BANK M2M EUROPE AS

M2M
BANK EUROPE

Annual report
for the year ended
31 December 2014

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Management report on the Group and the Bank's operations during 2014

2014 was an important year for *Bank M2M Europe.* We have completed development of the product range and achieved substantial growth in business volumes entrusted to us by our clients. We also achieved operational break-even, paving the way to delivering optimal return on equity to our shareholder in 2015.

Management believes that current global environment is beneficial for development of our business. Latvia stands out on the EU scale with its stable macro indicators (see Table1).

Table 1.

Indicator	2011	2012	2013	2014
GDP growth (%)	5.3	5.2	4.1	2.6
Budget balance (% GDP)	(3.6)	(0.8)	(0.9)	(1.1)
Current account balance (% GDP)	(2.1)	(3.5)	(2.2)	(2.2)
Government debt / (% GDP)	43.7	40.7	39.2	38.1
YTM of government 10-year bonds (%, at end of the year)	6.4	3.4	3.6	1.0
Inflation (%)	4.2	2.3	0.5	0.8

Such stable macro environment provides necessary support for private banking and wealth management business. Increasing cost pressure in traditional private banking centers resulting in increasing fees for the clients also forces High Net Worth Individuals ("HNWIs") to explore new private banking jurisdictions. Current tensions in Ukraine facilitate demand for off-shore discretionary private banking service from HNWIs from Former Soviet Republics. All these external factors help *Bank M2M Europe* to continue business growth in the coming years. As a new bank not burdened with legacy issues, we are able to cater to the needs of our target client base while maintaining a conservative risk profile and competitive pricing.

We are satisfied with the results achieved in 2014. Our Group total operating income in 2014 was EUR 4 754 thousand. Following change of shareholders in May 2013, the bank has started operations in July 2013, so its worth to compare results of 2H 2013 with 2H 2014, rather than full year results in 2013 with 2014. In 2H 2014 our operating income was more than 10 times higher than in 2H 2013, while general expenses were only 20% higher in the same period.

Revenue structure meets the Group's goal of balancing interest with non-interest income (in 2014 we achieved 38%/62% split in total operating income). Our revenue is mostly derived from wealth management products, with exceptionally small portion of revenues generated by servicing clients payments (6% in net operating income). We feel that traditional wealth management model has great potential in Latvia, and we are eager to put additional resources to improve the product range and client experience in this area.

Looking into 2015 we plan to improve our IT infrastructure, resulting among other things also in new version of our internet banking solution. We plan to invest in our people, most importantly in our private bankers, to enable them to deliver to the clients solutions that match the ones offered by the leading private banks in traditional private banking centers. We also plan to introduce new investment products, as current market environment offers additional opportunities for investors willing to allocate part of their assets to high-yield instruments. Finally, we will complete renovation of the premises, which will substantially improve clients' experience when visiting our office.

We do not plan any changes to the strategy with organic growth being the main focus for the management of the bank. Our clients continue to be HNWIs with investable assets exceeding EUR 1mln and we strive to provide the best tailor-made service for each of our clients. We will maintain boutique profile of the bank being able to dedicate attention to each client necessary to service his/her needs to the highest industry standards. We believe that infrastructure and products range foundation laid in the 2014 will enable *Bank M2M Europe* to substantially grow the business in 2015.

The Management of *Bank M2M Europe* is satisfied with what has been achieved in year 2014 and will continue to implement long-term strategy aimed to become the leading private banking service provider in the Baltic region.

On behalf of the management we would like to thank all employees of *Bank M2M Europe* for their dedicated work which regularly exceeds expectations. We would also like to thank our shareholder for continuous support and strategic guidance. And of course a special thank you to our clients – you inspire us, management and employees of *Bank M2M Europe*, to move forward every single day.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

20 March 2015

The Council and Management of the Bank

Supervisory Council of the Bank

Position	Name	Election date
Chairman of the Supervisory Council	Andrey Vdovin	31.05.2013
Deputy Chairman of the Supervisory Council	Peter Charles Percival Hambro	31.05.2013
Member of the Supervisory Council	Thomas Roland Evert Neckmar	31.05.2013

Management Board of the Bank

Position	Name	Election date
Chairman of the Management Board	Roberts Idelsons	15.06.2013
Member of the Management Board	Sergejs Zaicevs	20.06.2013
Member of the Management Board	Tatjana Drobina	20.06.2013

There were no changes in the Management of the Bank during the reporting period

20 March 2015

Statement of Management Responsibility

The management of Bank M2M Europe AS (the Bank) is responsible for the preparation of the financial statements of the Bank and its subsidiaries (the Group) that reflect the Bank and the Group's financial position at the end of the reporting period in a clear and actual manner, as well as for the financial results and the movement of monetary assets during the reporting period.

The Bank's management confirms that throughout the preparation of pages 9 to 66 of the financial statements of the Bank and the Group for 2014 the corresponding bookkeeping methods have been used consistently, and that the decisions and evaluations of the Bank's management during the preparation of the financial statement have been in all respects sufficient, well-considered and balanced.

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

The Bank's management are responsible for the maintenance of proper accounting records, the safeguarding of the group's assets, and the prevention and detection of fraud and other irregularities in the group.

The Bank's management is also responsible for operating the group and the bank in compliance with the Law of the Republic of Latvia on Credit Institutions, Regulations of the Bank of Latvia and the Financial and Capital Market Commission, and other laws of the Republic of Latvia as well as European Union Regulations applicable to credit institutions.

On behalf of the management:

Andrey Vdovin	Roberts Idelsons
Chairman of the Council	*Chairman of the Board*

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Independent Auditors' Report

To the shareholder of Bank M2M Europe AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Bank M2M Europe AS ("the Bank"), which comprise the separate statement of financial position as at 31 December 2014, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 66. We have also audited the accompanying consolidated financial statements of Bank M2M Europe AS and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 66.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Bank M2M Europe AS as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank M2M Europe AS and its subsidiary as at 31 December 2014, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the consolidated and separate 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 financial statements of the Group. In our opinion, the Management Report is consistent with the financial statements.

KPMG Baltics SIA
License No 55

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

Inga Lipšāne
Sworn Auditor
Certificate No 112

Group's Consolidated and Bank's Separate Statement of Comprehensive Income for the year ended 31 December 2014

'000 EUR	Note	2014 Group	2013 Group	2014 Bank	2013 Bank
Interest income	7	2,508	161	2,505	159
Interest expense	7	(687)	(56)	(701)	(55)
Net interest income		**1,821**	**105**	**1,804**	**104**
Fee and commission income	8	2,396	173	2,029	121
Fee and commission expense	9	(190)	(85)	(165)	(83)
Net fee and commission income		**2,206**	**88**	**1,864**	**38**
Net loss on financial assets at fair value through profit or loss		(95)	-	(95)	-
Net foreign exchange income	10	411	16	402	16
Net realised gain on Available-for-sale financial assets		305	23	305	23
Other income	11	106	41	109	41
Total operating income		**4,754**	**273**	**4,389**	**222**
General administrative expenses	12	(4,714)	(3,140)	(4,492)	(3,092)
Impairment loss	13	-	(70)	-	(70)
Profit/(loss) before income tax		**40**	**(2,937)**	**(103)**	**(2,940)**
Income tax benefit/(expense)	14	113	30	-	30
Profit/(loss) for the period		**153**	**(2,907)**	**(103)**	**(2,910)**
Items that are or may be reclassified to profit or loss					
Available-for-sale financial assets – net change in fair value		(1,299)	54	(1,299)	54
Available for sale financial assets – reclassified to profit or loss		305	(36)	305	(36)
Other comprehensive income for the period		**(994)**	**18**	**(994)**	**18**
Total comprehensive expense for the period		**(841)**	**(2,889)**	**(1,097)**	**(2,892)**

The accompanying notes on pages 15 to 66 are an integral part of the Group consolidated and Bank separate financial statements.
The Group consolidated and Bank separate financial statements as set out on pages 9 to 66 were approved by management of the Bank on 20 March 2015.
On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

Group's Consolidated and Bank's Separate Statement of Financial Position as at 31 December 2014

'000 EUR	Note	2014 Group	2013 Group	2014 Bank	2013 Bank
ASSETS					
Cash and due from central banks	15	306	2,544	306	2,544
Financial assets at fair value through profit or loss	16	803	157	803	157
Loans and advances due from financial institutions	17	72,081	12,957	71,644	12,141
Loans and advances due from customers	18	36,702	4,614	36,702	4,614
Available-for-sale financial assets	19	22,299	9,971	22,299	9,971
Held-to-maturity investments	20	16,887	1,706	16,887	1,706
Investments in subsidiary	21	-	-	1,874	1,874
Property and equipment	22	1,665	1,875	1,656	1,858
Goodwill and other intangible assets	23	1,232	1,305	444	517
Deferred tax asset	27	113	-	-	-
Other assets	24	1,083	831	1,051	800
Total Assets		**153,171**	**35,960**	**153,666**	**36,182**

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On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

Group's Consolidated and Bank's Separate Statement of Financial Position as at 31 December 2014

'000 EUR	Note	2014 Group	2013 Group	2014 Bank	2013 Bank
LIABILITIES AND SHAREHOLDERS' EQUITY					
Financial assets at fair value through profit or loss	16	377	28	377	28
Current accounts and deposits due to customers	25	129,990	20,680	130,772	20,929
Subordinated liabilities	26	9,563	2,005	9,563	2,005
Provisions		-	127	-	127
Other liabilities	29	1,228	266	1,200	242
Total Liabilities		**141,158**	**23,106**	**141,912**	**23,331**
Share capital	30	27,920	27,920	27,920	27,920
Share premium		28	28	28	28
Other reserves		312	312	312	312
Revaluation reserve of available-for-sale financial assets		(976)	18	(976)	18
Accumulated losses		(15,271)	(15,424)	(15,530)	(15,427)
Total Shareholders' Equity		**12,013**	**12,854**	**11,754**	**12,851**
Total Liabilities and Shareholders' Equity		**153,171**	**35,960**	**153,666**	**36,182**
Assets under management	32	**187,957**	**61,938**	**119,286**	**3,358**

