds — Deputy Chief Executive Officer (dCEO) 01/05/2014

Board Members: Date of re-election:
Aleksandrs Pāže — Chief Compliance Officer (CCO) 01/05/2014
Edgars Pavlovičs — Chief Risk Officer (CRO) 01/05/2014
Māris Kannenieks — Chief Financial Officer (CFO) 01/05/2014
Rolands Citajevs — Chief IT Officer (CIO) 01/05/2014
Romans Surnačovs — Chief Operating Officer (COO) 01/05/2014

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

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2015

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 and notes thereto set out on pages 126 to 211 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 2014 and 2013, 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 as well as European Union Regulations applicable to credit institutions.

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2015

Statements of comprehensive income

EUR '000

	Notes	Group 01/01/2014— 31/12/2014	Group 01/01/2013— 31/12/2013	Bank 01/01/2014— 31/12/2014	Bank 01/01/2013— 31/12/2013
Interest income	3	70,163	58,877	68,618	58,679
Interest expense	3	(16,684)	(16,235)	(16,983)	(15,936)
Net interest income		**53,479**	**42,642**	**51,635**	**42,743**
Commission and fee income	4	63,916	61,687	57,944	55,363
Commission and fee expense	4	(10,897)	(10,775)	(16,443)	(15,283)
Net commission and fee income		**53,019**	**50,912**	**41,501**	**40,080**
Net gain on transactions with financial instruments and foreign exchange	5	18,992	21,993	19,315	22,200
Net gain on non-financial assets held for sale	6	4,587	4,769	-	24
Other income	7	18,445	18,403	3,835	3,089
Income from dividends		195	105	6,111	2,079
Impairment allowance for loans	8	(1,003)	(9,466)	(999)	(9,466)
Operating income		**147,714**	**129,358**	**121,398**	**100,749**
Administrative expense	10	(57,898)	(55,573)	(43,420)	(42,445)
Amortisation and depreciation		(5,310)	(4,744)	(2,992)	(2,800)
Other expense	7	(11,395)	(8,214)	(1,000)	(841)
Impairment of financial instruments		(3,670)	(1,218)	(3,670)	(1,218)
Impairment of other assets	9	(1,546)	635	(7,769)	(2,002)
Operating expense		**(79,819)**	**(69,114)**	**(58,851)**	**(49,306)**
Profit before corporate income tax		**67,895**	**60,244**	**62,547**	**51,443**
Corporate income tax	11	(4,088)	(9,246)	(3,873)	(7,767)
Net profit for the year		**63,807**	**50,998**	**58,674**	**43,676**
Attributable to:					
Equity holders of the bank		63,353	50,304	-	-
Non-controlling interests		454	694	-	-
Other comprehensive income:					
Other comprehensive income which has been or is to be reclassified to profit or loss					
Changes in fair value revaluation reserve of available-for-sale financial assets		(4,338)	(3,061)	(4,324)	(3,061)
Charge to income statement as a result of sale of available-for-sale securities		(300)	18	(237)	18
Charge to income statement due to recognised impairment of available-for-sale securities		1,684	1,095	1,684	1,095
Change in deferred corporate income tax		467	292	467	292
Total other comprehensive income		**(2,487)**	**(1,656)**	**(2,410)**	**(1,656)**
Total comprehensive income		**61,320**	**49,342**	**56,264**	**42,020**
Attributable to:					
Equity holders of the bank		60,866	48,648	-	-
Non-controlling interests		454	694	-	-
Earnings per share attributable to the equity holders of the bank, EUR	26	**1.94**	**1.68**	-	-

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2015

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

Statements of financial position

EUR '000

Assets	Notes	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Cash and deposits with central banks	12	259,872	356,768	258,908	356,747
Balances due from credit institutions	13	816,936	640,325	795,282	619,037
Derivatives	17	4,079	451	4,079	451
Financial assets at fair value through profit or loss	14	21,165	16,766	14,884	16,766
Available-for-sale financial assets	15	1,271,227	738,683	1,209,073	731,687
Loans	18	790,113	750,097	790,247	761,268
Held-to-maturity investments	16	958,423	653,037	930,579	651,411
Investments in subsidiaries and associates	19	2	6,635	115,099	132,829
Investment properties	20	30,057	33,358	25,033	24,330
Tangible fixed assets	21	37,877	32,672	10,606	9,745
Intangible fixed assets	21	6,309	5,639	5,700	5,016
Current corporate income tax receivables		3,596	124	3,257	-
Deferred corporate income tax	11	2,300	710	1,457	-
Non-financial assets held for sale		59,774	72,157	-	622
Other assets	22	8,356	8,655	5,640	5,457
Total assets		**4,270,086**	**3,316,077**	**4,169,844**	**3,315,366**
Liabilities					
Derivatives	17	5,630	2,046	5,630	2,046
Deposits from central banks		16,797	-	16,797	-
Demand deposits from credit institutions		23,869	10,654	28,962	14,491
Term deposits from credit institutions		6,319	3,633	2,971	-
Deposits	23	3,488,516	2,768,169	3,406,032	2,776,457
Current corporate income tax liabilities		423	5,303	-	5,125
Other liabilities	27	29,603	17,348	13,205	11,098
Deferred corporate income tax	11	524	795	-	169
Provisions		352	408	352	408
Issued securities	24	441,598	308,386	454,581	308,386
Subordinated deposits	25	14,413	10,149	14,413	10,149
Total liabilities		**4,028,044**	**3,126,891**	**3,942,943**	**3,128,329**
Shareholders' equity					
Paid-in share capital	26	32,650	30,003	32,650	30,003
Share premium		66,270	41,485	66,270	41,485
Reserve capital and other reserves		2,174	2,134	2,134	2,134
Fair value revaluation reserve of available-for-sale financial assets		(1,504)	983	(1,427)	983
Retained earnings brought forward		66,762	60,381	68,600	68,756
Retained earnings for the period		63,353	50,304	58,674	43,676
Attributable to the equity holders of the bank		**229,705**	**185,290**	**226,901**	**187,037**
Non-controlling interests		**12,337**	**3,896**	**-**	**-**
Total shareholders' equity		**242,042**	**189,186**	**226,901**	**187,037**
Total liabilities and shareholders' equity		**4,270,086**	**3,316,077**	**4,169,844**	**3,315,366**
Memorandum items					
Contingent liabilities	28	9,531	7,681	9,444	7,689
Financial commitments	28	61,318	60,648	60,228	61,008

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2015

Statement of changes in shareholders' equity of the group

EUR '000

	Paid-in share capital	Share premium	Reserve capital and other reserves	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the bank	Non-controlling interests	Total shareholders' equity
As at 1 January 2013	**28,087**	**26,481**	**2,134**	**2,639**	**84,517**	**143,858**	**3,713**	**147,571**
Net profit for the year	-	-	-	-	50,304	50,304	694	50,998
Other comprehensive income/(expense) for the year	-	-	-	(1,656)	-	(1,656)	-	(1,656)
Total comprehensive income for the year ended 31 December 2013	**-**	**-**	**-**	**(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	1,404	15,004	-	-	-	16,408	-	16,408
(Decrease) in non-controlling interests	-	-	-	-	-	-	(575)	(575)
As at 31 December 2013	**30,003**	**41,485**	**2,134**	**983**	**110,685**	**185,290**	**3,896**	**189,186**
As at 1 January 2014	**30,003**	**41,485**	**2,134**	**983**	**110,685**	**185,290**	**3,896**	**189,186**
Net profit for the year	-	-	-	-	63,353	63,353	454	63,807
Other comprehensive income/(expense) for the year	-	-	-	(2,487)	-	(2,487)	-	(2,487)
Total comprehensive income for the year ended 31 December 2014	**-**	**-**	**-**	**(2,487)**	**63,353**	**60,866**	**454**	**61,320**
Increase in reserves	-	-	40	-	-	40	-	40
Dividends paid	-	-	-	-	(43,453)	(43,453)	(333)	(43,786)
Issue of personnel shares	405	-	-	-	(470)	(65)	65	-
Issue of shares	2,242	24,785	-	-	-	27,027	-	27,027
Increase in non-controlling interests	-	-	-	-	-	-	8,255	8,255
As at 31 December 2014	**32,650**	**66,270**	**2,174**	**(1,504)**	**130,115**	**229,705**	**12,337**	**242,042**

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2015

BANK'S MANAGEMENT REPORT

Statement of changes in shareholders' equity of the bank

EUR '000

	Paid-in share capital	Share premium	Reserve capital and other reserves	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
As at 1 January 2013	**28,088**	**26,481**	**2,134**	**2,639**	**92,624**	**151,966**
Net profit for the year	-	-	-	-	43,676	43,676
Other comprehensive income/(expense) for the year	-	-	-	(1,656)	-	(1,656)
Total comprehensive income for the year ended 31 December 2013	**-**	**-**	**-**	**(1,656)**	**43,676**	**42,020**
Dividends paid	-	-	-	-	(23,356)	(23,356)
Issue of personnel shares	512	-	-	-	(512)	-
Issue of shares	1,403	15,004	-	-	-	16,407
As at 31 December 2013	**30,003**	**41,485**	**2,134**	**983**	**112,432**	**187,037**
As at 1 January 2014	**30,003**	**41,485**	**2,134**	**983**	**112,432**	**187,037**
Net profit for the year	-	-	-	-	58,674	58,674
Other comprehensive income/(expense) for the year	-	-	-	(2,410)	-	(2,410)
Total comprehensive income for the year ended 31 December 2014	**-**	**-**	**-**	**(2,410)**	**58,674**	**56,264**
Dividends paid	-	-	-	-	(43,427)	(43,427)
Issue of personnel shares	405	-	-	-	(405)	-
Issue of shares	2,242	24,785	-	-	-	27,027
As at 31 December 2014	**32,650**	**66,270**	**2,134**	**(1,427)**	**127,274**	**226,901**

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2015

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Cash flow statements

EUR '000

Cash flow from operating activities	Group 01/01/2014— 31/12/2014	Group 01/01/2013— 31/12/2013	Bank 01/01/2014— 31/12/2014	Bank 01/01/2013— 31/12/2013
Profit before corporate income tax	67,895	60,244	62,547	51,443
Amortisation and depreciation of fixed assets and investment properties	5,310	4,744	2,992	2,800
Impairment allowance for loans	1,003	9,466	999	9,466
(Increase)/ decrease in other assets	1,546	(635)	7,769	2,002
Impairment of financial instruments	3,670	1,218	3,670	1,218
Interest (income)	(70,163)	(58,877)	(68,618)	(58,679)
Interest expense	16,684	16,235	16,983	15,936
Other non-cash items	10,208	195	2,015	1,101
Net cash flow from operating activities before changes in assets and liabilities	**36,153**	**32,590**	**28,357**	**25,287**
Decrease/ (increase) in balances due from credit institutions	(18,482)	4,705	(19,638)	10,532
(Increase) in loans	(17,928)	(54,587)	(6,886)	(60,515)
(Increase) in financial assets at fair value through profit or loss	(4,160)	(11,632)	2,121	(11,632)
Decrease/ (increase) in other assets	7,784	18,395	(184)	12,967
(Decrease)/ increase in balances due to credit institutions	19,483	269	19,768	(11,951)
Increase in deposits	528,196	186,923	437,424	188,434
(Decrease)/ increase in derivatives	(495)	(4,804)	(495)	(4,804)
(Decrease)/ increase in other liabilities	12,720	(5,310)	2,094	(2,437)
Net cash flow from operating activities before corporate income tax	**563,271**	**166,549**	**462,561**	**145,881**
Interest received in the reporting year	63,899	70,887	62,354	70,887
Interest (paid) in the reporting year	(18,618)	(22,566)	(18,918)	(22,278)
Corporate income tax (paid)	(14,096)	(4,229)	(13,233)	(3,381)
Net cash flow from operating activities	**594,456**	**210,641**	**492,764**	**191,109**
Cash flow from investing activities				
(Purchase) of held-to-maturity investments	(311,867)	(181,749)	(285,648)	(180,124)
Sale of held-to-maturity investments	67,607	13,985	67,607	13,985
(Purchase) of available-for-sale financial assets	(1,162,196)	(926,238)	(1,082,537)	(919,241)
Sale of available-for-sale financial assets	709,452	929,734	684,964	929,734
(Purchase) of intangible and tangible fixed assets and investment properties	(7,069)	(13,513)	(5,561)	(5,841)
Sale of intangible and tangible fixed assets	2,453	649	944	364
(Increase) in investments in subsidiaries and associates	-	(912)	(6,767)	(8,465)
Decrease in investments in subsidiaries	6,632	219	16,728	55
Net cash flow from investing activities	**(694,988)**	**(177,825)**	**(610,270)**	**(169,533)**
Cash flow from investing activities				
Increase in subordinated loans	3,388	3,459	3,388	3,459
(Repayment) of subordinated loans	-	(11,446)	-	(11,446)
Sale of issued securities	254,540	200,725	267,523	200,725
(Repurchase) of issued securities	(150,152)	(61,619)	(150,152)	(61,619)
Dividends (paid)	(43,786)	(23,554)	(43,415)	(23,349)
Issue of shares	27,027	16,407	27,027	16,407
Net cash flow from financing activities	**91,017**	**123,972**	**104,371**	**124,177**
Net cash flow	**(9,515)**	**156,788**	**(13,135)**	**145,753**
Cash and cash equivalents at the beginning of the year	**961,829**	**812,932**	**943,129**	**805,267**
Result from revaluation of foreign currency positions	57,442	(7,891)	57,442	(7,891)
Cash and cash equivalents at the end of the year	**1,009,756**	**961,829**	**987,436**	**943,129**

EUR '000

Cash and cash equivalents	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Cash and deposits with central banks	259,872	356,768	258,908	356,747
Balances due from credit institutions	773,753	615,715	757,490	600,873
Balances due to credit institutions	(23,869)	(10,654)	(28,962)	(14,491)
Total cash and cash equivalents	**1,009,756**	**961,829**	**987,436**	**943,129**

Information about balances due from credit institutions other than cash equivalents is presented in Note 13.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Notes to the financial statements

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, LV-1010, Latvia.

ABLV Bank, AS 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.

These consolidated and separate financial statements contain the financial information about ABLV Bank, AS and its subsidiaries. The separate financial statements of the bank are included in these consolidated financial statements to comply with legal requirements. The bank is the parent of the group.

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

The bank operates the central office and one lending centre in Riga, as well as a subsidiary bank in Luxembourg. The group opperates 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 (representative office in Kyiv and 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), European Central Bank (ECB).

The consolidated financial statements of the group and the separate financial statements of the bank for the year ended 31 December 2014 are approved by the bank's board and council.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

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 IFRS 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. The financial statements give a structured view of the financial position of the group and the bank and their financial performance.

During the year ended 31 December 2014, 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 IFRS and IFRIC interpretations in the reporting year.

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

On 1 January 2014, Latvia became a member of the European Monetary Union. Starting from 1 January 2014, the functional currency of the bank and its subsidiaries has been EUR (by 31 December 2013, the functional currency of the bank and its Latvian subsidiaries had been LVL, while transactions of foreign subsidiaries had been accounted for in the currency of their economic environment). The presentation currency of the group and the bank is EUR.

These consolidated and separate financial statements are reported in thousands of the euro (EUR '000), unless otherwise stated. Information given herein in brackets represents comparative figures for the year ended 31 December 2013 or for the year ended 31 December 2013 respectively. All historical comparative figures have been converted from LVL to EUR applying the conversion rate fixed by the Council of the EU (EUR 1 = LVL 0,702804).

b) 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 of 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 the calculation of deferred corporate income tax, determining the impairment allowance for loans and the collateral (pledge) value, estimation of impairment of other assets and the fair value of assets and liabilities and on the assumptions regarding the power bank has over open-eneded investment funds.

In the reporting year, the loss allowance methodology was modified, affecting the calculation of incurred but not reported losses. The assumption concerning the loss reporting period for the retail mortgage loan portfolio was adjusted. The loss reporting period was extended from the previously adopted 18 days to 90 days, thereby increasing the impairment recognised for loans that are not past due or that are less than five days overdue by EUR 0.4 million. The adjustments are based on an assumption that the customer might effect two loan payments on average after the loss event has occurred.

c) Basis of Consolidation

These consolidated financial statements include the bank and all subsidiaries controlled by the bank (the parent), i.e. the bank has the power to govern the financial and operating policies of an entity so as to obtain economic benefits. 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.
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.

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 (minority) interests represent the portion of profit or loss and equity not owned, directly or indirectly, by the bank. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.
The bank's subsidiaries comply with the bank's policies and risk management methods.

