AS "Citadele banka"

Annual report

for the year ended
31 December 2014

together with independent
auditors' report

Translation from Latvian original*

* This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Citadele

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Economic environment

Improving macroeconomic picture in several EU countries

Following two years of stagnation, GDP growth in the EU rose 1.4% year-on-year in 2014. Growth in the United Kingdom and many Central and Eastern European countries took place at a faster pace than in other EU members, which improved the overall macroeconomic picture of the union.

Strong trade in the Baltics

Economic growth evened out across the Baltics in 2014. Lithuania’s GDP growth slowed to 2.9% year-on-year in 2014, after an annual 3.0 to 4.0% increase in the preceding two years. According to preliminary estimates, the Estonian economy has regained some momentum after a slowdown in 2013 early 2014, with GDP growth accelerating to 1.8% year-on-year in 2014 up from 1.6% in 2013.

Trade within the Baltics accounts for a relatively large share of exports from the three Baltic States. Exports to Lithuania and Estonia together accounted for nearly 30% of Latvia’s export goods while approximately 15% of export goods from both Estonia and Lithuania remained in the Baltics in 2014. As of 1 January 2015, Lithuania joined the Eurozone, meaning all three Baltic countries are now members of the monetary union. Estonia was the first of the Baltic countries to join in 2011, followed by Latvia on 1 January 2014.

Growth in Latvia despite challenging conditions in the rest of Europe

Against a backdrop of geopolitical uncertainty, Russian economic hardship and relatively slow growth momentum across the European area, the Latvian economy maintained a strong growth trajectory in 2014. While the country’s GDP growth decelerated to 2.4%, down from 4.0 - 5.0% in the preceding several years, Latvia saw economic growth primarily fuelled by domestic oriented sectors. Export-oriented sectors have been struggling to grow since the 2nd quarter of 2014.

The annual growth of the retail trade turnover stayed in the 3.0 to 4.0% range in 2014 and the manufacturing sector stagnated in 2014, with the output volume staying essentially unchanged over the previous year. The unemployment rate stabilised within the 10 to 11% range, down from more than 20% in the aftermath of the recession. Whereas the progress in the labour market has somewhat slowed, an increase in household income has continued to support the growth of private consumption.

The parliamentary election on 4 October 2014 did not yield a significant change in government. Again, the centre-left party “Harmony” (latv. – “Saskaņa”) emerged as the winner with 23% of votes, but it is not a member of the ruling coalition, which is comprised of the liberal-conservative party “Unity” (“Vienotība”), the right-wing “National Alliance” (“Nacionālā apvienība VL-TB/LNNK”) and the “Union of Greens and Farmers” (“Zaļo un Zemnieku savienība”).

The ECB takes measures to support the economy

In response to the Eurozone sovereign debt crisis and the associated austerity programmes that prompted the economic slowdown, the European Central Bank (ECB) conducted several support programmes to boost liquidity.

Among the measures taken by the ECB were longer-term refinancing operations (LTROs) and Targeted Long-Term Refinancing Operations (TLTROs), which were specifically designed to expand bank lending to the Eurozone’s non-financial sector (excluding mortgage financing) as well as to purchase covered bonds (CBPP, CBPP2, CBPP3 and ABSPP). The last and most significant monetary measure was announced in January 2015, when the ECB president revealed a EUR 1 trillion plan to buy Eurozone government debt to help stave off deflation.

Acknowledging the fact that the lack of liquidity is not the primary factor behind the unwillingness of Eurozone banks to lend new funds to the real economy, the Group remains cautiously optimistic about the planned ECB measures kick-starting growth in the Eurozone. Six full years after the 2008 financial crisis, governments together with regulators are still proposing new ways of calculating the levels of capital requirements. Clear guidance on medium-term regulatory capital requirements is needed for well-capitalized banks to start active lending activities.

The ECB has stressed that monetary policy alone cannot revive the struggling Eurozone economy and that national governments should perform a wide range of structural reforms to boost competiveness, productivity and innovation. Only through structural improvements will it be possible to engender sustainable improvements to employment and income levels, which in turn could motivate businesses to invest and help to overcome the slow growth that has plagued the Eurozone over recent years.

The interest rate environment in the Eurozone

As the economic growth potential deteriorated and inflation expectations fell, the ECB reduced interest rates, eventually resulting in a negative rate for deposit facilities. In conjunction with a record low of the main refinancing rate and recently announced quantitative easing, many Eurozone sovereign bond yields were pushed below zero (e.g. Germany, Finland, Netherlands, Austria, Belgium, France, and Slovakia for maturities up to two years). In addition, the Euro has significantly devaluated against the US dollar and many other international leading currencies.

Although, low interest rates help debtors because of lower debt service payments and a weaker Euro is an advantage for the export industry, this interest rate environment has its drawbacks. Private savers are negatively affected as the interest income from their savings drops. Similarly, banks and insurance companies see their profits eroded though lower yields on their investments.

Citadele sees significant change in its ownership structure

On 16 September 2014 and following a tender process, the Latvian government decided to sell its 75% stake in Citadele to Ripplewood Advisors LLC (Ripplewood) and an international group of twelve investors. VAS Privatizācijas aģentūra (Privatisation Agency of the Republic of Latvia) signed the respective agreement on 5 November 2014.

The transaction is expected to close during the first half of 2015, following approvals by the Latvian Finance and Capital Markets Commission, as well as the banking regulators in Lithuania and Switzerland. The European Bank for Reconstruction and Development (EBRD) will retain its 25% stake in Citadele. According to the terms of the deal, the new investors and the EBRD have committed to increase the capital of the bank.

Financial performance in 2014

	Group			**Bank**		
EUR millions	**2014 Audited**	**2013 Audited**	**Change**	**2014 Audited**	**2013 Audited**	**Change**
Net interest income	62.5	55.3	13%	52.1	45.5	15%
Net commission and fee income	33.4	32.2	4%	24.4	23.9	2%
Operating income	111.9	107.5	4%	90.1	88.4	2%
Administrative expenses	(61.4)	(62.6)	(2%)	(45.2)	(46.6)	(3%)
Impairment charge and reversals, net	(8.6)	(20.1)	(57%)	(10.6)	(21.7)	(51%)
Net profit	32.4	13.6	138%	29.2	15.3	91%

	Group			**Bank**		
EUR millions	**2014 Audited**	**2013 Audited**	**Change**	**2014 Audited**	**2013 Audited**	**Change**
Total assets	2,855	2,542	12%	2,331	2,141	9%
Return on average assets (ROA)	1.20%	0.56%	0.64pp	1.31%	0.76%	0.55pp
Loans to companies and private individuals	1,076	1,056	2%	941	925	2%
Deposits from customers	2,517	2,247	12%	1,949	1,851	5%
Loan-to-deposit ratio	43%	47%	(4pp)	48%	50%	(2pp)
Shareholders' equity	177	143	23%	173	144	21%
Return on average equity (ROE)	20.24%	9.77%	10.47pp	18.46%	11.14%	7.32pp

AS Citadele banka (Citadele Bank) grew in scale, quality and performance in 2014, as did the bank and its subsidiaries (Citadele Group).

In 2014, the **net interest income** of the Group increased by 13% to EUR 62.5 million (Bank: +15% to EUR 52.1 million). The main drivers of this development were an expansion of the lending volume, the improvement of customer portfolio quality and increased customer activity. For example, in Latvia the number of cards increased by 3% and the share of purchases paid by cards increased from 40% to 42%. This was also supported by Latvia's conversion to the Euro as of 1 January 2014. Because of the positive development of the payment card business, **net commission and fee income** grew by 4% to EUR 33.4 million (Bank: +2% to EUR 24.4m).

Citadele Group's **operating income** increased by about 4% to EUR 111.9 million (Bank: +2% to EUR 90.1 million)

Despite the growing business, Citadele Group achieved a decrease in **administrative expenses** of 2% to EUR 61.4 million (Bank: decrease by 3% to EUR 45.2 million). The Group's **cost-to-income ratio** improved from 66% to 61% in

2014 (Bank: from 55% to 52%). There was a significant drop in **net impairment charges and reversals** from EUR 20.1 million in 2013 to EUR 8.6 million (Bank: from EUR 21.7 million to EUR 10.6 million).

In 2014, the Group's **net profit** surged 138% to EUR 32.4 million (Bank: +91% to EUR 29.2 million).

Citadele Group's **total assets** amounted to EUR 2,854.6 million as of 31 December 2014, which corresponds to an increase of 12% (Bank: +9% to EUR 2,330.7 million). The **return on average assets** in 2014 was 1.2% compared to 0.6% in the previous year (Bank: 1.3% compared to 0.8%).

The loan book continued to improve, both in quality and average margin. The Group's volume of **loans to companies and private individuals** grew by 2% to EUR 1,075.7 million (the Bank: +2% to EUR 941.3 million). The Group's **deposits from customers** also grew by a strong 12% to reach EUR 2,517.1 million (Bank: +5% to EUR 1,948.8 million). In 2014, the **loan-to-deposit ratio** of the Group decreased from 47% to 43% (Bank: from 50% to 48%).

As of 31 December 2014, **shareholders' equity** stood at EUR 176.7 million, which represents a 23% rise on the previous year (Bank: +21% to EUR 173.3m). The Group's **return on average equity** jumped from 9.8% in 2013 to 20.2% in 2014 (Bank: 11.1% to 18.5%).

The audited **tier 1 ratio** and **common equity tier 1** ratio of Citadele Group as of 31 December 2014 was 9.3% (Bank: 10.4%). The Group's audited **capital adequacy ratio** as of 31 December 2014 was 11.0% (Bank: 12.3%). In 2014, Citadele Group's capital adequacy ratio was still restricted by commitments to the European Commission. According to these commitments, the ratio must not exceed by 50 basis points the value of the minimum capital requirement stipulated by the Latvian Financial and Capital Market Commission (10.9% as of the end of the year). The sale of the 75% share owned by the Republic of Latvia (held by the Privatisation Agency) will enable the Group to strengthen the bank's capital base and improve the capital adequacy ratio.

Staying focused on customers

Citadele puts clients first when it comes to product and service development. As well as maintaining ongoing contact with customers, one of our best sources for meaningful and usable information is the "Citadele Index". The index collects information from 750 entrepreneurs and business leaders. It gathers the respondents' views on economic conditions, and then makes various forecasts for the following six months. The index asks respondents about general economic activity in the state and across sectors, industry competitiveness, and individual business performance. With these insights we have been able to develop products and services that precisely address our clients' needs.

Along with the Citadele Index, we conduct client surveys on relevant issues. These results have helped us develop attractive services for our customers such as factoring for small and medium-sized enterprise (SME) customers and special shopping days for credit card holders. It has also led to better positioning of our card offering, and the development of more robust merchant services and client loyalty rewards programmes. Moreover, to serve better and in a more targeted way the different needs of our customers, we have created three core business segments: Retail and SME, Corporate, and Private Capital Management.

Providing a better service to Retail and SME customers

Besides the traditional banking services we provide to customers, our credit card and payment card offering as well as merchant programmes are important components of the bank's value proposition.

Citadele Bank continues to be the American Express® exclusive partner in Latvia and Lithuania, with the exclusive right to issue American Express payment cards. In Latvia and Lithuania, we continue to offer and promote an international Membership Rewards programme to our American Express members. Under this programme, customers accumulate points for all payments and can exchange them for valuable prizes such as products or gift cards, and enjoy discounts with our cards. In 2014, the number of Membership Rewards programme participants increased by 23% in Latvia.

While digital offerings become increasingly important, we recognise that customers sometimes want personal contact with their bank clerk. Therefore, Citadele Bank is refitting its 36 branches in Latvia to offer state-of-the-art customer service centres that ensure pleasant customer experience.

Citadele was the first bank to take part in Latvia's state family housing acquisition assistance programme.

In 2014, more than 17,000 new private customers and nearly 3,000 companies signed up with Citadele. Our various loyalty programmes, which are available at over 400 outlets from around 130 merchants, have helped us increase our customer base. Significant growth has come from Lithuania and Estonia where we attracted over 9,000 new customers. The number of payment cards issued by the Citadele Bank in Latvia grew by almost 3%, while salary card accounts increased by 10%.

More financing for companies

Citadele Group has expanded the co-operation with and financing of SMEs and Corporate clients. In Latvia, we issued EUR 122.4 million in new loans. Market segments included the manufacturing sector, with a loan volume of 30%, the service sector which stands at 27%, and the construction sector with a loan volume of 10%. In terms of the number of contracts, the agricultural sector accounted for the largest share of the loans granted in 2014 (29%), followed by the service sector (21%) as well as manufacturing and trade sectors (13% each).

Some examples of our SME and Corporate support: the high-tech and intellectual technology manufacturer SIA Hanzas Elektronika will add jobs at its manufacturing facilities in Ogre and Ventspils, and is to open a new engineering centre in Mārupe; SIA T&T Group launched manufacturing operations of Crispy&Milky branded cottage cheese desserts in Rīga; the Jēkabpils district Krasti farm established one of the most modern cattle-sheds in Latvia.

Private Capital Management

All key business indices improved in the Private Capital Management (PCM) field despite the difficult geopolitical situation.

In 2014, over 1,600 new clients signed on with the bank in the PCM field. This segment’s client deposit portfolio grew by a total of 16% reaching EUR 859 million. The amount of commission fees outperformed the 2013 results by 6%.

The number of Latvian private banking clients increased by 14% while the volume of their deposits grew by 31%. PCM clients’ net contribution into portfolios managed by IPAS CBL Asset Management accounted for 10% of the total volume of discretionary portfolios in 2014. Within the brokerage and custody services offered by Citadele Bank, the total amount of PCM clients’ investments increased by 30%.

Furthermore, the number of issued Platinum Cards increased by 8%. One of the key advantages of these payment cards is the unique Citadele Concierge service which provides Platinum Card holders with access to a personal assistant (Concierge) who facilitates various kinds of lifestyle solutions. The turnover of this service surged by 60% in 2014.

Providing customer support during Euro adoption

In the first minutes of 1 January 2014, the first Euro banknotes in Latvia were drawn from Citadele Bank's ATM by then Latvian Prime Minister, Valdis Dombrovskis, Estonian Prime Minister, Andrus Ansip, Latvian Finance Minister, Andris Vilks, and Bank of Latvia President, Ilmārs Rimšēvičs.

The Euro adoption for Citadele coincided with a growth in deposits, loans and new customers in the first part of the year as customers made use of our transition products and services, such as the “Maxi Account” and the mobile phone application, “Euro Assist”, which had been developed in the previous year. Additionally, the transition cost was less than anticipated, yielding a better than expected result.

Our Cash in Transit (CIT) business helped deliver over 2,500 tons of new Euros to banks and stores all over Latvia.

Operations and risk management

Risk management

Citadele Group works with the money of people and organisations as well as the capital provided by investors. Therefore, it is our responsibility to mitigate risks as much as reasonably possible. In line with the name of our brand we want to be perceived as a financial institution which stands for stability and safety.

Activities in 2014

Our operating culture is focused on growth, diligent cost control and responsible risk management. On 31 December 2014, Citadele Bank significantly improved its capacity to grow by updating the core banking system with the T24 system provided by the Swiss company “Temenos”. The implementation of the project enables us to improve data integrity substantially as well as the availability of the bank's services. A system update scheduled for 2015 will enable Citadele Bank to centralise its services in a single IT system across all Baltic States, thus ensuring prompter and more convenient services for retail and corporate clients in the region. The T24 system will enable Citadele Bank to implement upgrades more efficiently by responding promptly to the latest market trends and client needs.

This system can be expanded to support the bank’s operations beyond Latvia. In particular, it will be introduced in Citadele’s Lithuanian subsidiary. While the new system will ensure efficiency gains in the future, we have already achieved many efficiency gains this year.

In order to reduce risks, Citadele decided in the first half of 2014 to transition out of various investment instruments, which represented valuation risks due to geopolitical events. This decision spared both the bank and the Group from currency volatility and export market devaluations later in the year. Similarly, we worked with our corporate customers who had significant exposures to such currency volatility. While customers adjust to the new valuations in some of their export markets, Citadele has not experienced a significant banking activity drop.

Citadele Bank successfully implemented the European Market Infrastructure Regulation (EMIR) in 2014. As the global banking regulatory environment changes, we believe our platform is ready to adopt efficiently the changes being discussed by regulators.

To help better manage our liquidity position, the Bank expanded the number of interbank counterparties in 2014. A diversification strategy was pursued also in the liquidity and investment portfolios.

Committed to employees

One of Citadele’s goals in 2014 was to continue to improve employee loyalty and motivation, as well as provide professional growth opportunities. An employee commitment survey conducted for Citadele Group by the research agency TNS Latvia showed that the commitment index grew by 3 points, between 2013 and 2014. This reflects a steady increase in Citadele employees’ general satisfaction, their willingness to recommend their employer to others, team motivation and their assessment of the bank’s competitiveness, among other factors. Citadele will continue to focus on these areas in 2015.

Citadele launches additional social responsibility initiatives

In 2014, Citadele Bank continued to support projects to help differently abled people to expand their abilities and to become better integrated into society. This social responsibility strategy is based on the "You Are. You Can" movement, which the bank launched in 2012 to support Latvia's Paralympic team at the London Paralympic Games. This is the largest support programme of its type in Latvia and in 2014, the bank continued to support the Latvian Paralympic Committee. On 17 May 2014, the Paralympic Sports Day event was held in Rīga with the support of Citadele Bank. The aim of this largest Paralympic event in Latvia was to inspire differently abled people to become more active and to discover new and talented athletes.

Mārtiņš Oliņš, a business analyst at Citadele Bank, completed a half-marathon distance (21 kilometres) in a wheelchair in 2:08:15. The bank also continued to support motor racer Jānis Tomsons, who lost a leg due to disease. The bank's support allowed him to participate in several historic races.

The bank also provided financing to the "Saule" organisation, which works with people with intellectual disabilities. The funding paid for the installation of a new fire safety and security system, as well as a ramp and a special lift for students. In 2014, the bank donated money to the Strazdumuiža Residential High School for students with vision impairment. The money was used to improve the school's sports facilities. Citadele also sponsored travelling exhibitions by the Latvian Puppet Theatre to six special regional boarding schools.

Citadele Group companies perform robustly

The Lithuanian subsidiary bank, AB Citadele bankas, reported positive results generating a EUR 0.3 million profit in 2014. Skirmantas Jareckas (former Member of the Board and Deputy Head of Administration of Citadele bankas) became Chair of AB Citadele bankas’ Board of Directors in Lithuania on 1 December 2014. Mr. Jareckas brings a wealth of experience in the banking sector spanning 21 years and he has been with the Lithuanian Citadele team since 2002. His team's aim is to increase the number of clients in particular in the SME segment, and to ensure business growth in general, thus strengthening Citadele's position in the Lithuanian market.