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On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

Group's Consolidated and Bank's Separate Statement of Cash Flows for the year ended 31 December 2014

'000 EUR	Note	2014 Group	2013 Group	2014 Bank	2013 Bank
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before income tax		40	(2,937)	(103)	(2,940)
Amortisation and depreciation	12	384	257	377	250
Decrease of provisions		(127)	(4)	(127)	(4)
Impairment losses/(recoveries)		-	70	-	70
Increase /decrease in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**297**	**(2,614)**	**147**	**(2,624)**
Increase in financial assets at fair value through profit or loss		(297)	(128)	(297)	(128)
Increase in loans and advances due from financial institutions		(32,565)	(1,964)	(32,990)	(1,239)
Increase in loans and advances due from customers		(20,791)	(4,333)	(20,791)	(4,333)
Increase in available-for-sale financial assets		(13,322)	(9,953)	(13,322)	(9,953)
Increase in other assets		(252)	(132)	(251)	(105)
Increase in deposits and balances due to financial institutions		109,310	20,529	109,843	20,778
Increase/(decrease) in other liabilities		962	(217)	958	(242)
Increase in cash and cash equivalents from operating activities		**43,045**	**3,802**	**43,150**	**4,778**
CASH FLOW FROM INVESTING ACTIVITIES		**43,342**	**1,188**	**43,297**	**2,154**
Purchase of property and equipment		(115)	(155)	(115)	(155)
Sale of property and equipment		14	-	13	-
Acquisition of subsidiary		-	(817)	-	(1,874)
Purchase of held-to-maturity financial investments		(15,181)	(1,706)	(15,181)	(1,706)
Purchase of Loans to customers		(11,297)	-	(11,297)	-
Decrease in cash and cash equivalents from investing activities		**(26,579)**	**(2,678)**	**(26,580)**	**(3,735)**
CASH FLOW FROM FINANCING ACTIVITIES					
Increase in share capital		-	10,511	-	10,511
Increase in Subordinated liabilities		7,558	2,005	7,558	2,005
Increase in cash and cash equivalents from financing activities		**7,558**	**12,516**	**7,558**	**12,516**
Net cash flow for the period		**24,321**	**11,026**	**24,275**	**10,935**
Cash and cash equivalents at the beginning of the year		**13,537**	**2,511**	**13,446**	**2,511**
Cash and cash equivalents at the end of the year	15	**37,858**	**13,537**	**37,721**	**13,446**

The accompanying notes on pages 15 to 66 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 9 to 66 were approved by management of the Bank on 20 March 2015.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

Group's Consolidated Statement of changes in Shareholders 'equity for the year ended 31 December 2014

'000 EUR	Share capital	Share premium	Revaluation reserve of available-for-sale financial assets	Other reserves	Accumulated losses	Total
Balance at 1 January 2013	**17,409**	**28**	**-**	**312**	**(12,517)**	**5,232**
Total comprehensive income						
Loss for the year	-	-	-	-	(2,907)	(2,907)
Other comprehensive income	-	-	18	-	-	18
Transactions with shareholder recorded directly in equity						
Increase of share capital	10,511	-	-	-	-	10,511
Balance at 31 December 2013	**27,920**	**28**	**18**	**312**	**(15,424)**	**12,854**
Total comprehensive income						
Profit for the year	-	-	-	-	153	153
Other comprehensive income	-	-	(994)	-	-	(994)
Balance at 31 December 2014	**27,920**	**28**	**(976)**	**312**	**(15,271)**	**12,013**

The accompanying notes on pages 15 to 66 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 9 to 66 were approved by management of the Bank on 20 March 2015.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

Bank's Separate Statement of Changes in Shareholders' Equity for the year ended 31 December 2014

'000 EUR	Share capital	Share premium	Revaluation reserve of available-for-sale financial assets	Other reserves	Accumulated losses	Total
Balance at 1 January 2013	**17,409**	**28**	**-**	**312**	**(12,517)**	**5,232**
Total comprehensive income						
Loss for the year	-	-	-	-	(2,910)	(2,910)
Other comprehensive income	-	-	18	-	-	18
Transactions with shareholder recorded directly in equity						
Increase of share capital	10,511	-	-	-	-	10,511
Balance at 31 December 2013	**27,920**	**28**	**18**	**312**	**(15,427)**	**12,851**
Total comprehensive income						
Loss for the year	-	-	-	-	(103)	(103)
Other comprehensive income	-	-	(994)	-	-	(994)
Balance at 31 December 2014	**27,920**	**28**	**(976)**	**312**	**(15,530)**	**11,754**

The accompanying notes on pages 15 to 66 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank separate financial statements as set out on pages 9 to 66 were approved by management of the Bank on 20 March 2015.

On behalf of the management:

Andrey Vdovin
Chairman of the Council

Roberts Idelsons
Chairman of the Board

1 Background

Principal activities

These consolidated financial statements include the financial statements of Bank M2M Europe AS (the "Bank") and its subsidiary M2M Asset Management IPAS (together referred to as the "Group"). Bank M2M Europe AS was founded in 1992 under the name Latvian Business Bank. On 21 May 2013 the Bank was acquired by Andrey Vdovin, a banker and co-owner of VMHY group. Mr. Vdovin is the sole shareholder of Bank M2M Europe AS, he also is the Chairman of the Council of the Bank.

Bank M2M Europe AS is private banking boutique committed to providing top quality financial solutions to the high net worth clients and companies owned by such clients. Main products offered to the clients are: servicing day to day banking transactions of private and business clients, wealth management solutions including portfolio management and investment advisory, premium level payment cards, deposits, servicing fiduciary transactions and escrow accounts, lombard loans. Bank M2M Europe clients are predominantly residents of the Russia Federation and other Commonwealth Independent States. The Bank strives to become the most reliable private banking institution in the Baltics.

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

The activities of the Group are supervised by the Financial and Capital Market Commission ("FCMC"). The registered address of the Bank's head office is 3 Antonijas street, Riga LV-1010, Latvia. The majority of the Group's assets and liabilities are located in Latvia, Europe and CIS countries.

As of 31 December 2014, the Group had 66 (2013:51) employees and the Bank had 60 (2013:43) employees.

The subsidiary of the Group is as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal Activities**	**2014**	**2013**
„M2M Asset Management" IPAS	Latvia	Financial services	100	100

2 Basis of preparation

Statement of compliance

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

The financial statements were authorized for issue by the management of the Bank on 20 March 2015. The financial statements may be amended by the shareholder.

Basis of measurement

The Group consolidated and the Bank's separate financial statements are prepared on the historical cost basis except for the following:

- financial assets at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value.

Functional and Presentation Currency

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

The Group's consolidated and the Bank's separate financial statements are presented in thousand of euro ('000 EUR), unless stated otherwise. Subsidiary of the Bank operates in the functional currency of EUR.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied except for the changes in accounting policies described in this Note.

Basis of consolidation

Subsidiaries

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

Assets under management

The Group provides assets management services to individuals and institutions. The assets under management are not included neither in the consolidated and nor in the separate statement of financial position.

Transactions eliminated on consolidation

M2M Asset Management investment management entity (the 'Subsidiary') was acquired by the Bank on 11 November 2013, with Subsidiary's shareholder changes registered on the same date. Bank M2M Europe AS became the sole shareholder of the entity which is now a fully integrated subsidiary of the Bank. Detailed information of the entity is available in Note 21.

The Bank and its Subsidiary's financial statements are consolidated in the Group financial statements, merging the respective assets, liabilities, income and expense captions. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, have been eliminated in the preparation of the consolidated financial statements.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on acquisition is recognised immediately in profit or loss.

Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of Group companies at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value in foreign currency are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised in other comprehensive income.

Cash and cash equivalents

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

Financial instruments

(i) Classification

Financial assets at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, Held-to-maturity investments or financial assets at fair value through profit or loss.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. For the purposes of these financial statements, loans and advances include regular loans, credit card balances, and are accounted for at amortised cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Group or the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the *settlement* date.

(iii) Measurement

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

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

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

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

(iv) Fair value measurement principles

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

When applicable, the Group measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

To measure the fair value of FX swap and forward deals the Group uses market rates for the similar maturity and currencies. Quotes of certain brokers have been used to determine fair value of bonds which do not have active market.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of basis for fair value see Note 34.

(v) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the profit or loss;

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

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

(vi) Derecognition

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

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

(vii) Repurchase and reverse repurchase agreements

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

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

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

(viii) Derivative financial instruments

Derivative financial instruments include currency swaps and forward contracts.

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

Changes in the fair value of derivatives are recognised immediately in the profit or loss.

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

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

(ix) Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Leasehold improvements are capitalized, and their depreciation is calculated on a straight-line basis over the remaining lease term. Leasehold renovation costs in relation to improving quality of the building are capitalized. Leasehold maintenance and current repair costs are recognized in the profit or loss statement when incurred.

Depreciation

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

Leasehold improvements	Over the lease term
Equipment	3 years
Fixtures and fittings	5 years

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Intangible assets	5 years

Impairment

Financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in a group, or economic conditions that correlate with defaults in a group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All held-to-maturity and available for sale investment securities are assessed for specific impairment.

The Group considers evidence of impairment for loans and advances at specific asset level only. Given the level of activity and exposure to assets, the management is confident that collective impairment assessment is not necessary.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in statement of comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

Provisions

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

Unrecognised loan commitments

In the normal course of business, the Group enters into unrecognised loan commitments, comprising undrawn loan commitments and provides guarantees and letters of credit.

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

A financial guarantee is recognised initially at fair value, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other unrecognised loan commitments are recognised when losses are considered probable and can be measured reliably.

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

Taxation

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

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

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

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

Income and expense recognition

With the exception of financial instruments held for trading and other financial assets at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest rate method. Interest income on financial instruments held for trading and on other financial assets at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial assets at fair value through profit or loss are recognised in gains less losses from financial assets at fair value through profit or loss, respectively.