The bank's investments in open-ended investment funds as structured entities are disclosed in the separate financial statements (Note 14) as investments in open-ended investment funds.
Meanwhile, in the consolidated financial statements the investments in open-ended investment funds, which the bank has the power to govern and in which the bank owns the major part of net assets, are consolidated according to the full consolidation method. The shares of funds owned by third parties are recognised in the consolidated financial statements as other liabilities.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

d) 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.

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.

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.

e) Fair Value of Financial Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value 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 32.

f) 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.

g) 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. Interest income also comprises coupon payments, which are recognised for fixed income securities. Interest income on loans whose recoverability is doubtful is recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash flows to the recoverable amount of loans.

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.

Income and expense other than interest and/ or commission and fee income/ expense represent items associated with the core business of non-banking entities of the group.

h) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rate set by the ECB (the Bank of Latvia by 31 December 2013 (inclusive)) at the end of the year, while

BANK'S MANAGEMENT REPORT

REUTERS exchange rates are applied to the foreign currencies having no EUR foreign exchange reference rates published by the ECB. Transactions denominated in foreign currencies are recorded in EUR at exchange rates set by the ECB or REUTERS (the Bank of Latvia by 31 December 2013 (inclusive)) at the date of the transaction. 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 gain or loss from revaluation of foreign currency positions.

i) 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 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.

j) 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.

This portfolio includes loans and balances due from credit institutions which 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

The 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 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. Non-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. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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.

k) 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 accounted as inventories and 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.

l) Finance Leases — Where the Bank is Lessor

Finance lease is a long-term arrangement, which transfers substantially all the rights and duties incidental to the use of a leased item to the lessee. 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

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

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.

m) 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. 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 (n) below.

n) 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.
The amount of provisions is based on the best management's estimate and assumptions at the year end concerning economic benefits required to settle the present obligation, considering the likelihood of the outflow and recovery of resources from related sources.

o) 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 for which contractual payments are overdue by more than 90 days or the loan recovery process, such as forced sale of loan collateral, is being planned, and loans whose collateral has already been realised or impaired. 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 troubled, 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 to 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.

Deterioration in credit quality is estimated by discounting cash flows from loans and receivable balances outstanding, applying the effective interest rate. The required level of the allowance is determined as the difference between the outstanding balance and discounted cash flows from loans and receivable balances outstanding.
Collateral loans are assessed on the basis of estimated cash flows that may result from the realisation of collateral less related realisation costs.

The collective (portfolio) allowance relates to existing credit losses, as well as those 'incurred, but not yet known to the bank'. A group of loans is deemed to be impaired if future cash flows have decreased since the initial recognition of loans and such impairment can be determined reliably, although it cannot be yet attributed to individual loans.
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.

For the purposes of the collective assessment, the bank defines homogeneous pools of loans with similar risk characteristics (source of repayment, collateral type, past-due status).
In determining the rates of allowances for homogeneous pools of loans, the bank relies on the recoverable amount of loans and the historical number of loans, which become collectible over a certain period, in a specific pool.

The existing allowances are decreased if any of the following occurs:
- the bank obtains reliable information about additional sources of loan repayment;
- the recoverable amount of the loan has increased as a result of the improvement of the borrower's financial situation or growth of the collateral value. Changes in the market value of collateral may be taken into consideration only if the growth is observed for at least three months.

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.

Quantitative and qualitative criteria for the identification of credit quality deterioration, the methodology for estimating future cash flows for individually impaired loans, the establishment of homogeneous pools of loans and the calculation of the rate of collective impairment allowances are laid down in the bank's regulations.

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. 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.

p) 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.

The recoverable amount of investments in subsidiaries is the higher of their fair value less costs to sell and the value in use. The fair value of investments is based on binding sales agreements and best information

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

available about similar transactions on the market. The value in use of investments is determined by discounting future estimated cash flows derived from continuing operations of the entity, applying the current market discount rate that reflects current market assessments of the time value of money and the risks specific to the investment.

q) 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 10% (5%) to 20% (20%) to amortise their intangible assets.

r) 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	14% (20%)
Office equipment , EDP equipment and software	10%—50% (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.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

s) 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%.

t) 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.

u) 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.

v) 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 these financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

w) Adoption of new and/ or changed IFRS and IFRIC interpretations in the reporting year
During the year the group/ bank has adopted the following IFRS amendments:
- IAS 27 Separate Financial Statements (Amended)
- IAS 28 Investments in Associates and Joint Ventures (Amended)
- IAS 32 Financial Instruments: Presentation (Amended) — Offsetting Financial Assets and Financial Liabilities
- IAS 36 Impairment of Assets (Amended) — Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Financial Instruments (Amended): Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 10, IFRS 12 and IAS 27 — Investment Entities (Amended)

When the adoption of the standard or interpretation is deemed to have an impact on the interim condensed financial statements or performance of the group/ bank, its impact is described below.

IAS 27 Separate Financial Statements
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. These amendments have not impact on the group and the bank.

IAS 28 Investments in Associates and Joint Ventures
As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. These amendments have not impact on the group and the bank.

IAS 32 Offsetting Financial Assets and Financial Liabilities
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have not impact on the group and the bank.

IAS 36 Impairment of Assets
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 did not have any impact on the financial position or performance of the group and the bank; however it resulted in additional disclosures in paragraph (p) according to the new requirements.

IAS 39 Financial Instruments: Recognition and Measurement
The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have not impact on the group and the bank.

IFRS 10 Consolidated Financial Statements.
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. 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 management of the group has provided its assessment of the changes introduced by IFRS 10 in paragraph (c).

IFRS 11 Joint Arrangements.
IFRS 11 eliminates 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. These amendments have not impact on the group and the bank, because there are no such agreements.

IFRS 12 Disclosures of Interests in Other Entities.
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 are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial position or performance of the group, however it resulted in additional disclosures (see Note 19).

Amendments to IFRS 10, IFRS 12 and IAS 27 — Investment Entities
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 had no impact on the financial statements of the group, as the parent of the group is not an investment entity.

IFRIC Interpretation 21: Levies (The amendment is effective for annual periods beginning on or after 17 June 2014).
The Interpretation describes accounting of state levies. The obligating to pay a levy is recognized at financial statement, when the action is made, which create such an obligation. These amendments have not impact on the group and the bank.

x) Standards issued but not yet effective and not early adopted
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 1 Presentation of financial statements: Disclosure Initiative. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The group has not yet evaluated the impact of the implementation of this standard.
IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization.
The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The implementation of this amendment will have no impact on the financial statements of the group, as the group does not use revenue-based depreciation and amortisation methods.

Amendments to IAS 19 Employee Benefits. The amendments are effective for annual periods beginning on or after 1 February 2015. The amendments address accounting for the employee contributions to a defined benefit plan. Since the group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the group.

Amendments to IAS 27 Equity method in separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments have not yet been endorsed by the EU.

IFRS 9 Financial Instruments. The amendments are effective for annual periods beginning on or after 1 January 2018. 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. The amendments have not yet been endorsed by the EU.

Amendments to IFRS 10, IFRS 12 and IAS 28 — Investment Entities: Applying the consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The amendments have not yet been endorsed by the EU.

Amendments to IFRS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The amendments have not yet been endorsed by the EU.

IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations. The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The amendment has not yet been endorsed by the EU.

IFRS 14 Regulatory Deferral Accounts. The amendment is effective for annual periods 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. The amendment has not yet been endorsed by the EU.

IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The standard has not been yet endorsed by the EU.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

In December 2013 IASB has issued the Annual Improvements to IFRSs 2011—2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015):
• IFRS 1 First-time adoption of IFRS;
• IFRS 3 Business Combinations;
• IFRS 13 Fair value Measurement;
• IAS 40 Investment property.

In December 2013 IASB issued the Annual Improvements to IFRSs 2010—2012 Cycle (effective for financial years beginning on or after 1 February 2015):
• 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.

In September 2014 IASB issued the Annual Improvements to IFRSs 2012—2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):
• IFRS 5 Non-current Assets Held for Sale and Discontinued Operation;
• IFRS 7 Financial Instruments: Disclosures;
• IAS 19 Employee Benefits;
• IAS 34 Interim Financial Reporting.

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.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Note 3

Interest income and expense

EUR '000

Interest income	Group 01/01/2014—31/12/2014	Group 01/01/2013—31/12/2013	Bank 01/01/2014—31/12/2014	Bank 01/01/2013—31/12/2013
Total interest income on financial assets at fair value	**548**	-	**14**	-
Interest income on available-for-sale financial assets at amortised cost				
on loans and advances to customers	34,280	30,537	33,556	30,359
on held-to-maturity securities	24,775	20,442	24,570	20,440
on available-for-sale securities	8,000	5,343	7,924	5,343
on balances due from credit institutions and central banks	2,560	2,555	2,554	2,537
Total interest income on available-for-sale financial assets at amortised cost	**69,615**	**58,877**	**68,604**	**58,679**
Total interest income	**70,163**	**58,877**	**68,618**	**58,679**
Interest expense				
on the deposit guarantee fund	6,479	5,996	6,479	5,984
on subordinated liabilities	4,637	5,488	4,641	5,488
on ordinary bonds issued	4,817	3,093	5,254	3,093
on deposits from non-bank customers	239	1,343	265	1,160
other interest expense	291	168	263	168
on balances due to credit institutions and central banks	221	147	81	43
Total interest expense	**16,684**	**16,235**	**16,983**	**15,936**

The group's/ bank's interest income on impaired assets totalled EUR 2.1 (2.3) million.

Note 4

Commission and fee income and expense

EUR '000

Commission and fee income	Group 01/01/2014—31/12/2014	Group 01/01/2013—31/12/2013	Bank 01/01/2014—31/12/2014	Bank 01/01/2013—31/12/2013
commission on payment transfer handling on behalf of customers	33,505	31,406	33,489	31,399
commission on account service	10,274	10,454	10,169	10,512
commission on handling of settlement cards	9,105	8,971	9,108	8,971
commission on brokerage operations	5,035	5,691	-	-
commission on asset management	2,130	2,156	783	817
commission on documentary transactions	1,219	845	1,219	845
other commission and fee income	2,648	2,164	3,176	2,819
Total commission and fee income	**63,916**	**61,687**	**57,944**	**55,363**
Commission and fee expense				
correspondent bank service charges	4,962	4,542	4,923	4,543
commission on customer attraction	2,531	2,971	9,121	8,557
commission on transactions with settlement cards	2,322	2,110	2,322	2,110
commission on brokerage operations	927	968	-	-
other commission and fee expense	155	184	77	73
Total commission and fee expense	**10,897**	**10,775**	**16,443**	**15,283**

Note 5

Net gain on transactions with financial instruments and foreign exchange

EUR '000

Financial instruments at fair value through profit or loss	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
Gain/ (loss) from revaluation of financial instruments at fair value through profit or loss	(1,335)	616	(624)	616
Derivatives	5	21	5	21
Securities	(1,340)	595	(629)	595
Gain/ (loss) from trading with financial instruments at fair value through profit or loss	84	462	(242)	462
Derivatives	10	115	10	115
Securities	74	347	(252)	347
Net gain/ (loss) from financial instruments at fair value through profit or loss	**(1,251)**	**1,078**	**(866)**	**1,078**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	300	(18)	237	(18)
Net realised gain from available-for-sale financial instruments	**300**	**(18)**	**237**	**(18)**
Financial instruments at amortised cost				
(Loss) from sale of held-to-maturity investments	(1,030)	-	(1,030)	-
Net realised (loss) from sale of financial instruments at amortised cost	(1,030)	-	(1,030)	-
Foreign exchange				
Profit from foreign currency exchange	22,522	21,521	22,502	21,713
(Loss)/ gain from revaluation of foreign currency positions	(1,549)	(588)	(1,528)	(573)
Net result from foreign exchange trading and revaluation	**20,973**	**20,933**	**20,974**	**21,140**
Net gain on transactions with financial instruments and foreign exchange	**18,992**	**21,993**	**19,315**	**22,200**

In the reporting year, the bank's management decided to sell held-to-maturity securities totalling EUR 6.6 million issued by Ukrainian issuers, considering the uncertain situation persisting in Ukraine. Other held-to-maturity securities of Ukrainian issuers totalling EUR 3.2 million were reclassified as available-for-sale financial assets.

The bank's management has concluded that the Ukrainian situation should be viewed as a single non-recurring event, which was outside the bank's control and could not be anticipated. Therefore, the rest of the bank's portfolio of held-to-maturity financial instruments should be retained.

BANK'S MANAGEMENT REPORT

Note 6

Net gain on non-financial assets held for sale

EUR '000

	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
Proceeds from disposal of properties held for sale	34,902	35,407	-	370
Cost of acquisition of properties held for sale	(29,405)	(29,142)	-	(346)
Net gain from sale	**5,497**	**6,265**	**-**	**24**
Proceeds from lease and management of properties held for sale	627	512	-	-
Expense related to disposal of properties held for sale	(271)	(275)	-	-
Expense related to management of properties held for sale	(1,266)	(1,733)	-	-
Net gain on real estate held for sale	**4,587**	**4,769**	**-**	**24**

Note 7

Other operating income and expense

EUR '000

Other income	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
other income from the sale of products of related companies	13,177	9,471	-	-
recognition of associates under the equity method	2,870	2,496	-	-
financial consulting, legal and accounting services	1,595	1,665	-	-
sale of companies	11	312	11	642
repurchase of liabilities	-	2,901	-	-
sale of services to subsidiaries and associates	-	-	3,547	2,012
other operating income	792	1,558	277	435
Total other income	**18,445**	**18,403**	**3,835**	**3,089**
Other expense				
other expense related to the sale of products of related companies	9,688	6,958	-	-
membership fees	838	802	701	655
other expense	869	454	299	186
Total other expense	**11,395**	**8,214**	**1,000**	**841**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Note 8

Impairment allowance for loans

EUR '000

Category	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
Loans — individual allowances	842	(265)	842	(265)
Loans — portfolio allowances	1,187	10,286	1,183	10,286
Increase/ (decrease) in allowances for the reporting year	**2,029**	**10,021**	**2,025**	**10,021**
(Recovery) of write-offs/ loss from asset write-off	(1,026)	(555)	(1,026)	(555)
Impairment allowances establsihed during the reporting year, net	**1,003**	**9,466**	**999**	**9,466**

Changes in loan impairment allowances of the group in 2014:

EUR '000

	Mortgage	Business	Consumer	Other	Total
Allowances at the beginning of the year	**39,545**	**6,693**	**58**	**3,789**	**50,085**
Increase/ (decrease) in allowances for the year	631	862	312	224	2,029
(Decrease) in allowances for the year due to currency fluctuations	-	(216)	-	-	(216)
(Elimination) of allowances for the year due to write-offs	(16,240)	(1,897)	(336)	(2,050)	(20,523)
Allowances at the end of the year	**23,936**	**5,442**	**34**	**1,963**	**31,375**
Individual allowances	223	5,057	2	-	5,282
Portfolio allowances	23,713	385	32	1,963	26,093
Total gross loans	**362,189**	**436,526**	**956**	**21,817**	**821,488**

As at 31 December 2014, the impairment allowances for loans formed 3,8% (6,4%) of the group's loan portfolio.

Changes in loan impairment allowances of the group in 2013:

EUR '000

	Mortgage	Business	Consumer	Other	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**

BANK'S MANAGEMENT REPORT

Changes in loan impairment allowances of the bank in 2014:

EUR '000

	Mortgage	Business	Consumer	Other	Total
Allowances at the beginning of the year	**39,545**	**6,693**	**58**	**3,789**	**50,085**
Increase/ (decrease) in allowances for the year	631	860	310	224	2,025
(Decrease) in allowances for the year due to currency fluctuations	-	(216)	-	-	(216)
(Elimination) of allowances for the year due to write-offs	(16,240)	(1,891)	(336)	(2,050)	(20,517)
Allowances at the end of the year	**23,936**	**5,446**	**32**	**1,963**	**31,377**
Individual allowances	223	5,053	-	-	5,276
Portfolio allowances	23,713	393	32	1,963	26,101
Total gross loans	**362,189**	**436,669**	**949**	**21,817**	**821,624**

Changes in loan impairment allowances of the bank in 2013:

EUR '000

	Mortgage	Business	Consumer	Other	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 accompanying notes set out on pages 132 through 211 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 these assets does not exceed their recoverable amount. As a result, it has been established that the previously recognised impairment has changed. Based on the analysis carried out, in 2014 and 2013 the group and the bank recognised impairment of other assets.