AP Anlage&Privatbank AG, Citadele’s subsidiary in Switzerland managed to generate a profit of EUR 0.6 million, while the loan portfolio for Baltic leasing entities reached the size of EUR 100 million.

The Citadele Bank subsidiary Citadele Asset Management, which is one of the leading investment management stock company (IPAS) in the Baltic States, changed its name to IPAS CBL Asset Management whereas CBL stands for Citadele Bank Latvia. The purpose of the new name is to strengthen the company’s international reputation, while maintaining links to Citadele Bank and its name. In 2014, it was the first company in Latvia to be licensed by the Finance and Capital Markets Commission (FKTK) as a manager of alternative investment funds. Alternative investment funds hold not only liquid financial instruments, such as stocks and debt obligations, but also derivatives, raw materials, currencies, hedge funds, real estate and risk capital. Such funds face no legal limitations in terms of their investment destinations and the scope of investments in a single area, but there are specific requirements about information transparency, as well as risk management in relation to the investments. In 2014, IPAS CBL Asset Management increased assets under management to EUR 594 million, exceeding the 2013 figure by 7%.

In 2014, AAS Citadele Life, a subsidiary of IPAS CBL Asset Management, expanded its customer savings portfolio by more than EUR 8 million, acquiring over 1,200 new customers. Along with the change of name at the parent company level, the company was renamed AAS CBL Life.

The customer savings portfolio of AS Citadele Atklātais pensiju fonds, another subsidiary of IPAS CBL Asset Management, grew by EUR 3.2 million over the year, thanks to the acquisition of 2,400 new customers. The company's name was changed to AS CBL Atklātais pensiju fonds due to the change in the parent company's name.

Events after Balance Sheet Date

There were no significant events after the balance sheet date.

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

Riga,
23 March 2015

Supervisory Council of the Bank

Name	Position
Klāvs Vasks	Chairman of the Supervisory Council
Geoffrey Richard Dunn	Deputy Chairman of the Supervisory Council
Aldis Greitāns	Member of the Supervisory Council
Baiba Anda Rubesa	Member of the Supervisory Council

Management Board of the Bank

Name	Position
Guntis Beļavskis	Chairman of the Management Board, p.p.
Valters Ābele	Member of the Management Board, p.p.
Kaspars Cikmačs	Member of the Management Board
Aldis Paegle	Member of the Management Board
Santa Purgaile	Member of the Management Board

On 1 January 2014 Aldis Paegle was appointed to the Management Board as Chief Financial Officer.
On 1 November 2014 Member of the Supervisory Council Laurence Philip Adams resigned.

The Management of AS “Citadele Banka” (hereinafter – the Bank) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 11 to 77 are prepared in accordance with the source documents and present 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 shareholders’ equity and cash flows for the years then ended. The management report set out on pages 3 to 8 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

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

The Management of AS “Citadele Banka” is 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. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Guntis Beļavskis	Klāvs Vasks
Chairman of the Management Board	Chairman of the Supervisory Council

Riga,
23 March 2015

Statements of Income for the years ended 31 December 2014 and 2013

		EUR 000's			
	Notes	2014 Group	2013 Group	2014 Bank	2013 Bank
Interest income	5	80,707	74,810	67,462	62,746
Interest expense	5	(18,241)	(19,520)	(15,359)	(17,274)
Net interest income		62,466	55,290	52,103	45,472
Commission and fee income	6	47,796	45,099	36,423	34,582
Commission and fee expense	6	(14,413)	(12,930)	(11,984)	(10,669)
Net commission and fee income		33,383	32,169	24,439	23,913
Gain on transactions with financial instruments, net	7	13,471	17,141	10,404	13,985
Other income		2,589	2,911	3,185	5,015
Other expense		(1,457)	(2,021)	(523)	(592)
Administrative expenses	8,9	(61,420)	(62,550)	(45,233)	(46,553)
Amortisation and depreciation charge		(5,204)	(5,857)	(1,361)	(1,376)
Impairment charges and reversals, net	10	(8,569)	(20,144)	(10,618)	(21,696)
Profit before taxation		35,259	16,939	32,396	18,168
Corporate income tax	11	(2,854)	(3,342)	(3,152)	(2,877)
Net profit for the period		32,405	13,597	29,244	15,291

The notes on pages 16 to 77 are an integral part of these financial statements.

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Net profit for the period	32,405	13,597	29,244	15,291
Other comprehensive income:				
Fair value revaluation reserve: held to maturity securities				
Amortisation	(288)	481	368	395
Deferred income tax charged directly to equity	(10)	(13)	-	-
Fair value revaluation reserve: available for sale securities				
Fair value revaluation reserve charged to statement of income	(3,106)	(4,612)	(1,288)	(2,467)
Change in fair value of available for sale securities	3,472	(1,069)	1,283	(541)
Deferred income tax charged / (credited) directly to equity	61	401	94	-
Other reserves				
Foreign exchange revaluation and other reserves	729	(311)	-	-
Other comprehensive income / (loss) for the period	858	(5,123)	457	(2,613)
Total comprehensive income for the period	33,263	8,474	29,701	12,678

The notes on pages 16 to 77 are an integral part of these financial statements.

Group's policy is to reclassify any change in restructuring reserve directly to retained earnings. All other amounts presented in other comprehensive income will be subsequently reclassified to statement of income when specific conditions are met.

		EUR 000's			
	Notes	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
<u>Assets</u>					
Cash and deposits with central banks	12	225,399	361,485	142,650	312,525
Balances due from credit institutions	13	509,404	271,181	464,273	219,228
Securities held for trading:					
- fixed income	16	20,295	24,873	-	-
- shares and other non-fixed income	16	3,655	2,941	-	-
Derivative financial instruments	27	5,929	3,548	5,963	3,557
Financial assets designated at fair value through profit or loss:					
- fixed income	16	84,851	54,012	-	-
- shares and other non-fixed income	16	12,598	8,324	-	-
Available for sale securities:					
- fixed income	16	541,591	389,013	433,337	319,221
- shares and other non-fixed income	16	16,605	12,725	11,081	12,709
Loans and receivables to customers	14,15	1,075,701	1,055,922	941,329	924,914
Held to maturity securities	16	229,252	244,423	192,977	224,462
Property and equipment	19	42,525	42,826	3,651	3,402
Intangible assets	18	1,708	1,845	1,456	1,350
Investment property		409	748	-	-
Investments in subsidiaries	17	-	-	61,605	62,841
Current income tax assets		437	341	-	-
Deferred income tax assets	11	30,073	32,534	28,735	31,700
Other assets	20	54,163	34,781	43,604	25,319
Total assets		2,854,595	2,541,522	2,330,661	2,141,228
<u>Liabilities</u>					
Derivative financial instruments	27	1,647	3,931	3,567	4,468
Financial liabilities designated at fair value through profit and loss	21	24,594	16,626	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	22	25,036	25,755	116,997	55,286
- deposits from customers	23	2,517,107	2,246,912	1,948,751	1,851,348
- other financial liabilities		12,235	8,315	-	-
Current income tax liabilities		187	-	-	-
Other liabilities	24	23,482	22,960	14,453	12,955
Subordinated liabilities	25	73,596	73,575	73,596	73,575
Total liabilities		2,677,884	2,398,074	2,157,364	1,997,632
<u>Equity</u>					
Paid-in share capital	26	146,556	146,556	146,556	146,556
Reserves		545	174	1,994	1,537
Retained earnings / (accumulated losses)		29,610	(3,282)	24,747	(4,497)
Total equity		176,711	143,448	173,297	143,596
Total liabilities and equity		2,854,595	2,541,522	2,330,661	2,141,228

The notes on pages 16 to 77 are an integral part of these financial statements.

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

Changes in the Group's equity are as follows:

	EUR 000's – Attributable to equity holders of the Bank						
	Issued share capital	Fair value revaluation reserve, attributable to: Held to maturity securities	Fair value revaluation reserve, attributable to: Available for sale securities	Foreign exchange and other reserve	Restruc-turing reserve	Retained earnings / (accumulated losses)	Total equity
Balance as at 31 December 2012	**146,556**	**(203)**	**7,948**	**2,091**	**(4,732)**	**(16,686)**	**134,974**
Net profit for the period	-	-	-	-	-	13,597	13,597
Transfer to other reserve	-	-	-	171	-	(171)	-
Other comprehensive income / (loss) for the period	-	468	(5,280)	(311)	22	(22)	(5,123)
Balance as at 31 December 2013	**146,556**	**265**	**2,668**	**1,951**	**(4,710)**	**(3,282)**	**143,448**
Net profit for the period	-	-	-	-	-	32,405	32,405
Transfer to other reserve	-	-	-	89	-	(89)	-
Other comprehensive income / (loss) for the period	-	(298)	427	153	-	576	858
Balance as at 31 December 2014	**146,556**	**(33)**	**3,095**	**2,193**	**(4,710)**	**29,610**	**176,711**

Changes in the Bank's equity are as follows:

	EUR 000's – Attributable to equity holders of the Bank				
	Issued share capital	Fair value revaluation reserve, attributable to: Held to maturity securities	Fair value revaluation reserve, attributable to: Available for sale securities	Retained earnings / (accumulated losses)	Total equity
Balance as at 31 December 2012	**146,556**	**(755)**	**4,905**	**(19,788)**	**130,918**
Net profit for the period	-	-	-	15,291	15,291
Other comprehensive income / (loss) for the period	-	395	(3,008)	-	(2,613)
Balance as at 31 December 2013	**146,556**	**(360)**	**1,897**	**(4,497)**	**143,596**
Net profit for the period	-	-	-	29,244	29,244
Other comprehensive income / (loss) for the period	-	368	89	-	457
Balance as at 31 December 2014	**146,556**	**8**	**1,986**	**24,747**	**173,297**

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Guntis Belavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

	Notes	2014 Group	2013 Group	2014 Bank	2013 Bank
		EUR 000's			
Cash flows from operating activities					
Profit before tax		35,259	16,939	32,396	18,168
Dividends received		-	-	(1,690)	(3,754)
Amortisation of intangible assets, depreciation of property, equipment and investment properties		5,204	5,857	1,361	1,376
Change in impairment allowances and other provisions	10	8,569	20,144	10,618	21,696
Interest income	5	(80,707)	(74,810)	(67,462)	(62,746)
Interest expense	5	18,241	19,520	15,359	17,274
Other non-cash items		(25,195)	(8,816)	(20,735)	(9,459)
Cash flows before changes in assets and liabilities		**(38,629)**	**(21,166)**	**(30,153)**	**(17,445)**
Change in derivative financial instruments		(4,665)	(2,057)	(3,307)	(1,531)
(Increase) / decrease in other assets		(19,883)	(1,490)	(18,228)	1,872
Increase in other liabilities		4,434	2,319	1,498	1,417
(Increase) in trading investments		(23,281)	(22,959)	-	-
(Increase) / decrease in balances due from credit institutions		(332,604)	6,808	(108,882)	(3,409)
(Increase) / decrease in loans and receivables to customers		(28,954)	(58,877)	(23,367)	(51,142)
Increase / (decrease) in balances due to credit institutions and central banks		(7,175)	(15,368)	11,828	(25,698)
Increase in deposits from customers		269,832	262,590	97,271	241,044
Cash generated from operating activities before corporate income tax		**(180,925)**	**149,800**	**(73,340)**	**145,108**
Interest received during the period		78,919	74,879	65,781	62,635
Interest paid during the period		(17,580)	(21,564)	(14,953)	(19,227)
Corporate income tax paid during the period		(162)	(7)	-	-
Net cash flow from operating activities		**(119,748)**	**203,108**	**(22,512)**	**188,516**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(2,436)	(3,045)	(1,496)	(2,530)
Proceeds from disposal of property and equipment		21	125	14	112
Purchase of held to maturity securities, net		15,171	(8,236)	31,485	(2,853)
Purchase of available for sale securities		(433,831)	(261,663)	(301,764)	(213,458)
Cash inflows from available for sale securities		303,888	248,768	209,981	177,180
Dividends received		-	-	1,690	3,754
Acquisitions and investments in subsidiaries		-	-	(1,033)	(9)
Net cash flow from investing activities		**(117,187)**	**(24,051)**	**(61,123)**	**(37,804)**
Cash flows from financing activities					
Net cash flow from financing activities		**-**	**-**	**-**	**-**
Net cash flow for the period		**(236,935)**	**179,057**	**(83,635)**	**150,712**
Cash and cash equivalents at the beginning of the period		**605,946**	**426,889**	**502,860**	**352,148**
Cash and cash equivalents at the end of the period	30	**369,011**	**605,946**	**419,225**	**502,860**

The notes on pages 16 to 77 are an integral part of these financial statements.

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Belavskis
Chairman of the Management Board

Klāvs Vāsks
Chairman of the Supervisory Council

If not mentioned otherwise, referral to Group’s policies and procedures should be also considered as referral to the respective Bank’s policies and procedures. Figures in parenthesis represent amounts as at 31 December 2013 or for the year ended 31 December 2013, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 23 March 2015 and comprise the financial information of AS “Citadele banka” (hereinafter – the Bank) and its subsidiaries (together – the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders’ meeting has the right to make the decision on the approval of the financial statements.

NOTE 2. GENERAL INFORMATION

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank’s head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2014, the Bank was operating a total of 36 (2013: 37) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2013: 2) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 26 (2013: 23) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. As at 31 December 2014 the ultimate controlling party of the Bank is the Republic of Latvia.

The Group’s main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Group offers its clients also trust management and private banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2014, the Group had 1,583 (2013: 1,637) employees and the Bank had 1,180 (2013: 1,227) employees.

NOTE 3. RESTRUCTURING

On 30 June 2010 AS “Citadele Banka” was registered in the commercial registry of the Republic of Latvia and on the same date it received its banking licence from the Financial and Capital Market Commission (FCMC). AS “Citadele Banka” was established as a result of the implementation of its EC restructuring plan, which was approved by the Cabinet of Ministers in the spring of 2010 and pursuant to which AS “Citadele Banka” was to take over from AS “Parex Banka” certain assets and liabilities and other items, i.e. an undertaking.

The transfer of undertaking from AS “Parex Banka” to AS “Citadele Banka” took place on 1 August 2010. The transfer of undertaking was performed under Article 59.2 of the Latvian Law on Credit Institutions (further also – CIL). Legal definition of undertaking is given in the same Article 59.2 of CIL. Transfer of undertaking is a civil law transaction between two parties: the transferor, AS “Parex Banka”, and the transferee, AS “Citadele Banka”, whereby the transferee acquires title to the transferred undertaking. The transferred undertaking, i.e. the components thereof, is agreed by both banks and defined in the agreement on transfer of undertaking, which was entered into on 28 July 2010.

Restructuring implications

The Bank’s establishment and future operations are part of the restructuring plan of AS “Parex Banka” that was approved by European Commission (further EC). On 15 September 2010, EC adopted the decision *On the State Aid C 26/2009 (ex N 289/2009)* that the restructuring aid which Latvia implemented for AS “Parex Banka” and AS “Citadele Banka” is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union. To comply with the aforementioned requirements, the Bank has undertaken certain commitments in relation to the future business operations. After completion of state owned Bank's shares sale transaction the Bank will not be bound by any restrictions provided for under the Commitments. The Group believes that there is a clear path for a change in investors so as to relieve the Group form the restrictions imposed. Therefore, the management has assessed that the Commitments will not have any further financial impact.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2014. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

- *IFRS 10 Consolidated Financial Statements (2011).* IFRS 10 (2011) requires a change in accounting policy for determining whether the Group has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its

power to affect those returns. In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2014. There are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).
- *IFRS 11 Joint Arrangements.* Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. According to IFRS 11 the Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, is accounted for on the basis of the Group's interest in those assets and liabilities. The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, is to be equity-accounted.
- *IFRS 12: Disclosure of Interests in Other Entities*. IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures as applicable have been expanded.
- Amendments to *IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets*. Disclosures as applicable have been expanded.
- Amendments to *IAS 32 on Offsetting Financial Assets and Financial Liabilities* have no material impact on these financial statements.
- Amendments to *IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting* have no material impact on these financial statements.

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2014 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- *IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015).*The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.
- *IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014).* The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that and entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.
- *Annual Improvements to IFRSs.* The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

The Group is in the process of evaluating the potential effect if any of these new standards and interpretations.

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union on a going concern basis. The financial statements are prepared under the historical cost convention, except for available for sale financial assets, financial assets and financial liabilities designated at fair value through profit or loss, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency, is the official currency of the Republic of Latvia, Euro ("EUR"). The accompanying financial statements are presented in thousands of Euros (EUR 000's). On 1 January 2014 the Republic of Latvia adopted Euro as the official currency. The conversion from Lats to Euros was carried out at the official exchange rate of 0.702804 LVL/1 EUR. Correspondingly at that date the functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency changed to Euros.

c) Accounting for restructuring/ transfer of undertaking

When determining the assets and liabilities that were eligible for the transfer of undertaking that took place at the beginning of 1 August 2010, the composition of assets and the liabilities were determined on the parent bank’s, i.e. AS “Parex Banka” stand-alone accounts basis. Any differences in the carrying value of investments in subsidiaries that were transferred to AS “Citadele Banka” and their net equity as at the date of transfer are treated as restructuring reserve in the consolidated financial statements of AS “Citadele Banka”. Group’s financial statements incorporate the transferred subsidiaries’ results only from the date on which the restructuring between entities under common control occurred, i.e. 1 August 2010.

The transfer transaction was accounted using predecessor accounting i.e. the transferred assets and liabilities were initially recognised at their carrying amount as in the predecessor bank and assessed for impairment as at transfer date.

d) Basis of Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from is involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank’s financial statements at acquisition cost. More detailed information on the Group’s subsidiaries is presented in Note 17.

The financial statements of AS “Citadele Banka” and its subsidiaries are consolidated in the Group’s financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group’s financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group’s financial statements.

e) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line “commission and fee income” or “commission and fee expense”, as appropriate.

Penalty income is recognised on cash-received basis.

f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in Euros at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the statement of income, with exception of available for sale non-monetary financial assets for which any foreign exchange gain or loss is recognised in other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group’s entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as other comprehensive income.

On 1 January 2014 the Republic of Latvia adopted Euro as the official currency. From 1 January 2014 the Bank’s and the Group's presentation currency is Euro (“EUR”). The comparative amounts presented in these financial statements are converted from Lats to Euros at the official exchange rate of 0.702804 LVL/1 EUR.

g) Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Several Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, with regards to Group companies registered in these jurisdictions, income tax on profit distribution is recognised as expense at the moment dividends are declared.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group and only if certain criteria are met. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

h) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management. For financial asset classification in particular category, the Group at inception has to determine that the asset meets the relevant description and criteria. All “regular way” purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category “financial assets/ liabilities at fair value through profit or loss”. Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain assets and liabilities, which are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract term, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit and loss, potential accounting mismatch is avoided.