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

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

New standards and interpretations

Changes in accounting policies

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

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

- IFRS 10 *Consolidated Financial Statements (2011)*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*

(i) IFRS 10 Consolidated Financial Statements (2011)

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the 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. The Group concluded that there are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).

(ii) IFRS 11 Joint Arrangements

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

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

The Group is not a party to any joint arrangements.

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

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a result of IFRS 12, the Group has expanded its disclosures about its interests in subsidiaries (Note 21) and structured unconsolidated entities (Note 35).

(iv) Other amendments to standards

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

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

New standards and interpretations not yet adopted

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

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

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

The Group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

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

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

It is expected that the Interpretation, when initially applied, will not have a material impact on the consolidated financial statements, since it does not result in a change in the entity's accounting policy regarding levies imposed by governments.

(iii) Annual Improvements to IFRSs

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

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

4 Risk management

The Group has exposure to the following risks:

- market risks
- interest rate risk
- currency risk
- price risk
- credit risk
- liquidity risk
- operational risk
- other risks: ML/TF risk (money laundering and terrorism financing risk) risk, compliance and reputation risk, strategic risk.

This note presents information about the Bank's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in regulation, market conditions, products and services offered and emerging best practice.

The Council has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of Financial Risk Management Division is responsible for the overall financial risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting financial risks. The Head of Risk and Compliance Department has the same responsibilities in the field of non-financial risks and compliance issues.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committee and Limits Committee For limits over predefined level additional approval from the Council is needed. In order to facilitate efficient decision-making, the Group has established a hierarchy of authorities depending on the type and amount of the exposure.

Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and fixed income or other financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Limits Committee (LC), chaired by the CEO. Market risk limits are approved by LC based on recommendations of the Financial Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Limits Committee. Additional restrictions are set for financial instrument portfolios, such as duration limits, concentration limits etc.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios. Sensitivity of net present value of Bank's assets and liabilities is also evaluated.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

A change of 200 basis points would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. Only tradable fixed-income financial instruments were evaluated (not including investments in fixed-income funds). Results are the same for the Bank and for the Group because the subsidiary did not have investments in tradable fixed-income financial instruments. The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2014		31 December 2013	
	Profit or loss	OCI	Profit or loss	OCI
200 bp parallel increase	(646)	(1,003)	(29)	(523)
200 bp parallel decrease	666	1,044	30	549

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Group's exposure to currency risk at year end refer to Currency analysis table in this Note.

A change in exchange rates as indicated below, as at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2014		31 December 2013	
	Profit or loss, Group	Profit or loss, Bank	Profit or loss, Group	Profit or loss, Bank
5% appreciation of USD against EUR	(8)	(8)	9	5
5% depreciation of USD against EUR	8	8	(9)	(5)
20% appreciation of RUB against EUR	2	2	31	31
20% depreciation of RUB against EUR/	(2)	(2)	(31)	(31)

Comparative figures represent analysis of Latvian lats.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 5% change in all securities prices is as follows:

'000 EUR	31 December 2014		31 December 2013	
	Profit or loss	OCI	Profit or loss	OCI
5% increase in securities prices	40	1,115	8	499
5% decrease in securities prices	(40)	(1,115)	(8)	(499)

Results are the same for the Bank and for the Group because the subsidiary did not have investments in securities.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of Limits Committee and Credit Committee, which actively monitor the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board and Council.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers or by Loan Department managers and are then passed on to the Loan Department. Loan Department's credit analysts prepare overall description report about credit deal, Financial Risk Management Department's analysts prepare risk report based on a structured analysis focusing on the customer's business and financial performance, as also a check that credit policy requirements have been met is made. Additional report is prepared by Security Department. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department, Financial Risk Management Department and Security Department. Individual transactions are also reviewed by the Group's Legal and Accounting departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Financial Risk Management Department with regard to credit concentration and market risks.

The Group's maximum exposure to statement of financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 18 "Loans and advances due from customers".

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board and the Council.

The Group seeks to actively support a diversified and stable funding base from corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- maintaining a diversified deposits base;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements, as also internal liquidity risk ratios and early warning indicators.

The Financial Market Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Financial Market Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Financial Risk Management Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to Limits Committee on a weekly basis. Decisions on the Group's liquidity management are made by the Limits Committee and implemented by the Financial Market Department.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Financial and Capital Markets Commission. The Bank was in compliance with these ratios during the twelve-month period ended 31 December 2014 and 31 December 2013.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Analysis of the Group's financial liabilities' contractual undiscounted cash flows as at 31 December 2014:

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Current accounts and deposits due to customers	108,505	6,552	444	6,986	8,212	130,699	129,990
Subordinated liabilities	-	135	-	39	11,871	12,045	9,563
Unrecognised loan commitments	8,756	-	-	-	-	8,756	-
Derivative liabilities							
- Inflow	(681)	(5,529)	(266)	-	-	(6,476)	(6,291)
- Outflow	781	5,695	279	-	-	6,755	6,480
Total	**117,361**	**6,853**	**457**	**7,025**	**20,083**	**151,779**	**139,742**

Analysis of the Group's financial liabilities' contractual undiscounted cash flows as at 31 December 2013:

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Current accounts and deposits due to customers	10,555	1,381	3,031	4,313	1,689	20,969	20,680
Subordinated liabilities	-	-	34	34	2,530	2,598	2,005
Derivative liabilities							
- Inflow	(144)	(593)	(179)	(265)	(950)	(2,131)	(2,119)
- Outflow	148	595	179	266	953	2,141	2,139
Total	**10,559**	**1,383**	**3,065**	**4,348**	**4,222**	**23,577**	**22,705**

The Group did not have any unrecognised loan commitments as at 31 December 2013.

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

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Current accounts and deposits due to customers	108,785	6,552	444	6,986	8,713	131,480	130,772
Subordinated liabilities	-	135	-	39	11,871	12,045	9,563
Unrecognised loan commitments	8,756	-	-	-	-	8,756	-
Derivative liabilities							
- Inflow	(681)	(5,529)	(266)	-	-	(6,476)	(6,291)
- Outflow	781	5,695	279	-	-	6,755	6,480
Total	**117,641**	**6,853**	**457**	**7,025**	**20,584**	**152,560**	**140,524**

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows as at 31 December 2013:

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Current accounts and deposits due to customers	10,804	1,381	3,031	4,313	1,689	21,218	20,929
Subordinated liabilities	-	-	34	34	2,530	2,598	2,005
Derivative liabilities							
- Inflow	(144)	(593)	(179)	(265)	(950)	(2,131)	(2,119)
- Outflow	148	595	179	266	953	2,141	2,139
Total	**10,808**	**1,383**	**3,065**	**4,348**	**4,222**	**23,826**	**22,954**

The Bank did not have any unrecognised loan commitments as at 31 December 2013.

The Bank and the Group are keeping different financial assets to provide liquidity. Analysis of expected maturities of financial assets and liabilities and equity as at 31 December 2014 is presented below:

GROUP '000 EUR	1 month	1-3 months	3-6 months	6-12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	306	-	-	-	-	-	306
Financial assets at fair value through profit or loss	626	177	-	-	-	-	803
Loans and advances due from financial institutions	70,793	150	301	-	837	-	72,081
Loans and advances due from customers	4,416	4,762	1,887	3,330	22,156	151	36,702
Available-for-sale financial assets	17,365	481	193	428	3,832	-	22,299
Held-to-maturity investments	16,057	-	-	-	830	-	16,887
Other financial assets	345	-	-	-	-	-	345
Total financial assets	**109,908**	**5,570**	**2,381**	**3,758**	**27,655**	**151**	**149,423**
Financial liabilities							
Financial assets at fair value through profit or loss	3	259	115	-	-	-	377
Current accounts and deposits due to customers	108,463	6,581	317	6,995	7,634	-	129,990
Subordinated liabilities	-	-	-	-	9,563	-	9,563
Total financial liabilities	**108,466**	**6,840**	**432**	**6,995**	**17,197**	**-**	**139,930**
Total Equity	-	-	-	-	-	12,013	12,013
Total Liabilities and Equity	**108,466**	**6,840**	**432**	**6,995**	**17,197**	**12,013**	**151,943**
Net liquidity position as at 31 December 2014	**1,442**	**(1,270)**	**1,949**	**(3,237)**	**10,458**	**(11,862)**	**-**
Net liquidity position as at 31 December 2013	4,977	757	(2,715)	(2,951)	9,320	(12,581)	-

BANK '000 EUR	1 month	1-3 months	3-6 months	6-12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	306	-	-	-	-	-	306
Financial assets at fair value through profit or loss	626	177	-	-	-	-	803
Loans and advances due from financial institutions	70,657	150	-	-	837	-	71,644
Loans and advances due from customers	4,416	4,762	1,887	3,330	22,156	151	36,702
Available-for-sale financial assets	17,365	481	193	428	3,832	-	22,299
Held-to-maturity investments	16,057	-	-	-	830	-	16,887
Investment in subsidiary	-	-	-	-	-	1,874	1,874
Other financial assets	345	-	-	-	-	-	345
Total financial assets	**109,772**	**5,570**	**2,080**	**3,758**	**27,655**	**2,025**	**150,860**
Financial liabilities							
Financial assets at fair value through profit or loss	3	259	115	-	-	-	377
Current accounts and deposits due to customers	108,743	6,581	317	6,995	8,136	-	130,772
Subordinated liabilities	-	-	-	-	9,563	-	9,563
Total financial liabilities	**108,746**	**6,840**	**432**	**6,995**	**17,699**	**-**	**140,712**
Total Equity	-	-	-	-	-	11,754	11,754
Total Liabilities and Equity	**108,746**	**6,840**	**432**	**6,995**	**17,699**	**11,754**	**152,466**
Net liquidity position as at 31 December 2014	**1,026**	**(1,270)**	**1,648**	**(3,237)**	**9,956**	**(9,729)**	**-**
Net liquidity position as at 31 December 2013	4,469	502	(3,016)	(2,951)	9,320	(10,704)	-

Interest rate re-pricing analysis

The following table shows the Group's interest rate gap position as at 31 December 2014.