Changes in impairment of other assets of the group and the bank:

EUR '000

Category	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
Non-financial assets taken over for sale	1,546	434	-	-
Other assets	-	(1,069)	-	(1,090)
Investments in subsidiaries	-	-	7,769	3,092
Total impairment adjustment	**1,546**	**(635)**	**7,769**	**2,002**

In the reporting year, the bank recognised impairment of its investment in the subsidiary Pillar Holding Company, KS amounting to EUR 7.8 (3.1) million. Impairment is related to decrease in forecasted cash flow. The investment was stated at its value in use, which was defined on the basis of cash flows from the sale of properties owned by subsidiaries at their expected market price at the date of the sale less costs of disposal and management of the properties. Cash flows were discounted at the rate of 5% (6%), which is in line with the expected return from the investment.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Note 10

Administrative expense

EUR '000

Category	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
Remuneration to personnel, incl. SSIC	37,201	36,496	28,361	27,797
Repairs and maintenance of premises	3,409	3,680	2,294	2,631
IT system expense	3,072	3,152	2,495	2,595
Remuneration to the management, incl. SSIC	2,169	1,204	2,169	1,204
Other taxes	2,424	844	1,240	370
Advertising and marketing expense	2,080	2,832	1,630	2,555
Donations	1,633	1,838	1,503	1,719
Other personnel expense	1,158	1,071	744	679
Communication expense	737	760	598	622
Other administrative expense	4,015	3,696	2,386	2,273
Total administrative expense	**57,898**	**55,573**	**43,420**	**42,445**

In 2014 and 2013, the group and the bank employed an average of 844 (730) and 600 (545) persons (full-time equivalent).

Number of employees of the group and the bank at the year end:

	Group 31/12/2014 number	Group 31/12/2013 number	Bank 31/12/2014 number	Bank 31/12/2013 number
Management	10	10	10	10
Heads of divisions and departments	148	126	99	91
Other personnel	733	671	509	470
Total at the end of the year	**891**	**807**	**618**	**571**

Note 11

Taxation

EUR '000

	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
Profit before corporate income tax	67,895	60,244	62,547	51,443
Theoretical corporate income tax	**10,184**	**9,037**	**9,382**	**7,715**
Non-taxable portion for bonds which are publicly traded in the EU/ EEA	(4,209)	-	(4,209)	-
Permanent differences	(472)	(151)	(76)	(316)
Actual corporate income tax expense for the reporting year	**5,503**	**8,886**	**5,097**	**7,399**
Adjustments to prior-year corporate income tax	(149)	164	(74)	163
Adjustments to prior-year deferred tax	8	-	10	-
Tax rebate	(1,455)	(9)	(1,341)	-
Tax paid abroad	181	205	181	205
Total corporate income tax expense	**4,088**	**9,246**	**3,873**	**7,767**

Deferred corporate income tax calculation:

EUR '000

	Group 31/12/2014 Amounts subject to temporary differences	Group 31/12/2013 Amounts subject to temporary differences	Bank 31/12/2014 Amounts subject to temporary differences	Bank 31/12/2013 Amounts subject to temporary differences
Accumulated excess of tax depreciation over accounting depreciation	16,163	14,927	7,820	7,345
Fair value revaluation reserve of available-for-sale financial assets	(1,960)	1,157	(1,960)	1,157
Revaluation of derivatives and securities	(1,767)	(1,598)	(1,767)	(1,598)
Revaluation of assets and accrual for vacation pay	(21,528)	(13,547)	(13,799)	(5,771)
Deferred tax asset on intra-group transactions	(389)	2,075	-	-
Tax loss	(24,649)	(16,081)	-	-
Unrecognised tax asset	22,292	13,630	-	-
Basis for calculation of deferred corporate income tax	**(11,838)**	**563**	**(9,706)**	**1,133**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/ liability at the end of the year	**(2,300) 524**	**(710) 795**	**(1,457) -**	**- 169**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

EUR '000

	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
Deferred corporate income tax at the beginning of the year	**(710) 795**	**(575) 101**	**- 169**	**(105) -**
Increase charged to the statement of comprehensive income	(1,393)	785	(1,159)	566
Increase/ (decrease) attributable to fair value revaluation reserve under equity	(467)	(292)	(467)	(292)
Adjustments attributable to retained earnings/ (accumulated deficit)	(1)	66	-	-
Deferred corporate income tax (asset)/ liability at the end of the year	**(2,300) 524**	**(710) 795**	**(1,457) -**	**- 169**

Taxes paid by the group and the bank:

EUR '000

Tax	Group 01/01/2014 — 31/12/2014	Group 01/01/2013 — 31/12/2013	Bank 01/01/2014 — 31/12/2014	Bank 01/01/2013 — 31/12/2013
Corporate income tax	14,300	4,229	13,437	3,381
Statutory social insurance contributions	7,614	8,781	6,307	7,299
Personal income tax	7,419	5,482	6,409	4,700
Value added tax	3,128	1,826	594	312
Real estate tax	797	507	245	228
Unemployment risk duty	5	3	3	3
Total	**33,263**	**20,828**	**26,995**	**15,923**

Note 12

Cash and deposits with central banks

EUR '000

	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Demand deposits with the Bank of Latvia	250,796	348,641	250,796	348,641
Cash on hand	8,116	8,117	8,112	8,106
Demand deposits with Banque de Luxembourg	960	10	-	-
Total cash and deposits with central banks	**259,872**	**356,768**	**258,908**	**356,747**

As at 31 December 2014 and 2013, the bank had no balances due from central banks that would be past due.

BANK'S MANAGEMENT REPORT

Note 13

Balances due from credit institutions

As at 31 December 2014, the bank had established correspondent relationships with 31 (28) credit institutions registered in the EU and OECD area, 5 (5) credit institutions registered in Latvia, and 32 (28) credit institutions incorporated in other countries.

s at 31 December 2014, the group's and bank's major balances due from credit institutions registered in the EU and OECD area were as follows: EUR 92.7 (27.9) million due from Euroclear bank SA/NV, EUR 84.6 (57.2) million due from Commerzbank AG, EUR 82.9 (56.7) million due from Nordea Bank Finland Plc, EUR 78.6 (16.3) million due from Raiffeisen Bank Int AG, EUR 74.1 (55.0) due from SMBC Europe Ltd and EUR 67.3 (41.9) million due from UBS AG.

EUR '000

	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Demand deposits with credit institutions				
Correspondent account balances	594,627	349,566	579,343	340,775
Total demand deposits with credit institutions	**594,627**	**349,566**	**579,343**	**340,775**
Other balances due from credit institutions				
Term deposits	199,775	259,326	193,405	247,262
Other balances	22,534	31,433	22,534	31,000
Total other balances due from credit institutions	**222,309**	**290,759**	**215,939**	**278,262**
Total balances due from credit institutions	**816,936**	**640,325**	**795,282**	**619,037**

As at 31 December 2014, part of the group's and bank's balances due from credit institutions totalling EUR 33.9 (18.6) million and EUR 33.5 (18.2) million respectively were pledged to secure transactions with financial instruments other than cash equivalents. Cash equivalents do not include the group's and bank's term deposits of EUR 9.3 (6.0) million and EUR 4.3 (0) million respectively.

As at 31 December 2013 and 2014, 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

Issuer	Group 31/12/2014	Bank 31/12/2014	Group/ bank 31/12/2013
Fixed-income debt securities			
Central governments and central banks	23	-	-
Credit institutions	1,765	-	-
Municipalities	14	-	-
Financial auxiliaries and other financial intermediaries	277	-	-
Corporate companies	6,966	-	-
Total fixed-income debt securities	**9,045**	**-**	**-**
Equity shares			
Corporate companies	1,186	1,186	1,844
Credit institutions	1,001	1,001	1,369
Total investments in equity shares	**2,187**	**2,187**	**3,213**
Investments in funds	9,933	12,697	13,553
Total financial instruments at fair value	**21,165**	**14,884**	**16,766**

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

As at 31 December 2014, group's and bank's investments at fair value of EUR 3.8 (12.9) million and EUR 11.9 (12.9) million respectively in open-ended investment funds registered in Latvia, which are redeemable at net asset value, were not listed on stock exchanges.

Ten largest exposures as at 31 December 2014 amounted to 33,5% (88,5%) of the total group's financial assets at fair value through profit or loss.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Note 15

Available-for-sale financial assets

EUR '000

Issuer	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Fixed-income debt securities				
Central governments and central banks	933,582	429,317	914,085	429,317
Credit institutions	225,932	230,692	202,952	230,692
International organisations	57,767	40,245	57,767	40,245
State-owned enterprises	8,127	11,225	8,127	11,225
Financial auxiliaries and other financial intermediaries	8,382	7,513	6,303	7,513
Corporate companies	8,241	6,919	6,279	6,919
Municipalities	16,107	4,276	12,441	4,276
Total fixed-income debt securities	**1,258,138**	**730,187**	**1,207,954**	**730,187**
Equity shares				
Financial auxiliaries and other financial intermediaries	370	167	370	167
Total investments in equity shares	**370**	**167**	**370**	**167**
Investments in funds	12,719	8,329	749	1,333
Total available-for-sale financial instruments	**1,271,227**	**738,683**	**1,209,073**	**731,687**

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

Most of the debt securities' portfolio — 95,4% (92,2%) of assets — has 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 2,6 (2,5) years.

As at 31 December 2014, the following available-for-sale financial assets were not listed on stock exchanges:
- EUR 370,1 (167,9) thousand — equity shares in companies registered in Latvia and other EMU member states;
- EUR 0.8 (1.4) million — investment certificates of venture capital funds registered in other countries.

Ten largest exposures as at 31 December 2014 amounted to 77,1% (81,6%) of the group's total available-for-sale financial assets.

BANK'S MANAGEMENT REPORT

Note 16

Held-to-maturity financial instruments

EUR '000

Issuer	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Fixed-income debt securities				
Central governments and central banks	523,596	243,285	512,352	243,285
Credit instituitions	170,164	173,105	162,632	172,027
Financial auxiliaries and other financial intermediaries	532	-	-	-
Corporate companies	135,513	133,295	130,589	132,747
Municipalities	70,588	43,107	68,502	43,107
International organisations	58,030	52,843	56,504	52,843
State-owned enterprises	-	7,402	-	7,402
Total held-to-maturity financial instruments	**958,423**	**653,037**	**930,579**	**651,411**

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

As at 31 December 2014, held-to-maturity securities of EUR 809,7 (707,2) thousand issued by credit institutions of other countries were not listed on stock exchanges.

As at 31 December 2014, part of the held-to-maturity financial instruments totalling EUR 21.4 (27.6) million were pledged for securing transactions with financial instruments and held-to-maturity financial instruments totalling EUR 22.3 million for securing targeted longer-term refinancing operations

Ten largest exposures as at 31 December 2014 amounted to 54,5% (42,6%) of the group's total held-to-maturity financial instruments.

The accompanying notes set out on pages 132 through 211 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 31/12/2014			Group/ bank 31/12/2013		
		Fair value			Fair value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Gold futures	390	5	-	352	21	-
Forwards	41,923	4,074	5,622	13,146	20	27
Swaps	84	-	8	228,527	410	2,019
Total derivatives	**42,397**	**4,079**	**5,630**	**242,025**	**451**	**2,046**

The bank uses foreign exchange derivatives to manage its currency positions.

As at 31 December 2014 and 2013, 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 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Private individuals	399,121	447,195	399,114	447,194
Corporate companies	397,446	301,021	397,549	304,092
Financial auxiliaries and other financial intermediaries	24,921	51,966	24,961	60,067
Total gross loans	**821,488**	**800,182**	**821,624**	**811,353**
Impairment allowance	(31,375)	(50,085)	(31,377)	(50,085)
Total net loans	**790,113**	**750,097**	**790,247**	**761,268**

More detailed information about impairment allowances for loans is disclosed in 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 2014 amounted to 21,9% (21,9%) of the total group's/ 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 31/12/2014			Group 31/12/2013		
Category	Carrying amount	Off-balance sheet amount	Total exposure, gross	Carrying amount	Off-balance sheet amount	Total exposure, gross
Ordinary loans	711,657	27,860	739,517	687,988	23,997	711,985
Credit lines	78,049	14,492	92,541	83,806	21,561	105,367
Balances due from financial auxiliaries and other financial intermediaries	24,921	-	24,921	23,799	-	23,799
Overdrafts	5,151	-	5,151	3,079	-	3,079
Payment cards	1,710	15,906	17,616	1,510	14,573	16,083
Total gross loans	**821,488**	**58,258**	**879,746**	**800,182**	**60,131**	**860,313**
Impairment allowance	(31,375)	-	(31,375)	(50,085)	-	(50,085)
Total net loans	**790,113**	**58,258**	**848,371**	**750,097**	**60,131**	**810,228**

EUR '000

	Bank 31/12/2014			Bank 31/12/2013		
Category	Carrying amount	Off-balance sheet amount	Total exposure, gross	Carrying amount	Off-balance sheet amount	Total exposure, gross
Ordinary loans	710,831	27,860	738,691	699,160	23,997	723,157
Credit lines	78,986	14,752	93,738	83,806	21,868	105,674
Balances due from financial auxiliaries and other financial intermediaries	24,961	-	24,961	23,798	-	23,798
Overdrafts	5,136	-	5,136	3,079	-	3,079
Payment cards	1,710	15,976	17,686	1,510	14,626	16,136
Total gross loans	**821,624**	**58,588**	**880,212**	**811,353**	**60,491**	**871,844**
Impairment allowance	(31,377)	-	(31,377)	(50,085)	-	(50,085)
Total net loans	**790,247**	**58,588**	**848,835**	**761,268**	**60,491**	**821,759**

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

EUR '000

	31/12/2014				31/12/2013			
Category	Individual allowances	Portfolio allowances for impaired loans	Portfolio allowances for not impaired loans	Total	Individual allowances	Portfolio allowances for impaired loans	Portfolio allowances for not impaired loans	Total
Mortgage	223	23,236	477	23,936	1,224	35,290	3,031	39,545
Business	5,057	217	168	5,442	6,178	243	272	6,693
Other	-	1,963	-	1,963	545	3,244	-	3,789
Consumer	2	32	-	34	-	58	-	58
Total impairment allowances for loans	**5,282**	**25,448**	**645**	**31,375**	**7,947**	**38,835**	**3,303**	**50,085**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

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

EUR '000

Industry	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Mortgage loans to private individuals	331,525	357,908	331,525	357,908
Real estate management	163,922	139,837	163,922	139,837
Financial and insurance activities	117,581	98,114	110,613	106,215
Trading	63,022	51,546	63,020	51,546
Other loans to private individuals	38,903	42,383	38,898	42,299
Transportation and logistics	11,488	8,782	11,488	8,782
Agriculture and forestry	1,258	6,908	5,212	10,797
Manufacturing	5,555	6,582	5,555	6,582
Construction	1,390	2,045	1,390	2,045
Energy	-	-	3,061	3,365
Other industries	55,469	35,992	55,563	31,892
Total net loans	**790,113**	**750,097**	**790,247**	**761,268**

Collateral analysis for the group's loans:

EUR '000

	Total gross loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral, total
Category						**31/12/2014**
Mortgage	362,189	-	-	342,236	-	342,236
Business	436,526	8,011	68,778	461,504	63,572	601,865
Other	21,817	-	-	-	1	1
Consumer	956	2,064	-	-	-	2,064
Total gross loans	**821,488**	**10,075**	**68,778**	**803,740**	**63,573**	**946,166**
Impairment allowance	(31,375)	x	x	x	x	x
Total net loans	**790,113**	**x**	**x**	**x**	**x**	**x**
Category						**31/12/2013**
Mortgage	404,646	-	-	362,583	-	362,583
Business	366,168	3,598	229,276	409,929	17,590	660,393
Other	27,847	-	-	-	371	371
Consumer	1,521	4,592	-	-	-	4,592
Total gross loans	**800,182**	**8,190**	**229,276**	**772,512**	**17,961**	**1,027,939**
Impairment allowance	(50,085)	x	x	x	x	x
Total net loans	**750,097**	**x**	**x**	**x**	**x**	**x**

BANK'S MANAGEMENT REPORT

Collateral analysis for the bank's loans:

EUR '000

	Total gross loans	Deposit	Securities	Real estate	Other collateral	Fair value of collateral, total
Category						**31/12/2014**
Mortgage	362,189	-	-	342,236	-	342,236
Business	436,669	8,011	87,929	462,444	62,277	620,661
Other	21,817	-	-	-	1	1
Consumer	949	2,064	-	-	-	2,064
Total gross loans	**821,624**	**10,075**	**87,929**	**804,680**	**62,278**	**964,962**
Impairment allowance	(31,377)	x	x	x	x	x
Total net loans	**790,247**	**x**	**x**	**x**	**x**	**x**
Category						**31/12/2013**
Mortgage	404,647	-	-	362,583	-	362,583
Business	377,338	3,598	229,276	409,929	17,590	660,393
Other	27,847	-	-	-	371	371
Consumer	1,521	4,592	-	-	-	4,592
Total gross loans	**811,353**	**8,190**	**229,276**	**772,512**	**17,961**	**1,027,939**
Impairment allowance	(50,085)	x	x	x	x	x
Total net loans	**761,268**	**x**	**x**	**x**	**x**	**x**

The principles for determining the fair value of collateral are described in Note 32. During the reporting year, the real estate with a total value of EUR 13.1 (12.9) million was taken over, which recognized as Non-financial assets held for sale.