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the statement of income’s line “Gain on transactions with financial instruments, net”.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held to maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

When available for sale assets are reclassified to held to maturity category, the fair value of the reclassified available for sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset's maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories or as loans and receivables. The Group's available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in statement of other comprehensive income. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available for sale equity instruments are recognised in the statement of income. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale.

If an available for sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated statement of income.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through the statement of income.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. All derivatives are classified as held for trading.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments".

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of "loans and receivables" are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

i) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

j) Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Issued debt, subordinated liabilities and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value minus directly attributable transaction costs, debt issued, subordinated liabilities and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

k) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into administrative expenses.

l) Renegotiated Loans and Debt Forbearances

For economic or legal reasons the Group might enter into a forbearance agreement with borrowers in financial difficulties in order to ease the contractual obligation for a limited period of time. By taking into account exposure specifics, a case by case approach is practised. Generally debt forbearance will take a form of payment deferral to a later time with the amount payable and interest due re-compensated at a later date. Renegotiated loans are considered non-overdue as long as contractual payments are made on contractually due dates. Impairment assessment for renegotiated and forborne exposures also applies and such exposures are impaired depending on their recoverability assessment.

m) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; or
  - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan’s carrying amount and the present value of estimated future cash flows discounted at the loan’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group’s experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

n) Impairment of available for sale and held to maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

o) Intangible Assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 50%. All intangible assets, except for goodwill, are with definite lives.

p) Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation less any impairment losses. Property and equipment is periodically reviewed for impairment as discussed in the note on Impairment of non-financial assets. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	1% - 10%
Transport vehicles	20%
Other	20% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

q) Inventories

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group's real estate workout companies. Group's inventories are accounted at individual cost. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at the lower of purchase cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as expense in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

r) Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification. Non-currents assets classified as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resell in the near term, but are not expected to be sold in the ordinary course of business. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income's line "Impairment charges and reversals, net". In the same line of the statement of income a gain from any subsequent increase in fair value less cost to sell of an asset is recognised, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

s) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs. For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group's property and equipment are applicable. Investment properties are periodically reviewed for impairment. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

t) Insurance business

Group's exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is accounted at fair value and is shown in the financial statements as liabilities designated at fair value through profit and loss; insurance reserves as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance, if the Group deems this appropriate. Insurance risk in view of the management is not material to accounts of the Group.

u) Provisions

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

v) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:

- commitment to extend loans and advances, credit card and overdraft facilities are recognised on drawdown; and
- financial guarantees and letters of credit are recognised when the related fee received as consideration is recognised.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *u)*.

w) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows. Discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

x) Trust Activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes. Commission for holding assets is recognised on accrual basis and generally is dependent on the volume of assets managed.

y) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

z) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

aa) Offsetting

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

bb) Staff costs and related contributions

The Group's personnel expenses relate only to short term benefits and related tax expense. The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia a part of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

cc) Events after the balance sheet date

Post-year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes if material.

dd) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities as explained in note y) above, impairment of non-financial liabilities, estimating future periods' taxable profit in order to assess amount of deferred tax assets that can be utilised and, as such, recognised and determination of the control of investees for consolidation purposes.

Impairment of loans
The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Changes in net present value of estimated future cash flows of loans and receivables to customers by +/-5% would result in EUR 0.4 million lower or EUR 0.7 million higher specific impairment allowance for the Bank. If estimated value of collaterals of loans and receivables to customers would differ by +/-5% the estimated specific impairment allowance for loans and receivables would differ by EUR -6.7 million or EUR +5.5 million respectively.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank's and the Group's LGD ratio by 500 basis points would result in increase / decrease in collectively assessed impairment by ca. EUR 2.3 million and EUR 3.3 million respectively (2013: Bank EUR 1.8 million). In 2014 due to new statistical data becoming available, the Bank's weighted average LGD ratio estimate as used for collective impairment calculation was increased by ca. 400 basis points. The bank entities within the Group apply a judgmental element to probability of default rates that incorporates the Group's management's judgment on the level of incurred losses within the current loan portfolio. Changes in the Bank's and the Group's PD ratio relating to not overdue category by 100 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR 1.9 million and EUR 2.1 million respectively.

Impairment of securities classified as available for sale or held to maturity

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2014, increase or decrease in credit spread delta by 200 basis points would result in no additional impairment for the Bank (2013: nil). For additional information on fixed and non-fixed income securities fair value assessment refer to note 33.

Impairment of other financial and non-financial assets

The Bank and the Group at the end of each reporting period assesses whether there is any indication that a non-financial asset may be impaired other than inventory and deferred tax. If any such indication exists, the recoverable amount of the particular asset or cash generating unit is estimate. Recoverable amount estimates depend on uncertainties in future free cash flow estimates and discount rates applied. For more details on the approach and key assumptions in recoverable amount estimates of the Bank's investments in subsidiaries and Group's property and plant refer to note 17 and note 19 respectively.

Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset.

Consolidation group

The Group consolidates all entities where it controls the investee. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For list of investees included in the consolidation group refer to note 17. For investments in securities which are not consolidated refer to note 16. In the ordinary course of business IPS CBL Asset Management (CBL AM) provides management services to several funds where its interest held is only fees from servicing. The Bank has made an investment solely with a view to diversify its securities portfolio also in funds managed by CBL AM. According to the prospectus of the funds, the investment decisions are made collectively by CBL AM Investment Committee. The Bank has no intention to participate in decision making regarding the asset allocation of any of the funds. Moreover, interfering with Investment Committee's decision making process would be against the corporate governance principles maintained by that Bank since its inception. As such, the Bank believes it does not have the control over the funds, as per IFRS 10, and the fund should not be consolidated.

NOTE 5. INTEREST INCOME AND EXPENSE

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	72,736	66,799	63,174	58,686
- interest on loans and receivables to customers	*64,906*	*58,325*	*55,969*	*50,724*
- interest on balances due from credit institutions and central banks	*736*	*480*	*762*	*484*
- interest on held to maturity securities	*7,094*	*7,994*	*6,443*	*7,478*
- interest on available for sale securities	6,020	6,035	4,288	4,060
- interest on held for trading securities	695	713	-	-
- interest income on financial assets designated at fair value through profit or loss	1,256	1,263	-	-
Total interest income	**80,707**	**74,810**	**67,462**	**62,746**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(18,001)	(19,379)	(15,359)	(17,274)
- interest on deposits from customers	*(12,325)*	*(13,611)*	*(9,548)*	*(11,264)*
- interest on subordinated liabilities	*(5,361)*	*(5,490)*	*(5,361)*	*(5,490)*
- interest on balances due to credit institutions and central banks	*(81)*	*(33)*	*(218)*	*(276)*
- other interest expense	*(234)*	*(245)*	*(232)*	*(244)*
- interest expense on financial liabilities designated at fair value through profit or loss	(240)	(141)	-	-
Total interest expense	**(18,241)**	**(19,520)**	**(15,359)**	**(17,274)**
Net interest income	**62,466**	**55,290**	**52,103**	**45,472**

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Interest income recognised on impaired assets	2,634	3,142	2,287	2,476

NOTE 6. COMMISSION AND FEE INCOME AND EXPENSE

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Commission and fee income:				
- transactions with settlement cards	20,808	19,909	18,844	18,039
- payment transfer fee	9,594	8,943	7,311	6,959
- custody, trust and asset management fees	7,973	6,630	1,171	1,174
- service fee for account maintenance	2,480	2,007	1,707	1,510
- cash collection	2,128	1,786	2,128	1,786
- cash disbursement/ transaction commission	1,379	1,988	1,134	1,467
- securities, financial instrument brokerage fees	819	890	670	484
- review of loan applications and collateral evaluation	670	957	667	957
- letters of credit and guarantees	545	637	371	455
- other fees	1,400	1,352	2,420	1,751
Total commission and fee income	**47,796**	**45,099**	**36,423**	**34,582**

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Commission and fee expense:				
- fees related to settlement card operations	(11,491)	(9,948)	(10,200)	(8,637)
- fees related to correspondent accounts	(1,319)	(1,415)	(1,048)	(1,178)
- brokerage and custodian fees:	(735)	(628)	(587)	(526)
- securities, financial instrument brokerage fees	*(425)*	*(351)*	*(392)*	*(345)*
- custody, trust and asset management fees	*(310)*	*(277)*	*(195)*	*(181)*
- other fees	(868)	(939)	(149)	(328)
Total commission and fee expense	**(14,413)**	**(12,930)**	**(11,984)**	**(10,669)**
Net commission and fee income	**33,383**	**32,169**	**24,439**	**23,913**

NOTE 7. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Gain from foreign exchange trading and revaluation of open positions, net	10,757	14,388	9,109	11,513
Gain / (loss) from disposal of available for sale securities, net	3,106	4,612	1,288	2,467
Gain / (loss) from trading and revaluation of securities held for trading purposes, net	88	(990)	-	-
Gain from trading and revaluation of other derivatives, net	7	5	7	5
Gain / (loss) on financial assets measured at amortised cost, net	(91)	-	-	-
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(396)	(874)	-	-
Gain on trading with financial instruments, net	**13,471**	**17,141**	**10,404**	**13,985**

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Net gain / (loss) on financial instruments not at fair value through profit or loss	3,015	4,612	1,288	2,467
Net gain on financial instruments at fair value through profit or loss	10,456	12,529	9,116	11,518
Total gain on financial instruments, net	**13,471**	**17,141**	**10,404**	**13,985**

NOTE 8. ADMINISTRATIVE EXPENSES

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Personnel expense	40,237	39,333	29,012	28,774
Rent, utilities, maintenance	3,905	4,271	4,843	5,009
IT equipment and software related expense	3,209	3,115	2,213	2,311
Non-refundable value added tax	2,924	3,159	2,248	2,416
Consulting and professional fees	2,343	2,881	1,424	1,848
Advertising, marketing and sponsorship	2,321	2,641	1,798	2,222
Office administration expense	723	712	527	536
Communications	662	683	405	437
Other administrative expenses	5,096	5,755	2,763	3,000
Total administrative expenses	**61,420**	**62,550**	**45,233**	**46,553**

NOTE 9. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expenses. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Remuneration:				
- management	2,788	2,241	1,306	1,053
- other personnel	29,548	29,402	21,916	22,183
Total remuneration for work	**32,336**	**31,643**	**23,222**	**23,236**
Social security contributions:				
- management	427	498	181	264
- other personnel	6,607	6,761	4,894	4,979
Total social security contributions	**7,034**	**7,259**	**5,075**	**5,243**
Other personnel expense*	**867**	**431**	**715**	**295**
Total personnel expense	**40,237**	**39,333**	**29,012**	**28,774**
Number of employees at the end of the period	1,583	1,637	1,180	1,227

* Other personnel expense includes health insurance, training and education expenditure and similar.

NOTE 10. IMPAIRMENT CHARGES AND REVERSALS

Total net impairment allowance charged to statement of income:

	EUR 000’s			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Loans – specifically assessed impairment	(6,879)	(17,729)	(6,045)	(16,874)
Loans – collectively assessed impairment	(6,460)	(3,438)	(4,824)	(3,280)
Available for sale securities	(520)	(130)	(520)	(130)
Other financial and non-financial assets, net	2,130	662	(2,212)	(1,703)
Recovered written-off assets	3,160	491	2,983	291
Total allowance and reversals charged to the statement of income, net	**(8,569)**	**(20,144)**	**(10,618)**	**(21,696)**

Fully impaired assets, recovery of which may become economically unviable, may be written-off. From time to time previously written off assets are recovered due to repayment or sale of pool of overdue assets to companies specialising in recoveries of balances in arrears. Such recoveries are reported as recovered written-off assets.

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	EUR 000’s			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Total allowance for impairment at the beginning of the period, including:	**93,049**	**89,173**	**72,495**	**67,331**
- loans – specifically assessed impairment	78,477	78,039	58,935	57,051
- loans – collectively assessed impairment	14,572	11,134	13,560	10,280
Charge:	**24,848**	**31,823**	**21,256**	**28,992**
- loans – specifically assessed impairment	17,514	24,916	15,640	22,413
- loans – collectively assessed impairment	7,334	6,907	5,616	6,579
Release:	**(11,509)**	**(10,656)**	**(10,387)**	**(8,838)**
- loans – specifically assessed impairment	(10,635)	(7,187)	(9,595)	(5,539)
- loans – collectively assessed impairment	(874)	(3,469)	(792)	(3,299)
Allowance charged to the statement of income, net, including:	**13,339**	**21,167**	**10,869**	**20,154**
- loans – specifically assessed impairment	6,879	17,729	6,045	16,874
- loans – collectively assessed impairment	6,460	3,438	4,824	3,280
Change of allowance due to write-offs, net	**(17,882)**	**(17,826)**	**(13,826)**	**(15,504)**
Effect of changes in currency exchange rates:	**201**	**535**	**229**	**514**
- loans – specifically assessed impairment	202	535	229	514
- loans – collectively assessed impairment	(1)	-	-	-
Total allowance for impairment at the end of the period, including:	**88,707**	**93,049**	**69,767**	**72,495**
- loans – specifically assessed impairment	67,676	78,477	51,383	58,935
- loans – collectively assessed impairment	21,031	14,572	18,384	13,560

An analysis of the change in impairment of other assets is presented as follows:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Total allowance for impairment at the beginning of the period, including:	**33,585**	**36,140**	**61,206**	**60,984**
- available for sale securities	8,256	9,432	8,256	9,432
- due from credit institutions	758	788	758	788
- other non-financial assets	24,571	25,920	52,192	50,764
Charge:	**1,548**	**2,454**	**2,810**	**2,317**
- available for sale securities	520	372	520	372
- other non-financial assets	1,028	2,082	2,290	1,945
Release:	**(3,158)**	**(2,986)**	**(78)**	**(484)**
- available for sale securities	-	(242)	-	(242)
- other non-financial assets	(3,158)	(2,744)	(78)	(242)
Allowance charged to the statement of income, net, including:	**(1,610)**	**(532)**	**2,732**	**1,833**
- available for sale securities	520	130	520	130
- other financial and non-financial assets	(2,130)	(662)	2,212	1,703
Change of allowance due to write-offs, net:	**(1,506)**	**(1,713)**	**(676)**	**(1,301)**
- available for sale securities	-	(1,029)	-	(1,029)
- due from credit institutions	-	(7)	-	(7)
- other non-financial assets	(1,506)	(677)	(676)	(265)
Effect of changes in currency exchange rates:	**(1,694)**	**(310)**	**(1,621)**	**(310)**
- available for sale securities	(1,714)	(277)	(1,714)	(277)
- due from credit institutions	94	(23)	94	(23)
- other non-financial assets	(74)	(10)	(1)	(10)
Total allowance for impairment at the end of the period, including:	**28,775**	**33,585**	**61,641**	**61,206**
- available for sale securities	7,062	8,256	7,062	8,256
- due from credit institutions	852	758	852	758
- other non-financial assets	20,861	24,571	53,727	52,192

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Current corporate income tax	251	40	-	-
Deferred income tax	2,512	3,684	3,059	2,746
Tax withheld abroad	128	132	93	131
Prior year adjustments	(37)	(514)	-	-
Total corporate income tax expense	**2,854**	**3,342**	**3,152**	**2,877**

The reconciliation of the Bank's and the Group's pre-tax profit for the period to the corporate income tax expense for the period may be specified as follows:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Profit before corporate income tax	35,259	16,939	32,396	18,168
Corporate income tax (at 15%)	**5,289**	**2,541**	**4,859**	**2,725**
Effect of tax rates in foreign jurisdictions	82	(189)	-	-
Non deductible expense	1,906	1,497	1,017	1,094
Non taxable income	(7,114)	(2,005)	(2,479)	(1,106)
Other tax differences, net	2,691	1,498	(245)	164
Total effective corporate income tax	**2,854**	**3,342**	**3,152**	**2,877**

The movements in deferred corporate income tax asset / (liability) can be specified as follows:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
As at the beginning of the year	32,534	35,830	31,700	34,446
Charge to statement of income	(2,512)	(3,684)	(3,059)	(2,746)
Charge to statement of comprehensive income*	51	388	94	-
Total deferred income tax asset at the end of the year, net	**30,073**	**32,534**	**28,735**	**31,700**

Recognised deferred corporate income tax assets and liabilities can be specified as follows:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	(434)	(2,607)	(434)	(423)
Other deferred tax liabilities	(551)	(286)	(359)	(270)
Deferred tax assets:				
Vacation pay and similar accrual	1,048	886	822	726
Revaluation of securities and derivatives*	380	627	380	775
Temporary impairment allowance differences	2,758	4,173	2,758	2,035
Recognised unutilised tax losses	26,839	29,732	25,568	28,857
Other deferred tax assets	33	9	-	-
Net deferred corporate income tax asset	**30,073**	**32,534**	**28,735**	**31,700**

* All changes in deferred tax that are charged directly to statement of comprehensive income are related to revaluation of securities at Group level.

Group's and Banks unutilised tax losses by expiry date can be specified as follows:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Expiry:				
2014	-	14,187	-	-
Undated **	224,048	246,799	170,517	192,382
Total unutilised tax losses	**224,048**	**260,986**	**170,517**	**192,382**

** On 15 December 2011 amendments permitting tax loss carry forward for infinite period were passed by Latvian government. These are applicable for tax loss from accounting periods starting in 2008 or later years; amendments are effective from 1 January 2012.

NOTE 12. CASH AND DEPOSITS WITH CENTRAL BANKS

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Cash	60,303	60,609	57,728	57,516
Deposits with the Bank of Latvia	84,593	226,941	84,593	226,941
Deposits with other central banks	80,503	73,935	329	28,068
Total cash and deposits with central banks	**225,399**	**361,485**	**142,650**	**312,525**

Credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly EUR balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia and subsidiaries in Lithuania and Switzerland. During the reporting year, the Group's Banks were in compliance with these requirements.

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. As at 31 December 2014 and 31 December 2013 no amounts due from central banks were overdue.

NOTE 13. BALANCES DUE FROM CREDIT INSTITUTIONS

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Due from credit institutions registered in OECD countries	442,349	231,424	362,104	161,634
Due from credit institutions registered in Latvia	54,040	24,825	51,693	23,080
Due from credit institutions registered in other non-OECD countries	13,867	15,690	51,328	35,272
Total gross balances due from credit institutions	**510,256**	**271,939**	**465,125**	**219,986**
Incl. impaired balances	*852*	*758*	*852*	*758*
Impairment allowance	(852)	(758)	(852)	(758)
Total net balances due from credit institutions	**509,404**	**271,181**	**464,273**	**219,228**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively.

As at 31 December 2014 and 2013, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group's neither past due nor-impaired balances due from credit institutions refer to Credit risk section of the Note 33. The Bank's balances with its subsidiary AB “Citadele” Bankas (Lithuania) accounted for 9% (2013: 68%) of the total net balances due from credit institutions registered in other non-OECD countries. As at 31 December 2014 the Group's largest due from credit institutions exposure with single group of connected institutions was 8% (2013: 39.6%). The exposure was with OECD registered “A rated” credit institutions.

NOTE 14. LOANS AND RECEIVABLES TO CUSTOMERS

The following table represents the current classes of the Group's loans:

	Group, EUR 000's			Group, EUR 000's		
	31/12/2014			31/12/2013		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	851,694	30,566	882,260	843,370	47,000	890,370
Utilised credit lines	132,114	32,233	164,347	131,502	32,717	164,219
Finance leases	103,138	36	103,174	92,737	-	92,737
Debit balances on settlement cards	57,312	85,388	142,700	67,098	87,393	154,491
Overdraft facilities	13,795	17,454	31,249	8,234	19,626	27,860
Factoring	1,635	2,969	4,604	454	-	454
Due from investment counterparties	4,720	-	4,720	5,576	-	5,576
Total loans and receivables to customers	**1,164,408**	**168,646**	**1,333,054**	**1,148,971**	**186,736**	**1,335,707**
Impairment allowance	(88,707)	-	(88,707)	(93,049)	-	(93,049)
Total net loans and receivables to customers	**1,075,701**	**168,646**	**1,244,347**	**1,055,922**	**186,736**	**1,242,658**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

The following table represents the current classes of the Bank's loans:

	Bank, EUR 000's			Bank, EUR 000's		
	31/12/2014			31/12/2013		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	720,434	26,717	747,151	716,140	44,899	761,039
Utilised credit lines	222,972	71,917	294,889	208,980	60,247	269,227
Debit balances on settlement cards	50,674	72,529	123,203	59,375	74,863	134,238
Overdraft facilities	12,788	11,243	24,031	7,655	12,553	20,208
Due from investment counterparties	4,186	-	4,186	5,101	-	5,101
Finance leases	42	-	42	158	-	158
Total loans and receivables to customers	**1,011,096**	**182,406**	**1,193,502**	**997,409**	**192,562**	**1,189,971**
Impairment allowance	(69,767)	-	(69,767)	(72,495)	-	(72,495)
Total net loans and receivables to customers	**941,329**	**182,406**	**1,123,735**	**924,914**	**192,562**	**1,117,476**

Loans and advances by customer profile may be specified as follows:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Privately held companies	678,373	640,466	657,099	629,053
Private individuals	457,271	474,918	331,408	341,945
State owned enterprises	11,645	14,530	10,646	14,520
Public and religious institutions	7,025	9,409	3,189	5,094
Local municipalities	2,635	5,747	2,158	3,583
Municipality owned enterprises	7,373	3,826	6,535	3,139
Government	86	75	61	75
Total gross loans and receivables to customers	**1,164,408**	**1,148,971**	**1,011,096**	**997,409**
Impairment allowance	(88,707)	(93,049)	(69,767)	(72,495)
Total net loans and receivables to customers	**1,075,701**	**1,055,922**	**941,329**	**924,914**

The borrowers' industry analysis of the gross portfolio of loans and receivables to other than private individuals before impairment allowance may be specified as follows:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Real estate purchase and management	150,455	150,611	184,277	189,226
Manufacturing	129,546	106,259	101,411	87,423
Trade	108,582	92,888	69,028	59,470
Transport and communications	83,477	103,155	60,916	81,402
Agriculture and forestry	76,306	79,889	56,618	58,392
Electricity, gas and water supply	41,961	31,319	38,553	29,586
Construction	39,118	35,434	27,368	26,211
Financial intermediation	16,861	10,838	112,015	89,467
Hotels, restaurants	12,620	13,587	8,920	10,582
Other industries	48,211	50,073	20,582	23,705
Total gross loans and receivables to corporate customers	**707,137**	**674,053**	**679,688**	**655,464**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Latvian residents	750,180	752,853	802,498	801,990
OECD region residents	114,623	95,711	104,186	87,137
Non-OECD region residents	299,605	300,407	104,412	108,282
Total gross loans and receivables to customers	**1,164,408**	**1,148,971**	**1,011,096**	**997,409**
Impairment allowance	(88,707)	(93,049)	(69,767)	(72,495)
Total net loans and receivables to customers	**1,075,701**	**1,055,922**	**941,329**	**924,914**

As at 31 December 2014 and 31 December 2013 the Group's and the Bank's exposures with non-consolidated single group of connected parties did not exceeded 5% of total gross loans and receivables to customers. As at 31 December 2014 and 31 December 2013 the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

NOTE 15. LEASES

The following table represents finance leases analysed by type of assets:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Transport vehicles	68,691	56,747	42	158
Manufacturing equipment	15,002	18,741	-	-
Real estate	5,899	6,235	-	-
Other	13,546	11,014	-	-
Total present value of finance lease payments, excluding impairment	**103,138**	**92,737**	**42**	**158**
Impairment allowance	(8,016)	(10,146)	(1)	(3)
Net present value of finance lease payments	**95,122**	**82,591**	**41**	**155**

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Gross investment in finance leases receivable:				
within 1 year	21,654	25,141	-	51
later than 1 year and no later than in 5 years	88,317	72,002	46	115
later than in 5 years	2,220	3,328	-	-
Total gross investment in finance leases	**112,191**	**100,471**	**46**	**166**
Unearned finance income receivable:				
within 1 year	2,642	2,157	-	1
later than 1 year and no later than in 5 years	6,236	5,437	4	7
later than in 5 years	175	140	-	-
Total	**9,053**	**7,734**	**4**	**8**
Present value of minimum lease payments receivable:				
within 1 year	19,012	22,984	-	50
later than 1 year and no later than in 5 years	82,081	66,565	42	108
later than in 5 years	2,045	3,188	-	-
Total	**103,138**	**92,737**	**42**	**158**

NOTE 16. FIXED AND NON-FIXED INCOME SECURITIES

The Group's fixed income securities by issuers profile and classification:

	EUR 000's 31/12/2014					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
Held for trading	9,545	-	1,908	1,728	7,114	20,295
Financial assets designated at fair value through profit or loss	11,749	1,634	29,236	1,093	41,139	84,851
Available for sale	228,426	-	146,294	152,367	14,504	541,591
Held to maturity	161,988	34,455	7,573	2,085	23,151	229,252
Total fixed income securities	**411,708**	**36,089**	**185,011**	**157,273**	**85,908**	**875,989**

	EUR 000's 31/12/2013					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
Held for trading	9,362	-	7,631	7,292	588	24,873
Financial assets designated at fair value through profit or loss	9,743	-	19,583	24,478	208	54,012
Available for sale	226,852	1,394	88,868	64,253	7,646	389,013
Held to maturity	188,560	36,570	7,006	8,433	3,854	244,423
Total fixed income securities	**434,517**	**37,964**	**123,088**	**104,456**	**12,296**	**712,321**

The Bank's fixed income securities by issuers profile and classification:

	EUR 000's 31/12/2014					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
Available for sale	152,476	-	141,160	128,083	11,618	433,337
Held to maturity	153,550	34,455	4,972	-	-	192,977
Total fixed income securities	**306,026**	**34,455**	**146,132**	**128,083**	**11,618**	**626,314**

	EUR 000's 31/12/2013					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
Available for sale	166,469	1,394	84,169	59,540	7,649	319,221
Held to maturity	184,297	34,425	5,740	-	-	224,462
Total fixed income securities	**350,766**	**35,819**	**89,909**	**59,540**	**7,649**	**543,683**

As at 31 December 2014, there are no Group's and Bank's securities on which payments are past due or which were restructured during the reporting period (2013: EUR nil). No fixed income securities were impaired (2013: nil). The above tables represent the maximum credit risk exposure to the Group and the Bank from fixed income securities.

Group's fixed income, shares and other non-fixed income securities by issuer's country, net:

	EUR 000's 31/12/2014			31/12/2013		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	253,751	37,978	291,729	290,350	37,714	328,064
Lithuania	86,375	-	86,375	74,015	-	74,015
Finland	13,246	16,312	29,558	17,735	8,002	25,737
United States	12,358	77,321	89,679	-	32,023	32,023
Netherlands	10,080	53,734	63,814	10,447	28,697	39,144
Sweden	5,376	21,342	26,718	-	7,291	7,291
Canada	3,308	24,023	27,331	3,745	19,834	23,579
Australia	693	32,946	33,639	-	17,854	17,854
Norway	-	26,638	26,638	-	13,999	13,999
Germany	-	24,479	24,479	1,150	24,866	26,016
Singapore	-	24,368	24,368	7,319	4,031	11,350
Other countries*	26,521	125,356	151,877	29,756	83,635	113,391
Total fixed income securities and shares, net	**411,708**	**464,497**	**876,205**	**434,517**	**277,946**	**712,463**
Investments in managed funds**	-	32,642	32,642	-	23,848	23,848
Total securities, net	**411,708**	**497,139**	**908,847**	**434,517**	**301,794**	**736,311**

Bank’s fixed income, shares and other non-fixed income securities by issuer’s country, net:

	EUR 000’s					
	31/12/2014			31/12/2013		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	241,007	36,955	277,962	288,417	36,734	325,151
United States	12,358	38,612	50,970	-	17,440	17,440
Finland	10,549	16,312	26,861	15,695	8,002	23,697
Netherlands	10,080	34,351	44,431	10,447	17,092	27,539
Canada	3,308	19,356	22,664	3,745	17,349	21,094
Australia	693	24,792	25,485	-	15,106	15,106
Singapore	-	22,820	22,820	7,319	4,031	11,350
Norway	-	19,788	19,788	-	11,097	11,097
Other countries*	28,031	107,501	135,532	25,143	66,192	91,335
Total fixed income securities and shares, net	**306,026**	**320,487**	**626,513**	**350,766**	**193,043**	**543,809**
Investments in managed funds**	-	10,882	10,882	-	12,583	12,583
Total securities, net	**306,026**	**331,369**	**637,395**	**350,766**	**205,626**	**556,392**

* Largest Group’s and Bank’s exposure to a single country within this group is EUR 15,285 thousand and EUR 16,373 thousand respectively (2013: EUR 18,542 thousand and EUR 16,902 thousand).
** Investments in managed funds here are not distributed by their issuer’s country but shown separately.

All fixed income securities as at 31 December 2014 and 31 December 2013 are listed.

The Group’s shares and other non-fixed income securities by issuers profile and classification:

	EUR 000’s							
	31/12/2014				31/12/2013			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Held for trading	-	-	3,655	3,655	-	-	2,941	2,941
Financial assets designated at fair value through profit or loss	-	-	12,598	12,598	-	-	8,324	8,324
Available for sale	116	100	16,389	16,605	114	28	12,583	12,725
Total non-fixed income securities, net	**116**	**100**	**32,642**	**32,858**	**114**	**28**	**23,848**	**23,990**

All exposures in mutual investment funds and equities which are classified as financial assets designated at fair value through profit or loss are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 31 December 2014 EUR 12,598 thousand (2013: EUR 8,324 thousand) of financial assets designated at fair value through profit or loss relate to this.

The Bank’s shares and other non-fixed income securities by issuers profile and classification:

	EUR 000’s							
	31/12/2014				31/12/2013			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Available for sale	99	100	10,882	11,081	98	28	12,583	12,709
Total non-fixed income securities, net	**99**	**100**	**10,882**	**11,081**	**98**	**28**	**12,583**	**12,709**

Investments in mutual funds are not analyzed by their ultimate issuer and are classified as non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 31 December 2014, the carrying amount of the Group’s and Bank’s securities, which were impaired but not past due amounted to EUR 1,421 thousand (2013: EUR 1,941 thousand).

As at 31 December 2014 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.0 million (2013: EUR 6.6 million) and EUR 13.2 million (EUR 11.7 million) which are managed by CBL Asset Managements IPS or its subsidiaries. These exposures have been acquired only with investment intentions.

NOTE 17. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank’s investments in subsidiaries may be specified as follows:

	EUR 000’s	
	2014	2013
Balance at the beginning of the period	**62,841**	**63,381**
Establishment of new subsidiaries	8	9
Equity investments in existing subsidiaries	1,025	-
Impairment, net	(2,269)	(549)
Balance at the end of the period	**61,605**	**62,841**

In 2014, the Bank established SIA “Hortus NI”, SIA “Hortus RE”, and SIA “Hortus BR” and increased share capital in several previously established subsidiaries, to continue effective management of repossessed assets. Share capital in repossessed asset management companies was impaired in the amount of EUR 1,023 thousand based on the forecasted performance of the respective companies.

In 2014 the management of the Bank concluded that there is evidence of impairment of investment in AB “Citadele” and a further impairment allowance of EUR 1,246 thousand was recognised.

As at 31 December 2014 and 2013 the Bank held the following direct and indirect investments which are consolidated:

			31/12/2014			31/12/2013			Carrying value EUR 000’s	
Company	Country of registration	Business profile	Share capital EUR 000’s	The Group’s share (%)	% of total voting rights	Share capital EUR 000’s	The Group’s share (%)	% of total voting rights	31/12/2014	31/12/2013
AB “Citadele” Bankas	Lithuania	Banking	43,115	100.0	100.0	43,211	100.0	100.0	40,027	41,271
“AP Anlage & Privatbank” AG	Switzerland	Banking	8,317	100.0	100.0	8,153	100.0	100.0	13,805	13,805
AS “CBL Atklātais Pensiju Fonds”	Latvia	Pension fund	640	100.0	100.0	640	100.0	100.0	646	646
IPAS “CBL Asset Management”	Latvia	Finance	5,905	100.0	100.0	5,905	100.0	100.0	5,906	5,906
OOO “Citadele Asset Management Ukraina”	Ukraine	Finance	758	100.0	100.0	872	100.0	100.0	-	-
UAB “Citadele Investiciju Valdymas”	Lithuania	Finance	1,037	100.0	100.0	1,039	100.0	100.0	-	-
OU “Citadele Leasing & Factoring”	Estonia	Finance	500	100.0	100.0	500	100.0	100.0	445	445
UAB “Citadele faktoringas ir lizingas”	Lithuania	Finance	434	100.0	100.0	435	100.0	100.0	-	-
SIA “Rīgas Pirmā Garāža”	Latvia	Real estate rent and management	19,372	100.0	100.0	19,372	100.0	100.0	-	-
SIA “Citadele Express Kredīts”	Latvia	Leasing	45	100.0	100.0	45	100.0	100.0	38	38
SIA “E&P Baltic Properties”	Latvia	Finance	28	50.0	50.0	28	50.0	50.0	-	-
SIA “Citadele Līzings un Faktorings”	Latvia	Leasing	19,351	100.0	100.0	19,351	100.0	100.0	709	709
AAS “CBL Life”	Latvia	Life insurance	4,269	100.0	100.0	4,269	100.0	100.0	-	-
Calenia Investments Limited	Cyprus	Misc.*	2	100.0	100.0	2	100.0	100.0	-	-
SIA “RPG Interjers”	Latvia	Misc.*	1,355	100.0	100.0	1,355	100.0	100.0	-	-
SIA “Hortus Commercial”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus Land”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus TC”	Latvia	Misc.*	428	100.0	100.0	3	100.0	100.0	23	3
SIA “Hortus Residental”	Latvia	Misc.*	203	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus LH”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	2	3
SIA “Hortus MD”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus JU”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus RE”	Latvia	Misc.*	3	100.0	100.0	3	-	-	2	-
SIA “Hortus BR”	Latvia	Misc.*	403	100.0	100.0	3	-	-	-	-
SIA “Hortus NI”	Latvia	Misc.*	3	100.0	100.0	3	-	-	2	-
SIA “PR Speciālie Projekti”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	-
Total investments in subsidiaries									**61,605**	**62,841**

* Misc. – the companies are providing various support services.

Carrying value of investment in subsidiary SIA “Rīgas Pirmā Garāža” depends directly on the value of the major assets of the company, being the office building and furniture therein, which in the Group’s consolidated accounts are accounted for as property and equipment. For impairment assessment methodology of Group’s property and equipment refer to Note 19.

Carrying value of investment in AB “Citadele” is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate (15.5%), minimum target capital adequacy ratio and future profitability of the operations of the entity. Changing applied discount rate by +/-100 basis points would result in EUR (2.3) million loss or EUR 2.7 million gain respectively (2013: EUR (1.8) million loss or EUR 2.6 million gain); adjusting minimum target capital adequacy ratio by +/-100 basis points would result in EUR (3.8) million loss or EUR 3.7 million gain (2013: EUR (3.0) million loss or EUR 2.6 million gain); fluctuation in forecasted profitability by +/-10% would result in EUR 3.5 million gain or EUR (3.5) million loss (2013: EUR 2.6 million gain or EUR (3.0) million loss).

NOTE 18. INTANGIBLE ASSETS

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Software	1,005	1,049	830	794
Other intangible assets	134	281	77	54
Total intangible assets excluding advances	1,139	1,330	907	848
Advances for intangible assets	569	515	549	502
Total net book value of intangible assets	**1,708**	**1,845**	**1,456**	**1,350**

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2014 and 2013 can be specified as follows:

	EUR 000's		
	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost			
As at 31 December 2012	**14,610**	**3,452**	**18,062**
Additions	740	77	817
Disposals	(280)	(183)	(463)
As at 31 December 2013	**15,070**	**3,346**	**18,416**
Additions	299	207	506
Disposals	(232)	(2,361)	(2,593)
As at 31 December 2014	**15,137**	**1,192**	**16,329**
Accumulated amortisation			
As at 31 December 2012	**12,726**	**3,116**	**15,842**
Charge for the year	703	122	825
Reversal due to disposals	(276)	(173)	(449)
As at 31 December 2013	**13,153**	**3,065**	**16,218**
Charge for the year	487	103	590
Reversal due to disposals	(232)	(2,238)	(2,470)
As at 31 December 2014	**13,408**	**930**	**14,338**
Impairment allowance			
As at 31 December 2012	**(1,117)**	**-**	**(1,117)**
Write-offs	249	-	249
As at 31 December 2013	**(868)**	**-**	**(868)**
Write-offs	248	-	248
Net impairment	(104)	(128)	(232)
As at 31 December 2014	**(724)**	**(128)**	**(852)**
Net book value (incl. impairment allowance)			
As at 31 December 2012	**767**	**336**	**1,103**
As at 31 December 2013	**1,049**	**281**	**1,330**
As at 31 December 2014	**1,005**	**134**	**1,139**

Lithuanian banking business at the consolidated level is considered a separate cash generating unit. For fair value calculation of the cash generating unit estimate, the same model is used as for the investment in AB “Citadele” impairment calculation. For details of the calculation please refer to Note 17. The calculation shows that the cash generating unit is impaired, thus Lithuanian banking business' non-financial assets for which observable market value is not available have been impaired; these are all intangible assets and certain property and equipment.