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	73	-	-	-	-	-	233	306
Financial instruments at fair value through profit or loss	8	177	-	-	-	-	618	803
Loans and advances due from financial institutions	33,103	150	301	-	837	-	37,690	72,081
Loans and advances due from customers	17,440	4,762	1,887	3,330	7,953	143	1,187	36,702
Available-for-sale financial assets	1,515	277	205	1,159	16,786	775	1,582	22,299
Held-to-maturity investments	701	-	-	622	15,564	-	-	16,887
Other financial assets	-	-	-	-	-	-	345	345
Long positions of interest rates risk sensitive off-balance items	373	5,352	266	-	-	-	-	5,991
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**53,213**	**10,718**	**2,659**	**5,111**	**41,140**	**918**	**41,655**	**155,414**
Financial liabilities								
Financial instruments at fair value through profit or loss	3	259	13	-	-	-	102	377
Current accounts and deposits due to customers	253	8,817	317	6,995	7,610	27	105,971	129,990
Subordinated liabilities	-	-	-	-	7,440	2,123	-	9,563
Short positions of interest rates risk sensitive off-balance items	7,549	5,433	165	-	3,495	-	700	17,342
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**7,805**	**14,509**	**495**	**6,995**	**18,545**	**2,150**	**106,773**	**157,272**
Net position as at 31 December 2014	**45,408**	**(3,791)**	**2,164**	**(1,884)**	**22,595**	**(1,232)**	**(65,118)**	**(1,858)**
Net position as at 31 December 2013	1,127	1,066	(2,713)	(2,948)	10,963	(1,946)	4,102	9,651

The amounts in the tables above represent carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

The following table shows the Bank's interest rate gap position as at 31 December 2014.

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	73	-	-	-	-	-	233	306
Financial instruments at fair value through profit or loss	8	177	-	-	-	-	618	803
Loans and advances due from financial institutions	32,965	150	-	-	837	-	37,692	71,644
Loans and advances due from customers	17,440	4,762	1,887	3,330	7,953	143	1,187	36,702
Available-for-sale financial assets	1,515	277	205	1,159	16,786	775	1,582	22,299
Held-to-maturity investments	701	-	-	622	15,564	-	-	16,887
Investment in subsidiary	-	-	-	-	-	-	1,874	1,874
Other financial assets	-	-	-	-	-	-	345	345
Long positions of interest rates risk sensitive off-balance items	373	5,352	266	-	-	-	-	5,991
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**53, 075**	**10,718**	**2,358**	**5,111**	**41,140**	**918**	**43,531**	**156,851**
Financial liabilities								
Financial instruments at fair value through profit or loss	3	259	13	-	-	-	102	377
Current accounts and deposits due to customers	253	8,816	317	6,995	8,110	27	106,254	130,772
Subordinated liabilities	-	-	-	-	7,440	2,123	-	9,563
Short positions of interest rates risk sensitive off-balance items	7,549	5,433	165	-	3,495	-	700	17,342
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**7,805**	**14,508**	**495**	**6,995**	**19,045**	**2,150**	**107,056**	**158,054**
Net position as at 31 December 2014	**45,270**	**(3,790)**	**1,863**	**(1,884)**	**22,095**	**(1,232)**	**(63,525)**	**(1,203)**
Net position as at 31 December 2013	978	807	(3,015)	(2,948)	10,949	(1,946)	5,636	10,461

The amounts in the tables above represent carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

Currency analysis

The following table shows Group's the currency structure of financial assets and liabilities as at 31 December 2014:

'000 EUR	EUR	USD	GBP	Other	Total
Financial assets					
Cash and due from central banks	130	90	34	52	306
Financial instruments at fair value through profit or loss	185	618	-	-	803
Loans and advances due from financial institutions	21,090	46,597	2,067	2,327	72,081
Loans and advances due from customers	16,530	18,296	1,514	362	36,702
Available-for-sale financial assets	10,256	12,043	-	-	22,299
Held-to-maturity investments	7,710	9,177	-	-	16,887
Other assets	330	15	-	-	345
Total financial assets	**56,231**	**86,836**	**3,615**	**2,741**	**149,423**
Off-balance (SWAP)	3,850	2,441	-	-	6,291
Financial liabilities					
Financial instruments at fair value through profit or loss	275	102	-	-	377
Current accounts and deposits due to customers	45,450	80,103	2,180	2,257	129,990
Subordinated liabilities	2,929	6,634	-	-	9,563
Total financial liabilities	**48,654**	**86,839**	**2,180**	**2,257**	**139,930**
Total Equity and reserves	12,013	-	-	-	12,013
Total Liabilities and Equity	**60,667**	**86,839**	**2,180**	**2,257**	**151,943**
Off-balance (SWAP)	**2,262**	**2,636**	**1,479**	**-**	**6,377**
Net currency balance position as at 31 December 2014	**(4,436)**	**(3)**	**1,435**	**484**	**(2,520)**
Net currency position as at 31 December 2014 (balance & off-balance)	**(2,848)**	**(198)**	**(44)**	**484**	**(2,606)**
Net currency balance position as at 31 December 2013	(2,207)	(1,230)	38	206	(3,193)
Net currency position as at 31 December 2013 (balance & off-balance)	(3,753)	306	38	206	(3,203)

The following table shows the Bank's the currency structure of financial assets and liabilities at 31 December 2014:

'000 EUR	EUR	USD	GBP	Other	Total
Financial assets					
Cash and due from central banks	130	90	34	52	306
Financial instruments at fair value through profit or loss	185	618	-	-	803
Loans and advances due from financial institutions	20,729	46,534	2,067	2,314	71,644
Loans and advances due from customers	16,530	18,296	1,514	362	36,702
Available-for-sale financial assets	10,256	12,043	-	-	22,299
Held-to-maturity investments	7,710	9,177	-	-	16,887
Other financial assets	330	15	-	-	345
Total finansial assets	**55,870**	**86,773**	**3,615**	**2,728**	**148,986**
Off-balance (SWAP)	**3,850**	**2,441**	**-**	**-**	**6,291**
Financial liabilities					
Financial assets at fair value through profit or loss	275	102	-	-	377
Current accounts and deposits due to customers	46,185	80,151	2,180	2,256	130,772
Subordinated liabilities	2,929	6,634	-	-	9,563
Total finansial liabilities	**49,389**	**86,887**	**2,180**	**2,256**	**140,712**
Total Equity and reserves	11,754	-	-	-	11,754
Total Liabilities and Equity	**61,143**	**86,887**	**2,180**	**2,256**	**152,466**
Off-balance (SWAP)	**2,262**	**2,636**	**1,479**	**-**	**6,377**
Net currency balance position as at 31 December 2014	**(5,273)**	**(114)**	**1,435**	**472**	**(3,480)**
Net currency position as at 31 December 2014	**(3,685)**	**(309)**	**(44)**	**472**	**(3,566)**
Net currency balance position as at 31 December 2013	(1,330)	(1,289)	38	201	(2,380)
Net currency position as at 31 December 2013 (balance & off-balance)	(2,876)	246	38	201	(2,391)

Operational Risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, which do not comply with the requirements of the external and internal legal regulations, the Bank's employees' and system activities, defects of internal processes, third parties' activities or from other external events as well, including legal risk, but excluding strategic and reputation risk. The aim of the management of the operational risk is to keep the operational risk on the economic reasonable minimum level, to stimulate stability of the Bank's activities and commercial profit in the long term.

The management of the operational risk goes through all the Bank's organizational structure and is realized in each unit of the Bank, that is why the management of the risk is based on overall comprehension of each employee of the Bank on processes he conducts and the risks inherent in these processes (high risk awareness), and on sound risk culture as well. The Bank does not accept operational risks, which exceed the Bank's risk appetite or if the impact of such risks cannot be evaluated in money terms and these risks at the same time are uncontrollable – it is impossible to prevent them or to insure against their consequences irrespective of economic benefit, which could arise from acceptance of such operational risks. In order to mitigate operational risk, the Bank uses the expert assessment method and self-assessment; risk assessment prior launch of new products/process; implementation of quantitative indicators of operational risk; usage of database of risk events; stress – testing and scenario analysis.

Money Laundering and Terrorism Financing Risk

Money laundering and terrorism financing risk is the risk that the Bank can be involved into money laundering or terrorism financing. The Bank creates internal control system in the field of the ML/TF, observing requirements of the binding regulatory enactments and taking into account the best international practice, in order to prevent the use of financial services of the Bank for the ML/TF, dedicating the respective resources for that purpose and training employees. The Bank identifies each Client and applies due diligence procedures in accordance with a degree of the ML/TF risk of the Client. Depending on the degree of the ML/TF risk, the Bank investigates the nature of personal or economic activity of the Client, origin of funds in accounts held with the Bank and nature of transactions. The special client supervision structural units are established in the Bank that ensure due diligence of the Clients of the Bank prior to establishing business relations, supervision of transactions during business relations as well as exactly and timely performs duties of the Bank stipulated in the law in relations with competent state bodies. The Bank has the modest quantity of clients and it has deep knowledge of each of them which allows minimizing ML/TF risk.

Compliance and Reputation Risk

Compliance and reputation risk is the risk that the Bank is not subject to or in violation of the compliance legislation, losses may occur or may be imposed on the legal obligations or penalties may be applied or may degrade the reputation. The Bank has developed and implemented the "compliance policy" with the aim, of subject to compliance with the requirements in the legislation, to improve the Bank's capabilities and competitive position in the market; to strengthen confidence in the Bank; to protect the Bank's reputation, to lower the cost of capital; to reduce litigation and sanctions enforcement risks. To manage the compliance risk the Bank:

- Has established Compliance committee that has a central role in compliance risk management. Compliance committee evaluates and assesses identified compliance risks, decides on appropriate risks mitigation actions to be taken, monitors efficiency of compliance risks management.
- Keeps track of changes of compliance legislation and implements appropriate changes to internal normative documents of the Bank;

- Actively participates in the Committee of the Association of Latvian commercial banks and FCMC held discussions/workshops on issues that affect the function of the competence of conformity;
- Evaluates the Bank internal normative documents and the lack of practical application;
- Analyzes and compares the performance data to ensure their compliance with certain requirements proactively;
- Analyzes the Bank customers' complaints.