Note 19

Investments in subsidiaries and associates

The group's investments:

EUR '000

		31/12/2014				31/12/2013			
Company	Country of incorporation	Share capital	Equity	Group's share of total share capital, %	Carrying amount under equity method	Share capital	Equity	Group's share of total share capital, %	Carrying amount under equity method
Traumatoloģijas un ortopēdijas klīnika Ādaži	LV	2	8	30	2	3	13	30	4
DEPO DIY, SIA	LV	-	-	-	-	7,501	22,829	25	6,631
Total investments in associates		**2**	**8**	**x**	**2**	**7,504**	**22,842**	**x**	**6,635**

The bank's investments:

EUR '000

		31/12/2014				31/12/2013			
Company	Country of incorpotion	Share capital	Equity	Bank's share of total share capital, %	Share capital	Equity	Share capital	Bank's share of total share capital, %	Carrying amount
Pillar Holding Company, KS	LV	80,000	76,836	100	80,000	90,000	91,815	100	90,000
ABLV Bank Luxembourg, S.A.	LU	25,000	16,315	100	25,000	20,000	15,361	100	20,000
New Hanza City, SIA	LV	10,500	10,039	100	10,500	9,818	9,661	100	9,818
AmberStone Group, AS	LV	14,000	13,863	40.89	5,725	4,900	4,900	100	4,900
ABLV Private Equity Fund 2010, KS	LV	3,300	11,318	100	3,300	10,000	12,245	100	10,000
ABLV Capital Markets, IBAS	LV	784	3,834	91.83	720	640	3,973	90	576
ABLV Consulting services, AS	LV	711	817	100	711	711	886	100	711
ABLV Asset Management, IPAS	LV	650	894	90	585	569	935	100	569
ABLV Private Equity Mangement, SIA	LV	171	201	100	171	171	304	100	171
ABLV Corporate Services Holding Company, SIA	LV	100	98	100	100	-	-	-	-
Pillar, SIA	LV	3	2	100	6	3	3	100	6
ABLV Corporate Services, SIA	LV	-	-	-	-	28	191	100	28
Total bank's investments in subsidiaries and associates, gross		**135,219**	**134,217**	**x**	**126,818**	**136,840**	**140,274**	**x**	**136,779**
Impairment expense		x	x	x	(11,719)	x	x	x	(3,950)
Total bank's investments in subsidiaries and associates, net		**x**	**x**	**x**	**115,099**	**x**	**x**	**x**	**132,829**

In the reporting year, ABLV Asset Management, IPAS issued registered non-voting shares (personnel shares) totalling EUR 65,0 thousand.

In the reporting year, the holding company AmberStone Group, AS increased its share capital by issuing new shares totalling EUR 9.1 million. New investors were brought in and, therefore, the bank's investment in AmberStone Group, AS dropped to 40,9%. Considering that the holding company AmberStone Group, AS was established to segregate non-financial and non-banking segments within the group, in the reporting year this entity acquired from ABLV Private Equity 2010, KS its shares in Orto klīnika, SIA and Vaiņode Agro Holding, SIA. As a result of this transaction, the group's investments in these companies and their subsidiaries have decreased.

As at 31 December 2014, funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation amounted to EUR 107.2 (93.2) million. The value of financial instruments of the ABLV Capital Markets, IBAS customers as at 31 December 2014 was EUR 925.5 (780.4) million.

Movements in the investments in subsidiaries and associates:

EUR '000

	Group 01/01/2014—31/12/2014	Group 01/01/2013—31/12/2013	Bank 01/01/2014—31/12/2014	Bank 01/01/2013—31/12/2013
Investments at the beginning of the year, gross	**6,635**	**3,796**	**136,779**	**129,026**
New subsidiaries established	-	-	878	4,900
Establishment/ (disposal) of associates	(6,632)	912	-	-
Change in investments in associates under equity method	(1)	2,496	-	-
Dividend payout from associates	-	(569)	-	-
Increase in investments in associates consolidated in the reporting year	-	-	825	-
(Decrease)/ increase in investments in existing subsidiaries	-	-	(10,858)	3,564
Disposal of subsidiaries	-	-	(806)	(711)
Investments at the end of the year, gross	**2**	**6,635**	**126,818**	**136,779**
Impairment allowance	-	-	(11,719)	(3,950)
Investments at the end of the year, net	**2**	**6,635**	**115,099**	**132,829**

Financial information of subsidiaries that have material non-controlling interests:

EUR '000

	AmberStone Group, AS	Vaiņode Agro Holding, SIA	Vaiņodes Bekons, SIA	Orto klīnika, SIA
Company				**31/12/2014**
Share of non-controlling interests in share capital, (%)	59.11	71.4	71.4	75.5
Equity attributable to non-controlling interests	8,194	3,633	3,010	1,264
Net profit/ loss for the year attributable to non-controlling interests	(81)	(51)	(46)	142
Summary profit/ loss				
Net turnover	53	88	5,531	4,426
Cost of sales	-	(156)	(5,043)	(3,756)
Administrative and other expense	(189)	(101)	(668)	(241)
Profit before corporate income tax	**(136)**	**(169)**	**(180)**	**429**
Corporate income tax	-	-	(27)	73
Net profit for the year	**(136)**	**(169)**	**(153)**	**356**
Comprehensive income, total	**(136)**	**(169)**	**(153)**	**356**
Attributable to non-controlling interests	(81)	(51)	(46)	142
Dividends paid to non-controlling interests	-	-	-	-
Summary statement of financial position				
Current assets	9,429	1,734	3,070	1,108
Non-current assets	4,440	4,535	10,564	1,418
Liabilities	(6)	(1,842)	(7,806)	(376)
Equity	**13,863**	**4,427**	**5,828**	**2,150**
Attributable to equity holders of the bank	5,669	794	2,818	886
Non-controlling interests	8,194	3,633	3,010	1,264
				31/12/2013
Share of non-controlling interests in share capital, (%)	-	30	30	40
Equity attributable to non-controlling interests	-	1,370	813	688
Net profit/ loss for the year attributable to non-controlling interests	-	(48)	18	58
Summary profit/ loss				
Net turnover	-	165	5,044	2,600
Cost of sales	-	(202)	(4 642)	(2,229)
Administrative and other expense	-	(91)	(324)	(197)
Profit before corporate income tax	**-**	**(128)**	**78**	**174**
Corporate income tax	-	-	17	28
Net profit for the year	**-**	**(128)**	**61**	**146**
Comprehensive income, total	**-**	**(128)**	**61**	**146**
Attributable to non-controlling interests	-	(48)	18	58
Dividends paid to non-controlling interests	-	-	-	-
Summary statement of financial position				
Current assets	-	1,720	2,144	812
Non-current assets	-	4,558	11,430	1,318
Liabilities	-	(1,715)	(10,295)	(319)
Equity	**-**	**4,563**	**3,279**	**1,811**
Attributable to equity holders of the bank	-	3,193	2,466	1,123
Non-controlling interests	-	1,370	813	688

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

As at 31 December 2014, the group comprised the following entities:

No	Company	Country of incorporation	Registration number	Business profile	Share in the entity's capital (%)	Share in the entity's capital with voting rights (%)
1	ABLV Bank, AS	LV	50003149401	Financial services	100	100
2	ABLV Bank Luxembourg, S.A.	LU	B 162048	Financial services	100	100
3	ABLV Consulting Services, AS	LV	40003540368	Consulting services	100	100
4	ABLV Corporate Services Holding Company, SIA	LV	40103799987	Holding company	100	100
5	ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100	100
6	ABLV Corporate Services, LTD	CY	HE273600	Consulting services	100	100
7	Pillar Holding Company, KS	LV	40103260921	Holding company	100	100
8	Pillar, SIA	LV	40103554468	Holding company	100	100
9	Pillar Management, SIA	LV	40103193211	Real estate management and administration	100	100
10	Pillar 2 & 14, SIA	LV	50103313991	Real estate transactions	100	100
11	Pillar 3, SIA	LV	40103193067	Real estate transactions	100	100
12	Pillar 4 & 6, SIA	LV	40103210494	Real estate transactions	100	100
13	Pillar 7 & 8, SIA	LV	40103240484	Real estate transactions	100	100
14	Pillar 9, SIA	LV	40103241210	Real estate transactions	100	100
15	Pillar 10, SIA	LV	50103247681	Real estate transactions	100	100
16	Pillar 11, SIA	LV	40103258310	Real estate transactions	100	100
17	Pillar 12, SIA	LV	40103290273	Real estate transactions	100	100
18	Pillar 18, SIA	LV	40103492079	Real estate transactions	100	100
19	Pillar 19, SIA	LV	40103766952	Real estate transactions	100	100
20	Elizabetes Park House, SIA	LV	50003831571	Real estate transactions	91.6	91.6
21	Schaller Kyncl Architekten Riga, SIA	LV	40103437217	Designing and designer's supervision	100	100
22	Pillar Parking, SIA	LV	40103731804	Parking management	100	100
23	New Hanza City, SIA	LV	40103222826	Real estate transactions	100	100
24	GP Electro, SIA	LV	40103693339	Real estate management and administration	100	100
25	ABLV Asset Management, IPAS	LV	40003814724	Financial services	90	100
26	ABLV Capital Markets, IBAS	LV	40003814705	Financial services	91.8	100
27	ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100	100
28	ABLV Private Equity Fund 2010, KS	LV	40103307758	Investment activities	100	100
29	AmberStone Group, AS	LV	40103736854	Holding company	40.9	40.9
30	Vaiņode Agro Holding, SIA	LV	40103503851	Holding company	28.6	28.6
31	Vaiņodes Agro, SIA	LV	40103484940	Agriculture	28.6	28.6
32	Vaiņodes Bekons, SIA	LV	42103019339	Agriculture	28.6	28.6
33	Gas Stream, SIA	LV	42103047436	Electricity generation	28.6	28.6
34	Bio Future, SIA	LV	42103047421	Electricity generation	28.6	28.6
35	IZ SPV, SIA	LV	40103551480	Electricity generation	28.6	28.6
36	NR SPV, SIA	LV	40103551353	Electricity generation	28.6	28.6
37	Orto klīnika, SIA	LV	40103175305	Medical services	24.5	24.5
38	Orto māja, SIA	LV	40103446845	Real estate transactions	24.5	24.5

Open-ended mutual funds included in the group:

No	Open-end mutual fund	Country of registration	ISIN	Fund type	Share in the entity's capital (%)
1	ABLV High Yield CIS RUB Bond Fund	LV	LV0000400778	Korporatīvo obligāciju fonds	65.6
2	ABLV European Industry EUR Equity Fund	LV	LV0000400844	Akciju fonds	60.4
3	ABLV US Industry USD Equity Fund	LV	LV0000400836	Akciju fonds	38.4
4	ABLV European Corporate EUR Bond Fund	LV	LV0000400810	Korporatīvo obligāciju fonds	37.5

Note 20

Investment properties

EUR '000

	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Investment properties	29,996	31,787	25,029	24,327
Prepayments for investment properties	61	1,571	4	3
Total investment properties	**30,057**	**33,358**	**25,033**	**24,330**

Movements in the group's and bank's investment properties in 2014:

EUR '000

	Group				Bank		
	Land	Construction in progress	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
Acquisition value as at 01/01/2014	**27,983**	-	**3,916**	**31,899**	**24,188**	**225**	**24,413**
Additions	784	-	-	784	671	-	671
Reclassification	(24,930)	25,330	(2,890)	(2,490)	-	79	79
Disposals	-	-	(79)	(79)	-	(79)	(79)
Acquisition value as at 31/12/2014	**3,837**	25,330	**947**	**30,114**	**24,859**	**225**	**25,084**
Accumulated depreciation as at 01/01/2014	-	-	**112**	**112**	-	**86**	**86**
Depreciation charge	-	-	48	48	-	11	11
Depreciation of disposals	-	-	(42)	(42)	-	(42)	(42)
Accumulated depreciation as at 31/12/2014	-	-	**118**	**118**	-	**55**	**55**
Net carrying amount as at 01/01/2014	**27,983**	-	**3,804**	**31,787**	**24,188**	**139**	**24,327**
Net carrying amount as at 31/12/2014	**3,837**	25,330	**829**	**29,996**	**24,859**	**170**	**25,029**

In the reporting year, the group reclassified its investment properties, segregating those which should already be viewed as part of future construction projects.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Movements in the group's and bank's investment properties in 2013:

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**

Rentals from investment properties in 2014 amounted to EUR 12,7 (17,1) thousand, whereas the related property maintenance expense was EUR 193,1 (190,7) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to EUR 175,6 (169,3) thousand.

Note 21

Intangible and tangible fixed assets

EUR '000

	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Intangible fixed assets	5,263	4,953	4,896	4,562
Goodwill	229	229	-	-
Prepayments for intangible fixed assets	817	457	804	454
Total intangible fixed assets	**6,309**	**5,639**	**5,700**	**5,016**
Land	4,055	1,234	173	182
Buildings and property improvements	20,669	19,057	4,512	4,565
Production equipment	5,057	5,330	-	-
Office equipment and IT hardware	5,098	4,357	3,910	3,155
Vehicles	1,570	1,471	782	797
Leasehold improvements	601	589	601	589
Construction in progress	199	120	-	-
Prepayments for tangible fixed assets	628	514	628	457
Total tangible fixed assets	**37,877**	**32,672**	**10,606**	**9,745**

BANK'S MANAGEMENT REPORT

Movements in the group's intangible and tangible fixed assets in 2014:

EUR '000

	Goodwill	Intangible fixed assets	Land	Production equipment	Construction in progress and leasehold improvements	Buildings and property improvements	Vehicles	Office equipment and IT hardware	Total, excl. prepayments
Acquisition value as at 01/01/2014	**229**	**9,720**	**1,234**	**6,773**	**1,567**	**23,968**	**2,084**	**12,331**	**57,906**
Additions	-	1,348	65	380	422	1,203	454	2,008	5,880
Reclassification	-	-	2,765	130	(222)	2,545	(4)	543	5,757
Disposals	-	(106)	(9)	(13)	(221)	(894)	(261)	(917)	(2,421)
Acquisition value as at 31/12/2014	**229**	**10,962**	**4,055**	**7,270**	**1,546**	**26,822**	**2,273**	**13,965**	**67,122**
Accumulated depreciation as at 01/01/2014	**-**	**4,767**	**-**	**1,443**	**858**	**4,911**	**613**	**7,974**	**20,566**
Depreciation charge	-	1,037	-	783	109	1,242	305	1,786	5,262
Reclassification	-	-	-	-	-	-	(4)	-	(4)
Depreciation of disposals	-	(105)	-	(13)	(221)	-	(211)	(893)	(1,443)
Accumulated depreciation as at 31/12/2014	**-**	**5,699**	**-**	**2,213**	**746**	**6,153**	**703**	**8,867**	**24,381**
Net carrying amount as at 01/01/2014	**229**	**4,953**	**1,234**	**5,330**	**709**	**19,057**	**1,471**	**4,357**	**37,340**
Net carrying amount as at 31/12/2014	**229**	**5,263**	**4,055**	**5,057**	**800**	**20,669**	**1,570**	**5,098**	**42,741**

Movements in the group's intangible and tangible fixed assets in 2013:

EUR '000

	Goodwill	Intangible fixed assets	Land	Production equipment	Construction in progress	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment and IT hardware	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**

As at 31 December 2014, the group owned intangible and tangible fixed assets having the net carrying amount of EUR 0 and the cost value of EUR 8.3 (7.7) million, while the cost value of such intangible and tangible fixed assets owned by the bank totalled EUR 7.9 (7.5) million.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Movements in the bank's intangible and tangible fixed assets in 2014:

EUR '000

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2014	**8,976**	**182**	**7,590**	**1,191**	**1,172**	**10,453**	**29,564**
Additions	1,271	-	1,194	121	126	1,660	4,372
Reclassification	-	-	-	-	(4)	543	539
Disposals	(120)	(9)	(894)	(221)	(144)	(873)	(2,261)
Acquisition value as at 31/12/2014	**10,127**	**173**	**7,890**	**1,091**	**1,150**	**11,783**	**32,214**
Accumulated depreciation as at 01/01/2014	**4,414**	**-**	**3,025**	**602**	**375**	**7,298**	**15,714**
Depreciation charge	937	-	353	109	141	1,441	2,981
Reclassification	-	-	-	-	(4)	-	(4)
Depreciation of disposals	(120)	-	-	(221)	(144)	(866)	(1,351)
Accumulated depreciation as at 31/12/2014	**5,231**	**-**	**3,378**	**490**	**368**	**7,873**	**17,340**
Net carrying amount as at 01/01/2014	**4,562**	**182**	**4,565**	**589**	**797**	**3,155**	**13,850**
Net carrying amount as at 31/12/2014	**4,896**	**173**	**4,512**	**601**	**782**	**3,910**	**14,874**

Movements in the bank's intangible and tangible fixed assets in 2013:

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**

Information about contractual commitments on the purchase of intangible and tangible fixed assets is disclosed in Note 28.