Movements in the Bank’s intangible assets excluding advances for the year ended 31 December 2014 and 2013 can be specified as follows:

	EUR 000’s		
	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost			
As at 31 December 2012	**13,090**	**43**	**13,133**
Additions	572	31	603
Disposals	(7)	-	(7)
As at 31 December 2013	**13,655**	**74**	**13,729**
Additions	148	34	182
Disposals	(106)	-	(106)
As at 31 December 2014	**13,697**	**108**	**13,805**
Accumulated amortisation			
As at 31 December 2012	**11,442**	**15**	**11,457**
Charge for the year	558	5	563
Reversal due to disposals	(7)	-	(7)
As at 31 December 2013	**11,993**	**20**	**12,013**
Charge for the year	359	11	370
Reversal due to disposals	(105)	-	(105)
As at 31 December 2014	**12,247**	**31**	**12,278**
Impairment allowance			
As at 31 December 2012	**(1,117)**	**-**	**(1,117)**
Write-offs	249	-	249
As at 31 December 2013	**(868)**	**-**	**(868)**
Write-offs	248	-	248
As at 31 December 2014	**(620)**	**-**	**(620)**
Net book value (incl. impairment allowance)			
As at 31 December 2012	**531**	**28**	**559**
As at 31 December 2013	**794**	**54**	**848**
As at 31 December 2014	**830**	**77**	**907**

NOTE 19. PROPERTY AND EQUIPMENT

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Leasehold improvements	283	380	283	380
Land and buildings	39,121	38,715	924	948
Transport vehicles	659	480	261	238
Other	2,447	3,241	2,182	1,826
Total property and equipment excluding advances	42,510	42,816	3,650	3,392
Advances for property and equipment	15	10	1	10
Total net book value of property and equipment	**42,525**	**42,826**	**3,651**	**3,402**

The following changes in the Group's property and equipment excluding advances took place during the year ended 31 December 2014 and 2013:

	EUR 000's				
	Leasehold improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding advances
Historical cost					
As at 31 December 2012	**5,128**	**71,124**	**2,450**	**31,756**	**110,458**
Additions	154	102	186	1,374	1,816
Disposals	-	(40)	(869)	(1,440)	(2,349)
As at 31 December 2013	**5,282**	**71,186**	**1,767**	**31,690**	**109,925**
Additions	70	58	440	1,303	1,871
Disposals	(565)	-	(161)	(2,865)	(3,591)
As at 31 December 2014	**4,787**	**71,244**	**2,046**	**30,128**	**108,205**
Accumulated depreciation					
As at 31 December 2012	**4,643**	**11,868**	**1,633**	**27,668**	**45,812**
Charge for the year	259	2,545	245	2,203	5,252
Reversal due to disposals	-	(33)	(591)	(1,422)	(2,046)
As at 31 December 2013	**4,902**	**14,380**	**1,287**	**28,449**	**49,018**
Charge for the year	167	2,562	166	1,703	4,598
Reversal due to disposals	(565)	-	(125)	(2,787)	(3,477)
As at 31 December 2014	**4,504**	**16,942**	**1,328**	**27,365**	**50,139**
Impairment allowance					
As at 31 December 2012	**-**	**(20,565)**	**-**	**-**	**(20,565)**
Net reversal and write-offs	-	2,474	-	-	2,474
As at 31 December 2013	**-**	**(18,091)**	**-**	**-**	**(18,091)**
Net reversal and write-offs	-	2,910	(59)	(316)	2,535
As at 31 December 2014	**-**	**(15,181)**	**(59)**	**(316)**	**(15,556)**
Net book value (incl. impairment allowance)					
As at 31 December 2012	**485**	**38,691**	**817**	**4,088**	**44,081**
As at 31 December 2013	**380**	**38,715**	**480**	**3,241**	**42,816**
As at 31 December 2014	**283**	**39,121**	**659**	**2,447**	**42,510**

Impairment allowance for Group's land and buildings is calculated internally as the value which is determined as discounted expected future cash flow generated by the property adjusted for capital expenditure. Key assumptions are discount rate (9.5%) and expected net cash flows generated by the property. If discount rate would change by +/-100 basis points the carrying value of the property would change by EUR (4.1) million and EUR +5.4 million respectively (2013: EUR (3.8) million and EUR +5.0 million). If net cash flows adjusted for capital expenses would change by +/-10% the carrying value of the property would change by EUR +/-3.6 million (2013: EUR +/-3.7 million).

The following changes in the Bank’s property and equipment excluding advances took place during the year ended 31 December 2014 and 2013:

	EUR 000’s				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding prepayments
Historical cost					
As at 31 December 2012	**5,128**	**1,214**	**1,332**	**22,174**	**29,848**
Additions	154	-	155	1,216	1,525
Disposals	-	(1)	(302)	(690)	(993)
As at 31 December 2013	**5,282**	**1,213**	**1,185**	**22,700**	**30,380**
Additions	70	-	110	1,096	1,276
Disposals	(565)	-	(4)	(2,183)	(2,752)
As at 31 December 2014	**4,787**	**1,213**	**1,291**	**21,613**	**28,904**
Accumulated depreciation					
As at 31 December 2012	**4,643**	**241**	**1,138**	**20,896**	**26,918**
Charge for the year	259	24	111	666	1,060
Reversal due to disposals	-	-	(302)	(688)	(990)
As at 31 December 2013	**4,902**	**265**	**947**	**20,874**	**26,988**
Charge for the year	167	24	85	715	991
Reversal due to disposals	(565)	-	(2)	(2,158)	(2,725)
As at 31 December 2014	**4,504**	**289**	**1,030**	**19,431**	**25,254**
Net book value					
As at 31 December 2012	**485**	**973**	**194**	**1,278**	**2,930**
As at 31 December 2013	**380**	**948**	**238**	**1,826**	**3,392**
As at 31 December 2014	**283**	**924**	**261**	**2,182**	**3,650**

NOTE 20. OTHER ASSETS

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Deposits with card payment system companies	11,554	15,619	11,554	15,619
Money in transit	28,118	5,751	27,579	5,751
Prepayments	2,416	1,992	1,426	1,373
Other assets *	16,269	16,423	6,514	6,530
Total gross other assets	**58,357**	**39,785**	**47,073**	**29,273**
Impairment allowance	(4,194)	(5,004)	(3,469)	(3,954)
Total net other assets	**54,163**	**34,781**	**43,604**	**25,319**

* As at 31 December 2014, the Group's other assets with delays gross amount was EUR 317 thousand (2013: EUR 270 thousand) and were fully impaired (2013: EUR 239 thousand). The Bank did not have any other assets with delays (2013: EUR nil). As at 31 December 2014, the Group's and the Bank's gross amount of other assets which mostly related to overdue amount collection expenditure amounted to EUR 4,686 thousand (2013: EUR 5,477 thousand) and EUR 3,590 thousand (2013: EUR 4,134 thousand), respectively. These amounts carried impairment allowances of EUR 4,194 thousand for the Group (2013: EUR 5,004 thousand) and EUR 3,469 thousand for the Bank (2013: EUR 3,954 thousand), respectively.

NOTE 21. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

	EUR 000's	
	2014 Group	2013 Group
Balance as at the beginning of the period	**16,626**	**14,752**
Premiums received	9,611	7,186
Commissions and risk charges	(626)	(538)
Benefits paid to policyholders	(1,427)	(4,987)
Dividends received	1	-
Securities fair value revaluation result	1	92
Income from insurance contracts	223	144
Other charges	6	-
Currency revaluation result	179	(23)
Balance as at the end of the period	**24,594**	**16,626**

In 2014 from financial liabilities designated at fair value through profit and loss which are not unit-linked the Group has recognised net result of EUR (240) thousand in the statement of income (2013: EUR 45 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk, therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is immaterial and, therefore, not further analysed.

NOTE 22. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Due to credit institutions registered in OECD countries	-	48	27,321	29,071
Due to credit institutions registered in Latvia	24,434	25,366	24,434	25,364
Due to credit institutions registered in other non-OECD countries	602	341	65,242	851
Total balances due to credit institutions and central banks	**25,036**	**25,755**	**116,997**	**55,286**

NOTE 23. DEPOSITS FROM CUSTOMERS

The following table presents deposits from customers according to customer profile:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Privately held companies	1,198,017	977,360	825,905	726,131
Private individuals	1,005,630	877,595	801,983	747,122
Financial institutions	144,406	141,748	156,198	130,955
State and municipality owned enterprises	127,939	156,146	126,589	155,868
Municipalities	20,303	37,979	20,303	37,979
Public and religious institutions	12,620	9,129	10,605	7,329
Government	8,192	46,955	7,168	45,964
Total deposits from customers	**2,517,107**	**2,246,912**	**1,948,751**	**1,851,348**

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Demand deposits	1,897,101	1,679,094	1,460,857	1,375,675
Term deposits:				
due within 1 month	149,450	141,837	118,034	118,711
due within 1-3 months	85,732	94,506	61,120	76,070
due within 3-6 months	91,548	96,081	61,574	79,513
due within 6-12 months	176,260	170,722	139,941	143,192
due within 1-5 years	108,885	63,127	101,138	56,643
due in more than 5 years	8,131	1,545	6,087	1,544
Total term deposits	620,006	567,818	487,894	475,673
Total deposits from customers	**2,517,107**	**2,246,912**	**1,948,751**	**1,851,348**

As at 31 December 2014 and 31 December 2013 the largest Bank's exposure with single group of connected parties did not exceed 5% of the total deposit portfolio.

NOTE 24. OTHER LIABILITIES

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Accrued expense	12,001	12,019	9,129	8,803
Suspense liabilities and money in transit	5,643	6,349	2,587	2,221
Amounts due to suppliers	743	1,121	243	655
Deferred income	140	174	-	-
Other liabilities	4,955	3,297	2,494	1,276
Total other liabilities	**23,482**	**22,960**	**14,453**	**12,955**

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not yet transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

NOTE 25. SUBORDINATED LIABILITIES

The following table represents the details of Bank's and Group's subordinated liabilities:

							Amortised cost EUR 000's	
Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Maturity date	31/12/2014	31/12/2013
Privatisation Agency	Latvia	EUR	53,128	7.31%	22/05/2009	20/12/2017	54,702	54,709
Privatisation Agency	Latvia	EUR	11,208	7.31%	02/08/2010	08/08/2016	11,537	11,538
EBRD	UK	EUR	7,195	7.31%	11/09/2009	08/08/2016	7,357	7,328
						Total	**73,596**	**73,575**

NOTE 26. ISSUED SHARE CAPITAL

As at 31 December 2014, the Bank's registered and paid-in share capital was EUR 146,556 thousand (2013: EUR 146,556 thousand). Due to Euro adoption, on 8 April 2014 amendments to the statutes of AS Citadele Banka were registered, changing nominal value of one share from LVL 1 to EUR 1. The total number of ordinary shares with voting rights increased to 146,555,796 (2013: 103,000,000). Shareholder structure did not change. All shares as at 31 December 2014 were issued and fully paid. As at 31 December 2014 and 31 December 2013, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2014 or 2013.

As at 31 December 2014, the Bank had 2 (2013: 2) shareholders:

	31/12/2014 and 31/12/2013		
	Paid-in share capital (EUR)	% of total paid-in capital	% of total voting rights
Privatisation Agency	109,916,846	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	36,638,950	25% plus 1 share	25% plus 1 share
Total	**146,555,796**	**100%**	**100%**

On 16 September 2014 and following a tender process, the Latvian government decided to sell its 75% minus 1 share stake in Citadele to RA Citadele Holdings LLC, an entity wholly owned by Ripplewood Advisors LLC (Ripplewood), and an international group of twelve investors. VAS Privatizācijas aģentūra (Privatisation Agency of the Republic of Latvia) signed the respective agreement on 5 November 2014.

The transaction is expected to close during the first half of 2015, following approvals by the Latvian Finance and Capital Markets Commission, as well as the banking regulators in Lithuania and Switzerland. The European Bank for Reconstruction and Development (EBRD) will retain its 25% stake in Citadele. According to the terms of the deal, the new investors and the EBRD have committed to increase the capital of the bank.

NOTE 27. OFF-BALANCE SHEET ITEMS

Off-balance sheet items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2014 and 2013.

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Contingent liabilities:				
Outstanding guarantees	58,185	101,740	54,512	96,515
Outstanding letters of credit	32	169	32	51
Total contingent liabilities	**58,217**	**101,909**	**54,544**	**96,566**
Financial commitments:				
Loans granted, not fully drawn down	33,390	67,072	26,536	64,973
Unutilised credit lines and overdraft facilities	49,868	32,271	83,341	52,726
Credit card commitments	85,388	87,393	72,529	74,863
Bank placement commitments	-	-	10,000	-
Total financial commitments	**168,646**	**186,736**	**192,406**	**192,562**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments.

The Group:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2014	31/12/2013	31/12/2014		31/12/2013	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	47,142	37,439	534	(420)	60	(1,103)
Swaps	400,854	697,386	5,395	(1,227)	3,488	(2,828)
Total foreign exchange contracts	**447,996**	**734,825**	**5,929**	**(1,647)**	**3,548**	**(3,931)**
Derivative financial instruments	**447,996**	**734,825**	**5,929**	**(1,647)**	**3,548**	**(3,931)**

The Bank:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2014	31/12/2013	31/12/2014		31/12/2013	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	46,351	37,293	522	(417)	60	(1,101)
Swaps	437,165	795,502	5,441	(3,150)	3,497	(3,367)
Total foreign exchange contracts	**483,516**	**832,795**	**5,963**	**(3,567)**	**3,557**	**(4,468)**
Derivative financial instruments	**483,516**	**832,795**	**5,963**	**(3,567)**	**3,557**	**(4,468)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2014, more than 52% (2013: 71%) of the fair value assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2014, none (2013: nil) of the payments receivable arising out of derivative transactions was past due.

NOTE 28. FUNDS UNDER TRUST MANAGEMENT

The table below provides analysis of the fair value of funds managed on behalf of customers by investment type:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Fixed income securities:				
Government bonds	155,495	170,254	-	-
Credit institution bonds	35,755	40,464	-	-
Corporate bonds	71,723	68,022	-	-
Foreign municipality bonds	1,694	2,790	-	-
Other financial institution bonds	1,590	1,848	-	-
Total investments in fixed income securities	**266,257**	**283,378**	**-**	**-**
Other investments:				
Investment funds	227,219	162,427	7,167	-
Deposits with credit institutions	32,808	24,644	1,523	-
Shares	15,515	19,197	-	-
Real estate	9,189	10,764	-	-
Loans	53,611	44,897	44,488	40,387
Other	43,684	57,180	-	7,952
Total other investments	**382,026**	**319,109**	**53,178**	**48,339**
Total assets under trust management agreements	**648,283**	**602,487**	**53,178**	**48,339**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Pension Plans	295,497	226,570	-	-
Insurance companies, investment and pension funds	98,568	116,974	-	-
Other companies	200,854	195,843	53,178	47,647
Private individuals	53,364	63,100	-	692
Total liabilities under trust management agreements	**648,283**	**602,487**	**53,178**	**48,339**

NOTE 29. FINANCIAL ASSETS PLEDGED

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Due from credit institutions and central banks	6,637	8,100	3,752	7,083
Loans to customers	2,338	1,756	1,808	1,756
Fixed income securities	18,531	-	14,802	-
Other assets	11,774	15,811	11,713	15,811
Total financial assets pledged	**39,280**	**25,667**	**32,075**	**24,650**
Total liabilities secured by pledged financial assets	**-**	**-**	**-**	**-**

All pledged amounts consist of several placements to secure various Bank's and Group's transactions in the ordinary course of business.

NOTE 30. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2014 and 31 December 2013:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Cash and demand deposits with central banks	225,399	361,485	142,650	312,525
Deposits with other credit institutions*	158,583	252,971	347,232	211,087
Demand deposits due to other credit institutions	(14,971)	(8,510)	(70,657)	(20,752)
Total cash and cash equivalents	**369,011**	**605,946**	**419,225**	**502,860**

* Deposits include term facilities with initial agreement term of 3 months or less.

NOTE 31. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank and Group either as claimant, defendant or a third party are involved in a number of legal proceedings against customers and other counterparties, in Latvia and abroad, including among other matters proceedings to seek to recover collateral or outstanding balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties

The management of the Bank believes that any legal proceedings pending as at 31 December 2014 will not result in material losses for the Group in addition to amounts already provided for in these financial statements.

NOTE 32. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, Latvian state and municipal institutions, members of the Supervisory Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group’s companies/ Bank and their related companies are stated in one line, accordingly. All transactions with related parties were made on terms equivalent to those that prevail in arm’s length transactions.

The Bank of Latvia is not considered a related party as it is operating as an independent institution according to special law.

The following table presents the outstanding balances and terms of the Group’s transactions with counterparties, which were related parties at respective dates.

	EUR 000’s 31/12/2014	Interest income/ expense 2014	EUR 000’s 31/12/2013	Interest income/ expense 2013
Credit exposure to related parties				
Securities:	275,462	7,840	322,843	9,254
Latvian treasury bills and government bonds	*241,007*	*6,585*	*288,418*	*8,008*
Municipality bonds	*34,455*	*1,255*	*34,425*	*1,246*
Loans and receivables:	3,060	83	4,083	46
Management	*337*	*5*	*427*	*7*
State institutions and state controlled companies	*553*	*29*	*70*	*1*
Municipality institutions and municipality controlled companies	*2,170*	*49*	*3,586*	*38*
Financial commitments and outstanding guarantees:	6,202	1	4,664	-
Management	*125*	-	*135*	-
State institutions and state controlled companies	*6,063*	*1*	*4,515*	-
Municipality institutions and municipality controlled companies	*14*	-	*14*	-
Total credit exposure to related parties	**284,724**		**331,590**	
Due to related parties:	123,461	5,476	159,143	5,841
Subordinated loans from shareholders	*73,596*	*5,361*	*73,575*	*5,491*
Management	*555*	*2*	*546*	*3*
State institutions and state controlled companies	*25,895*	*88*	*47,643*	*316*
Municipality institutions and municipality controlled companies	*23,415*	*25*	*37,379*	*31*
Total amounts due to related parties	**123,461**		**159,143**	

No Group’s exposures with related parties as at 31 December 2014 or for the year then ended were impaired (2013: nil).

The following table presents the outstanding balances and terms of the Bank’s transactions with counterparties, which were related parties at respective dates.

	EUR 000’s 31/12/2014	Interest income/ expense 2014	EUR 000’s 31/12/2013	Interest income/ expense 2013
Credit exposure to related parties				
Securities:	275,462	7,840	322,843	9,254
Latvian treasury bills and government bonds	*241,007*	*6,585*	*288,418*	*8,008*
Municipality bonds	*34,455*	*1,255*	*34,425*	*1,246*
Loans and receivables:	197,080	4,135	166,188	3,394
Management	*104*	*5*	*121*	*4*
State institutions and state controlled companies	*553*	*29*	*70*	*1*
Municipality institutions and municipality controlled companies	*2,170*	*49*	*3,586*	*38*
Subsidiaries	*194,253*	*4,052*	*162,411*	*3,351*
Derivatives – assets:	52	-	16	-
Subsidiaries	*52*	-	*16*	-
Financial commitments and outstanding guarantees:	58,309	1	46,363	-
Management	*80*		*84*	-
State institutions and state controlled companies	*6,063*	*1*	*4,515*	-
Municipality institutions and municipality controlled companies	*14*	-	*14*	-
Subsidiaries	*52,152*	-	*41,750*	-
Total credit exposure to related parties	**530,903**		**535,410**	
Due to related parties:	205,454	5,625	183,652	5,985
Subordinated loans from shareholders	*73,596*	*5,361*	*73,575*	*5,491*
Management	*212*	-	*287*	-
State institutions and state controlled companies	*25,895*	*88*	*47,643*	*316*
Municipality institutions and municipality controlled companies	*23,415*	*25*	*37,379*	*31*
Subsidiaries	*82,336*	*151*	*24,768*	*147*
Derivatives – liabilities:	1,935	-	738	-
Subsidiaries	*1,935*	-	*738*	-
Total amounts due to related parties	**207,389**		**184,390**	

In the year ended 31 December 2014 EUR 619 thousand impairment allowance on the Bank's loans and receivables to subsidiaries was recognised (2013: nil). As at 31 December 2014 total impairment allowance recognised on loans and receivables to subsidiaries is EUR 619 thousand (2013: nil). Bank's net investment in subsidiaries is EUR 61,605 thousand (2013: EUR 62,841 thousand) including impairment allowance of EUR 49,638 thousand. No other Bank’s exposures with related parties as at 31 December 2014 or for the year then ended were impaired (2013: nil).

The Bank’s income from dividends from subsidiaries in 2014 was EUR 1,690 thousand (2013: EUR 3,754 thousand).

During 2014 Bank’s administrative expense with related parties amounted to EUR 3.4 million (2013: EUR 3.3 million). This mostly relates to rent and utility fees paid to group’s companies. Banks fee and commission income from related parties in 2014 was EUR 2.0 million (2013: EUR 1.4 million) and commission and fee expense EUR 0.3 million (2013: EUR 0.2 million).

NOTE 33. RISK MANAGEMENT

Risk management polices

Risk management principles are set out in Group’s Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group’ business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group’s employee about and responsibility for the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks.

Risk management is an essential element of the Group’s management process. Risk management within the Group is controlled by independent unit – Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) Credit risk

Credit risk is the risk that the Group will incur a loss from debtor’s non-performance or default. The Group is exposed to credit risk in its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent unit of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer’s creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes the analysis of industry, the company, its credit history and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer’s credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank’s Management Board. For securities Group analyses factors such as business profile and financial performance of the issuer, credit ratings assigned by international rating agencies, market based indicators such as credit spreads and liquidity.

After a loan is issued or a security acquired, customers’ financial position and issuers’ risk indicators are monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group’s related parties, an industry limit, limit by customer type, loan product, and collateral type.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Group’s derivative exposures relate to short term derivatives that do not expose the Group to material credit risk and none of the derivative exposures are overdue.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

The tables below provide details of the Group’s loan portfolio delinquencies:

	Group, EUR 000's							
	31/12/2014							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	715,768	106,090	88,590	48,194	13,597	1,376	3,055	976,670
Not delayed - impaired	39,065	1,704	885	-	71	-	1,665	43,390
Total not delayed loans	**754,833**	**107,794**	**89,475**	**48,194**	**13,668**	**1,376**	**4,720**	**1,020,060**
Past due loans - not impaired								
Delayed days:								
=< 29	23,761	482	4,742	1,538	1	-	-	30,524
30-59	8,330	572	2,943	473	-	-	-	12,318
60-89	3,294	-	565	212	-	-	-	4,071
90 and more	14,982	-	290	415	-	-	-	15,687
Total past due loans - not impaired	**50,367**	**1,054**	**8,540**	**2,638**	**1**	**-**	**-**	**62,600**
Total past due loans - impaired	**46,494**	**23,266**	**5,123**	**6,480**	**126**	**259**	**-**	**81,748**
Total gross loans and receivables to customers	**851,694**	**132,114**	**103,138**	**57,312**	**13,795**	**1,635**	**4,720**	**1,164,408**
Impairment allowance	(55,392)	(14,357)	(8,016)	(8,875)	(471)	(261)	(1,335)	(88,707)
Total net loans and receivables to customers	**796,302**	**117,757**	**95,122**	**48,437**	**13,324**	**1,374**	**3,385**	**1,075,701**

	Group, EUR 000's							
	31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	698,526	86,380	64,438	52,212	7,948	195	3,722	913,421
Not delayed - impaired	27,609	1,791	5,255	-	130	-	1,854	36,639
Total not delayed loans	**726,135**	**88,171**	**69,693**	**52,212**	**8,078**	**195**	**5,576**	**950,060**
Past due loans - not impaired								
Delayed days:								
=< 29	45,693	18,833	8,394	1,729	18	-	-	74,667
30-59	7,636	-	2,615	458	1	-	-	10,710
60-89	6,116	-	188	274	84	-	-	6,662
90 and more	9,866	949	253	461	53	-	-	11,582
Total past due loans - not impaired	**69,311**	**19,782**	**11,450**	**2,922**	**156**	**-**	**-**	**103,621**
Total past due loans - impaired	**47,924**	**23,549**	**11,594**	**11,964**	**-**	**259**	**-**	**95,290**
Total gross loans and receivables to customers	**843,370**	**131,502**	**92,737**	**67,098**	**8,234**	**454**	**5,576**	**1,148,971**
Impairment allowance	(53,683)	(13,310)	(10,146)	(14,098)	(132)	(256)	(1,424)	(93,049)
Total net loans and receivables to customers	**789,687**	**118,192**	**82,591**	**53,000**	**8,102**	**198**	**4,152**	**1,055,922**

The tables below provide details of the Bank’s loan portfolio delinquencies:

	Bank, EUR 000’s							
	31/12/2014							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	608,765	198,477	42	44,000	12,590	-	2,521	866,395
Not delayed - impaired	36,667	544	-	-	71	-	1,665	38,947
Total not delayed loans	**645,432**	**199,021**	**42**	**44,000**	**12,661**	**-**	**4,186**	**905,342**
Past due loans - not impaired								
Delayed days:								
=< 29	17,269	293	-	814	1	-	-	18,377
30-59	6,120	391	-	362	-	-	-	6,873
60-89	2,026	-	-	187	-	-	-	2,213
90 and more	13,866	-	-	415	126	-	-	14,407
Total past due loans - not impaired	**39,281**	**684**	**-**	**1,778**	**127**	**-**	**-**	**41,870**
Total past due loans - impaired	**35,721**	**23,267**	**-**	**4,896**	**-**	**-**	**-**	**63,884**
Total gross loans and receivables to customers	**720,434**	**222,972**	**42**	**50,674**	**12,788**	**-**	**4,186**	**1,011,096**
Impairment allowance for past due loans	(46,911)	(13,774)	(1)	(7,279)	(467)	-	(1,335)	(69,767)
Total net loans and receivables to customers	**673,523**	**209,198**	**41**	**43,395**	**12,321**	**-**	**2,851**	**941,329**

	Bank, EUR 000’s							
	31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	598,841	165,704	154	46,953	7,382	-	3,248	822,282
Not delayed - impaired	25,578	71	-	-	129	-	1,853	27,631
Total not delayed loans	**624,419**	**165,775**	**154**	**46,953**	**7,511**	**-**	**5,101**	**849,913**
Past due loans - not impaired								
Delayed days:								
=< 29	36,047	18,722	1	1,036	6	-	-	55,812
30-59	5,827	-	3	387	1	-	-	6,218
60-89	5,287	-	-	248	84	-	-	5,619
90 and more	8,332	949	-	461	53	-	-	9,795
Total past due loans - not impaired	**55,493**	**19,671**	**4**	**2,132**	**144**	**-**	-	**77,444**
Total past due loans - impaired	**36,228**	**23,534**		**10,290**	**-**	**-**	**-**	**70,052**
Total gross loans and receivables to customers	**716,140**	**208,980**	**158**	**59,375**	**7,655**	**-**	**5,101**	**997,409**
Impairment allowance	(45,925)	(12,591)	(3)	(12,423)	(129)	-	(1,424)	(72,495)
Total net loans and receivables to customers	**670,215**	**196,389**	**155**	**46,952**	**7,526**	**-**	**3,677**	**924,914**

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2012	**42,259**	**2,301**	**9,139**	**21,339**	**761**	**259**	**1,981**	**78,039**
Impairment charge for the reported period - specific	12,984	9,626	1,945	74	209	-	78	24,916
Release of previously established impairment allowance - specific	(5,424)	(47)	(388)	(770)	-	-	(558)	(7,187)
Impairment charged to the statement of income, net	**7,560**	**9,579**	**1,557**	**(696)**	**209**	**-**	**(480)**	**17,729**
Change of impairment allowance due to write-offs, net	(7,582)	-	(879)	(8,608)	(757)	-	-	(17,826)
Increase/ (decrease) in impairment allowance due to currency fluctuations	775	(1)	16	(87)	(84)	(4)	(80)	535
Outstanding specific impairment as at 31/12/2013	**43,012**	**11,879**	**9,833**	**11,948**	**129**	**255**	**1,421**	**78,477**
Impairment charge for the reported period - specific	12,691	2,997	1,193	401	52	-	180	17,514
Release of previously established impairment allowance - specific	(8,520)	(1,642)	(351)	(69)	(30)	-	(23)	(10,635)
Impairment charged to the statement of income, net	**4,171**	**1,355**	**842**	**332**	**22**	**-**	**157**	**6,879**
Change of impairment allowance due to write-offs, net	(7,722)	(248)	(3,605)	(5,823)	(108)	-	(376)	(17,882)
Increase/ (decrease) in impairment allowance due to currency fluctuations	74	(17)	(7)	11	9	-	132	202
Outstanding specific impairment as at 31/12/2014	**39,535**	**12,969**	**7,063**	**6,468**	**52**	**255**	**1,334**	**67,676**

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2012	**33,844**	**2,237**	**-**	**18,228**	**761**	**-**	**1,981**	**57,051**
Impairment charge for the reported period - specific	13,088	8,964	-	74	209	-	78	22,413
Release of previously established impairment allowance - specific	(4,310)	-	-	(671)	-	-	(558)	(5,539)
Impairment charged to the statement of income, net	**8,778**	**8,964**	**-**	**(597)**	**209**	**-**	**(480)**	**16,874**
Change of impairment allowance due to write-offs, net	(7,493)	-	-	(7,254)	(757)	-	-	(15,504)
Increase/ (decrease) in impairment allowance due to currency fluctuations	764	-	-	(86)	(84)	-	(80)	514
Outstanding specific impairment as at 31/12/2013	**35,893**	**11,201**	**-**	**10,291**	**129**	**-**	**1,421**	**58,935**
Impairment charge for the reported period - specific	12,321	2,700	-	388	51	-	180	15,640
Release of previously established impairment allowance - specific	(7,914)	(1,627)	-	(1)	(30)	-	(23)	(9,595)
Impairment charged to the statement of income, net	**4,407**	**1,073**	**-**	**387**	**21**	**-**	**157**	**6,045**
Change of impairment allowance due to write-offs, net	(7,299)	(248)	-	(5,795)	(108)	-	(376)	(13,826)
Increase/ (decrease) in impairment allowance due to currency fluctuations	77		-	14	9	-	129	229
Outstanding specific impairment as at 31/12/2014	**33,078**	**12,026**	**-**	**4,897**	**51**	**-**	**1,331**	**51,383**

In the table below estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

	Group, EUR 000's							
	31/12/2014				31/12/2013			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	476,217	1,090,016	320,085	245,570	455,520	997,429	334,167	217,550
Utilised credit lines	86,585	242,034	31,172	17,672	80,766	207,823	37,426	19,086
Finance leases	94,274	100,655	848	517	81,136	85,237	1,455	748
Debit balances on settlement cards	285	1,363	48,152	-	36	36	52,964	-
Overdraft facilities	4,214	15,931	9,110	-	243	1,554	7,859	57
Factoring	1,369	1,389	5	-	195	195	3	-
Due from investment counterparties	-	-	3,385	6	-	-	4,152	-
Total net loans	**662,944**	**1,451,388**	**412,757**	**263,765**	**617,896**	**1,292,274**	**438,026**	**237,441**

	Bank, EUR 000's							
	31/12/2014				31/12/2013			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	352,450	962,912	321,073	260,299	364,662	804,795	305,553	196,355
Utilised credit lines	75,490	230,938	133,708	16,774	74,157	193,165	122,232	17,745
Finance leases	41	171	-	-	155	499	-	-
Debit balances on settlement cards	246	1,261	43,149	-	-	-	46,952	-
Overdraft facilities	3,311	15,027	9,010	-	-	-	7,526	-
Due from investment counterparties	-	-	2,851	-	-	-	3,677	-
Total net loans	**431,538**	**1,210,309**	**509,791**	**277,073**	**438,974**	**998,459**	**485,940**	**214,100**

* As at 31 December 2014 carrying value of Bank's loans without collateral or with guarantees amount to EUR 207,440 thousand (2013: EUR 166,707 thousand). Mostly, loans falling into categories “regular loans” and “utilised credit lines” are secured by collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15).

The tables below provide details of the Group's and Bank's fixed securities portfolio quality:

	Group, EUR 000's 31/12/2014				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	361	14,063	119,168	2,919	136,511
AA/Aa	4,612	31,565	105,666	7,794	149,637
A	7,459	31,703	259,005	168,037	466,204
BBB/Baa	7,863	7,215	49,761	14,621	79,460
Other lower ratings	-	305	4,632	1,425	6,362
Not rated	-	-	3,359	34,456	37,815
Total fixed income securities	**20,295**	**84,851**	**541,591**	**229,252**	**875,989**

	Group, EUR 000's 31/12/2013				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	3,779	18,233	91,989	2,913	116,914
AA/Aa	287	24,395	40,735	6,851	72,268
A	6,199	7,847	44,701	3,853	62,600
BBB/Baa	13,462	3,193	205,595	191,930	414,180
Other lower ratings	1,145	-	4,876	4,451	10,472
Not rated	1	344	1,117	34,425	35,887
Total fixed income securities	**24,873**	**54,012**	**389,013**	**244,423**	**712,321**

	Bank, EUR 000's					
	31/12/2014			31/12/2013		
	Held to maturity	Available for sale	Total	Held to maturity	Available for sale	Total
Investment grade:						
AAA/Aaa	2,083	117,620	119,703	2,164	87,186	89,350
AA/Aa	4,972	91,606	96,578	5,740	39,157	44,897
A	151,467	174,117	325,584	-	40,459	40,459
BBB/Baa	-	42,003	42,003	182,133	146,426	328,559
Other lower ratings	-	4,632	4,632	-	4,876	4,876
Not rated	34,455	3,359	37,814	34,425	1,117	35,542
Total net fixed income securities	**192,977**	**433,337**	**626,314**	**224,462**	**319,221**	**543,683**

The tables below provide details of the Group's due form credit institutions balances credit quality:

	EUR 000's	
	2014 Group	2014 Bank
Investment grade:		
AAA/Aaa	56,618	-
AA/Aa	10,210	5,407
A	333,834	312,344
BBB/Baa	64,479	64,235
Other lower ratings	89	62
Not rated Latvian registered credit institutions*	44,091	41,767
Citadele Group's banks	-	40,449
Other not rated credit institutions*	83	9
Total balances due from credit institutions, net	**509,404**	**464,273**

* Mostly balances due from credit institutions falling into category "Not rated" are with subsidiaries of investment grade rated international credit institutions.

GEOGRAPHICAL PROFILE

The following tables provide an analysis of the Group’s assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2014 and 31 December 2013 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2014, EUR 000’s					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries*	Total
Assets						
Cash and deposits with central banks	136,099	11,659	6,551	-	71,090	225,399
Balances due from credit institutions	53,198	2,934	344,865	10,085	98,322	509,404
Securities held for trading	5,530	-	12,160	-	6,260	23,950
Financial assets designated at fair value through profit or loss	6,190	-	50,789	-	40,470	97,449
Available for sale securities	105,252	80,014	153,415	-	219,515	558,196
Loans and receivables to customers	676,574	228,733	107,196	42,380	20,818	1,075,701
Held to maturity securities	187,999	6,361	21,780	-	13,112	229,252
Derivative financial instruments	1,724	-	1,897	7	2,301	5,929
Other assets	106,974	6,225	15,451	92	573	129,315
Total assets	**1,279,540**	**335,926**	**714,104**	**52,564**	**472,461**	**2,854,595**
Liabilities						
Financial liabilities designated at fair value through profit or loss	22,807	-	30	1,717	40	24,594
Financial liabilities measured at amortised cost	1,222,554	214,311	394,664	184,930	611,515	2,627,974
Derivative financial instruments	434	-	515	162	536	1,647
Other liabilities	16,090	5,728	883	11	957	23,669
Total liabilities	**1,261,885**	**220,039**	**396,092**	**186,820**	**613,048**	**2,677,884**
Equity	176,711	-	-	-	-	176,711
Total liabilities and equity	**1,438,596**	**220,039**	**396,092**	**186,820**	**613,048**	**2,854,595**
Off-balance sheet items						
Contingent liabilities	51,189	1,418	1,071	2,330	2,209	58,217
Financial commitments	127,070	33,879	3,301	3,606	790	168,646

* For more detailed analysis of geographical distribution of securities exposures please refer to note 16. All Group's cash and deposit with central banks balances presented as "Other countries" are with central bank of Switzerland. Group’s balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 51.2 million), Japanese credit institutions (EUR 33.8 million) and United States registered credit institutions (EUR 12.0 million) besides others.

	Group as at 31/12/2013, EUR 000’s					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	266,218	10,090	34,634	-	50,543	361,485
Balances due from credit institutions	24,825	4,173	140,420	10,748	91,015	271,181
Securities held for trading	3,523	343	12,255	6,611	5,082	27,814
Financial assets designated at fair value through profit or loss	4,273	-	33,486	1,659	22,918	62,336
Available for sale securities	115,724	69,408	101,799	6,497	108,310	401,738
Loans and receivables to customers	679,716	219,131	88,447	46,515	22,113	1,055,922
Held to maturity securities	224,462	4,264	3,963	5,854	5,880	244,423
Derivative financial instruments	175	-	1,387	149	1,837	3,548
Other assets	85,538	8,029	18,817	131	560	113,075
Total assets	**1,404,454**	**315,438**	**435,208**	**78,164**	**308,258**	**2,541,522**
Liabilities						
Financial liabilities designated at fair value through profit or loss	15,216	-	28	1,171	211	16,626
Financial liabilities measured at amortised cost	1,247,307	136,974	300,242	179,666	490,368	2,354,557
Derivative financial instruments	730	-	766	83	2,352	3,931
Other liabilities	14,402	6,138	388	236	1,796	22,960
Total liabilities	**1,277,655**	**143,112**	**301,424**	**181,156**	**494,727**	**2,398,074**
Equity	143,448	-	-	-	-	143,448
Total liabilities and equity	**1,421,103**	**143,112**	**301,424**	**181,156**	**494,727**	**2,541,522**
Off-balance sheet items						
Contingent liabilities	92,966	2,419	551	2,982	2,991	101,909
Financial commitments	126,998	43,625	4,158	11,310	645	186,736

The following tables provide an analysis of the Bank's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2014 and 31 December 2013 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Bank as at 31/12/2014, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	136,099	-	6,551	-	-	142,650
Balances due from credit institutions	50,870	40,478	300,135	9,984	62,806	464,273
Available for sale securities	98,077	10,767	143,880	-	191,694	444,418
Loans and receivables to customers	732,406	53,176	102,582	38,523	14,642	941,329
Held to maturity securities	185,922	-	7,055	-	-	192,977
Derivative financial instruments	1,712	8	1,899	7	2,337	5,963
Other assets	67,148	43,838	14,223	28	13,814	139,051
Total assets	**1,272,234**	**148,267**	**576,325**	**48,542**	**285,293**	**2,330,661**
Liabilities						
Financial liabilities measured at amortised cost	1,228,467	65,650	294,680	127,806	422,741	2,139,344
Derivative financial instruments	432	8	515	162	2,450	3,567
Other liabilities	14,234	19	162	2	36	14,453
Total liabilities	**1,243,133**	**65,677**	**295,357**	**127,970**	**425,227**	**2,157,364**
Equity	173,297	-	-	-	-	173,297
Total liabilities and equity	**1,416,430**	**65,677**	**295,357**	**127,970**	**425,227**	**2,330,661**
Off-balance sheet items						
Contingent liabilities	51,133	521	372	1,899	619	54,544
Financial commitments	153,304	27,155	7,553	3,606	788	192,406

	Bank as at 31/12/2013, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	266,218	-	34,634	-	11,673	312,525
Balances due from credit institutions	23,080	24,019	105,462	10,485	56,182	219,228
Available for sale securities	115,220	10,741	95,217	6,497	104,255	331,930
Loans and receivables to customers	735,017	43,482	81,798	46,034	18,583	924,914
Held to maturity securities	224,462	-	-	-	-	224,462
Derivative financial instruments	175	16	1,387	149	1,830	3,557
Other assets	51,248	41,273	18,163	6	13,922	124,612
Total assets	**1,415,420**	**119,531**	**336,661**	**63,171**	**206,445**	**2,141,228**
Liabilities						
Financial liabilities measured at amortised cost	1,250,229	1,608	238,083	146,764	343,525	1,980,209
Derivative financial instruments	730	611	766	82	2,279	4,468
Other liabilities	12,587	26	92	101	149	12,955
Total liabilities	**1,263,546**	**2,245**	**238,941**	**146,947**	**345,953**	**1,997,632**
Equity	143,596	-	-	-	-	143,596
Total liabilities and equity	**1,407,142**	**2,245**	**238,941**	**146,947**	**345,953**	**2,141,228**
Off-balance sheet items						
Contingent liabilities	92,902	522	339	2,490	313	96,566
Financial commitments	152,794	19,648	8,166	11,310	644	192,562

b) Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Group Investment Committee (GIC). The decisions of GIC are approved by the Bank’s Management Board. Market risk is managed by the Group’s business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by Risk and Compliance Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, as well as by setting individual limits to issuers and financial instruments, ensuring that maximum limit volumes are closely linked to the results of risk assessment. The Group puts a large emphasis on concentration risk applying a framework, where limits are set based on risk weighted exposures for every country and sector combination. To assess position risk the Group uses sensitivity analysis and scenario analysis, which identifies and quantifies negative impact of adverse events on portfolio of the Group taking into consideration regional, sector and credit rating profile.

c) Interest rate risk

Interest rate risk is related to the possible negative impact of interest rate changes on the Group’s income and economic value.

Interest rate risk management in the Group is carried out in accordance with the Group’s Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank’s Management Board. ALCO sets the acceptable interest rate risk level and the Group’s internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement, management and reporting are responsibilities of Treasury Sector, while Risk and Compliance Sector ensures proper oversight and prepares analytical reports to ALCO and the Bank’s Management Board.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. The Group sets limits for impact of interest rate shock on economic value, net interest income and revaluation reserve. Based on the market analysis and the Group’s financing structure, ALCO sets customer deposit interest rates.

The following table represents the impact of a parallel change in all interest rates and security yields by 1.0% (but not below 0%) on Group’s and Bank’s pre-tax profit (in 12-months time) and available for sale securities’ fair value revaluation reserve in equity:

Scenario: +1%	EUR 000’s			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Pre-tax profit / (loss)	7,472	5,417	7,208	5,516
Securities fair value revaluation reserve	(8,955)	(5,221)	(5,667)	(4,163)
Total pre-tax effect on equity	**(1,483)**	**196**	**1,541**	**1,353**
Estimated net effect on equity	**(1,261)**	**167**	**1,310**	**1,150**
Scenario: -1%, but not below 0%				
Pre-tax profit / (loss)	(3,594)	(2,978)	(3,533)	(3,529)
Securities fair value revaluation reserve	5,373	3,394	3,474	3,061
Total pre-tax effect on equity	**1,779**	**416**	**(59)**	**(468)**
Estimated net effect on equity	**1,512**	**354**	**(50)**	**(398)**

The following table represents the impact of a 2.0% parallel change in all interest rates and security yields (but not below 0%) by currencies on Bank's pre-tax profit and available for sale securities' fair value revaluation reserve in equity:

	EUR 000's						
Scenario: +2%	31/12/2014			31/12/2013			
	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
Pre-tax profit/ (loss)	9,711	5,969	(1,289)	731	5,011	5,481	(216)
Securities fair value revaluation reserve	(3,620)	(7,285)	(233)	(2,363)	(1,878)	(3,836)	(94)
Total pre-tax effect on equity	**6,091**	**(1,316)**	**(1,522)**	**(1,632)**	**3,133**	**1,645**	**(310)**
Estimated net effect on equity	**5,177**	**(1,119)**	**(1,294)**	**(1,387)**	**2,663**	**1,398**	**(264)**
Scenario: -2%, but below 0%							
Pre-tax profit/ (loss)	(1,795)	(1,919)	181	(249)	(1,692)	(1,653)	65
Securities fair value revaluation reserve	363	3,566	26	842	726	2,136	23
Total pre-tax effect on equity	**(1,432)**	**1,647**	**207**	**593**	**(966)**	**483**	**88**
Estimated net effect on equity	**(1,217)**	**1,400**	**176**	**504**	**(821)**	**411**	**75**

d) Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. In assessing its currency risk the Group also makes use of several widely applied methodologies: value at risk, expected shortfall and scenario analysis.

In the event of exchange rates for the following currencies in which the Group and the Bank has open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's pre-tax profit would amount approximately to the following:

	Group EUR 000's						
	31/12/2014			31/12/2013			
Scenario:	USD	CHF	Total for all currencies*	USD	CHF	LTL	Total for all currencies*
2% adverse change	58	54	7	4	50	724	30
5% adverse change	145	134	18	10	125	1,811	74

	Bank EUR 000's						
	31/12/2014			31/12/2013			
Scenario:	USD	CHF	Total for all currencies*	USD	CHF	LTL	Total for all currencies*
2% adverse change	28	-	2	30	-	1	26
5% adverse change	71	1	6	74	1	3	64

* Excluding adverse changes as at 31/12/2013 for EUR currency as on 1 January 2014 Latvia adopted EUR and the Bank's functional currency and the Group's presentation currency was changed to Euros and excluding adverse changes as at 31/12/2014 for LTL currency as on 1 January 2015 Lithuania adopted EUR.

In 2014 and 2013 the Bank was in compliance with currency position limits.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2014 and 2013 by currency profile:

	Group as at 31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and deposits with central banks	137,031	3,328	71,201	10,825	104	2,910	225,399
Balances due from credit institutions	229,958	162,476	10,459	153	9,952	96,406	509,404
Securities held for trading	16,099	6,189	1,662	-	-	-	23,950
Financial assets designated at fair value through profit or loss	31,461	53,731	9,788	-	-	2,469	97,449
Available for sale securities	170,514	311,731	-	59,192	-	16,759	558,196
Loans and receivables to customers	955,260	56,182	3,468	60,539	99	153	1,075,701
Held to maturity securities	203,580	21,378	-	4,294	-	-	229,252
Derivative financial instruments	5,911	-	7	11	-	-	5,929
Other assets	91,014	30,162	543	5,905	52	1,639	129,315
Total assets	**1,840,828**	**645,177**	**97,128**	**140,919**	**10,207**	**120,336**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	21,985	2,609	-	-	-	-	24,594
Financial liabilities measured at amortised cost	1,529,310	838,536	26,977	134,862	14,798	83,491	2,627,974
Derivative financial instruments	1,632	-	13	2	-	-	1,647
Other liabilities	16,308	3,901	944	2,108	139	269	23,669
Total liabilities	**1,569,235**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,677,884**
Equity	176,711	-	-	-	-	-	176,711
Total liabilities and equity	**1,745,946**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,854,595**
Net long/ (short) position for balance sheet items	94,882	(199,869)	69,194	3,947	(4,730)	36,576	-
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(29,532)	32,733	(144)	-	(601)	(644)	1,812
Forward foreign exchange contracts	(2,299)	2,527	(370)	-	-	258	116
Swap exchange contracts	(68,525)	167,513	(65,993)	-	5,338	(35,952)	2,381
Net long/ (short) positions on foreign exchange	*(100,356)*	*202,773*	*(66,507)*	-	*4,737*	*(36,338)*	*4,309*
Net long/ (short) position as at 31 December 2014	**(5,474)**	**2,904**	**2,687**	**3,947**	**7**	**238**	**4,309**
Exchange rates applied as at 31 December 2014 (EUR for 1 foreign currency unit)	-	0.824	0.832	0.290	0.0138	-	-

As at 31 December 2014 and 31 December 2013 LTL currency is pegged to the EUR at a fixed rate. On 1 January 2015 the Republic of Lithuania adopted Euro as the national currency. At that date all Group's and Bank's balances denominated in Litas were converted to Euros at the fixed official exchange rate.

	Group as at 31/12/2013, EUR 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	252,208	4,293	53,978	39,122	8,338	434	3,112	361,485
Balances due from credit institutions	1,246	208,576	39,404	649	134	8,463	12,709	271,181
Securities held for trading	1,622	5,354	15,861	4,408	-	569	-	27,814
Financial assets designated at fair value through profit or loss	-	28,971	25,532	7,581	-	-	252	62,336
Available for sale securities	73,570	153,359	111,325	498	52,365	-	10,621	401,738
Loans and receivables to customers	112,003	63,284	817,777	2,718	58,728	511	901	1,055,922
Held to maturity securities	163,040	7,871	69,248	-	4,264	-	-	244,423
Derivative financial instruments	3,509	-	36	3	-	-	-	3,548
Other assets	81,979	8,611	10,277	448	7,827	101	3,832	113,075
Total assets	**689,177**	**480,319**	**1,143,438**	**55,427**	**131,656**	**10,078**	**31,427**	**2,541,522**
Liabilities								
Financial liabilities designated at fair value through profit or loss	7,396	1,919	7,311	-	-	-	-	16,626
Financial liabilities measured at amortised cost	552,998	692,469	902,175	16,631	92,562	39,857	57,865	2,354,557
Derivative financial instruments	3,730	-	-	201	-	-	-	3,931
Other liabilities	12,257	3,108	2,746	1,651	2,877	116	205	22,960
Total liabilities	**576,381**	**697,496**	**912,232**	**18,483**	**95,439**	**39,973**	**58,070**	**2,398,074**
Equity	143,448	-	-	-	-	-	-	143,448
Total liabilities and equity	**719,829**	**697,496**	**912,232**	**18,483**	**95,439**	**39,973**	**58,070**	**2,541,522**
Net long/ (short) position for balance sheet items	(30,652)	(217,177)	231,206	36,944	36,217	(29,895)	(26,643)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	-	(2,770)	3,045	-	-	(445)	142	(28)
Forward foreign exchange contracts	-	21,454	(22,517)	-	-	-	-	(1,063)
Swap exchange contracts	-	198,685	(221,323)	(34,426)	-	30,550	27,174	660
Net long/ (short) positions on foreign exchange	*-*	*217,369*	*(240,795)*	*(34,426)*		*30,105*	*27,316*	*(431)*
Net long/ (short) position as at 31 December 2013	**(30,652)**	**192**	**(9,589)**	**2,518**	**36,217**	**210**	**673**	**(431)**
Exchange rates applied as at 31 December 2013 (EUR for 1 foreign currency unit)	-	0.733	1.000	0.815	0.290	0.022	-	-

	Bank as at 31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and deposits with central banks	136,428	3,045	72	360	104	2,641	142,650
Balances due from credit institutions	226,732	127,283	8,443	28	9,912	91,875	464,273
Available for sale securities	161,888	265,770	-	-	-	16,760	444,418
Loans and receivables to customers	890,252	47,356	3,468	-	99	154	941,329
Held to maturity securities	192,977	-	-	-	-	-	192,977
Derivative financial instruments	5,963	-	-	-	-	-	5,963
Other assets	53,599	30,004	13,807	40,032	3	1,606	139,051
Total assets	**1,667,839**	**473,458**	**25,790**	**40,420**	**10,118**	**113,036**	**2,330,661**
Liabilities							
Financial liabilities measured at amortised cost	1,366,335	630,428	12,243	40,418	13,898	76,022	2,139,344
Derivative financial instruments	3,567	-	-	-	-	-	3,567
Other liabilities	12,358	1,800	5	3	103	184	14,453
Total liabilities	**1,382,260**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,157,364**
Equity	173,297	-	-	-	-	-	173,297
Total liabilities and equity	**1,555,557**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,330,661**
Net long/ (short) position for balance sheet items	112,282	(158,770)	13,542	(1)	(3,883)	36,830	-
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(30,149)	33,363	(168)	-	(601)	(632)	1,813
Forward foreign exchange contracts	(1,720)	1,939	(370)	-	-	258	107
Swap exchange contracts	(79,428)	124,895	(12,992)	-	4,483	(36,466)	492
Net long/ (short) positions on foreign exchange	*(111,297)*	*160,197*	*(13,530)*	*-*	*3,882*	*(36,840)*	*2,412*
Net long/ (short) position as at 31 December 2014	**985**	**1,427**	**12**	**(1)**	**(1)**	**(10)**	**2,412**
Exchange rates applied as at 31 December 2014 (EUR for 1 foreign currency unit)	-	0.824	0.832	0.290	0.0138	-	-

	Bank as at 31/12/2013, EUR 000’s							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	252,208	3,607	52,894	236	196	434	2,950	312,525
Balances due from credit institutions	1	176,418	24,872	179	58	8,210	9,490	219,228
Available for sale securities	73,570	141,089	106,649	-	-	-	10,622	331,930
Loans and receivables to customers	167,818	59,839	693,875	2,718	-	511	153	924,914
Held to maturity securities	163,039	-	61,423	-	-	-	-	224,462
Derivative financial instruments	3,521	-	36	-	-	-	-	3,557
Other assets	48,509	8,541	8,665	13,806	41,274	60	3,757	124,612
Total assets	**708,666**	**389,494**	**948,414**	**16,939**	**41,528**	**9,215**	**26,972**	**2,141,228**
Liabilities								
Financial liabilities measured at amortised cost	555,774	525,681	800,715	9,253	683	36,463	51,640	1,980,209
Derivative financial instruments	4,468	-	-	-	-	-	-	4,468
Other liabilities	10,601	1,358	735	4	4	112	141	12,955
Total liabilities	**570,843**	**527,039**	**801,450**	**9,257**	**687**	**36,575**	**51,781**	**1,997,632**
Equity	143,596	-	-	-	-	-	-	143,596
Total liabilities and equity	**714,439**	**527,039**	**801,450**	**9,257**	**687**	**36,575**	**51,781**	**2,141,228**
Net long/ (short) position for balance sheet items	(5,773)	(137,545)	146,964	7,682	40,841	(27,360)	(24,809)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	-	(2,221)	2,460	-	-	(434)	174	(21)
Forward foreign exchange contracts	-	21,599	(22,662)	-	-	-	-	(1,063)
Swap exchange contracts	-	116,690	(121,140)	(7,666)	(40,782)	27,894	25,132	128
Net long/ (short) positions on foreign exchange	*-*	*136,068*	*(141,342)*	*(7,666)*	*(40,782)*	*27,460*	*25,306*	*(956)*
Net long/ (short) position as at 31 December 2013	**(5,773)**	**(1,477)**	**5,622**	**16**	**59**	**100**	**497**	**(956)**
Exchange rates applied as at 31 December 2013 (EUR for 1 foreign currency unit)	-	0.733	1.000	0.815	0.290	0.022	-	-

e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group’s Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank’s Management Board. ALCO sets the acceptable liquidity risk level, the Group’s internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Daily liquidity management, as well as control is ensured by the Treasury Sector. Liquidity risk management and reporting in the Group is coordinated by the Risk and Compliance Sector.

The Bank evaluates liquidity risk by using scenario analysis. For this purpose several scenarios of Bank’s operations under a variety of conditions are developed: gentle crisis (base case scenario), bank's crisis, general market crisis and a combined scenario. The Bank evaluates its liquidity position for each of the scenarios for a variety of periods (ranging from 1 week to 3 months). System of liquidity risk limits and early warning indicators has been implemented in the Bank. The Bank also estimates costs it could suffer under conditions of prolonged liquidity crisis. In addition to scenarios analysis, the Bank also prepares yearly cash flows, which incorporate assumptions about the most likely flows of funds. For general assessment of asset and liability gaps the Bank regularly prepares and analyses liquidity term structure.

In 2014 and 2013 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

The following table contains Bank’s liquidity ratios calculated in accordance with FCMC requirements:

Year	*Highest*	*Lowest*	*Average*	*Year-end*
2014	59%	50%	55%	59%
2013	58%	53%	56%	56%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

Group’s assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2014

	Group as at 31/12/2014, EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	224,685	714	-	-	-	-	225,399
Balances due from credit institutions	499,249	5,748	108	-	-	4,299	509,404
Securities held for trading	6,474	426	1,513	2,664	-	12,873	23,950
Financial assets designated at fair value through profit or loss	14,059	4,215	3,786	9,899	-	65,490	97,449
Available for sale securities	27,035	13,641	28,033	68,266	295,477	125,744	558,196
Loans and receivables to customers	29,456	46,519	61,766	129,805	581,871	226,284	1,075,701
Held to maturity securities	-	2,945	16,986	74,972	99,699	34,650	229,252
Derivative financial instruments	3,598	2,239	77	15	-	-	5,929
Other assets	30,043	532	515	474	1,011	96,740	129,315
Total assets	**834,599**	**76,979**	**112,784**	**286,095**	**978,058**	**566,080**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	32	135	301	1,198	20,217	2,711	24,594
Financial liabilities measured at amortised cost	2,071,155	88,361	91,548	176,260	180,611	20,039	2,627,974
Derivative financial instruments	876	763	8	-	-	-	1,647
Other liabilities	20,319	57	1,466	328	13	1,486	23,669
Total liabilities	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**24,236**	**2,677,884**
Equity	-	-	-	-	-	176,711	176,711
Total liabilities and equity	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**200,947**	**2,854,595**
Net balance sheet position – long/ (short)	(1,257,783)	(12,337)	19,461	108,309	777,217	365,133	-
Off-balance sheet items							
Contingent liabilities	58,217	-	-	-	-	-	58,217
Financial commitments	168,646	-	-	-	-	-	168,646

Group’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2014

	EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	32	135	301	1,287	20,564	2,748	25,067
Financial liabilities measured at amortised cost	2,071,564	89,546	92,488	181,123	194,682	26,761	2,656,164
Off-balance sheet items							
Contingent liabilities	58,217	-	-	-	-	-	58,217
Financial commitments	168,646	-	-	-	-	-	168,646

Group’s assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Group as at 31/12/2013, EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	361,485	-	-	-	-	-	361,485
Balances due from credit institutions	248,931	20,700	-	-	1,550	-	271,181
Securities held for trading	-	1,049	1,308	3,009	18,137	4,311	27,814
Financial assets designated at fair value through profit or loss	1,816	5,303	5,592	3,241	35,854	10,530	62,336
Available for sale securities	7,728	14,592	44,613	52,568	256,128	26,109	401,738
Loans and receivables to customers	10,691	32,531	82,289	106,153	595,119	229,139	1,055,922
Held to maturity securities	-	898	33,408	42,531	166,024	1,562	244,423
Derivative financial instruments	3,422	46	7	30	43	-	3,548
Other assets	24,351	105	251	552	180	87,636	113,075
Total assets	**658,424**	**75,224**	**167,468**	**208,084**	**1,073,035**	**359,287**	**2,541,522**
Liabilities							
Financial liabilities designated at fair value through profit or loss	85	51	542	346	13,320	2,282	16,626
Financial liabilities measured at amortised cost	1,846,551	95,198	96,340	174,415	140,282	1,771	2,354,557
Derivative financial instruments	2,094	1,195	575	67	-	-	3,931
Other liabilities	21,560	222	74	20	1,084	-	22,960
Total liabilities	**1,870,290**	**96,666**	**97,531**	**174,848**	**154,686**	**4,053**	**2,398,074**
Equity	-	-	-	-	-	143,448	143,448
Total liabilities and equity	**1,870,290**	**96,666**	**97,531**	**174,848**	**154,686**	**147,501**	**2,541,522**
Net balance sheet position – long/ (short)	(1,211,866)	(21,442)	69,937	33,236	918,349	211,786	-
Off-balance sheet items							
Contingent liabilities	101,909	-	-	-	-	-	101,909
Financial commitments	186,736	-	-	-	-	-	186,736

Group’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	85	51	542	346	13,721	2,379	17,124
Financial liabilities measured at amortised cost	1,846,862	98,577	98,377	177,690	159,995	1,547	2,383,048
Off-balance sheet items							
Contingent liabilities	101,909	-	-	-	-	-	101,909
Financial commitments	186,736	-	-	-	-	-	186,736

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2014

	Bank as at 31/12/2014, EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	142,650	-	-	-	-	-	142,650
Balances due from credit institutions	460,521		-	-	-	3,752	464,273
Available for sale securities	21,512	13,641	28,033	66,979	295,477	18,776	444,418
Loans and receivables to customers	25,869	134,905	44,342	102,768	440,262	193,183	941,329
Held to maturity securities	-	2,945	16,986	73,347	99,699	-	192,977
Derivative financial instruments	3,648	2,232	68	15	-	-	5,963
Other assets	27,680	1	2	14	37	111,317	139,051
Total assets	**681,880**	**153,724**	**89,431**	**243,123**	**835,475**	**327,028**	**2,330,661**
Liabilities							
Financial liabilities measured at amortised cost	1,683,947	66,405	65,718	144,023	173,164	6,087	2,139,344
Derivative financial instruments	1,723	1,832	12	-	-	-	3,567
Other liabilities	14,453	-	-	-	-	-	14,453
Total liabilities	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**6,087**	**2,157,364**
Equity	-	-	-	-	-	173,297	173,297
Total liabilities and equity	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**179,384**	**2,330,661**
Net balance sheet position – long/ (short)	(1,018,243)	85,487	23,701	99,100	662,311	147,644	-
Off-balance sheet items							
Contingent liabilities	54,544	-	-	-	-	-	54,544
Financial commitments	192,406	-	-	-	-	-	192,406

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2014

	EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	1,683,947	67,294	66,274	148,317	187,402	7,210	2,160,444
Off-balance sheet items							
Contingent liabilities	54,544	-	-	-	-	-	54,544
Financial commitments	192,406	-	-	-	-	-	192,406

Bank’s assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Bank as at 31/12/2013, EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	312,525	-	-	-	-	-	312,525
Balances due from credit institutions	211,495	4,098	3,635	-	-	-	219,228
Available for sale securities	7,726	11,770	40,023	52,349	193,969	26,093	331,930
Loans and receivables to customers	9,780	110,940	75,812	94,506	479,065	154,811	924,914
Held to maturity securities	-	-	32,663	41,053	150,746	-	224,462
Derivative financial instruments	3,434	43	7	30	43	-	3,557
Other assets	22,340	-	-	-	-	102,272	124,612
Total assets	**567,300**	**126,851**	**152,140**	**187,938**	**823,823**	**283,176**	**2,141,228**
Liabilities							
Financial liabilities measured at amortised cost	1,541,552	82,401	80,183	144,858	129,671	1,544	1,980,209
Derivative financial instruments	2,831	995	575	67	-	-	4,468
Other liabilities	12,955	-	-	-	-	-	12,955
Total liabilities	**1,557,338**	**83,396**	**80,758**	**144,925**	**129,671**	**1,544**	**1,997,632**
Equity	-	-	-	-	-	143,596	143,596
Total liabilities and equity	**1,557,338**	**83,396**	**80,758**	**144,925**	**129,671**	**145,140**	**2,141,228**
Net balance sheet position – long/ (short)	(990,038)	43,455	71,382	43,013	694,152	138,036	-
Off-balance sheet items							
Contingent liabilities	96,566	-	-	-	-	-	96,566
Financial commitments	192,562	-	-	-	-	-	192,562

Bank’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	1,541,707	84,846	80,803	148,955	146,160	1,547	2,004,018
Off-balance sheet items							
Contingent liabilities	96,566	-	-	-	-	-	96,566
Financial commitments	192,562	-	-	-	-	-	192,562

Derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from derivatives settled on a gross basis.

	Group, 31/12/2014 EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	1,303	(144)	1	15	-	-	1,175
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(117,996)	(79,633)	(5,741)	-	-	-	(203,370)
inflow	119,418	81,257	5,676	-	-	-	206,351

	Group, 31/12/2013 EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	1,144	(81)	(575)	-	-	-	488
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(23,408)	(63,261)	(2,968)	(12,010)	(3,256)	-	(104,903)
inflow	23,567	62,150	3,015	11,973	3,300	-	104,005

	Bank, 31/12/2014 EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	1,339	71	(54)	8	-	-	1,364
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(141,525)	(90,154)	(5,165)	-	-	-	(236,844)
inflow	142,147	90,691	5,223	-	-	-	238,061

	Bank, 31/12/2013 EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	545	(81)	(575)	-	-	-	(111)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(34,116)	(47,039)	(2,968)	(12,010)	(3,256)	-	(99,389)
inflow	34,152	46,128	3,015	11,973	3,298	-	98,566

f) Fair values of financial assets and liabilities

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

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks
The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions/ Balances due to credit institutions and central banks
The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles and low interest rates.

Loans and receivables to customers
The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 11.2 million (2013: EUR 10.5 million).

Held to maturity securities
Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs. One of the non-observable market input is CDS rate of certain municipality. If the CDS rate would change by +20 basis points the fair value would change by EUR 243 thousand (2013: EUR (301) thousand).

Available for sale securities
The fair value for certain available for sale securities is calculated using valuation techniques with non-market observable inputs. Fair value of these available for sale securities is estimated based on specific real estate prices. If market price for similar real estate properties would change by +/-10%, the fair value of these available for sale securities would change by EUR +/-142 thousand (2013: EUR +/-193 thousand).

Customer deposits
The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by EUR 0.09 million (2013: EUR 0.07 million).

Subordinated liabilities
The fair value of subordinated liabilities approximates the carrying amount as the borrowing rates are periodically repriced to reflect changes in market rates. If the discount rate would change by +/-50 basis points the fair value would change by EUR 0.8 million (2013: EUR 1.1 million).

Financial liabilities designated at fair value through profit or loss
The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR +218 thousand and EUR (192) thousand respectively (2013: EUR +0.05 million and EUR (0.03) million respectively).

Other financial liabilities and other financial assets
Other financial assets and other financial liabilities generally are short term instruments, for example cash in transit or payables to suppliers. Due to their short term nature their fair value equals their carrying value.

Fair value hierarchy

Quoted market prices (Level 1)
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group’s financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	225,399	225,399	-	-	-
Balances due from credit institution	509,404	509,404	-	-	-
Held for trading securities	23,950	23,950	23,950	-	-
Financial assets designated at fair value through profit or loss	97,449	97,449	97,449	-	-
Derivatives	5,929	5,929	-	5,929	-
Available for sale securities	558,196	558,196	556,560	-	1,636
Loans and receivables to customers	1,075,701	1,070,066	-	-	1,070,066
Held to maturity securities	229,252	234,260	201,992	-	32,268
Other financial assets	45,567	45,567	-	-	45,567
Total financial assets	**2,770,847**	**2,770,220**	**879,951**	**5,929**	**1,149,537**
Derivatives	1,647	1,647	-	1,647	-
Financial liabilities designated at fair value through profit or loss	24,594	24,594	12,784	-	11,810
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,036	25,036	-	-	-
Customer deposits	2,517,107	2,519,836	-	-	2,519,836
Subordinated liabilities	73,596	73,596	-	-	73,596
Other financial liabilities	22,697	22,496	-	-	22,496
Total financial liabilities	**2,664,677**	**2,667,205**	**12,784**	**1,647**	**2,627,738**

The following table presents fair values of Group’s financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	361,485	361,485	-	-	-
Balances due from credit institution	271,181	271,181	-	-	-
Held for trading securities	27,814	27,814	27,814	-	-
Financial assets designated at fair value through profit or loss	62,336	62,336	62,336	-	-
Derivatives	3,548	3,548	-	3,548	-
Available for sale securities	401,738	401,738	399,769	-	1,969
Loans and receivables to customers	1,055,922	1,044,577	-	-	1,044,577
Held to maturity securities	244,423	249,724	217,830	-	31,894
Other financial assets	28,949	28,949	-	-	28,949
Total financial assets	**2,457,396**	**2,451,352**	**707,749**	**3,548**	**1,107,389**
Derivatives	3,931	3,931	-	3,931	-
Financial liabilities designated at fair value through profit or loss	16,626	16,626	8,666	-	7,960
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,755	25,755	-	-	-
Customer deposits	2,246,912	2,248,721	-	-	2,248,721
Subordinated liabilities	73,575	73,575	-	-	73,575
Other financial liabilities	18,429	18,176	-	-	18,176
Total financial liabilities	**2,385,228**	**2,386,784**	**8,666**	**3,931**	**2,348,432**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	142,650	142,650	-	-	-
Balances due from credit institution	464,273	464,273	-	-	-
Derivatives	5,963	5,963	-	5,963	-
Available for sale securities	444,418	444,418	442,798	-	1,620
Loans and receivables to customers	941,329	929,739	-	-	929,739
Held to maturity securities	192,977	197,188	164,920	-	32,268
Other financial assets	41,639	41,639	-	-	41,639
Total financial assets	**2,233,249**	**2,225,870**	**607,718**	**5,963**	**1,005,266**
Derivatives	3,567	3,567	-	3,567	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	116,997	116,997	-	-	-
Customer deposits	1,948,751	1,951,049	-	-	1,951,049
Subordinated liabilities	73,596	73,596	-	-	73,596
Other financial liabilities	5,325	5,325	-	-	5,325
Total financial liabilities	**2,148,236**	**2,150,534**	**-**	**3,567**	**2,029,970**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	312,525	312,525	-	-	-
Balances due from credit institution	219,228	219,228	-	-	-
Derivatives	3,557	3,557	-	3,557	-
Available for sale securities	331,930	331,930	329,961	-	1,969
Loans and receivables to customers	924,914	908,424	-	-	908,424
Held to maturity securities	224,462	229,353	197,459	-	31,894
Other financial assets	23,164	23,164	-	-	23,164
Total financial assets	**2,039,780**	**2,028,181**	**527,420**	**3,557**	**965,451**
Derivatives	4,468	4,468	-	4,468	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	55,286	55,286	-	-	-
Customer deposits	1,851,348	1,852,798	-	-	1,852,798
Subordinated liabilities	73,575	73,575	-	-	73,575
Other financial liabilities	4,019	4,019	-	-	4,019
Total financial liabilities	**1,988,696**	**1,990,146**	**-**	**4,468**	**1,930,392**

Changes in available for sale securities categorised as Level 3

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
As at the beginning of the period, net	**1,969**	**1,940**	**1,969**	**1,940**
Transfer between fair value Levels	115	-	99	-
Increase in existing exposure	72	29	72	29
Impairment charges	(520)	-	(520)	-
Fair value revaluation gain recognised in statement of income, net	-	-	-	-
As at the end of the period, net	**1,636**	**1,969**	**1,620**	**1,969**

Fair value of available for sale securities for which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these shares and investments in mutual investment funds are not listed on an exchange and there are no sufficient recent observable transitions on the market.

g) Operational risk

The Group defines operational risk as the risk of losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues and with probability of occurrence at least once per ten years or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk – the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;
- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- Business continuity planning;
- Risk assessment within development projects.

h) Capital management

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes – via a regulation (575/2013) and a directive (2013/36/EU) – the new global standards on bank capital (the Basel III agreement) into EU law. It is applicable from 1 January 2014.

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures and other operational risks. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The new rules also introduce 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. Additionally a 2.5% capital conversion buffer is established, limiting dividend payout and certain other Tier 1 equity instrument buy-back, effectively implying well capitalised bank Tier 1 capital ratio target of 8.5% and total capital ratio target of 10.5%. Also FCMC has calculated Bank's individual capital adequacy ratio based on FCMC policies and guidelines. The 2014 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 10.9%. The increase in ratio is related to the non-resident business of the Bank. The ratio should be complied with also on a consolidated level. The management believe that the Group and the Bank will comply with the aforementioned minimum capital ratio requirements.

The Bank has subsidiaries, which are financial institutions, thus it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity. The Bank and the Group complied with the capital adequacy requirements at the end of the reporting period.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements.

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel III* framework, Pillar I) can be disclosed as follows:

	EUR 000's	
	31/12/2014 Group	31/12/2014 Bank
Common equity Tier 1 capital		
Paid up capital instruments	146,556	146,556
Retained earnings and eligible profits	28,750	24,747
Deductible other intangible assets	(1,690)	(1,456)
Other capital components, deductions and transitional adjustments, net	(4,689)	(820)
Tier 2 capital		
Eligible part of subordinated loans	31,568	31,568
Own funds	**200,495**	**200,595**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk		
Central governments or central banks	16,596	11,252
Regional governments or local authorities	35,611	35,082
Public sector entities	43	43
Multilateral Development Banks	1,052	407
Institutions	179,590	167,617
Corporates	631,548	649,329
Retail	98,655	60,870
Secured by mortgages on immovable property	236,922	155,962
Exposures in default	38,807	34,216
Items associated with particular high risk	158,356	163,832
Claims on institutions and corporates with a short-term credit assessment	4,334	-
Collective investments undertakings	16,389	10,882
Equity	10,938	62,875
Other items	177,823	110,900
Total exposure amounts for position, foreign currency open position and commodities risk		
Traded debt instruments	7,126	2,427
Equity	867	-
Foreign Exchange	9,741	1,647
Total exposure amounts for operational risk	196,501	157,347
Total exposure amounts for credit valuation adjustment	1,142	1,135
Total risk exposure amount	**1,822,041**	**1,625,823**
Total capital adequacy ratio	**11.0%**	**12.3%**
Common equity Tier 1 capital ratio	**9.3%**	**10.4%**

* AAS "Citadele Life" is not included in the consolidation group for capital adequacy purposes. The investment value constitutes a risk exposure in the Group's capital adequacy ratio calculation.

As at 31 December 2013 the Group's and the Bank's capital adequacy ratios, calculated in accordance with the Basel II capital regulations, were 10.3% and 11.7% respectively; Basel II and Basel III capital adequacy ratios are not directly comparable due to substantial changes in the regulation.

The Bank implements the internal capital adequacy assessment process (ICAAP) by estimating individual capital charges for every significant risk type inherent to the Bank. The internal modelling takes account of a greater number of risks than is provided for in minimum capital requirements (e.g. interest rate risk in the banking book, concentration risk, reputation risk etc). Furthermore, to ensure sustainability even at times of distress, the Bank simulates its capital adequacy position under assumptions of the adverse macroeconomic scenario. The following represents the qualitative assessment summary of risk profile, where risk level is measured as a perceived likelihood of unfavourable deviation of a given size from a budgeted income over one-year horizon:

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	Low	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (participations etc)	n/a	Standardized approach	n/a
Market risk	Position risk	Moderate	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Low	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Low	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Low	Part of reputation risk	n/a

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Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" (the "Bank"), as set out on pages 11 to 77. Separate financial statements comprise the separate balance sheet as at 31 December 2014, the separate statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also audited the accompanying consolidated financial statements of AS "Citadele banka" and its subsidiaries ("the Group"), as set out on pages 11 to 77. Consolidated financial statements comprise the consolidated balance sheet as at 31 December 2014, the consolidated statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 8, the preparation of which is the responsibility of management, is consistent with the accompanying separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the accompanying financial statements of the Group. In our opinion, the Management Report is consistent with the separate and consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
23 March 2015

Inga Lipšāne
Sworn Auditor
Certificate No 112

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