Strategy Risk

Strategy risk is the risk that the changes in the business environment and the Bank's failure to respond to these changes timely, or false/unsubstantiated activities of the Bank's long-term strategy, or the Bank's inability to provide the necessary resources for the implementation of the strategy could adversely affect the Bank's income/expense (and the amount of equity capital). The Bank has developed operational development strategies, the implementation of which is regularly monitored and updated as necessary. The Bank plans its work with a variety of scenarios, including the negative scenarios that reflect the possible impact of adverse external conditions on the Bank's results.

Planning activities within the framework of development, the Bank carries out analysis of the external environment, competitiveness of the Bank, its position in the financial market, Bank's internal business environment, including macroeconomic circumstances, with the purpose to determine the likelihood that an event in a business environment, in which the Bank carries out its activities and/or intends to take action in the future, will have a negative impact on the Bank's ability to achieve its strategic objectives (to implement the strategy) and/or threaten the Bank's future operations. Evaluating and planning the Bank's asset and liability structure is based on results of analysis of selected indicators of development activities and the business environment.

5 Capital management

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank and the Group defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by the Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2014, the individual minimum level is set at 20%. The Bank was in compliance with the FCMC determined individual capital ratio during the year ended 31 December 2014 and 2013.

The Group's risk based capital adequacy ratio as at 31 December 2014 was 23.69% (2013: 50.40%).

The Bank's risk based capital adequacy ratio as at 31 December 2014 was 23.92% (31 December 2013: 57.44%).

The Group monitors its capital adequacy levels calculated in accordance with the requirements of the regulations, commonly known as Basel III agreement and its implementing act in Europe, commonly known as CRD IV package.

The following table shows the composition of the Group and the Bank's capital position as at 31 December 2014:

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Tier 1 capital				
Share capital	27,920	27,920	27,920	27,920
Additional paid-in capital	28	28	28	28
Reserves	(664)	312	(664)	312
Accumulated losses	(15,271)	(15,424)	(15,530)	(15,427)
Reductions of tier 1 capital	(1,232)	(1,305)	(444)	(517)
Total tier 1 capital	**10,781**	**11,531**	**11,310**	**12,316**
Tier 2 capital				
Subordinated liabilities (unamortised portion)	9,272	1,996	9,272	1,996
Total tier 2 capital	**9,272**	**1,996**	**9,272**	**1,996**
Deductions from Tier 1 and Tier 2 capital prescribed by legislation	-	-	-	-
Total capital	**20,053**	**13,527**	**20,582**	**14,312**
Capital requirements				
Credit risk requirements	6,595	1,725	6,724	1,811
Market risk requirements	132	239	131	154
Operational risk requirements	46	28	30	28
Capital requirement, which is equal to 25% of the previous year's fixed costs	-	155	-	-
Total capital requirements	**6,773**	**2,147**	**6,885**	**1,993**
Capital adequacy ratio	23.69%	50.40%	23.92%	57.44%
Tier 1 Capital adequacy ratio	**12.73%**	**42.96%**	**13.14%**	**49.43%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of assets and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2014 and 31 December 2013.

6 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised retrospectively.

These disclosures supplement the commentary on financial risk management (see note 4).

Judgements:

These consolidated financial statements include financial information of subsidiary. The annual evaluation of the Group structure and identification of entities in which the Group has control as defined in Note 3(a)(ii) requires judgement to be made by the Group management, see also Note 23 and Note 35.

Key sources of estimation uncertainty:

(i) *Allowances for credit losses*

Financial assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy, Note 3.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon the Bank's management best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

The Bank does not assess collective impairment allowance since the number of loans in the loan portfolio is too small and collective impairment assessment would not be practicable.

(ii) *Impairment of financial instruments*

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. The Group uses valuation models based on quoted market prices and prices of similar products or other available information..

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

(iii) *Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- Verifying the that broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions and judgments made in measuring fair values is included in Note 34 Fair value of financial instruments.

7 Net interest income

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Interest income				
Interest income arising from financial assets not at fair value through profit or loss				
Loans and advances due from financial institutions	204	31	202	29
Loans and advances due from customers	1,445	36	1,444	36
Available-for-sale financial assets	767	78	767	78
Held-to-maturity investments	92	16	92	16
Total	**2,508**	**161**	**2,505**	**159**
Interest expense				
Interest expense recognised on liabilities measured at amortised cost				
Deposits and balances due to central banks	(8)	-	(8)	-
Current accounts and deposits due to customers	(561)	(45)	(575)	(44)
Subordinated liabilities	(118)	(11)	(118)	(11)
Total	**(687)**	**(56)**	**(701)**	**(55)**

8 Fee and commission income

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Asset management and fiduciary services	1,628	123	1,261	71
Servicing current accounts	364	37	364	37
Brokerage operations	221	4	221	4
Funding attraction	90	-	90	-
Credit card maintenance	35	-	35	-
Other	58	9	58	9
Total	**2,396**	**173**	**2,029**	**121**

9 Fee and commission expense

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Asset management services	93	54	68	53
Customer attraction	69	-	69	-
Settlements	26	31	26	30
Other	2	-	2	-
Total	**190**	**85**	**165**	**83**

10 Net foreign exchange income/(loss)

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Gain from revaluation of financial assets and liabilities	61	36	52	36
Gain/(loss) on spot transactions and derivatives	350	(20)	350	(20)
Total	**411**	**16**	**402**	**16**

11 Other income

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Rental income	59	1	62	3
Consulting income	42	-	42	-
Other income	5	40	5	38
Total	**106**	**41**	**109**	**41**

12 General administrative expenses

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Employee compensation and payroll taxes	3,020	1,928	2,825	1,891
Depreciation and amortisation	384	257	377	250
Communications and information services	164	147	162	147
Payment cards expenses	174	141	174	141
Repairs and maintenance	141	149	141	149
Rent	139	144	139	144
IT service costs	96	91	93	88
Professional services	95	144	91	144
Other employee expenses	48	6	47	6
Disposals	16	9	13	8
Other	437	124	430	124
Total	**4,714**	**3,140**	**4,492**	**3,092**

13 Impairment losses

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Impairment losses				
Other non-financial assets	-	70	-	70
Impairment losses	**-**	**70**	**-**	**70**

Analysis of changes in impairment allowances of the Group and the Bank:

'000 EUR	Allowance for other assets
Allowances as of 31 Dec 2013	**70**
Impairment write off	(70)
Allowances as of 31 Dec 2014	-

In 2013 the Bank created an impairment allowance for a claim against one of its service providers.

14 Income tax benefit

(a) Income tax recognised in the profit or loss

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Deferred tax benefit				
Utilization of unrecognized tax losses carried forward	113	30	-	30
Total income tax benefit recognised in profit or loss	**113**	**30**	**-**	**30**

(b) Reconciliation of effective tax rate:

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Profit/(loss) before income tax	**40**	**(2,937)**	**(103)**	**(2,940)**
Theoretically calculated tax at tax rate of 15%	6	(441)	(15)	(441)
Non-deductible costs/(non-taxable income)	(242)	(30)	-	(30)
Change in unrecognised deferred tax assets	123	441	15	441
Income tax benefit	**(113)**	**(30)**	**-**	**(30)**

15 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Group	31 Dec 2014 Bank	31 Dec 2013 Bank
Cash	233	304	233	304
Balances due from central banks	73	2,240	73	2,240
Subtotal	**306**	**2,544**	**306**	**2,544**
Demand deposit due from financial institutions	37,552	10,993	37,415	10,902
Total	**37,858**	**13,537**	**37,721**	**13,446**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account in EUR.

16 Financial assets and liabilities at fair value through profit or loss

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Group	31 Dec 2014 Bank	31 Dec 2013 Bank
Non-fixed income investments				
Investments funds	-	148	-	148
Equity investments				
Corporate shares*	618	-	618	-
Derivative financial instruments				
Foreign currency contracts	185	9	185	9
	803	**157**	**803**	**157**
Liabilities				
Derivative financial instruments				
Foreign currency contracts and forward agreements	377	28	377	28
	377	28	377	28

*held for trading

Included in financial assets at fair value through profit or loss at 31 December 2014 are EUR 803 thousand (2013: EUR 157 thousand) in financial instruments which are classified as held for trading and EUR 377 thousand (2013: EUR 28 thousand) liabilities in financial instruments which were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

17 Loans and advances due from financial institutions

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Group	31 Dec 2014 Bank	31 Dec 2013 Bank
Not impaired or past due				
Nostro accounts				
Latvian commercial banks	12,275	9,371	12,138	9,280
OECD banks	23,161	1,312	23,161	1,312
Non-OECD banks	2,116	310	2,116	310
Credit ratings[1]				
Rated A- and above	23,298	1,312	23,161	1,312
Rated from BBB- to BBB+	-	26	-	26
Rated from BB- to BB+	1,871	139	1,871	139
Rated B+ and below	2,957	-	2,957	-
Not rated	9,426	9,516	9,426	9,425
Credit ratings of parent entities[2]				
Rated A- and above	32,481	10,683	32,344	10,592
Rated from BBB- to BBB+	-	26	-	26
Rated from BB- to BB+	1,871	139	1,871	139
Rated B+ and below	2,957	-	2,957	-
Not rated	243	145	243	145
Total nostro accounts	**37,552**	**10,993**	**37,415**	**10,902**
Loans and deposits				
Latvian commercial banks	11,159	874	10,859	149
OECD banks	22,104	-	22,104	-
Non-OECD banks	1,266	1,090	1,266	1,090
Credit ratings[1]				
Rated A- and above	11,010	-	10,710	-
Rated from BBB- to BBB+	11,119	-	11,119	-
Rated from BB- to BB+	429	1,090	429	1,090
Rated B+ and below	837	168	837	-
Not rated	11,134	706	11,134	149
Credit ratings of parent entities[2]				
Rated A- and above	21,869	706	21,569	149
Rated from BBB- to BBB+	11,119	-	11,119	-
Rated from BB- to BB+	429	1,090	429	1,090
Rated B+ and below	837	168	837	-
Not rated	275	-	275	-
Total loans and deposits not impaired	**34,529**	**1,964**	**34,229**	**1,239**
Total	**72,081**	**12,957**	**71,644**	**12,141**

[1] Loans and advances due from financial institutions are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

[2] Classification is based on credit ratings of parental banks for these Latvian commercial banks: "Swedbank" AS, AS "Citadele".