BANK'S MANAGEMENT REPORT

Note 22

Other assets

EUR '000

	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Prepaid expense	1,626	1,720	1,079	1,107
Receivables	1,613	1,765	2,726	568
Payments for financial instruments	761	43	761	43
Other tax assets	430	450	5	1
Precious metals	402	360	402	360
Balances due from MFGlobal	-	726	-	726
Receivables from disposal of subsidiaries	-	-	-	588
Other assets	3,882	4,076	932	2,484
Total other assets	**8,714**	**9,140**	**5,905**	**5,877**
Impairment expense	(358)	(485)	(265)	(420)
Total other assets, net	**8,356**	**8,655**	**5,640**	**5,457**

Note 23

Deposits

EUR '000

Customer type	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Corporate companies				
current accounts	2,865,778	2,313,818	2,824,266	2,309,579
term deposits	41,458	37,756	40,766	37,756
Total corporate companies	**2,907,236**	**2,351,574**	**2,865,032**	**2,347,335**
Other financial intermediaries				
current accounts	7,668	5,481	20,493	20,148
term deposits	-	-	-	-
Total other financial intermediaries	**7,668**	**5,481**	**20,493**	**20,148**
Other customers				
current accounts	1,075	3,318	1,075	1,478
term deposits	-	-	-	-
Total other customers	**1,075**	**3,318**	**1,075**	**1,478**
Total deposits from corporate customers	**2,915,979**	**2,360,373**	**2,886,600**	**2,368,961**
Private individuals				
current accounts	536,949	382,347	502,086	382,047
term deposits	35,588	25,449	17,346	25,449
Total deposits from private individuals	**572,537**	**407,796**	**519,432**	**407,496**
Total deposits	**3,488,516**	**2,768,169**	**3,406,032**	**2,776,457**

The group's/ bank's top 20 customers in terms of the deposit amount account for 8,2% (12,0%) of the total deposits.

Of the total deposits placed with the group and the bank, 88,1% (88,3%) are from customers whose beneficiaries are CIS residents.

Note 24

Issued securities

Securities issued by the bank:

EUR '000

ISIN	Currency	Number of initially issued securities Number	Par value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group 31/12/2014	Bank 31/12/2014	Group/ bank 31/12/2013
Subordinated bonds									
LV0000800845	USD	200,000	100	15/09/2010	15/09/2020	6.5	15,733	15,733	13,120
LV0000800936	EUR	150,000	100	22/12/2011	22/12/2021	4.8	13,650	13,650	13,016
LV0000800977	EUR	50,000	100	25/06/2012	25/06/2022	4.5	4,458	4,465	4,276
LV0000800985	USD	200,000	100	27/06/2012	27/06/2022	4.5	16,482	16,482	14,663
LV0000801124	USD	200,000	100	18/03/2013	18/03/2023	4.5	14,130	14,130	12,029
LV0000801173	USD	200,000	100	27/06/2013	27/06/2023	4.3	14,219	14,219	12,133
LV0000801181	EUR	200,000	100	27/06/2013	27/06/2023	4.3	17,010	17,211	12,419
LV0000801223	USD	150,000	100	23/10/2013	23/10/2018	4.3	12,294	12,294	10,891
LV0000801520	EUR	200,000	100	27/10/2014	27/10/2024	4.1	5,191	5,191	-
Subordinated bonds, total							**113,167**	**113,375**	**92,547**
Ordinary bonds									
LV0000800969	USD	50,000	1,000	30/07/2012	30/07/2014	1.2+ Libor 6m	-	-	33,742
LV0000801041	EUR	15,000	1,000	05/11/2012	05/11/2014	1.55	-	-	13,674
LV0000801058	USD	50,000	1,000	06/11/2012	06/11/2014	1.45	-	-	31,405
LV0000801108	EUR	20,000	1,000	25/02/2013	25/02/2015	1.68	9,893	18,566	12,918
LV0000801116	USD	50,000	1,000	25/02/2013	25/02/2015	1.70	36,824	36,824	34,021
LV0000801199	USD	50,000	1,000	21/06/2013	21/06/2015	1.73	34,830	34,830	35,556
LV0000801207	EUR	20,000	1,000	21/06/2013	21/06/2015	1.73	17,971	19,559	18,472
LV0000801215	USD	50,000	1,000	16/10/2013	16/10/2015	1.90	36,810	36,810	36,051
LV0000801298	USD	75,000	1,000	17/02/2014	17/02/2016	1.98	30,830	30,830	-
LV0000801306	EUR	20,000	1,000	17/02/2014	17/02/2016	1.98	13,036	14,547	-
LV0000801421	USD	75,000	1,000	08/07/2014	08/07/2016	2.00	59,996	59,996	-
LV0000801439	EUR	20,000	1,000	08/07/2014	08/07/2016	2.05	19,747	19,747	-
LV0000801504	USD	75,000	1,000	28/10/2014	28/10/2016	2.10	51,010	51,010	-
LV0000801512	EUR	20,000	1,000	28/10/2014	28/10/2016	1.90	17,484	18,487	-
Ordinary bonds, total							**328,431**	**341,206**	**215,839**
Issued securities, total							**441,598**	**454,581**	**308,386**

The group/ bank retains the right to exercise early redemption of subordinated bonds according to the information provided in the base prospectuses of the respective programmes.

Note 25

Subordinated liabilities

As at 31 December 2014, the group's and bank's subordinated liabilities of EUR 127.6 (102.7) million comprised subordinated bonds amounting to EUR 113.2 (92.6) million and subordinated deposits amounting to EUR 14.4 (10.1) million.

Subordinated deposits by currencies amount to USD 10.6 (9.3) million and EUR 5.7 (3.3) million.

The basic conditions of the subordinated bonds issued by the bank are disclosed in Note 24.

The analysis of subordinated deposits as at 31 December 2014:

Lenders	Loan amount, EUR '000	Accumulated interest, EUR '000	Total subordinated EUR '000	Interest rate, %	Currency
non-residents	8,603	106	8,709	1.75—3.15	USD
non-residents	5,695	9	5,704	3.00—3.90	EUR
Total subordinated deposits	**14,298**	**115**	14,413	x	x

The analysis of subordinated loans as at 31 December 2013:

Lenders	Loan amount, EUR '000	Accumulated interest, EUR '000	Total subordinated loans, EUR '000	Interest rate, %	Currency
non-residents	6,774	73	6,847	1.75—3.15	USD
non-residents	3,295	7	3,302	3.00—3.90	EUR
Total subordinated deposits	**10,069**	**80**	10,149	x	x

The proportionate share of lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated liabilities.

The remaining weighted average maturity of subordinated deposits from lenders is 5,83 (5,98) years.

Subordinated loans are included in the second tier of equity calculation and are stated at amortised cost. 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. Discount/ coupon rates and payment frequency are indicated in the final issue regulations, and no solvent issuers may annul coupon payments. If an issuer is dissolved, the payments are made in accordance with statutory requirements. More detailed information about the conditions of issues is available on the bank's website and relevant final bond issue regulations.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Note 26

Paid-in share capital

In the reporting year, on 14 March 2014, the general shareholders' meeting of the bank resolved to denominate the share capital of ABLV Bank, AS in EUR instead of LVL. As a result, the share capital of ABLV Bank, AS is EUR 30 001899, consisting of 30 001 899 shares, each share having the par value of EUR 1.

Before the denomination, the share capital of the bank was LVL 21 085 500 and consisted of 140 570 shares, each having the par value of LVL 150, or EUR 213,40.

As at 31 December 2014, the paid-in share capital of the bank amounted to EUR 32.7 million (30.0 million). The par value of each share is EUR 1,0 (213,40). The bank's share capital consists of 29 385 000 (127 170) ordinary registered voting shares and 3 265 000 (13 400) registered non-voting shares (personnel shares).

As at 31 December 2014, the bank had 128 (118) voting shareholders.

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

	31/12/2014		31/12/2013	
	Share of the bank's share capital, EUR '000	Share of the bank's voting capital %	Share of the bank's share EUR '000	Share of the bank's voting capital %
Group of shareholders related to Ernests Bernis				
Ernests Bernis	1,450	4.93	1,430	5.27
Nika Berne	250	0.85	246	0.90
Cassandra Holding Company, SIA	10,970	37.33	9,996	36.83
Group of shareholders related to Ernests Bernis, total	**12,670**	**43.11**	**11,672**	**43.00**
Group of shareholders related to Oļegs Fiļs				
SIA OF Holding	12,670	43.12	11,672	43.00
Group of shareholders related to Oļegs Fiļs, total	**12,670**	**43.12**	**11,672**	**43.00**
Other shareholders, total	4,045	13.77	3,799	14.00
Total voting shares	**29,385**	**100.00**	**27,143**	**100.00**
Non-voting shares (personnel shares)	3,265	-	2,860	-
Total share capital	**32,650**	-	**30,003**	-

In the reporting year, the bank issued 2 243 062 ordinary registered voting shares (based on the decisions of the ordinary shareholders' meeting of 31 March 2014) and 405 039 personnel shares (based on the decisions of the extraordinary shareholders' meetings of 21 March 2014 and 3 October 2014 respectively). The par value of all the issued shares was EUR 1,0, while the share premium of each ordinary registered voting share was EUR 12,05, comprised of the par value of EUR 1,0 and the share premium of EUR 11,05. The issues were intended to ensure steady development of the group/ bank in the future. As a result of the issues, the bank's share capital consists of 29 385 000 ordinary registered voting shares and 3 265 000 personnel shares. All registered voting shares grant equal rights to receive dividends and liquidation quotas and vote at the shareholders' meetings. All personnel shares grant equal rights to dividends. Personnel shares do not grant any right to vote or receive liquidation quotas. Most of the issued voting shares have been acquired by the existing shareholders of the bank — Cassandra Holding Company, SIA and OF Holding, SIA.

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

	31/12/2014			31/12/2013		
	Number of employees	Number of personnel shares	Share of the bank's share capital, EUR '000	Number of employees	Number of personnel shares	Share of the bank's share capital, EUR '000
Chairman of the council and council members	3	-	-	3	-	-
Chairman of the board	1	-	-	1	-	-
Board members	6	1,550,528	1,551	6	7,250	1,547
Heads and deputy heads of divisions	18	1,465,242	1,465	17	6,150	1,313
Non-distributed	-	249,230	249	-	-	-
Registered non-voting shares (personnel shares), total	x	**3,265,000**	**3,265**	x	**13,400**	**2,860**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Dividends declared and paid:

EUR '000

	Group 01/01/2014— 31/12/2014	Group 01/01/2013— 31/12/2013	Bank 01/01/2014— 31/12/2014	Bank 01/01/2013— 31/12/2013
Dividends declared	43,786	23,560	43,427	23,356
Dividends paid	43,774	23,554	43,415	23,349

EUR '000

	Bank 01/01/2014— 31/12/2014	Bank 01/01/2013— 31/12/2013
Bank's share par value	1.00	213.40
Dividends declared per bank's share	1.44	174.30
Dividends paid per bank's share	1.44	174.30

Considering that in 2014 the share denomination was carried out due to the euro changeover, comparative figures reported as earnings per share attributable to the equity holders of the bank in the statement of comprehensive income were restated. The restatement was necessary to ensure comparability with the prior year figures. Earnings per share according to 2013 denomination were EUR 357,85, while according to the denomination performed at the beginning of 2014 earnings per share amount to EUR 1,68.

Note 27

Other liabilities

EUR '000

	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Fund shares owned by third parties	10,910	-	-	-
Accrued expense	8,238	8,891	6,708	7,286
Payments in progress for transactions with financial instruments	3,139	29	3,139	29
Accrual for employee vacation pay	2,022	1,633	1,729	1,410
Payables to suppliers	1,622	1,175	25	62
Other liabilities	3,672	5,620	1,604	2,311
Total other liabilities	**29,603**	**17,348**	**13,205**	**11,098**

Note 28

Memorandum items

EUR '000

	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Contingent liabilities				
Outstanding guarantees	9,531	7,681	9,444	7,689
Total contingent liabilities	**9,531**	**7,681**	**9,444**	**7,689**
Financial commitments				
Loan commitments	27,860	23,997	27,860	23,997
Unutilised credit lines	15,906	14,573	15,976	14,626
Undrawn credit facilities on settlement cards	14,492	21,561	14,752	21,868
Contractual commitments on purchase of non-financial assets	2,297	308	877	308
Letters of credit	763	209	763	209
Total financial commitments	**61,318**	**60,648**	**60,228**	**61,008**
Total contingent liabilities and financial commitments	**70,849**	**68,329**	**69,672**	**68,697**

Note 29

Funds under trust management

As at 31 December 2014, funds under trust management by the group amounted to EUR 160.6 (146.3) million, while funds under trust management by the bank amounted to EUR 48.2 (52.6) 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.

More detailed information on the funds of the customers of ABLV Asset Management, IPAS is disclosed in 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 132 through 211 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

Note 30

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 group's/ 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 group/ 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

	31/12/2014				31/12/2013			
Assets	Shareholders	Management	Related companies	Other related individuals	Shareholders	Management	Related companies	Other related individuals
Loans	14	1,705	217	187	-	1,725	410	857
Liabilities								
Deposits	948	2,517	7,978	1,510	359	2,517	7,827	2,023
Ordinary bonds	-	30	411	18	-	-	-	43
Subordinated bonds	43	3,219	1,156	1,004	83	1,757	1,093	1,801
Memorandum items								
Undrawn credit facilities and payment card limits	-	149	43	20	-	165	300	94
Guarantees	-	125	-	-	-	188	-	-
Income/ expense				01/01/2014—31/12/2014				01/01/2013—31/12/2013
Interest income	-	51	16	4	-	77	97	10
Interest expense	(2)	(106)	(52)	(34)	(7)	(101)	(31)	(53)
Commission and fee income	-	16	16	4	-	20	21	7
Net result from assets held for sale	-	-	264	-	-	(238)	(243)	(27)

Bank's transactions with related parties:

EUR '000

	31/12/2014					31/12/2013				
Assets	Shareholders	Management	Related companies	Subsidiaries	Other related individuals	Shareholders	Management	Related companies	Subsidiaries	Other related individuals
Loans	14	1,705	68	13,026	169	-	1,725	293	15,358	552
Liabilities										
Deposits	948	2,517	7,978	14,765	1,374	359	2,517	7,817	28,466	1,776
Ordinary bonds	-	30	411	12,775	18	-	-	-	20	43
Subordinated bonds	43	3,219	1,156	36	564	83	1,757	1,093	-	1,532
Memorandum items										
Undrawn credit facilities and payment card limits	-	149	43	330	20	-	165	300	360	84
Guarantees	-	125	-	8	-	-	188	-	7	-
Income/ expense					01/01/2014—31/12/2014					01/01/2013—31/12/2013
Interest income	-	51	16	941	3	-	71	95	953	10
Interest expense	(2)	(106)	(52)	(438)	(20)	(7)	(100)	(31)	(9)	(34)
Income from dividends	-	-	-	5,966	-	-	-	-	1,974	-
Commission and fee income	-	16	16	630	4	-	17	16	736	7
Commission and fee expense	-	-	-	(6,590)	-	-	-	-	(5,586)	-
Other operating income	-	-	-	3,547	-	-	-	-	2,012	-
Recognised impairment, net	-	-	-	(7,769)	-	-	-	-	-	-

Information on registered non-voting shares (personnel shares) is presented in Note 26.