No impairment was made for loans and advances due from financial institutions.

Concentration of placements with banks and other financial institutions

As at 31 December 2014 and 2013 the Group had banks and financial institutions, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2014 and 2013 were EUR 51 691 thousand and EUR 1 850 thousand, respectively.

18 Loans and advances due from customers

Breakdown of loans issued by the Group and the Bank by customer type:

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Bank	31 Dec 2014 Bank	31 Dec 2013 Bank
Private individuals	23,965	4,341	23,965	4,341
Corporate companies	11,408	-	11,408	-
Financial auxiliaries and other financial intermediaries	1,329	273	1,329	273
Loans and advances due from customers	**36,702**	**4,614**	**36,702**	**4,614**

Breakdown of loans issued by the Group and the Bank by loan category:

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Bank	31 Dec 2014 Bank	31 Dec 2013 Bank
Mortgage loans	27,620	4,333	27,620	4,333
Reverse repo	3,949	-	3,949	-
Business loans	3,779	-	3,779	-
Other	1,329	274	1,329	274
Consumer loans	25	7	25	7
Loans and advances due from customers	**36,702**	**4,614**	**36,702**	**4,614**

No impairment indications have been identified as at 31 December 2014, the Bank has not made impairment allowances for loans to customers. As at 31 December 2014 none of the loans is past due.

In 2014 the Bank acquired part of its loan portfolio from a related party on basis of assignment agreements in the total amount of EUR 11,3 million. As on the reporting date no delays in payments and no other indications of impairment of quality of loans were observed.

On the reporting date the process of registration of Bank's rights as a mortgagee has not been completed with regard to some of collaterals to loans (including collaterals securing loans acquired on basis of assignment agreements) in the total of EUR 12,7 million. The registration process takes place in accordance with the applicable law and there are no obstacles that would interfere with the registration of collaterals. At the same time it has to be taken into account that length of the registration process is determined by the applicable law of the jurisdiction where the collateral is located and specifics of application of such laws in the respective country therefore the process of registration of collaterals might take longer time than anticipated. Nevertheless, such circumstances on their merits does not affect rights of the Bank as a pledgee/mortgagee and the validity of the collateral.

Acquisition of the part of the Loan portfolio through assignment agreements with the related party took place on an arm's length basis and there were no any indications of impairment as on the date of the report.

Geographical analysis of the loan portfolio

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Bank	31 Dec 2014 Bank	31 Dec 2013 Bank
Latvia	1,007	7	1,007	7
Russia	22,857	4,334	22,857	4,334
OECD countries	4,380	273	4,380	273
Non-OECD countries	8,458	-	8,458	-
	36,702	**4,614**	**36,702**	**4,614**
Impairment allowance	-	-	-	-
	36,702	**4,614**	**36,702**	**4,614**

Significant credit exposures

As at 31 December 2014 the Group and the Bank has no borrowers, whose loan balances exceeded 10% of loans to customers.

According to regulatory requirements, the Group is not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2014 and 31 December 2013 the Group was in compliance with this requirement.

19 Available-for-sale financial assets

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Bank	31 Dec 2014 Bank	31 Dec 2013 Bank
Debt and other fixed-income instruments				
- Government and municipal bonds				
Latvia	3,626	603	3,626	603
European Union	7,612	1,178	7,612	1,178
Total government and municipal bonds	**11,238**	**1,781**	**11,238**	**1,781**
- Corporate bonds				
Latvia	1,010	1,153	1,010	1,153
European Union and EEA	3,935	3,581	3,935	3,581
Russia	2,372	2,191	2,372	2,191
Other countries	2,643	228	2,643	228
Total corporate bonds	**9,960**	**7,153**	**9,960**	**7,153**
Total debt and other fixed-income instruments	**21,198**	**8,934**	**21,198**	**8,934**
Government and municipal bonds[3]				
Rated from AAA- to AAA+	822	-	822	-
Rated A- and above	6,461	-	6,461	-
Rated from BBB- to BBB+	2,219	1,783	2,219	1,783
Rated from BB- to BB+	1,736	-	1,736	-
Total government and municipal bonds	**11,238**	**1,783**	**11,238**	**1,783**
Corporate bonds				
Rated A- and above	-	1,128	-	1,128
Rated from BBB- to BBB+	459	1,754	459	1,754
Rated from BB- to BB+	4,122	1,612	4,122	1,612
Rated B+ and below	2,533	898	2,533	898
Not rated	2,846	1,759	2,846	1,759
Total corporate bonds	**9,960**	**7,151**	**9,960**	**7,151**
Total debt and other fixed-income instruments	**21,198**	**8,934**	**21,198**	**8,934**
Non-fixed income investments				
Investment funds	1,101	1,037	1,101	1,037
Total non-fixed income investments	**1,101**	**1,037**	**1,101**	**1,037**
Total Available-for-sale financial assets	**22,299**	**9,971**	**22,299**	**9,971**

[3] Available-for-sale financial assets are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

20 Held-to-maturity investments

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Bank	31 Dec 2014 Bank	31 Dec 2013 Bank
Debt and other fixed-income instruments				
- Government and municipal bonds				
Latvia	900	-	900	-
European Union	13,343	960	13,343	960
Total government and municipal bonds	**14,243**	**960**	**14,243**	**960**
- Corporate bonds				
Latvia	-	-	-	-
European Union and EEA	1,814	-	1,814	-
Russia	-	746	-	746
Other countries	830	-	830	-
Total corporate bonds	**2,644**	**746**	**2,644**	**746**
Total debt and other fixed-income instruments	**16,887**	**1,706**	**16,887**	**1,706**
Debt and other fixed-income instruments				
- Government and municipal bonds[4]				
Rated from AAA- to AAA+	4,126	-	4,126	-
Rated A- and above	4,915	-	4,915	-
Rated from BBB- to BBB+	4,262	-	4,262	-
Rated from BB- to BB+	940	960	940	960
Total government and municipal bonds	**14,243**	**960**	**14,243**	**960**
- Corporate bonds				
Rated A- and above	653	-	653	-
Rated from BBB- to BBB+	538	-	538	-
Rated from BB- to BB+	1,035	-	1,035	-
Not rated	418	746	418	746
Total debt and other fixed-income instruments	**2,644**	**746**	**2,644**	**746**
Total debt and other fixed-income instruments	**16,887**	**1,706**	**16,887**	**1,706**

Geographical allocation is based on countries of principal entities.

[4] Held-to-maturity investments are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

21 Investment in subsidiary

'000 EUR	31 Dec 2014	31 Dec 2013
Investments in „M2M Asset Management" IPAS	**1,874**	**1,874**

	„M2M Asset Management" IPAS
Main activity	Financial services
Country of incorporation	Latvia
Ownership interest	
31 December 2013	100 %
31 December 2014	100 %

'000 EUR	As at 31 Dec 2014	As at 31 Dec 2013
Non-current assets	9	17
Current assets	1,364	1,095
Non-current liabilities	-	-
Current liabilities	(28)	(24)
Net assets	**1,345**	**1,088**
Group share in net assets as at 31 December 2014	**100 %**	**100 %**
	For year 2014	**For year 2013**
Income	368	309
Expenses	(224)	(524)
Income tax benefit	113	-
Group share in profit or loss for 2014	**257**	**(215)**

Carrying amount as at 31 December 2014	**1,874**	**1,874**

During the year ended 31 December 2014 and 2013 the Group did not receive dividends from investment in subsidiary.

22 Property and equipment

Group '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2014	1,892	671	2,563
Additions	-	46	46
Disposals	-	(37)	(37)
At 31 December 2014	**1,892**	**680**	**2,572**
Depreciation			
At 1 January 2014	344	344	688
Depreciation charge	107	135	242
Disposals	-	(23)	(23)
At 31 December 2014	**451**	**456**	**907**
Carrying value			
At 31 December 2014	**1,441**	**224**	**1,665**
Cost			
At 1 January 2013	1,306	1,652	2,958
Additions	-	74	74
Acquisitions through business combinations	-	34	34
Disposals	-	(53)	(53)
Transfers	586	(1,036)	(450)
At 31 December 2013	**1,892**	**671**	**2,563**
Depreciation			
At 1 January 2013	242	249	491
Acquisitions through business combinations	-	10	10
Depreciation charge	102	138	240
Disposals	-	(53)	(53)
At 31 December 2013	344	344	688
Carrying value			
At 31 December 2013	**1,548**	**327**	**1,875**
At 31 December 2012	1,064	1,403	2,467

22 Property and equipment (continued)

Bank '000 EUR	Leasehold improvements	Other	Total
Cost			
At 1 January 2014	1,892	637	2,529
Additions	-	46	46
Disposals	-	(34)	(34)
At 31 December 2014	**1,892**	**649**	**2,541**
Depreciation			
At 1 January 2014	344	327	671
Depreciation charge	107	128	235
Disposals	-	(21)	(21)
At 31 December 2014	**451**	**434**	**885**
Carrying value			
At 31 December 2014	**1,441**	**215**	**1,656**
At 31 December 2013	1,548	310	1,858
Cost			
At 1 January 2013	1,306	1,652	2,958
Additions	-	74	74
Disposals	-	(53)	(53)
Transfers	586	(1,036)	(450)
At 31 December 2013	**1,892**	**637**	**2,529**
Depreciation			
At 1 January 2013	242	249	491
Depreciation charge	102	131	233
Disposals	-	(53)	(53)
At 31 December 2013	**344**	**327**	**671**
Carrying value			
At 31 December 2013	**1,548**	**310**	**1,858**
At 31 December 2012	1,064	1,403	2,467

23 Goodwill and other intangible assets

Group '000 EUR	Goodwill	Software	Other	Total
Cost				
At 1 January 2014	788	450	85	1,323
Additions	-	-	69	69
At 31 December 2014	788	450	154	1,392
Amortisation				
At 1 January 2014	-	16	2	18
Amortisation charge	-	92	50	142
At 31 December 2014	**-**	**108**	**52**	**160**
Carrying value				
At 31 December 2014	**788**	**342**	**102**	**1,232**
At 31 December 2013	788	434	83	1,305
Cost				
At 1 January 2013	-	-	4	4
Additions	788	-	81	869
Transfers property	-	450	-	450
At 31 December 2013	**788**	**450**	**85**	**1,323**
Amortisation				
At 1 January 2013	-	-	1	1
Amortisation charge	-	16	1	17
At 31 December 2013	**-**	**16**	**2**	**18**
Carrying value				
At 31 December 2013	**788**	**434**	**83**	**1,305**
At 31 December 2012	-	-	3	3

23 Goodwill and other intangible assets (continued)

Bank '000 EUR	Software	Other	Total
Cost			
At 1 January 2014	450	85	535
Additions	-	69	69
At 31 December 2014	**450**	**154**	**604**
Amortisation			
At 1 January 2014	16	2	18
Amortisation charge	92	50	142
At 31 December 2014	**108**	**52**	**160**
Carrying value			
At 31 December 2014	**342**	**102**	**444**
At 31 December 2013	434	83	517
Cost			
At 1 January 2013	-	4	4
Additions	-	81	81
Transfers	450	-	450
At 31 December 2013	**450**	**85**	**535**
Amortisation			
At 1 January 2013	-	1	1
Amortisation charge	16	1	17
At 31 December 2013	**16**	**2**	**18**
Carrying value			
At 31 December 2013	**434**	**83**	**517**
At 31 December 2012	-	3	3

In 2014 the Bank did not adjust the provisional goodwill amount that was recognized at the acquisition date.

23 Goodwill and other intangible assets (continued)

Goodwill was recognized as a result of the acquisition of a subsidiary in 2013. At the end of each reporting year, the Bank's management assesses goodwill for impairment by comparing the carrying amounts of the underlying cash generating units, including the allocated goodwill, with their recoverable amounts. The subsidiary is considered to be CGU (Cash generating unit). As at 31 December 2014 no impairment of the CGU was identified.

The valuation was based on a Discounted Dividend Model. The profit after tax is assumed to be a proxy for free cash flow available for distribution to owners that is assumed to be paid out as dividends.

The discount rate, Cost of Equity, is calculated to be 14.41 % (2013: 12.95%) based on the following: CoE[1] = Rf[2] + Rp[3] x Beta[4] + α[5], where

- [2] Rf: Risk free rate – Latvian government bonds with the maturity approximately 10 years - 2.625% (2013: Latvian government bonds with the maturity approximately 10 years - 2.815%)
- [3] Rp = 6.85% (2013: 5%).
- [4] Beta of 0.84 assumed (2013: 0.82).
- [5] α – percentage represents approximate actual return increase relatively to return rate forecasted using capital asset pricing model - 6.03% (2013: 6.03%)

The NPV (Net Present Value) consists of two components:

- The NPV of the dividends in the explicit period 2014E-2019E.
- The terminal value from 2019E and onwards (based on 2% terminal growth assumption (2013: 2%)).

Sensitivity analysis has been performed to test impact on each of the tree scenarios from change in cumulative aggregate growth rate (CAGR) and discount rate:

- Base case scenario is based on income growth rate assumption in 2015 and 2016 amounting to 41-63% annually because of a low starting base. The highest growth planned in 2016 when the Group plans to launch all investment products which are foreseen in the subsidiary's strategy and when sale channels will be established. Then income growth rate is going to stabilize (25% per year). Based on this assumption the forecast of future free cash inflow is 2.8 mln.EUR over the next 5 years.
- Negative scenario is based on historical income growth rate (15% each year). Based on this assumption the forecast of future free cash inflow is 0.9 mln.EUR over the next 5 years.
- Positive scenario is based on an assumption that income grows at an annual rate of 67% during 2015-2016 and 40% during 2017-2019. Based on this assumption free cash inflow would be 3.7 mln.EUR over the next 5 years.

Sensitivity analysis shows that the cost of capital assumptions and CAGR (cumulative average growth ratio) assumptions are the most critical factors in determining the need for impairment of goodwill. The table below presents sensitivity of free cash inflows to cost of capital changes using relevant CAGR in each of the tree scenarios. This sensitivity analysis demonstrates that no impairment is required at reporting date.

Sensitivity	Scenario	CAGR	The discount rate		
			10%	14.41%	20%
Net present value, 000 EUR	Base case	56%	10,365	6,653	4,613
Net present value, 000 EUR	Negative	14%	3,561	2,595	2,059
Net present value, 000 EUR	Positive	68%	18,380	11,092	7,170

24 Other assets

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Group	31 Dec 2014 Bank	31 Dec 2013 Bank
Other financial assets				
Receivables from brokers	181	425	181	425
Settlement of payment cards	164	-	164	-
Other financial assets	**345**	**425**	**345**	**425**
Other non-financial assets				
Prepayments	553	279	553	279
Accrued income	61	17	30	17
Prepaid VAT	38	23	38	23
Other	86	157	85	126
Impairment allowance	-	(70)	-	(70)
Other non-financial assets	**738**	**406**	**706**	**375**
Total other assets	**1,083**	**831**	**1,051**	**800**

25 Current accounts and deposits due to customers

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Group	31 Dec 2014 Bank	31 Dec 2013 Bank
Current accounts and demand deposits	**106,161**	**10,478**	**106,271**	**10,727**
- Private individuals	29,155	3,514	29,155	3,514
- Corporates	77,006	6,964	77,116	7,213
Term deposits	**23,829**	**10,202**	**24,501**	**10,202**
- Private individuals	11,924	4,809	11,925	4,809
- Corporates	11,905	5,393	12,576	5,393
Total current accounts and demand deposits	**129,990**	**20,680**	**130,772**	**20,929**

Concentrations of current accounts and customer deposits

As of 31 December 2014 and 2013, the Group had no customers, whose balances exceeded 10% of total customer accounts.

26 Subordinated liabilities

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Group	31 Dec 2014 Bank	31 Dec 2013 Bank
Subordinated borrowings	9,563	2,005	9,563	2,005
Total Subordinated borrowings	**9,563**	**2,005**	**9,563**	**2,005**

Subordinated borrowings have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up of the Bank. In the event of the winding-up of the Bank these borrowings will be subordinated to the claims of depositors and all other creditors of the Bank.

27 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2014 and 2013. These deferred tax assets have been recognised in these consolidated financial statements.

Movement in temporary differences during the year ended 31 December 2014 of the Group:

'000 EUR	Net balance 1 January 2014	Recognised in profit or loss	Net balance 31 December 2014	31 December 2014	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay	12	11	23	23	-
Property and equipment and intangible assets	(32)	(111)	(143)	-	(143)
Impairment of non-financial assets	10	-	10	10	-
Tax loss carry-forwards	10	213	223	223	-
Deferred tax assets (liabilities) before set-off	**-**	**113**	**113**	**256**	**(143)**
Set off of tax				(143)	143
Net deferred tax assets				**113**	**-**

Movement in temporary differences during the year ended 31 December 2014 of the Bank:

'000 EUR	Net balance 1 January 2014	Recognised in profit or loss	Net balance 31 December 2014	31 December 2014	
				Deferred tax asset	Deferred tax liability
Deferred Holiday Pay	10	10	20	20	-
Property and equipment and intangible assets	(30)	(110)	(140)	-	(140)
Impairment of non-financial assets	10	-	10	10	-
Tax loss carry-forwards	10	100	110	110	-
Deferred tax assets (liabilities) before set-off	-	-	-	**140**	**(140)**
Set off of tax				(140)	140
Net deferred tax assets				**-**	**-**

Unrecognised deferred tax asset

Deferred tax asset of the Bank on tax losses carried forward of EUR 2 330 thousand (2013: EUR 2 314 thousand) have not been recognised, because it is not probable that future taxable profit will be available against which the Bank can use the benefits there from.

Deferred tax asset of the subsidiary on tax profit carried forward of EUR 113 thousand (2013: losses of EUR 135 thousand) have been recognised, because it is probable that future taxable profit will be available against which the Group can use the benefits there from.

28 Provisions and contingent liabilities

In the ordinary course of business, the Group and is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of the future operations of the Group.

Timing of the contingent liability is uncertain and the Group is not exposed to adverse profit or loss statement effects since it has created provisions in full amount for the potential claim.

29 Other liabilities

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Group	31 Dec 2014 Bank	31 Dec 2013 Bank
Accrued expenses	218	73	216	71
Suspense liabilities	484	-	484	-
Deferred income	352	27	352	27
Provision for employee vacations	132	121	115	104
Other	42	45	33	40
Total other liabilities	**1,228**	**266**	**1,200**	**242**

30 Share capital

Issued capital and share premium

On 2 July 2014 shareholder of Bank M2M Europe AS announced increase of share capital of the Bank by EUR 5 000 030 (five million thirty euro) through closed issue of additional shares. The issue did not take place because the shareholder did not subscribe for new shares within the term set by the Rules of Increase of Share Capital as of 2 July 2014 – until 31 December 2014.