Meanwhile, information on changes in investments in subsidiaries and associates is disclosed in Note 19.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Note 31

Segment information

The group and the bank believe that the group's operations can be organised into four segments based on the core business activities as follows: banking services, advisory services, investment management services, and management of repossessed properties 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 Holding Company, SIA, 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, IZ SPV, SIA, NR SPV, SIA, for investment funds included please see note 19.
- management of repossessed properties and investments in real estate: Pillar Holding Company, KS, Pillar, SIA, Pillar Management, SIA, Pillar 3, SIA, Pillar 4 & 6, SIA, Pillar 7 & 8, SIA, Pillar 9, SIA Pillar 10, SIA, Pillar 11, SIA, Pillar 12, SIA, Pillar 2 & 14 SIA, Pillar 18, SIA, Pillar 19, SIA ,Pillar Parking, SIA, Elizabetes Park House, SIA, New Hanza City, SIA, GP Electro, SIA, Schaller Kyncl Architekten Riga, SIA.

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

Analysis of the operating segments of the group:

				EUR '000
				31/12/2014
Assets	Banking	Investment management	Advisory	Management of repossessed properties and investments in real estate
Cash and deposits with central banks	259,868	1	-	3
Balances due from credit institutions	816,516	380	40	-
Securities and derivatives	2,242,572	14,445	-	-
Loans	808,538	12,950	-	-
Investments in subsidiaries and associates	-	2	-	-
Tangible and intangible fixed assets, investment properties	41,929	21,366	389	10,559
Other assets	7,956	4,725	556	61,054
Total assets per internal reporting	**4,177,379**	**53,869**	**985**	**71,616**
Impairment allowance*	(33,670)	-	-	(93)
Total assets per IFRS	**4,143,709**	**53,869**	**985**	**71,523**
Liabilities				
Balances due to credit institutions	43,637	3,348	-	-
Derivatives	5,630	-	-	-
Deposits and issued securities	3,943,825	701	-	1
Impairment allowances and other provisions	34,022	-	-	93
Other liabilities	12,833	14,688	1,267	1,762
Total liabilities per internal reporting	**4,039,947**	**18,737**	**1,267**	**1,856**
Total liabilities and shareholders' equity	**4,267,659**	**44,686**	**1,670**	**(10,166)**
Impairment allowance*	(33,670)	-	-	(93)
Total liabilities per IFRS	**4,233,989**	**44,686**	**1,670**	**(10,259)**
				EUR '000
Profit/ loss				01/01/2014 — 31/12/2014
Net interest income	51,872	1,607	-	-
Net commission and fee income	47,830	5,199	(10)	-
Net result of transactions with securities and foreign exchange	19,007	8	(24)	1
Net other income/ expense	(810)	6,011	1,546	498
Net gain on assets held for sale	-	-	-	4,587
Administrative expense and depreciation	(46,496)	(2,880)	(5,219)	(3,303)
Depreciation	(3,217)	(1,740)	(103)	(250)
Impairment allowances and other provisions	(1,003)	-	-	-
Impairment of financial instruments	(3,670)	-	-	-
Impairment of other assets	-	-	-	(1,546)
Corporate income tax	(4,031)	(71)	(92)	106
Total profit/ (loss)	**59,482**	**8,134**	**(3,902)**	**93**

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

EUR '000

31/12/2013

Assets	Banking	Investment management	Advisory	Management of repossessed properties 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	795,983	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	**3,245,744**	**36,612**	**858**	**83,669**
Impairment allowance*	(50,742)	-	-	(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	51,150	-	-	64
Other liabilities	15,750	3,825	975	2,896
Total liabilities per internal reporting	**3,165,550**	**8,211**	**975**	**2,961**
Total liabilities and shareholders' equity	**3,349,777**	**21,992**	**1,315**	**(6,201)**
Impairment allowance*	(50,742)	-	-	(64)
Total liabilities per IFRS	**3,299,035**	**21,992**	**1,315**	**(6,265)**

EUR '000

Profit/ loss				01/01/2013 — 31/12/2013
Net interest income	41,946	689	-	7
Net commission and fee income	44,957	5,965	(10)	-
Net result of transactions with securities and foreign exchange	22,010	(3)	(14)	-
Net other income/ expense	(16)	8,416	1,625	269
Net gain on assets held for sale	24	-	-	4,745
Administrative expense and depreciation	(44,903)	(4,597)	(5,603)	(470)
Depreciation	(3,010)	(61)	(110)	(1,563)
Impairment allowances and other 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)
Total profit/ (loss)	**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.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Note 32

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The group and the bank disclose the fair values of 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 available-for-sale financial assets, financial assets at fair value through profit or loss and held-to-maturity investments, is mostly defined based on quoted prices in an active market. Where no price is observable for some of these financial instruments, fair value is determined based on observable prices in a market, where no active trading is done — this is applicable to several debt securities and open-ended investment funds. Finally, other valuation techniques are used for some financial assets which are not quoted in the market and for which no quoted prices for similar financial assets in active markets are available. Fair value of such financial instruments is estimated based on valuation models which are based on the assumptions and estimates regarding the potential future financials of the investment property, and the industry and geographical area risks in which the respective investment property operates. Fair value of derivatives is calculated based on the 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 prices.

The management of the bank and the group believe that the most credible market value of real estate was identified based on the evaluations presented by both external real estate appraisers and bank's real estate experts. Investment properties are valued on the basis of discounted cash flows.

According to this approach, fair value is calculated based on assumptions regarding expected future cash flows from income and expense resulting from the holding of real estate during its life cycle, including the value of the property at the date of sale. These cash flows are discounted at a discount rate, which is equal to the market return from similar assets, to arrive at the present value. The selling value of the investment properties may differ from the market value as defined, if the market of such kind of properties is not properly developed in Latvia. As regards other assets and liabilities for which fair value is disclosed and which have a short 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 a discount rate calculated according to the money market rates at the end of the year and loan interest margins. The fair value of term deposits is estimated by discounting the expected cash flows at the average market interest rates prevailing at the end of the year.

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

EUR '000

	31/12/2014		31/12/2013	
Assets at fair value	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives	4,079	4,079	451	451
At fair value through profit or loss				
Financial assets at fair value through profit or loss	21,165	21,165	16,766	16,794
Available-for-sale				
Available-for-sale financial assets	1,271,227	1,271,227	738,683	738,655
Total assets at fair value	**1,296,471**	**1,296,471**	**755,900**	**755,900**
Assets at amortised cost				
Cash and deposits with central banks	259,872	259,872	356,768	356,768
Balances due from credit institutions	816,936	816,936	640,325	640,325
Loans	790,113	789,850	750,097	748,441
Held-to-maturity investments	958,423	959,298	653,037	657,747
Investment properties	30,057	30,057	33,358	34,032
Total assets at amortised cost	**2,855,401**	**2,856,013**	**2,433,585**	**2,437,313**
Liabilities at fair value				
Derivatives	5,630	5,630	2,046	2,046
Total liabilities at fair value	5,630	5,630	2,046	2,046
Liabilities at amortised cost				
Financial liabilities at amortised cost	3,991,512	3,988,282	3,100,991	3,100,155
Total liabilities at amortised cost	**3,991,512**	**3,988,282**	**3,100,991**	**3,100,155**

The accompanying notes set out on pages 132 through 211 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

	31/12/2014		31/12/2013	
Assets at fair value	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives	4,079	4,079	451	451
At fair value through profit or loss				
Financial assets at fair value through profit or loss	14,884	14,884	16,766	16,794
Available-for-sale				
Available-for-sale financial assets	1,209,073	1,209,073	731,687	731,659
Total assets at fair value	**1,228,036**	**1,228,036**	**748,904**	**748,904**
Assets at amortised cost				
Cash and deposits with central banks	258,908	258,908	356,747	356,747
Balances due from credit institutions	795,282	795,282	619,037	619,037
Loans	790,247	789,984	761,268	759,611
Held-to-maturity investments	930,579	929,894	651,411	656,120
Investment properties	25,033	25,033	24,330	25,266
Total assets at amortised cost	**2,800,049**	**2,799,101**	**2,412,793**	**2,416,781**
Liabilities at fair value				
Derivatives	5,630	5,630	2,046	2,046
Total liabilities at fair value	**5,630**	**5,630**	**2,046**	**2,046**
Liabilities at amortised cost				
Financial liabilities at amortised cost	3,923,756	3,922,378	3,109,483	3,108,648
Total liabilities at amortised cost	**3,923,756**	**3,922,378**	**3,109,483**	**3,108,648**

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 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 may contain liquid securities and exchange traded derivatives. Level 2 instruments may contain securities that do not have an active market, standardised OTC derivatives and foreign exchange transactions as well as certain open-ended investment funds. Level 3 instruments contain certificates of venture capital funds, investment properties, term deposits and loans. For valuation methods and assumptions, please see the description above.

In the reporting year, the bank's management decided to transfer debt securities of Ukrainian issuers totalling EUR 1.5 million from Level 1 to Level 2 because of the considerable drop in liquidity established for the securities of these issuers.

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

EUR '000

				31/12/2014				31/12/2013
Assets at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	5	4,074	-	4,079	21	430	-	451
Financial assets at fair value through profit or loss	17,318	3,847	-	21,165	3,903	12,863	-	16,766
Available-for-sale financial assets	1,267,246	2,859	1,122	1,271,227	717,479	19,656	1,548	738,683
Total assets at fair value	**1,284,569**	**10,780**	**1,122**	**1,296,471**	**721,403**	**32,949**	**1,548**	**755,900**
Assets at amortised cost								
Cash and deposits with central banks	259,872	-	-	259,872	356,768	-	-	356,768
Balances due from credit institutions	783,397	33,539	-	816,936	637,875	2,450	-	640,325
Loans	-	-	790,113	790,113	-	-	750,097	750,097
Held-to-maturity investments	873,611	84,002	810	958,423	640,829	12,208	-	653,037
Investment properties	-	-	30,057	30,057	-	-	33,358	33,358
Total assets at amortised cost	**1,916,880**	**117,541**	**820,980**	**2,855,401**	**1,635,472**	**14,658**	**783,455**	**2,433,585**
Liabilities at fair value								
Derivatives	-	5,630	-	5,630	-	2,046	-	2,046
Total liabilities at fair value	**-**	**5,630**	**-**	**5,630**	**-**	**2,046**	**-**	**2,046**
Liabilities at amortised cost								
Financial liabilities at amortised cost	3,883,256	16,797	91,459	3,991,512	3,020,685	3,633	76,673	3,100,991
Total liabilities at amortised cost	**3,883,256**	**16,797**	**91,459**	**3,991,512**	**3,020,685**	**3,633**	**76,673**	**3,100,991**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

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

EUR '000

				31/12/2014				31/12/2013
Assets at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	5	4,074	-	4,079	21	430	-	451
Financial assets at fair value through profit or loss	2,939	11,945	-	14,884	3,903	12,863	-	16,766
Available-for-sale financial assets	1,205,092	2,859	1,122	1,209,073	710,483	19,656	1,548	731,687
Total assets at fair value	**1,208,036**	**18,878**	**1,122**	**1,228,036**	**714,407**	**32,949**	**1,548**	**748,904**
Assets at amortised cost								
Cash and deposits with central banks	258,908	-	-	258,908	356,747	-	-	356,747
Balances due from credit institutions	767,133	28,149	-	795,282	619,024	13	-	619,037
Loans	-	-	790,247	790,247	-	-	761,268	761,268
Held-to-maturity investments	845,767	84,002	810	930,579	639,203	12,208	-	651,411
Investment properties	-	-	25,033	25,033	-	-	24,330	24,330
Total assets at amortised cost	**1,871,808**	**112,151**	**816,090**	**2,800,049**	**1,614,974**	**12,221**	**785,598**	**2,412,793**
Liabilities at fair value								
Derivatives	-	5,630	-	5,630	-	2,046	-	2,046
Total liabilities at fair value	**-**	**5,630**	**-**	**5,630**	**-**	**2,046**	**-**	**2,046**
Liabilities at amortised cost								
Financial liabilities at amortised cost	3,834,434	16,797	72,525	3,923,756	3,036,128	-	73,355	3,109,483
Total liabilities at amortised cost	**3,834,434**	**16,797**	**72,525**	**3,923,756**	**3,036,128**	**-**	**73,355**	**3,109,483**

Analysis of changes in the group's/ bank's financial instruments of Level 3:

EUR '000

Assets at fair value	31/12/2014	Redemption	Impaired	Acquisition	Effect of foreign exchange	31/12/2013
Available-for-sale financial assets	1,122	(194)	(518)	203	83	1,548
Total assets at fair value	**1,122**	**(194)**	**(518)**	**203**	**83**	**1,548**

Note 33

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 and 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. A new banking supervisory regulation has taken effect and has been applicable in the EU Member States, including Latvia, starting from 1 January 2014. This regulation is Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC as well as Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter — the Regulation), which implement the international supervisory framework (Basel III) into EU law. According to the Regulation, the group and the bank apply the standardised approach to calculate the capital requirements for credit risk and market risks, the basic indicator approach to calculate the capital requirement for operational risk and own funds requirements for Credit Valuation Adjustment risk for OTC derivatives are calculated according to standardised method.

Capital adequacy refers to the sufficiency of the group's and bank's capital resources to cover credit risk, operational risk, and market risks. 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 132 through 211 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

Calculation of equity and capital requirements:

EUR '000

Tier 1	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
paid-in share capital	32,650	30,003	32,650	30,003
share premium	66,270	41,485	66,270	41,485
reserve capital	2,134	2,134	2,134	2,134
retained earnings	66,742	60,381	68,600	68,756
current year's profit	32,936	50,304	32,936	43,676
intangible assets	(6,309)	(5,639)	(5,700)	(5,016)
revaluation reserve of available-for-sale financial assets	(1,504)	-	(1,427)	-
non-controlling interests	9,492	3,896	-	-
Tier 1 adjustments according to Pillar II	-	(911)	-	(2,735)
Total Tier 1	**202,411**	**181,653**	**195,463**	**178,303**
Tier 2				
Tier 2 adjustments according to Pillar II	-	(911)	-	(2,735)
subordinated capital (in proportion to the remaining maturity)	114,457	91,282	114,457	90,520
Total Tier 2	**114,457**	**90,814**	**114,457**	**88,228**
Total equity	**316,868**	**272,467**	**309,920**	**266,531**
Capital requirement for credit risk on banking book	113,444	100,500	112,048	102,053
Total capital requirement for market risks on trading book	3,686	12,316	5,174	7,332
incl. capital requirement for foreign currency risk	1,023	6,753	718	1,769
incl. capital requirement for position risk	2,663	5,563	4,456	5,563
Capital requirement for counterparty credit risk	340	54	340	54
CVA	92	-	92	-
Capital requirement for operational risk	18,299	15,185	14,234	12,210
Total capital requirement	**135,861**	**128,055**	**131,888**	**121,649**
CET 1 Capital ratio (%)	**11.92**	**11.35**	**11.86**	**11.73**
Minimum CET 1 capital ratio (%)	7.00	-	7.00	-
Capital adequacy ratio (%)	**18.66**	**17.02**	**18.80**	**17.53**
Minimum capital adequacy ratio (%)	10.50	8.00	10.50	8.00

The minimum common equity tier 1 ratio set for the bank 8%, the minimum capital adequacy ratio set for the bank —13,20%.

In the reporting year, the bank complied with the requirements of supervisory authorities.

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

EUR '000

Exposure category	Group 31/12/2014	Group 31/12/2013	Bank 31/12/2014	Bank 31/12/2013
Commercial companies	48,546	38,035	48,087	47,425
Institutions	22,749	17,873	21,483	19,116
Low risk portfolio	15,572	16,208	15,572	16,208
Other items	16,592	19,666	9,031	10,586
Central governments or central banks	3,666	4,092	3,367	4,092
Past due exposures	1,990	2,453	1,990	2,453
Remaining risk exposures	4,329	2,173	12,518	2,173
Total capital requirement for credit risk	**113,444**	**100,500**	**112,048**	**102,053**

Note 34

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; it is a structured, coordinated and ongoing process across all levels of the entity aimed at identifying and assessing potential threats and making decisions on the prevention of such threats, maintaining the appropriate balance between risks and profits and minimising potential adverse effects of risks on the entity's financial position and operations.

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;
- stress testing aimed at the following:
  - identification of situations which are likely to produce a considerable impact on the group's and/ or bank's operations;
  - assessment of the group's and/ or bank's ability to withstand any significant deterioration in external and internal conditions;
  - determination of ways to minimise certain risks;
  - formulation of contingency plans;
- regular revision and enhancement of the policies and instructions following the market changes.

For the purposes of risk management, a risk strategy has been articulated. This strategy defines risks assumed by the bank both individually and at the group level in carrying on its operations and providing services, the level of risk tolerance and actions to ensure compliance with this level. The risk strategy, which has been approved by the council of the bank, is based on the Operational Strategy of the ABLV Group 2014—2016. Apart from the risk strategy, risk management policies have been developed and approved by the council of the bank. The introduction and effectiveness of these policies are controlled by the board and the Chief Risk Officer (CRO), while the practical implementation is provided by the respective 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 are organised for the staff.

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 132 through 211 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

Note 35

Credit risk

Credit risk is exposure to potential loss in case the group's or bank's counterparty or debtor will be unable to fulfil the contractual obligations to the group or the bank or pledged assets will not cover the group's or bank's requirements.

Credit risk management framework
Credit risk is managed according to the Credit Policy, which sets out the establishment and basic principles of the credit risk management system that would allow timely detection, analysis, assessment and prevention of any potential credit risks.
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.

The credit risk management process comprises the following:
- placing and monitoring of credit risk and concentration risk limits;
- setting and monitoring of criteria for granting of loans;
- evaluation of customer's solvency and collateral;
- monitoring of credit quality, both individually and collectively;
- determination of the recoverable amount of loans and other assets;
- measurement and assessment of credit risk;
- revision of regulations concerning credit risk and concentration risk management.

The following is employed for the purposes of credit risk management:
- a system of limits, which sets restrictions as to the loan portfolio volume according to the Regulation, group's and/ or bank's financial plans and certain lending programmes;
- concentration limits, diversifying the loan portfolio by industries, collateral of the same type, geographical regions and currencies.

In order to measure credit risk, the group and the bank perform the following:
- analysis of loan portfolio quality, compliance with limits and concentration on a regular basis, at least once every quarter;
- credit risk stress testing on a regular basis, at least once every six months;
- assessment of capital adequacy on a regular basis, at least once every year.

Before entering into any cooperation with 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, by 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 a regular 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.

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 Credit Policy, the Lending Regulation and other regulations provide for the main criteria and types of acceptable collateral, the basic principles and frequency of collateral evaluations. Depending on the type of collateral and risk exposure, the bank's employees perform monitoring of the collateral value 1—4 times per year. On certain occasions, an independent appraiser may be involved. With regard to exposures in excess of EUR 3 million or 5% of the bank's equity, independent appraisals are conducted once every three years.

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. Loans are regarded as significant past due if contractual payments are more than 90 days in arrears. Loans are deemed to be impaired if the bank has established respective allowances as a result of loss events, as well as if contractual payments are more than 90 days overdue or if the loan recovery process is being planned. Information on delayed credit payments is disclosed starting from the first day of delay.

Loss events are the following:

- significant financial difficulties of the borrower;
- non-compliance with the agreement;
- benefits granted to the borrower for economic or legal reasons associated with the financial difficulties of the borrower, which would not be otherwise granted by the bank;
- relatively high likelihood of bankruptcy proceedings or other financial reorganisation initiated by the borrower;
- absence of pre-requisites for the implementation of funded projects;
- default on obligations by a party related to the borrower, which affects the borrower's ability to settle its obligations to the bank;
- decrease in the value of collateral if repayment of the loan is directly dependent on the collateral value;
- other events leading to the elevation of credit risk.

Credit quality analysis for the group:

EUR '000

	Mortgage	Business	Consumer	Other	Total gross loans	Fair value of collateral
						31/12/2014
Neither past due nor impaired loans	271,494	418,412	784	19,795	710,485	854,360
Past due but not impaired loans, incl.:	39,214	5,460	128	-	44,802	40,843
less than 30 days	27,200	3,044	82	-	30,326	27,644
31 to 59 days	10,811	2,029	17	-	12,857	11,559
60 to 89 days	1,203	387	29	-	1,619	1,640
more than 90 days	-	-	-	-	-	-
Impaired loans	51,481	12,654	44	2,022	66,201	50,963
Total gross loans	**362,189**	**436,526**	**956**	**21,817**	**821,488**	**946,166**
Impairment allowance	(23,936)	(5,442)	(34)	(1,963)	(31,375)	x
Total net loans	**338,253**	**431,084**	**922**	**19,854**	**790,113**	**x**
						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 gross 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)	x
Total net loans	**365,101**	**359,475**	**1,463**	**24,058**	**750,097**	**x**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Credit quality analysis for the bank:

EUR '000

	Mortgage	Business	Consumer	Other	Total gross loans	Fair value of collateral
						31/12/2014
Neither past due nor impaired loans	271,494	419,733	777	19,795	711,799	883,348
Past due but not impaired loans, incl.:	39,214	5,460	128	-	44,802	40,843
less than 30 days	27,200	3,044	82	-	30,326	27,644
31 to 59 days	10,811	2,029	17	-	12,857	11,559
60 to 89 days	1,203	387	29	-	1,619	1,640
more than 90 days	-	-	-	-	-	-
Impaired loans	51,481	11,476	44	2,022	65,023	40,771
Total gross loans	**362,189**	**436,669**	**949**	**21,817**	**821,624**	**964,962**
Impairment allowance	(23,936)	(5,446)	(32)	(1,963)	(31,377)	x
Total net loans	**338,253**	**431,223**	**917**	**19,854**	**790,247**	**x**
						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 gross 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)	x
Total net loans	**365,102**	**370,645**	**1,463**	**24,058**	**761,268**	**x**

Regular stress tests of the group's/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 the 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 the valuation provided by independent experts and the bank.

As at 31 December 2014, the gross amount of loans having the maturity date for principal or interest changed totalled EUR 74.2 (61.3) 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 date of signing the above-mentioned agreement and until the time 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.

Financial assets of the group by risk rating:

EUR '000

	Assets neither past due nor impaired		Assets past due			
	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance and not impaired	Gross financial assets
Financial assets						**31/12/2014**
Cash and deposits with central banks	259,872	-	-	-	-	259,872
Balances due from credit institutions	744,365	72,571	-	-	-	816,936
Derivatives	4,079	-	-	-	-	4,079
Financial assets at fair value through profit or loss	16,547	4,618	-	-	-	21,165
Available-for-sale financial assets	1,263,298	6,917	1,172	-	-	1,271,387
Held-to-maturity investments	884,819	71,098	4,469	-	-	960,386
Loans to customers	690,963	19,522	13,286	82,528	15,189	821,488
Mortgage	270,038	1,456	585	80,120	9,990	362,189
Business	400,346	18,066	12,599	345	5,170	436,526
Other	19,795	-	-	2,022	-	21,817
Consumer	784	-	102	41	29	956
Total financial assets, gross	**3,863,943**	**174,726**	**18,927**	**82,528**	**15,189**	**4,155,313**
						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	-	16,766	-	-	-	16,766
Available-for-sale financial assets	723,813	14,721	269	-	-	738,803
Held-to-maturity investments	569,002	83,831	319	-	-	653,152
Loans to customers	627,660	19,546	17,695	78,567	56,714	800,182
Mortgage	278,568	2,301	2,440	74,604	46,733	404,646
Business	323,914	17,245	14,502	526	9,981	366,168
Other	23,975	-	545	3,327	-	27,847
Consumer	1,203	-	208	110	-	1,521
Total financial assets, gross	**2,852,551**	**200,332**	**18,283**	**78,567**	**56,714**	**3,206,447**

Financial assets of the bank by risk rating:

EUR '000

	Assets neither past due nor impaired		Assets past due			
	Higher rating	Lower rating	Individually assessed	Portfolio allowance and impaired	Portfolio allowance and not impaired	Gross financial assets
Financial assets						**31/12/2014**
Cash and deposits with central banks	258,908	-	-	-	-	258,908
Balances due from credit institutions	722,919	72,363	-	-	-	795,282
Derivatives	4,079	-	-	-	-	4,079
Financial assets at fair value through profit or loss	14,884	-	-	-	-	14,884
Available-for-sale financial assets	1,201,144	6,917	1,172	-	-	1,209,233
Held-to-maturity investments	856,975	71,098	4,469	-	-	932,542
Loans to customers	689,214	22,584	12,109	82,528	15,189	821,624
Mortgage	270,038	1,456	585	80,120	9,990	362,189
Business	398,604	21,128	11,422	345	5,170	436,669
Other	19,795	-	-	2,022	-	21,817
Consumer	777	-	102	41	29	949
Total financial assets, gross	**3,748,123**	**172,962**	**17,750**	**82,528**	**15,189**	**4,036,552**
						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	-	16,766	-	-	-	16,766
Available-for-sale financial assets	723,813	7,724	269	-	-	731,806
Held-to-maturity investments	567,376	83,831	319	-	-	651,526
Loans to customers	638,831	19,546	17,695	78,567	56,714	811,353
Mortgage	278,569	2,301	2,440	74,604	46,733	404,647
Business	335,084	17,245	14,502	526	9,981	377,338
Other	23,975	-	545	3,327	-	27,847
Consumer	1,203	-	208	110	-	1,521
Total financial assets, gross	**2,856,015**	**178,107**	**18,283**	**78,567**	**56,714**	**3,187,686**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

BANK'S MANAGEMENT REPORT

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 one type of collateral, etc. With a view to limiting credit risk and concentration risk, the target levels and limits of the loan portfolio are defined as a percentage of eligible capital, considering risks associated with the lending product and the location and liquidity of collateral.

Concentration limits for individual industry sectors are determined on the basis of credit quality ratios in the relevant sector and industry trends both in Latvia and abroad.

Concentration limits for geographical regions are based on the possibilities of registering and recovering collateral, as well as the political and economic situation in the relevant country.

Concentration limits for a certain type of collateral are defined, considering the liquidity of collateral.

In the event that any group of loans is affected by economic factors deteriorating the condition of all loans belonging to this group, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

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 eligible capital. According to the Regulation, the group and the bank treat as large the credit exposure exceeding 10% of eligible capital.

For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

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.

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.

To enhance the effectiveness of credit risk management, which is associated with the assessment of existing and potential counterparties, the bank has designed an internal model for the assessment of credit institutions. By means of this model, the bank sets counterparty limits for credit institutions and controls compliance with these limits according to the procedure set out in internal regulations.

Analysis of concentration of the group's financial assets and liabilities by geographical area as at 31 December 2014:

EUR '000

Assets	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisatons	Other countries	Total
Cash and deposits with central banks	258,912	960	-	-	-	-	259,872
Balances due from credit institutions	8,949	492,078	67,811	192,096	-	56,002	816,936
Derivatives	-	82	3,911	-	-	86	4,079
Financial assets at fair value through profit or loss	4,069	7,199	1,727	5,483	-	2,687	21,165
Available-for-sale financial assets	12,528	299,806	230,858	640,855	57,767	29,413	1,271,227
Loans	563,572	27,407	14,349	13,144	-	171,641	790,113
Held-to-maturity investments	180,640	151,650	101,462	257,703	57,324	209,644	958,423
Total financial assets	**1,028,670**	**979,182**	**420,118**	**1,109,281**	**115,091**	**469,473**	**4,121,815**
Liabilities							
Derivatives	-	5,564	8	-	-	58	5,630
Financial liabilities at amortised cost	153,721	330,893	954,163	73,657	-	2,479,078	3,991,512
Total financial liabilities	**153,721**	**336,457**	**954,171**	**73,657**	**-**	**2,479,136**	**3,997,142**
Memorandum items	**37,822**	**3,383**	**3,341**	**206**	**-**	**26,097**	**70,849**

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	12,907	239	-	1,278	-	2,342	16,766
Available-for-sale financial assets	21,286	170,907	123,689	356,640	40,245	25,916	738,683
Loans	565,518	33,936	21,076	7,608	-	121,959	750,097
Held-to-maturity investments	76,670	80,178	70,678	168,038	52,843	204,630	653,037
Total financial assets	**1,039,859**	**573,951**	**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 liabilities	**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 bank's financial assets and liabilities by geographical area as at 31 December 2014:

EUR '000

Assets	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisatons	Other countries	Total
Cash and deposits with central banks	258,908	-	-	-	-	-	258,908
Balances due from credit institutions	8,569	470,845	67,810	192,095	-	55,963	795,282
Derivatives	-	82	3,911	-	-	86	4,079
Financial assets at fair value through profit or loss	12,237	213	-	1,318	-	1,116	14,884
Available-for-sale financial assets	12,528	263,708	226,360	620,960	57,767	27,750	1,209,073
Loans	572,989	18,133	14,347	13,144	-	171,634	790,247
Held-to-maturity investments	176,846	142,847	92,895	253,546	56,504	207,941	930,579
Total financial assets	**1,042,077**	**895,828**	**405,323**	**1,081,063**	**114,271**	**464,490**	**4,003,052**
Liabilities							
Derivatives	-	5,564	8	-	-	58	5,630
Financial liabilities at amortised cost	181,507	335,594	925,236	72,815	-	2,408,604	3,923,756
Total financial liabilities	**181,507**	**341,158**	**925,244**	**72,815**	**-**	**2,408,662**	**3,929,386**
Memorandum items	**36,631**	**3,398**	**3,340**	**206**	**-**	**26,097**	**69,672**

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	12,907	239	-	1,278	-	2,342	16,766
Available-for-sale financial assets	21,286	163,911	123,689	356,640	40,245	25,916	731,687
Loans	580,831	29,743	21,076	7,659	-	121,959	761,268
Held-to-maturity investments	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 liabilities	**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**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Note 36

Other 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 assessment 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 identify, analyse and control liquidity risk on a timely basis 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;
- large deposits on demand 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 in the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease in 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;

As at 31 December 2014, the bank's liquidity ratio was 74,74% (79,20%). The FCMC stipulates that the bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 60% of the bank's total current liabilities.

The bank manages funding liquidity risk and controls the funding structure by assessing the following:

- the funding structure in order to define the bank's dependence on certain types of resources;
- diversification of funding maturities;
- potential funding sources and the bank's access to such sources.

The bank regularly evaluates and controls its liquid assets and collateral positions (assets, which can be used by the bank as collateral for funding). The bank diversifies these assets, taking into account potential restrictions (legal, regulatory, operating, etc.) as to funding (transactions), price fluctuations, discounts (the difference between the amount of funding and the fair value of related collateral), additional collateral requirements in critical situations, etc.

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

BANK'S MANAGEMENT REPORT

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 analysis

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.

Assets and liabilities are distributed into maturity bands in the following liquidity gap analysis tables according to the signed agreements, except as stated below.

Securities in the bank's portfolio are included in the maturity range in which they can be sold without loss, i.e. at the market value, except for held-to-maturity investments. Securities of the held-to-maturity 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 presented 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 classified in line with the bank's experience regarding the life cycle of these deposits with the bank, although customers may receive demand deposits from the bank at any time and without any penalties applied. The breakdown of 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 of the outflow of demand deposits from the bank. This principle is not applied to demand deposits placed by large customers as the bank considers them less stable and these deposits are included in the maturity band of "on demand and up to 1 month".

Term deposits are disclosed according to contractual terms; however, customers may claim term deposits from the bank before the maturity date, subject to the deduction of a certain amount from the respective term deposit.

Impaired assets are stated net of allowances.

Liquidity gap analysis for the group's assets, liabilities and memorandum items as at 31 December 2014:

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	259,872	-	-	-	-	259,872
Balances due from credit institutions	758,394	25,003	9,245	-	24,294	816,936
Derivatives	627	1,659	1,793	-	-	4,079
Financial assets at fair value through profit or loss	20,872	-	293	-	-	21,165
Available-for-sale financial assets	1,208,011	12,468	9,042	33,673	8,033	1,271,227
Loans	99,750	22,369	77,172	384,900	205,922	790,113
Held-to-maturity investments	373,351	9,297	101,265	300,149	174,361	958,423
Other assets	71,170	-	2,846	-	74,255	148,271
Total assets	**2,792,047**	**70,796**	**201,656**	**718,722**	**486,865**	**4,270,086**
Liabilities						
Derivatives	2,180	1,656	1,794	-	-	5,630
Financial liabilities at amortised cost	311,414	219,221	667,420	2,674,748	118,709	3,991,512
Other liabilities	29,722	-	1,180	-	-	30,902
Total liabilities	**343,316**	**220,877**	**670,394**	**2,674,748**	**118,709**	**4,028,044**
Shareholders' equity	-	-	-	-	242,042	242,042
Total liabilities and shareholders' equity	**343,316**	**220,877**	**670,394**	**2,674,748**	**360,751**	**4,270,086**
Total memorandum items	21,687	1,859	15,140	4,456	27,707	70,849
Net liquidity position	2,427,044	(151,940)	(483,878)	(1,960,482)	98,407	x
Total liquidity position	2,427,044	2,275,104	1,791,226	(169,256)	(70,849)	x

Liquidity gap analysis for the group's assets, liabilities and memorandum items 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	-	-	16,766
Available-for-sale financial assets	721,439	4,932	3,815	-	8,497	738,683
Loans	109,801	21,732	109,877	281,453	227,234	750,097
Held-to-maturity investments	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

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Liquidity gap analysis for the bank's assets, liabilities and memorandum items as at 31 December 2014:

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	258,908	-	-	-	-	258,908
Balances due from credit institutions	742,130	25,003	4,288	-	23,861	795,282
Derivatives	627	1,659	1,793	-	-	4,079
Financial assets at fair value through profit or loss	14,591	-	293	-	-	14,884
Available-for-sale financial assets	1,193,936	9,930	4,089	-	1,118	1,209,073
Loans	99,780	22,369	77,172	385,004	205,922	790,247
Held-to-maturity investments	373,351	9,297	100,014	279,554	168,363	930,579
Other assets	7,665	-	2,690	-	156,437	166,792
Total assets	**2,690,988**	**68,258**	**190,339**	**664,558**	**555,701**	**4,169,844**
Liabilities						
Derivatives	2,180	1,656	1,794	-	-	5,630
Financial liabilities at amortised cost	333,899	215,397	649,676	2,605,867	118,917	3,923,756
Other liabilities	13,557	-	-	-	-	13,557
Total liabilities	**349,636**	**217,053**	**651,470**	**2,605,867**	**118,917**	**3,942,943**
Shareholders' equity	-	-	-	-	226,901	226,901
Total liabilities and shareholders' equity	**349,636**	**217,053**	**651,470**	**2,605,867**	**345,818**	**4,169,844**
Total memorandum items	20,250	1,859	15,140	4,456	27,967	69,672
Net liquidity position	2,321,102	(150,654)	(476,271)	(1,945,765)	181,916	x
Total liquidity position	2,321,102	2,170,448	1,694,177	(251,588)	(69,672)	x

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Liquidity gap analysis for the bank's assets, liabilities and memorandum items 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	-	-	16,766
Available-for-sale financial assets	721,439	4,932	3,815	-	1,501	731,687
Loans	109,800	21,732	117,697	284,811	227,228	761,268
Held-to-maturity investments	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

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 2014 and 2013 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, has been split, into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date.

BANK'S MANAGEMENT REPORT

Financial liabilities and memorandum items
of the group as at 31 December 2014:

EUR '000

Financial liabilities	Up to 1 month	1–12 months	1–5 years	More than 5 years	Total
Demand deposits from credit institutions	23,869	-	-	-	23,869
Derivative inflow amount	(17,177)	(24,830)	-	-	(42,007)
Derivative outflow amount	18,578	24,804	-	-	43,382
Financial liabilities at amortised cost	3,442,618	198,895	224,434	119,219	3,985,166
Total financial liabilities	**3,467,888**	**198,869**	**224,434**	**119,219**	**4,010,410**
Memorandum items	21,687	16,999	4,456	27,707	70,849
Total financial liabilities and memorandum items	**3,489,575**	**215,868**	**228,890**	**146,926**	**4,081,259**

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**

Financial liabilities and memorandum items
of the bank as at 31 December 2014:

EUR '000

Financial liabilities	Up to 1 month	1–12 months	1–5 years	Vairāk nekā 5 gadi	Kopā
Demand deposits from credit institutions	28,962	-	-	-	28,962
Derivative inflow amount	(17,177)	(24,830)	-	-	(42,007)
Derivative outflow amount	18,578	24,804	-	-	43,382
Financial liabilities at amortised cost	3,368,054	196,950	227,884	119,427	3,912,315
Total financial liabilities	**3,398,417**	**196,924**	**227,884**	**119,427**	**3,942,652**
Memorandum items	20,250	16,999	4,456	27,967	69,672
Total financial liabilities and memorandum items	**3,418,667**	**213,923**	**232,340**	**147,394**	**4,012,324**

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	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 132 through 211 form an integral part of these financial statements.

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 laid down in several regulations, i.e., the Interest Rate Risk Management Policy, the Derivative Financial Instrument Policy, and the bank's Securities Portfolio Policy.

The group and the bank distinguish the following components of market risk:

- securities price risk — the risk of loss due to the revaluation of debt or equity securities positions caused by changes in the price of relevant securities;
- interest rate risk — potential adverse effects of interest rate fluctuations on the group's and bank's income and the economic value of their capital;
- currency risk — the risk of loss due to the revaluation of assets and liabilities and memorandum items denominated in foreign currencies caused by changes in foreign exchange rates, with gold treated as a foreign currency;
- commodity risk — the risk of loss due to the revaluation of commodity positions caused by changes in the price of the relevant commodity. Commodity hereunder is a tangible item which is or may be marketed on the secondary market, such as agricultural products, oil, precious metals (except for gold);

The bank and group has not delt in any securitizations.

Price risk
The "loss" indicator is used by the bank as one of the tools to manage price risk 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.
Non-fixed income financial instruments are held in the bank's trading portfolio. Price risk related to non-fixed income securities indicates to the potential decline 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 changes in the market value of securities during the reporting year and the average security holding period in the trading portfolio.
The exposure to equity securities not held in the bank's and group's trading portfolio has not been material in 2014 and as of the balance sheet date amounts to EUR 370 thousand.

In 2014, the estimated value-at-risk of non-fixed income securities totalled EUR 1.2 (1.3) million.

Currency risk
The group and the bank are exposed to negative effects of fluctuations in 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.
According to the bank's policy, the bank may use derivatives to limit its exposure to currency risk. Any transactions involving derivatives with aim to earn profits are prohibited.

The bank has major open positions in EUR 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 2014, the bank's open currency position in USD was 2,7% (3,0%) 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 2014, 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.

Group's currency position as at 31 December 2014:

EUR '000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	256,930	2,678	1	263	259,872
Balances due from credit institutions	54,204	697,724	12,765	52,243	816,936
Derivatives	4,079	-	-	-	4,079
Financial assets at fair value through profit or loss	10,009	9,958	1,198	-	21,165
Available-for-sale financial assets	112,005	1,147,423	6,924	4,875	1,271,227
Loans	585,466	192,353	1,108	11,186	790,113
Held-to-maturity investments	190,164	757,312	10,521	426	958,423
Other assets	147,825	42	1	403	148,271
Total assets	**1,360,682**	**2,807,490**	**32,518**	**69,396**	**4,270,086**
Liabilities					
Derivatives	5,630	-	-	-	5,630
Financial liabilities at amortised cost	1,096,764	2,798,006	29,729	67,013	3,991,512
Other liabilities	23,635	6,808	430	29	30,902
Total liabilities	**1,126,029**	**2,804,814**	**30,159**	**67,042**	**4,028,044**
Net long/ (short) balance sheet position	**-**	**2,676**	**2,359**	**2,354**	**x**
Net off-balance sheet position from FX transactions	-	(11,103)	(2,074)	1,176	x
Net open long/ (short) currency position	**-**	**(8,427)**	**285**	**3,530**	**x**
Sensitivity gap if exchange rate against the national currency drops by 10%	**-**	**843**	**(29)**	**(353)**	**x**

Group's currency position as at 31 December 2013:

EUR '000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	353,737	2,812	-	219	356,768
Balances due from credit institutions	41,471	505,155	31,168	62,531	640,325
Derivatives	451	-	-	-	451
Financial assets at fair value through profit or loss	5,929	6,941	3,896	-	16,766
Available-for-sale financial assets	33,764	686,174	13,812	4,933	738,683
Loans	565,937	176,026	519	7,615	750,097
Held-to-maturity investments	72,790	562,093	17,736	418	653,037
Other assets	157,033	2,527	3	387	159,950
Total assets	**1,231,112**	**1,941,728**	**67,134**	**76,103**	**3,316,077**
Liabilities					
Derivatives	2,046	-	-	-	2,046
Financial liabilities at amortised cost	812,296	2,138,108	73,829	76,758	3,100,991
Other liabilities	23,395	408	33	18	23,854
Total liabilities	**837,737**	**2,138,516**	**73,862**	**76,776**	**3,126,891**
Net long/ (short) balance sheet position	**-**	**(196,788)**	**(6,728)**	**(673)**	**x**
Net off-balance sheet position from FX transactions	(221,214)	213,044	5,724	822	x
Net open long/ (short) currency position	**-**	**16,256**	**(1,004)**	**149**	**x**
Sensitivity gap if exchange rate against the national currency drops by 10%	**-**	**(1.626)**	**100**	**(15)**	**x**

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

Bank's currency position as at 31 December 2014:

EUR '000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	255,966	2,678	1	263	258,908
Balances due from credit institutions	57,818	672,491	12,755	52,218	795,282
Derivatives	4,079	-	-	-	4,079
Financial assets at fair value through profit or loss	5,798	8,299	787	-	14,884
Available-for-sale financial assets	71,336	1,125,938	6,924	4,875	1,209,073
Loans	585,556	192,343	1,148	11,200	790,247
Held-to-maturity investments	174,982	744,650	10,521	426	930,579
Other assets	166,347	41	1	403	166,792
Total assets	**1,321,882**	**2,746,440**	**32,137**	**69,385**	**4,169,844**
Liabilities					
Derivatives	5,630	-	-	-	5,630
Financial liabilities at amortised cost	1,087,042	2,739,958	29,737	67,019	3,923,756
Other liabilities	9,718	3,792	18	29	13,557
Total liabilities	**1,102,390**	**2,743,750**	**29,755**	**67,048**	**3,942,943**
Net long/ (short) balance sheet position	**-**	**2,690**	**2,382**	**2,337**	**x**
Net off-balance sheet position from FX transactions	-	(11,103)	(2,074)	1,176	x
Net open long/ (short) currency position	**-**	**(8,413)**	**308**	**3,513**	**x**
Sensitivity gap if exchange rate against the national currency drops by 10%	**-**	**841**	**(31)**	**(351)**	**x**

Bank's currency position as at 31 December 2013:

EUR '000

Assets	EUR	USD	RUB	Other currencies	Total
Cash and deposits with central banks	353,716	2,812	-	219	356,747
Balances due from credit institutions	27,469	497,895	31,151	62,522	619,037
Derivatives	451	-	-	-	451
Financial assets at fair value through profit or loss	5,929	6,941	3,896	-	16,766
Available-for-sale financial assets	26,768	686,174	13,812	4,933	731,687
Loans	577,108	176,026	519	7,615	761,268
Held-to-maturity investments	71,164	562,093	17,736	418	651,411
Other assets	175,243	2,368	1	387	177,999
Total assets	**1,237,848**	**1,934,309**	**67,115**	**76,094**	**3,315,366**
Liabilities					
Derivatives	2,046	-	-	-	2,046
Financial liabilities at amortised cost	820,778	2,138,118	73,829	76,758	3,109,483
Other liabilities	16,355	407	28	10	16,800
Total liabilities	**839,179**	**2,138,525**	**73,857**	**76,768**	**3,128,329**
Net long/ (short) balance sheet position	**398,669**	**(204,216)**	**(6,742)**	**(674)**	**x**
Net off-balance sheet position from FX transactions	(221,214)	213,044	5,724	822	x
Net open long/ (short) currency position	**-**	**8,828**	**(1,018)**	**148**	**x**
Sensitivity gap if exchange rate against the national currency drops by 10%	**-**	**(883)**	**102**	**(15)**	**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 2014, the bank was in compliance with the above requirements of the Law on Credit Institutions.

Interest rate risk
Interest rate risk represents the adverse effect of market interest rate fluctuations on the bank's financial position. 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. Bank's derivative financial instruments policy specifies that derivative financial instruments cen be utilised to hedge interest rate risk.

The distribution of assets, liabilities and memorandum items into maturity bands follows the following 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 changes in 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 both long and short off-balance sheet position.

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 net interst income and economic value in the event of a tough market situation.

When assessing the effect of interest rate risk on equity, potential changes in the market value of 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 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:

EUR '000

		Group/ bank		Group/ bank	
		01/01/2014—31/12/2014		01/01/2013—31/12/2013	
		+100bps	+100bps	+100bps	+100bps
Total for all currencies	Effect of changes on equity	(20,580)	20,580	(9,462)	9,462
	Effect of changes on profit	(2,971)	2,971	1,259	(1,259)
USD	Effect of changes on equity	(19,150)	19,150	(9,108)	9,108
	Effect of changes on profit	(3,359)	3,359	1,480	(1,480)
USD	Effect of changes on equity	(1,430)	1,430	(354)	354
	Effect of changes on profit	388	(388)	(221)	221

BANK'S MANAGEMENT REPORT

Commodity risk
Precious metals represent the category of commodities exposing the group and the bank to commodity risk. The group's and bank's regulations set position limits and lay down the procedure for calculating the minimum capital requirement for commodity risk in respect of precious metals (except for gold), which are recognised on the group's and bank's statement of financial position at the date of the calculation.

Settlement risk
Settlement risk is the risk to which the group and the bank are exposed in unfinished transactions with foreign currency, securities or commodities, except for repo transactions, securities or commodity lending or borrowing transactions. Settlement risk comprises the risk of payments/ delivery and the risk of free deliveries, and the capital requirement for settlement risk represents the total of capital requirements for these two risks. To limit the exposure to the risk of payments/delivery, the group and the bank place limits for the holders of their financial instruments. Where the group and the bank assume the risk of payments/ delivery in customer transactions with financial instruments, the regulations set out actions to be taken by the group and the bank in the event of overdue payments and lay down the procedure for calculating the minimum capital requirement for settlement risk. The group and the bank have established the payment procedure for their counterparties in financial trading, thereby limiting their exposure to the risk of free deliveries.

Counterparty credit risk
Counterparty credit risk is the risk that the counterparty to a transaction could default on its obligations to the group or the bank before the final settlement of the transaction's cash flows.
The group and the bank is exposed to counterparty credit risk in derivatives deals. To limit counterparty credit risk, internal rules developed by the group and the bank specify limits for counterparties, define positions to be included in these limits, set out the procedure and frequency for monitoring compliance with the limits and the procedure to attract the collateral.
Sufficiency of collateral is controlled on a daily basis. The group and the bank use Mark-to-Market Method for calculating the minimum capital requirement for counterparty credit risk.

Note 37

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

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

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.

The following risk mitigation techniques are employed for the purposes of operational risk management:

- process automation — investments in data processing and information security technologies to automate processes;
- outsourcing — partial elimination of causes of operational risk by making use of the experience and possibilities of outsourcing service providers;
- a system of limits — setting of limits for certain transactions, employees/ structural units and group's and bank's business activities;
- prudent organisation of group's and bank's business processes, applying the following principles: segregation of functions, independent performance evaluation, authorisation of transactions;
- insurance — it is used to minimise operational risk loss caused by low-probability events having significant potential losses, and it is also recommended when the process is not fully or partially automated.

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 and 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, 1,349 (2,084) events were registered in the database, of which only 49 (67) events were those which resulted in actual losses amounting to EUR 404,4 (107,0) 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 the 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 effective 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.

BANK'S MANAGEMENT REPORT

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;
- 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;
- the procedure for ensuring processing of check sheets.

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 also be 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 requirement 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 requirement 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 requirement for information system risk.

The bank conducts risk analysis on the basis of a documented methodology, which enables the effective planning of risk management measures. According to the risk analysis results, the bank chooses appropriate risk management (security) tools. Risk management measures are determined by the bank based on the relationship between security costs and potential loss. The bank specifically focuses and makes every effort to prevent risks associated with unauthorised access to the bank's information by third parties or leakage of confidential information via global networks (Internet, etc.), e-mail, modems, optical discs, USB flash and other information media.

When commencing each new project for the designing, acquisition and alteration (modification) of information systems, the bank conducts risk analysis pertaining to these changes and takes measures to minimise the risk exposure.

Note 38

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 2014 will not result in material losses for the bank and/ or the group.

Note 39

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 these consolidated financial statements or notes thereto.

The accompanying notes set out on pages 132 through 211 form an integral part of these financial statements.

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 117 through 211 of the accompanying 2014 Consolidated Annual Report, which comprise the Group and the Bank statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of s ignificant 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 and separate financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2014, 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 2014 (set out on pages 117 through 125 of the accompanying 2014 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 2014.

We have assured ourselves that the Bank has prepared the corporate management report for the year 2014 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.

Building a better working world

SIA Ernst & Young Baltic
Licence Nr. 17

Iveta Vimba
Latvian Certified Auditor
Certificate No 153
Member of the Board

Riga, 25 February 2015