The structure of shareholders of the Bank during the accounting period has not changed. Registered share capital of the Bank is EUR 32 920 160.

Paid up share capital of the Bank is EUR 27 920 130 (31 December 2013: EUR 27 920 130) consisting of 398 859 (31 December 2013: 398 859) ordinary voting shares. Nominal value of each share is EUR 70 (31 December 2013: EUR 71). All shares of the Bank are ordinary shares.

Reserves

Other reserves represent residual interest of shareholders and can be distributed to them.

31 Operating leases

Operating lease rentals are payable as follows:

'000 EUR	31 Dec 2014 Group	31 Dec 2013 Group	31 Dec 2014 Bank	31 Dec 2013 Bank
Less than one year	139	138	139	140
Between one and five years	555	555	555	555
More than five years	1,156	1,296	1,156	1,296
Total operating leases	**1,850**	**1,989**	**1,850**	**1,991**

The Bank leases its headquarters under operating lease. The lease runs for an initial period of fifteen years, with an option to renew the lease after that date. Lease payments are fixed. None of the leases includes contingent rentals.

During the current year EUR 139 thousand was recognised as an expense in the profit or loss statement in respect of operating leases (2013: EUR 144 thousand).

32 Assets management

Asset management services

The Group through its Subsidiary provides asset management services to individuals and institutions. The Group receives management fee for providing these services. The assets under management of the Subsidiary are not included in neither the consolidated and nor separate statement of financial position.

As of 31 December 2014 the Group had EUR 187 957 thousand (2013: EUR 61 938 thousand) assets under management of which the Bank held EUR 119 286 (2013: EUR 3 358 thousand) thousand and the Subsidiary held EUR 68 671 thousand (2013: EUR 58 579 thousand).

Custody activities

The Group and the Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are neither assets of the Group, nor the Bank and are not recognized in the consolidated and separate statements of financial position. As of 31 December 2014 the total amount in custody on behalf of customers was EUR 144 114 thousand (2013: EUR 23 671 thousand).

33 Related party transactions

Transactions with members of the Board of Directors and the Management Board of the Group and the Bank

Total remuneration included in employee compensation (refer Note 12):

'000 EUR	2014 Group	2013 Group	2014 Bank	2013 Bank
Remuneration to the management	666	380	573	354

The outstanding balances as of 31 December 2014 with members of the Management Board are as follows:

	2014 '000 EUR	2013 '000 EUR
Statement of financial position		
Assets		
Other assets	6	-
Liabilities		
Current accounts	51	30

Transactions with related parties of the Bank

The outstanding balances as of 31 December 2014 and as of 31 December 2013 and related profit or loss amounts of transactions for the year ended 31 December 2014 and 31 December 2013 with other related parties are as follows.

'000 EUR	Subsidiary company	2014 Other	Total	Subsidiary company	2013 Other	Total
Statement of financial position						
Assets						
Loans and advances due from financial institutions	-	245	245	-	145	145
Financial assets at fair value through profit or loss	-	-	-	-	744	744
Total assets	**-**	**245**	**245**	**-**	**889**	**889**
Liabilities						
Current accounts and deposits due to customers	782	1,088	1,870	249	581	830
Payables for management services	-	-	-	-	15	15
Total liabilities	**782**	**1,088**	**1,870**	**249**	**596**	**845**
Income/(expenses)						
Fee and commission income	-	61	61	1	9	10
Interest income/(expenses)	(15)	49	34	-	-	-
Trade and financial instruments revaluation	-	162	162	-	-	-

The subsidiary has no other related party transactions than those with the Bank. Therefore, transactions with related parties of the Group are not disclosed separately.

34 Fair value of financial instruments

Financial instruments measured at fair value

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

2014	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total '000 EUR
Financial assets				
Financial assets at fair value through profit or loss	-	803	-	803
Available for sale instruments	19,214	1,464	1,621	22,299
	19,214	**2,267**	**1,621**	**23,102**
Financial liabilities				
Financial assets at fair value through profit or loss	-	275	102	377
	-	**275**	**102**	**377**
2013				
Financial assets				
Financial assets at fair value through profit or loss	148	9	-	157
Available for sale instruments	8,820	1,151	-	9,971
	8,968	**1,160**	**-**	**10,128**
Financial liabilities				
Financial assets at fair value through profit or loss	-	28	-	28
	-	**28**	**-**	**28**

The following table shows reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

'000 EUR	Financial assets at fair value through profit or loss	Available for sale instruments	Financial liabilities at fair value through profit or loss	Total '000 EUR
Balance at 1 Jan 2014	**-**	**-**	**-**	**-**
Total gains and losses:				
in profit or loss	-	3	-	3
in OCI	-	-	-	-
Purchases	-	1,621	-	1,621
Settlements	-	(3)	-	(3)
Balance at 31 Dec 2014	**-**	**1,621**	**-**	**1,621**

34 Fair value of financial instruments (continued)

Total gains or losses for the year in the above table are presented in the statement of comprehensive income as follows:

'000 EUR	Financial assets at fair value through profit or loss	Available for sale instruments	Financial liabilities at fair value through profit or loss	Total
Total gains and losses included in profit or loss:				
Net gain/(loss) on financial instruments at fair value through profit or loss	-	3	-	3
Net realised gain on available-for-sale instruments	-	-	-	-
Total losses recognised in other comprehensive income	**-**	**3**	**-**	**3**
Available-for-sale financial assets – net change in fair value	-	-	-	-

Bank's level III portfolio is represented by 4 Bond issuers operating in Real estate & Financial sector of 4 countries.

Precise discount rate (6,15%) is an unobservable variable due to low liquidity of these instruments.

Thus Bank is assuming that alternative valuations may use a discount rate (9.15% or 3.15%) different by 300 bps.

Change of discount rate by 300 bps will have the following effect on value of Level III portfolio fair value:

'000 EUR	Effect on profit or loss	
Level III portfolio as of 31.12.2014	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
1 620	(49)	49

As at the reporting date there remained one exposure (amount of the exposure as at December 31, 2014 – EUR 428 thousand) classified as level III (EUR 477 thousand) and the rest were settled without any impairment losses.

34 Fair value of financial instruments (continued)

Financial instruments not measured at fair value

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

31 December 2014	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total fair values '000 EUR	Total carrying amount '000 EUR
Financial assets					
Cash and due from central banks1)	-	-	-	306	306
Loans and advances due from financial institutions2)	-	-	-	72,081	72,081
Loans and advances due from customers	-	-	36,915	36,915	36,702
Held to maturity instruments	16,063	830	-	16,893	16,887
Other financial assets3	-	-	-	181	181
Financial liabilities					
Deposits and balances due to customers	-	-	130,726	130,726	129,990
Subordinated liabilities	-	-	9,515	9,515	9,563
31 December 2013	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Cash and due from central banks1)	-	-	-	2,544	2,544
Loans and advances due from financial institutions2)	-	-	-	12,957	12,957
Loans and advances due from customers	-	-	-	4,614	4,614
Held to maturity instruments	973	685	-	1,658	1,706
Other financial assets3)	-	-	-	425	425
Financial liabilities	-	-	-	-	-
Deposits and balances due to customers	-	-	20,690	20,690	20,680
Subordinated liabilities	-	-	1,954	1,954	2,005

1) Cash and due from central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.
2) Most of the loans and advances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.
3) Other financial assets consist of receivables from settlement of financial instruments; thus the carrying amount is approximates their fair value.

34 Fair value of financial instruments (continued)

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

31 December 2014	Level 1 '000 EUR	Level 2 '000 EUR	Level 3 '000 EUR	Total fair values '000 EUR	Total carrying amount '000 EUR
Financial assets					
Cash and due from central banks[1]	-	-	-	306	306
Loans and advances due from financial institutions[2]	-	-	-	71,644	71,644
Loans and advances due from customers	-	-	36,915	36,915	36,702
Held to maturity instruments	16,063	830	-	16,893	16,887
Other financial assets[3]	-	-	-	181	181
Financial liabilities					
Deposits and balances due to customers	-	-	130,836	130,836	130,772
Subordinated liabilities	-	-	9,515	9,515	9,563
31 December 2013	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Cash and due from central banks[1]	-	-	-	2,544	2,544
Loans and advances due from financial institutions[2]	-	-	-	12,141	12,141
Loans and advances due from customers	-	-	-	4,614	4,614
Held to maturity instruments	973	685	-	1,658	1,706
Other financial assets[3]	-	-	-	425	425
Financial liabilities	-	-	-	-	-
Deposits and balances due to customers	-	-	20,939	20,939	20,929
Subordinated liabilities	-	-	1,954	1,954	2,005

1) Cash and due from central banks consist of various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.
2) Most of the loans and advances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.
3) Other financial assets consist of receivables from settlement of financial instruments; thus the carrying amount is equal to their fair value.

34 Fair value of financial instruments (continued)

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial assets at fair value through profit or loss	Discounted cash flows	Discount rates
Available for sale instruments	Discounted cash flows	Discount rates

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Loans and advances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Subordinated liabilities	Discounted cash flows	Discount rates

35 Involvement with mutual funds managed by the Group

The group has a mutual fund managed by its subsidiary. For the rendering service the subsidiary receives management fees.

The Group has its own exposure with the fund for the total amount EUR 1 804 thousand (31 December 2013: EUR 1 174 thousand), which consists of direct investment in the fund units in amount of EUR 1 002 thousand (31 December 2013: EUR 1 174 thousand) and issued guarantees for investors in amount of EUR 802 thousand (31 December 2013: EUR 0). Fund Guarantee – the Bank's product that guarantees a definite price level to Customers investing in fund. If fund price at the maturity of the guarantee is lower than the price at the purchase moment, the difference is compensated by the Bank. Unrealized loss is recognized for total amount EUR 127 thousand (2013: EUR 0).

The maximum risk exposure is equal to the carrying amount of these investments.

36 Events subsequent to the reporting date

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto.