AS DNB BANKA

CONSOLIDATED AND BANK FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

DNB

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AS DNB banka

Skanstes str 12, Riga, LV-1013, Latvia

Phone:

(371) 6 717 1880

Fax:

(371) 782 0080

(371) 732 3449

Registration Number:

4000 302 4725

A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL

Introduction of the euro was our most important project in 2013. Thanks to the preparedness of our client service channels, technological platform and employees, the transfer to the new currency was easy and efficient for our clients. In order to allow clients to exchange cash from the former to the new currency with no hurry, moreover, DNB banka will continue to accept lats banknotes via cash-in ATMs up to end of June, 2014.

DNB Group's operational income in Latvia reached a level of LVL 49.6 million at the end of December 2013. The DNB Group's operational profit before provisions and taxes amounted to LVL 17.7 million at that time, which was 10% less than on December 31, 2012. This is due to increased costs mainly related to the introduction of the euro, as well as to IT projects for the DNB Group. In 2013, the profit of the DNB Group in Latvia amounted to LVL 7.5 million.

DNB Group's loan portfolio in Latvia amounted to LVL 1.4 billion at the end of December 2013. The deposit portfolio at that time was 17% higher than at the beginning the year, amounting to LVL 770 million or EUR 1 billion. 97% of the DNB banka deposit portfolio represented residential deposits.

The DNB banka financial stability ratios exceeded requirements, with the group's liquidity reaching a level of 52.8%, and the capital adequacy ratio being at a level of 12.3%.

The people of Latvia, as well as domestic and international companies, very much appreciated the stability and performance of the bank and its shareholder. The DNB banka increased customer numbers by 16,500 individuals and 1,760 companies in 2013. Several large companies which are of crucial importance to the Latvian economy chose DNB as their home bank during the year. This was thanks to our high level of client service standards, our individual approach, and our strict corporate social responsibility policies.

In the area of individual customers, the bank continued to educate them about the need to save up their money, to use electronic channels in relation to the bank, and to receive electronically the financial services that they need. A new version of the Internet bank was launched during the second quarter of 2013, offering more extensive functionality and greater customer friendliness in terms of the interface. During the reporting period, the effectiveness of the DNB bank's network of branches was increased by offering a broader range of services to individuals and legal entities at branches which have more active client flows. Clients could increasingly resolve their issues at a branch, and we developed our consultation services in the area of client services. In order to ensure access to everyday operations for clients, we modernised our ATM network by increasing the number of cash-in ATMs and also by installing new multi-currency ATMs.

Year 2013 was especially successful for IPAS DNB Asset Management, which is a DNB banka subsidiary. The subsidiary manages assets in state-funded pension schemes (the 2nd pillar of the pension system). DNB Asset Management is one of the leading managers of 2nd pillar assets in Latvia, offering three investment strategies to its customers – the conservative, balanced and active approach. During the course of 2013, assets in the pension plans managed by DNB Asset Management increased by 25.2% to LVL 116.1 million, and the number of participants in the plans rose by 11.5% to a total of 100,069 clients. Growth of both indicators is the highest in the pension industry in Latvia.

DNB Asset Management also offers other asset management services, including funds and institutional portfolio management. DNB Asset Management manages the open investment fund DNB Reserve Fund, with net assets at year's end of LVL 12.7 million (EUR 18 million).

DNB Līzings maintained its market share last year thanks to successful partnerships with all of Latvia's major automobile dealers. A strategic partnership was established with Moller Auto. Despite an overall shrinkage in the market portfolio, DNB Līzings succeeded in increasing its total leasing portfolio by 5.5% during the past year.

2013 was also a good year for the real estate properties portfolio managed by DNB banka and Salvus, DNB bank's real estate management companies. The total amount of the real estate units was successfully shrunk, and the value of individual units and the overall portfolio increased. This has allowed us to reduce property maintenance and upkeep costs to a considerable degree.

DNB Markets in 2013 continued to develop in global markets, thus being able to offer investments in new financial instruments to its clients.

One of the operating priorities for the DNB banka in 2013 was to improve effectiveness. Thanks to its belonging to Norway's largest financial group, DNB, the bank had access to an extensive set of knowledge, technologies and experiences, thus improving operations and IT development processes. The knowledge was also used to consolidate functions at the Baltic level. After the introduction of a successful DNB Markets management model in the Baltic States in 2012, a unified management model was introduced for the product development function in 2013. We expect that close integration of functions in the Baltic States will continue in future years, as well.

Terje Turnes	Aasmund Skaar
Chairman of the Supervisory Council	CEO, Chairman of the Management Board

Riga
21 March 2014

The Supervisory Council and the Management Board of the Bank as of 31 December 2013

The Supervisory Council

Name	Institution	Position	Date of appointment
Terje Turnes	DNB Bank ASA	Chairman of the Supervisory Council	1 March 2011
Tony Samuelsen	DNB Bank ASA	Member of the Supervisory Council	26 March 2008*
Eline Skramstad	DNB Bank ASA	Member of the Supervisory Council	11 December 2012
Leif Rene Hansen		Member of the Supervisory Council	31 May 2013

** From 14 June 2012 till 31 May 2013 Tony Samuelsen was the Vice Chairman of the Supervisory Council*

The following members of the Supervisory Council have left their positions since 31 December 2012:

Name	Institution	Position	Date of resignation
Margrethe Melbye Gronn	DNB Bank ASA	Member of the Supervisory Council	31 May 2013
Olaf Tronsgaard	DNB Bank ASA	Member of the Supervisory Council	31 May 2013

The Management Board

Name	Position	Date of appointment
Aasmund Skaar	CEO, Chairman of the Management Board	1 September 2012
Ole Christian Karterud	CRO, Member of the Management Board	1 April 2012
Tom Erdal	CFO, Member of the Management Board	1 January 2012
Ivars Kapitovics	Head of Retail Banking, Member of the Management Board	10 August 2006
Janis Teteris	Head of Corporate Banking, Member of the Management Board	1 August 2009
Dace Kaulina	Head of HR Department, Member of the Management Board	25 January 2013
Intars Sloka	COO, Member of the Management Board	25 January 2013

None of members of the Management Board have left position since 31 December 2012.

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of AS DNB banka is responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 9 to 95 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2013 and the results of their operations and cash flows for the year ended 31 December 2013.

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

The Management Board of AS DNB banka is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and the Bank's assets and the prevention and detection of fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia, Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Aasmund Skaar
CEO, Chairman of the Management Board

Ole Christian Karterud
Member of the Management Board

Tom Erdal
CFO, Member of the Management Board

Ivars Kapitovičs
Member of the Management Board

Jānis Teteris
Member of the Management Board

Dace Kauliņa
Member of the Management Board

Intars Sloka
Member of the Management Board

Rīgā
2014. gada 21. martā

INDEPENDENT AUDITORS' REPORT

To the shareholder of AS DNB banka

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS DNB banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS DNB banka (hereinafter - the Bank), which are set out on pages 9 through 95 of the accompanying 2013 Annual Report, which comprise the financial position as at 31 December 2013, the statement of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Group and Bank of 31 December 2013, 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.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2013 (set out on pages 2 through page 3 of the accompanying 2013 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2013.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga,
21 March 2014

FINANCIAL STATEMENTS

Consolidated statement of comprehensive income for the years ended 31 December 2013 and 2012

	Notes	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Interest income	5	43,090	54,671	40,492	51,682
Interest expense	6	(11,617)	(23,028)	(10,386)	(21,518)
Net interest income		**31,473**	**31,643**	**30,106**	**30,164**
Fees and commission income	7	13,742	13,146	12,411	12,090
Fees and commission expense	8	(4,201)	(3,795)	(4,105)	(3,775)
Net fees and commissions		**9,541**	**9,351**	**8,306**	**8,315**
Net gain/ (loss) from operations with foreign currency, trading securities and derivative financial instruments	9	4,559	7,093	4,583	7,031
Net result from operations with investment property	10	902	1,415	(972)	204
Other operating income	11	3,090	1,099	4,569	2,026
Dividend income		9	5	624	402
Operating income		**49,574**	**50,606**	**47,216**	**48,142**
Personnel expenses	12	(13,507)	(12,749)	(13,082)	(12,307)
Other administrative expenses	12	(14,558)	(14,487)	(14,893)	(15,038)
Depreciation	21, 22	(2,759)	(3,073)	(2,114)	(2,266)
Other operating expenses	13	(1,018)	(623)	(956)	(484)
Net allowances for impairment loss	25	(10,509)	(10,294)	(10,240)	(9,985)
Profit before income tax		**7,223**	**9,380**	**5,931**	**8,062**
Corporate income tax	14	241	(252)	96	(459)
Profit for the period from continuing operations		**7,464**	**9,128**	**6,027**	**7,603**
Profit attributable to:					
Equity holders of the Bank		7,464	9,128	6,027	7,603
Other comprehensive income					
<u>Items that will not be reclassified to profit or loss</u>					
Changes in revaluation reserve of fixed assets		83	-	83	-
Other comprehensive income total		**83**	**-**	**83**	**-**
Total comprehensive profit		**7,547**	**9,128**	**6,110**	**7,603**
Total comprehensive profit attributable to:					
Equity holders of the Bank		7,547	9,128	6,110	7,603

The financial statements on pages 9 to 95 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes	Aasmund Skaar	Tom Erdal
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga,

21 March 2014

The accompanying notes are an integral part of these financial statements

Consolidated statement of financial position at 31 December 2013 and 31 December 2012

Assets	Notes	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Cash and balances with central banks	15	137,670	65,616	137,670	65,616
Due from other credit institutions (demand)	16	38,146	19,000	37,734	18,613
Derivatives	20	23,214	14,054	23,214	14,054
Financial assets designated at fair value through profit or loss	18	29,135	66,097	29,135	66,097
Debt securities and other fixed income securities		*28,751*	*65,714*	*28,751*	*65,714*
Investment funds		*384*	*383*	*384*	*383*
Financial assets available-for-sale		46	26	46	26
Loans and advances		1,390,760	1,405,292	1,362,850	1,376,870
Due from other credit institutions (term)	16	181,320	159,815	181,320	159,815
Loans to customers	17	1,209,440	1,245,477	1,181,530	1,217,055
Accrued income and deferred expenses		890	672	650	452
Investment property	23	47,082	40,535	12,208	16,778
Property and equipment	22	23,090	24,448	4,692	5,368
Intangible assets	21	1,695	1,669	1,374	1,311
Investments in subsidiaries	19	-	-	6,227	6,027
Deferred corporate income tax	14	6,125	6,026	6,125	6,026
Current corporate income tax		431	345	14	14
Other assets	24	7,055	5,941	2,836	2,602
Total assets		**1,705,339**	**1,649,721**	**1,624,775**	**1,579,854**

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Riga,
21 March 2014

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Liabilities	Notes	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Liabilities to credit institutions on demand	26	11,419	20,535	11,419	20,535
Derivatives	20	22,645	16,193	22,645	16,193
Financial liabilities at amortised cost:		1,497,206	1,447,309	1,395,475	1,352,504
Due to credit institutions (term)		727,581	789,896	622,007	691,368
Deposits from customers and other financial liabilities		769,625	657,413	773,468	661,136
Accrued expenses and deferred income	28	4,448	3,835	4,161	3,703
Deferred tax liability	14	20	51	-	-
Income tax liability		-	274	-	-
Other liabilities	29	3,292	3,845	1,597	1,900
Provisions	30	1,249	167	22,141	23,792
Total liabilities		**1,540,279**	**1,492,209**	**1,457,438**	**1,418,627**
Shareholders' equity					
Share capital	31	134,361	134,361	134,361	134,361
Share premium		48,994	48,994	48,994	48,994
Reserve capital		157,511	157,511	157,511	157,511
Revaluation reserve		118	35	118	35
Accumulated result		(175,924)	(183,389)	(173,647)	(179,674)
Total shareholders' equity attributable to the shareholders of the Bank		**165,060**	**157,512**	**167,337**	**161,227**
Total shareholders' equity		**165,060**	**157,512**	**167,337**	**161,227**
Total liabilities and shareholders' equity		**1,705,339**	**1,649,721**	**1,624,775**	**1,579,854**

The financial statements on pages 9 to 95 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes	Aasmund Skaar	Tom Erdal
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga,
21 March 2014

The accompanying notes are an integral part of these financial statements

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

Group

	Share capital	Share premium	Reserve capital	Revaluation reserve	Accumulated result	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
At 1 January 2012	**134,361**	**48,994**	**157,511**	**35**	**(192,516)**	**148,385**
Profit for the year	-	-	-	-	9,128	9,128
Total comprehensive income	**-**	**-**	**-**	**-**	**9,128**	**9,128**
At 31 December 2012	**134,361**	**48,994**	**157,511**	**35**	**(183,388)**	**157,513**
Profit for the year	-	-	-	-	7,464	7,464
Other comprehensive income						
Increase of revaluation reserve	-	-	-	83	-	83
Total comprehensive income	**-**	**-**	**-**	**83**	**7,464**	**7,547**
At 31 December 2013	**134,361**	**48,994**	**157,511**	**118**	**(175,924)**	**165,060**

Bank

	Share capital	Share premium	Reserve capital	Revaluation reserve	Accumulated result	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
At 1 January 2012	**134,361**	**48,994**	**157,511**	**35**	**(187,277)**	**153,624**
Profit for the year	-	-	-	-	7,603	7,603
Total comprehensive income	**-**	**-**	**-**	**-**	**7,603**	**7,603**
At 31 December 2012	**134,361**	**48,994**	**157,511**	**35**	**(179,674)**	**161,227**
Profit for the year	-	-	-	-	6,027	6,027
Other comprehensive income						
Increase of revaluation reserve	-	-	-	83	-	83
Total comprehensive income	**-**	**-**	**-**	**83**	**6,027**	**6,110**
At 31 December 2013	**134,361**	**48,994**	**157,511**	**118**	**(173,647)**	**167,337**

The accompanying notes are an integral part of these financial statements

Consolidated statement of cash flow for the years ended 31 December 2013 and 31 December 2012

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Cash flow from operating activities				
Profit / (Loss) before income tax and dividends	7,223	9,380	5,931	8,062
Depreciation and amortization of intangible assets and property and equipment	2,759	3,073	2,114	2,266
(Decrease) / Increase in provisions for doubtful debts and off-balance sheet liabilities	10,509	10,294	10,240	9,985
(Profit) / Loss from revaluation of securities, derivatives and loans	197	(2,775)	197	(2,775)
(Profit) / Loss from revaluation of investment property	(1,418)	(2,464)	589	(1,157)
(Profit) from sale of fixed and intangible assets	(36)	(73)	(17)	(70)
Dividends received	(9)	(5)	(624)	(402)
Loss from foreign currency revaluation	22	120	21	122
Cash flow from operating activities before changes in assets and liabilities	**19,247**	**17,550**	**18,451**	**16,031**
Decrease in loans and advances to customers	25,761	25,470	25,504	29,232
(Increase) in due from credit institutions	(271)	(722)	(270)	(722)
(Increase) / Decrease in financial assets designated at fair value through profit and loss	36,725	(5,989)	36,725	(5,989)
(Increase) in due to credit institutions	(62,315)	(100,492)	(69,361)	(96,779)
(Increase) / Decrease in accrued income and deferred expenses	(218)	(50)	(198)	40
Decrease in other assets and taxes	(1,310)	5,001	(476)	3,495
Increase in clients deposits	112,212	96,529	112,332	92,339
Increase / (Decrease) in derivatives	(2,668)	3,175	(2,668)	3,175
Increase in accrued expenses and deferred income	613	1,315	458	1,277
(Decrease) in other liabilities	307	-	(1,871)	(1,562)
Increase in cash and cash equivalents as a result of operating activities	**128,083**	**41,787**	**118,626**	**40,537**

		2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Cash flow from investing activities					
(Acquisition) of property and equipment and intangible assets		(1,615)	(2,612)	(1,561)	(2,398)
Sale of property and equipment and intangible assets		224	816	77	141
(Acquisition) of participation in share capital of subsidiary and Business Unit		-	-	(200)	(200)
Sale / (Acquisition) of investment property		(5,129)	303	3,981	1,666
(Decrease) / Increase in cash and cash equivalents as a result of investment activities		**(6,520)**	**(1,493)**	**2,297**	**(791)**
Cash flow from financing activities					
Dividends received		9	5	624	402
Increase in cash and cash equivalents as a result of financing activities		**9**	**5**	**624**	**402**
Net increase in cash and cash equivalents		**121,572**	**40,299**	**121,547**	**40,118**
Cash and cash equivalents at the beginning of the year		222,290	182,111	221,906	181,880
(Loss) of foreign currency revaluation on cash and cash equivalents		(22)	(120)	(21)	(122)
Cash and cash equivalents at the end of the year	**15**	**343,840**	**222,290**	**343,432**	**221,906**
Cash flow from interest received		43,849	55,979	41,251	52,951
Cash flow from interest paid		10,671	25,910	9,463	24,196

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS DNB banka was established as Riga Commercial Bank on 26 June 1989. On 6 September 1991 it was incorporated in the Republic of Latvia as a joint stock company. The Bank and its subsidiaries (the Group) are engaged in banking and the financial services business.

On June 30, 2011 DNB Bank ASA (former DnB NOR Bank ASA) has acquired from Bank DNB A/S (former Bank DnB NORD A/S) all Bank shares which belonged to Bank DNB A/S (Denmark) and constituted 100% of share capital of Bank; DNB Bank ASA (Norway) became the direct shareholder of the Bank.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Reporting Currency

The accompanying financial statements are reported in thousands of lats (LVL'000), unless otherwise stated.

b) Basis of Presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss, derivative contracts and the Group's and Bank's buildings and investment properties which are measured at fair value.

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

These financial statements comprise of both, the financial statements of the parent company AS DNB banka and the consolidated statements.

c) Consolidation

Subsidiary undertakings in which the Bank, directly or indirectly, has the power to exercise control over financial and operating policies, have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal or when the control ceases. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

d) Income and Expense Recognition

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect to financial assets or liabilities not at fair value through profit or loss are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other commissions and fees are credited and/ or charged to the income statement as earned/ incurred.

e) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at actual rates of exchange set forth by the Bank of Latvia at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.

The principal rates of exchange (LVL to 1 foreign currency unit) set by the Bank of Latvia and used in the preparation of the Group's and the Bank's balance sheets were as follows:

Reporting date	USD	EUR
As at 31 December 2013	0.515	0.702804
As at 31 December 2012	0.531	0.702804

f) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liability is calculated using the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

g) Cash and Cash Equivalents

For purposes of the cash flow statements cash and cash equivalents comprise cash balances, balances due from the central banks, due from other credit institutions with original maturity less than 3 months and insignificant risk due to change in value, less balances on demand due to other credit institutions.

h) Loans and receivables and allowances for loan impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and advances are recognised in the balance sheet when cash is advanced to borrowers. For the purposes of these financial statements, finance lease receivables are included in loans and advances to non-banking customers.

A credit risk allowances for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the current interest rate of the loans.

The Group first assesses whether objective evidence of impairment exists individually for material loans. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment loans are grouped on a basis of similar credit risk characteristics.

The Group reviews their loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is possible, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries are credited to the income statement.

Allowances for individual loan impairment are made in the currency of the related asset and are subject to revaluation at period end at the rate set by the Bank of Latvia. Foreign exchange rate differences arising from such revaluation are recorded in the income statement as additional allowances or income from the recovery of existing allowances (if any). The corresponding result of revaluing the respective asset covered by the allowances for loan impairment is recorded as profit/ loss to foreign currency transactions. Allowances for collective loan impairment are made in LVL.

Individual and collective impairments

Material loans are subject for quarterly individual assessment of provision need if at least one loss event has occurred, e.g. one or more commitments of the customer are overdue more than 90 days (principal or interest), restructuring of one or more commitments of the customer, customer has major financial problems or other issues that will lead to major financial problems, customer has breached financial covenants / other covenants that affects the customer's ability to service his liabilities, suspension or revocation of license held by the customer engaged in licensed activities, significant drop in rating class etc. If the Group determines that no loss event has occurred for specific loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment (using IBNR approach, where provisions amount is based on historical loss rate for specific group and probability of becoming impaired).

Immaterial loans are assessed quarterly on the basis of portfolios, i.e. mortgage loans, private RE loans, small and medium size loans to legal entities (mainly SME's), as well as active lease agreements. Within each portfolio approach differs based on loans quality – number of overdue days and status of restructuring. The main part of immaterial loans is mortgage and private RE loans (both of those groups are loans issued to private individuals secured with real estate collateral). In case of non-performing (>90 days overdue) loans, provisions are made based on information about current collateral values, chosen foreclosure strategy, estimated expenses related to collateral realisation as well as potential recovery of uncovered loan amount after realisation of collateral. If loan is not due or delayed up to 90 days or restructured, impairment is calculated based on historical and estimated migration to non-performing status. Impairment for non-performing loans is classified as specific provisions while impairment for restructured loans is classified as pool provisions, impairment for performing loans are classified as IBNR or pool provisions.

Impairment for terminated leasing agreements are calculated based on realised losses, in case of factoring and consumer loans impairment is calculated based on overdue days.

Restructured loans

Where possible, the Bank seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting the payment schedule made by a borrower in a manner matching the borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and the agreement of new loan conditions. If the customer faces long term financial difficulties, the Bank together with the customer if possible is looking for long term solution (e.g. extended maturity, voluntarily sales of property etc.) Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. Restructured loans continue to be subject to an individual or collective impairment assessment on a quarterly basis.

The Bank recognises decreasing provisions for impairment losses due to shortening of discounting period of expected cash flows and treats it as a part of interest income.

i) Leases - when the Group or the Bank is a lessor

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific assets and the arrangement conveys a right to use the asset.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Contingent rents are recognised as revenue in the period in which they are earned.

Assets under operating leases are recognised as equipment at historical cost net of accumulated depreciation. Depreciation is calculated on a straight-line. Assets are depreciated till its residual value over the estimated useful life of property and equipment that is determined based on useful lives of similar assets of the Group and the Bank. Rentals receivable under operating leases are credited to the income statement on a straight-line basis over the lease term and presented in other income.

If a sale and leaseback transaction results in an operating lease and the sales price is above fair value of the asset sold, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

j) Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit and loss are designated by management on initial recognition as a part of financial assets which are managed and their performance evaluated on a fair value basis.

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of financial assets at fair value through profit or loss is derived from the value of an instrument that is substantially the same or from discounted cash flow models. Gains and losses arising from changes in the fair value of financial assets are recognised in the income statement.

Interest earned whilst holding financial assets at fair value through profit or loss is recorded as interest income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at settlement date.

k) Subsidiaries

Investments in subsidiaries in the Bank's financial statements are accounted for under the cost method.

The Bank recognises income from investment only to the extent that the Bank receives dividends from the accumulated profit of the subsidiaries arising after the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If there is objective evidence that an impairment loss on investments in subsidiaries carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of investment. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

l) Property and Equipment

Property is valued at fair value. Equipment and other assets are recorded at cost, less accumulated depreciation, revaluation method is being applied.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to write off the cost or revaluated amount of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

Category	**Annual Rate**
Buildings	1% - 2%
Building parts	2% - 6%
Engineering networks and equipment	4%
Office equipment	10% - 20%
Network and computer equipment	20% - 25%
Vehicles	20%

Maintenance and repair costs are charged to the income statement as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

Revaluation reserve

The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified values. The fair value of items of plant and equipment is their market value determined by appraisal.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

m) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

n) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the straight-line basis of their expected useful lives, not exceeding five years.

o) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps and options, commodity swaps are initially recognised at their fair value. Derivatives are revalued at least monthly. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are reported in the income statement.

Derivatives notional amounts are recognised in Bank off-balance sheet accounts.

p) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to customers and due to banks. These are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

q) Off-balance sheet items

In the ordinary course of business, the Group and the Bank have been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

r) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices.

s) Off-setting financial instruments

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

t) Provisions

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued, to other off balance sheet items and also to legal reserve. The assessment of provisions requires the application of management's judgement and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

The provisions for employee vacation pay are calculated for the Group's and the Bank's personnel based on each employees' total number of vacation days earned but not used and average salary including social security expense.

u) Financial Guarantees

The Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at balance sheet date.

v) Trust Activities

Funds managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are not included in the balance sheet.

w) Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances:

The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(h).

The Bank in 2013 has revised assumptions used for provisions calculation for mortgage and private RE loans, leading to changes in some of assumptions used, however, approach was not changed. To assess the provisioning level for mortgage and private RE loans, the Bank has performed individual and statistical revaluation of real estate collaterals, as well as reviewed and adjusted assumptions used in calculations (proportion of each foreclosure strategy (voluntarily sales and forced sales), realisation values in auctions, real estate market price growth, expected recovery of unsecured part after realisation of collateral, estimated migration of restructured loans to non-performing status and other). In total it resulted in increase in provisions by LVL 2.2 mln.

- Deferred assets:

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The deferred tax assets are recognised based on profitability assumptions over five year horizon.

- Fair values:

Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgements include considerations of liquidity and model inputs. The valuation of financial instruments is described in more detail in Note 35.

- Investment property:

See Note 35.

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS

During the year the Group has adopted the following IFRS amendments:

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

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

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

- IFRS 13 Fair Value Measurement. The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The implementation of this standard did not have a material impact on the amounts recognised in these financial statements; however it resulted in additional disclosures (see Note 35).

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

Standards issued but not yet effective

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

Amendments to IAS 19 Employee Benefits (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group.

Amendment to IAS 27 Separate Financial Statements (effective for financial years beginning on or after 1 January 2014)

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

Amendment to IAS 28 Investments in Associates and Joint Ventures (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Group.

Amendment to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group has not yet evaluated the impact of the implementation of this amendment.

Amendment to IAS 36 Impairment of Assets (effective for financial years beginning on or after 1 January 2014)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the Group, however may result in additional disclosures.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective for financial years beginning on or after 1 January 2014)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment will not have any impact on the financial position or performance of the Group, since it does not apply hedge accounting.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 10 Consolidated Financial Statements (effective for financial years beginning on or after 1 January 2014)

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

IFRS 11 Joint Arrangements (effective for financial years beginning on or after 1 January 2014)

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

IFRS 12 Disclosures of Interests in Other Entities (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 14 Regulatory Deferral Accounts (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The implementation of this standard will not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities (effective for financial years beginning on or after 1 January 2014)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

Improvements to IFRSs (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:

- IFRS 1 First-time adoption of IFRS;
- IFRS 2 Share-based Payment;
- IFRS 3 Business Combinations;
- IFRS 8 Operating Segments;
- IFRS 13 Fair value Measurement;
- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;
- IAS 38 Intangible Assets;
- IAS 40 Investment property.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.

IFRIC Interpretation 21 Levies (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Group has not yet evaluated the impact of the implementation of this interpretation.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

4 RISK MANAGEMENT

Sound risk management is a prerequisite for long-term value generation as the profitability is dependent on Group's ability to identify, manage and accurately price risk. In 2013 the Bank continued to carry out harmonization of risk management process with the parent bank DNB Bank ASA (Norway) and further on aims to follow main parent bank's policies and guidelines to the extent possible. However, it has to be taken into account that the Group is standardized approach bank according to Basel II while parent bank follows internal ratings based approach. Therefore, harmonization of some sub-processes in risk management area is limited.

Organisation and authorization structure

- Supervisory Council and Management Board. The Supervisory Council sets long-term targets for the Group's risk profile. The risk profile is operationalised through the risk management framework, including the establishment of authorisations. The Management Board is responsible for development, implementation, control and regular revision of risk management framework.

- Authorisations. Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas.

- Annual review of limits. Risk limits are reviewed at least annually in connection with budget and planning processes.

- Independent risk management functions. Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas.

Monitoring and use

- Accountability. All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times.

- Risk reporting. Risk reporting in the Group ensures that all executives have the necessary information about current risk levels and possible future developments. To ensure high-quality, independent risk reports, responsibility for reporting is assigned to units that are independent of the operative units.

- Capital assessment. A summary and analysis of the Group's capital and risk situation is presented on a regular basis to the Bank's senior management.

- Use of risk information. Risk is an integral part of the management and monitoring of business areas to the extent possible, including taken into account during strategic and planning processes, lending process, product development and other daily business activities.

Relevant risk measures

Risk is followed up through risk measures adapted to operations in the various business areas, for example, monitoring of set limits, key financial and risk figures and ratios, portfolio risk targets, stress testing as well as risk analysis during internal capital adequacy assessment process.

Risk categories

For risk management purposes, Group distinguishes between the following main risk categories:

- *Credit risk* is the risk of financial losses due to failure on the part of the Group's customers (counterparties) to meet their payment obligations towards DNB. Credit risk also includes concentration risk and residual risk.
- *Market risk* is the risk of losses due to un-hedged positions in the foreign exchange, interest rate, commodity and equity markets. The risk reflects potential fluctuations in profits due to volatility in market prices and exchange rates.
- *Liquidity risk* is the risk to incur unacceptable losses due to inability to fund increases in assets and meet obligations as they come due.
- *Operational risk* is the risk of losses due to deficiencies or errors in processes and systems, errors made by employees or external events. Operational risk also includes compliance risk and legal risk.
- *Business risk* is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. Reputational risk is often a consequence of other risk categories. The Group's business risk is generally handled through the strategy process and by maintaining ongoing focus on safeguarding and improving the Group's reputation.

The Group quantifies total risk during internal capital adequacy assessment process by calculating capital needed to cover various types of risk, except liquidity risk. Risk measurement is a field in constant development, and measurement methods and tools are subject to continual improvement.

a) Credit Risk

Credit risk is the main risk category in the Group. The credit portfolio includes loans, liabilities in the form of other extended credits, guarantees, leasing, factoring, interest bearing securities, approved, undrawn credits, as well as counterparty risk arising through derivatives and foreign exchange contracts. Settlement risk, which arises in connections with payment transfers as not all transactions take place in real time, also involves counterparty risk.

Credit risk management framework

The Group's credit policy, credit strategies and credit guidelines (Credit Manual) regulate credit activity in the Group and are based on the parent bank's relevant credit policies and guidelines. The best practice, experience and competence of the parent bank are taken over in order to have common and strong credit culture.

Strategic goal for the whole DNB Group is to ensure that the loan portfolio has a quality and compositions which secure the Group's profitability in the short and long term. The Group intends to grow credit portfolio only with low and medium risk customers.

Main credit risk management principles

Customer's true willingness and ability to repay the loan is/ must be the key element when considering whether to approve a loan; collateral is considered only as a risk mitigant.

- Keep a balanced loan portfolio from concentration point of view, including the balance between private individuals and legal entities.
- Avoidance of large risk concentrations related to a single customer/ group or clusters in higher risk categories, specific business sectors and geographic areas whereby significant changes in one or a few risk drivers may substantially affect the Group's profitability.
- Not financing industries where the Group does not have competence and experience.
- Any changes to a credit facility are approved at the appropriate level in the decision making hierarchy. "Four eyes principle" must be followed throughout the credit process.
- Strong risk culture encourages not to compromise with established quality requirements despite goals set to reach volumes or gain market shares.

Risk Classification

Risk classification is an important element of the credit process and the management of the Group's credit risk. The Group has developed different risk classification models to cover specific loan portfolios/ credit products. Risk classification systems are used as decision support, risk monitoring and internal reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing monitoring including the follow-up of credit strategies.

The Group's credit risk models provide a basis for statistically based calculations of expected losses in a long-term perspective and risk-adjusted capital in a portfolio perspective. Customers are classified based on the probability of default (PD). Customers are re-classified according to risk with every significant credit approval or major change in customer's risk profile, but at least once a year, unless otherwise decided.

The risk classes are defined on the basis of the scales used by international rating agencies. Probability of default (PD) is a statistical measure representing the expected rate of defaulted customers to the total number of customers initially attributed to the specific class (grade) in one year horizon. There are ten risk classes for performing loans. In addition, doubtful and non-performing commitments are placed in classes 11 and 12 for internal reporting purposes.

Risk segmentation	Risk class	PD as from	PD up to
Low	1	0,01	0,10
	2	0,10	0,25
	3	0,25	0,50
	4	0,50	0,75
Moderate	5	0,75	1,25
	6	1,25	2,00
	7	2,00	3,00
High	8	3,00	5,00
	9	5,00	8,00
		8,00	...

Credit Approval Authorizations

Credit decision making is based on a dual credit approval system with individual credit approval authorities. Credit approval authority remains within the business units, while final credit approval requires endorsement by relevant persons from risk area, who are organizationally independent of the business units. For larger commitments or exposures involving unusual / specific risks, Advisory credit committee will play a role of advisory board for giving recommendations to decision makers / endorsers. Lower exposures are approved by relevant Business decision maker and Risk endorser.

All individual credit approval authorities are personal and are assigned based on person's qualification, experience and competence. Credit decisions on products with limited small amounts and strictly defined product requirements are taken by business units; recommendation from risks is replaced then by appropriate scoring models where risk assessment is included. "Two pairs of eyes" principle follows throughout all credit approval process.

The Group has defined a list of criteria when credit decisions must be lifted one level up than ordinary decision making level.

Credit Risk Mitigation

Credit risk mitigation is an integral part of credit risk management process in the Group. Defined requirements for new customers, prudent evaluation of debt service capacity and collateral held as security are the main credit risk mitigation measures. However, other risk mitigation techniques, tools and processes, including but not limited to different risk classification models, calculation of debt service capacity, transparent credit approval authorities and strict credit decision making rules, ongoing credit risk monitoring are used in daily activities as well.

Credit Risk Measurement

Credit risk is monitored by following developments in risk parameters, migration and distribution over the various risk classes. Developments in risk concentrations are monitored closely with respect to exposure and risk classes.

The Group has developed different management tools in order to monitor the ongoing credit risk of a customer and implement relevant measures proactively in the case of negative development, already at an early stage. Larger exposures are monitored individually case-on-case basis where the frequency and scope depends on the size and risk classification of the exposure, while monitoring of smaller exposures is performed by business units based on automatically generated reports or in close cooperation with risk reporting unit. The Group has established the system for identification of commitments showing early warning signals when special attention and separate follow up is needed.

Detailed rules are in place for the use and monitoring of collateral including guidelines for the valuation of various pledged assets. Such valuations are part of credit decisions and are reviewed in connection with the annual renewal of the commitments or at least once a year. A procedure has been established for the periodic physical control of collateral. The Group continues working on improvement of internal statistical revaluation methods of collateral.

Credit Risk Stress Testing

Stress testing is used to define the potential impact of diverse extraordinary, yet probable and materially unfavourable occurrences or changes in market conditions on the risk profile, financial and capital ratios of the Group. Stress tests are performed at least once in every six months. Within the stress test at least 2 scenarios are developed – standard scenario and severe scenario. Stress tests are performed for at least two time periods, i.e. 1 and 2 years' periods; within the framework of the annual ICAAP also for 3 years' period.

In case of private individuals stress testing is performed based on top-down method using the Group's developed model, which is based on macroeconomic indicators (unemployment, GDP, inflation etc.), as well as scenario analysis of non-performing and restructured loan portfolio development.

According to standard scenario macroeconomic situation will improve, e.g. moderate GDP growth, decrease in registered unemployment. According to severe scenario macroeconomic indicators will significantly deteriorate due to turmoil in Euro zone. According to this scenario GDP will decrease, while unemployment will increase.

Stress testing for legal entities is performed based on bottom-up method - enough representative proportion of the performing portfolio in terms of total exposures is subject to individual assessment. Afterwards, results are extrapolated in order to cover whole performing loan portfolio. Also non-performing and doubtful loans are subject for individual assessment.

The stress tests should identify possible future changes in economic conditions which could have a negative impact on the Group's credit exposure and ability to withstand such changes. These assessments are taken into account in the Group's risk and capital adequacy assessment process as well as to estimate the necessary capital buffer. Results of stress testing have direct impact on strategic and business decisions of the Group.

Group determines those factors, which are assessed as more believable. Capital buffer is calculated as a result of above mentioned assessment.

Industry Risk Management

The Group has defined maximum limit to any single industry sector. The Group has recognized and regularly reviews sensitive sectors to which lending is frozen on existing level. Within Real estate sector the Group has strict guidelines and limits to manage, reduce the volumes and increase the quality of the portfolio in this segment.

Acceptable Risk Criteria have been prepared for the different industries. These are used as indicative standards when appraising a customer's creditworthiness. In order to increase industry competence the Group has organized the Corporate Banking according to industry strategy specialization, and complex financing is done in close cooperation with the industry divisions and sections of the parent bank.

Following parent bank's credit policy, ethical and corporate social responsibility guidelines the Group has determined to which industry sectors financing shall not be pursued.

Country Risk Management

The Group closely follows "home market" approach. The Group restricts to the large extent any exposure related to countries where DNB Group has no presence.

All countries are classified according to Group's PD risk scale the classification of country risk is based on classification by external rating agencies. Risk grades are reviewed and updated on monthly basis. Country risk limits are approved only based on parent bank's recommendations. Country risk limits are reviewed annually, unless there is any deterioration in risk classification of the particular country.

In 2013 the Group continued launching new initiatives in order to improve credit risk management process as well as harmonizing further credit processes with DNB Group. In addition to several smaller projects, the Group adopted DNB Group Credit Manual, continued implementation of risk-adjusted pricing tools and improved risk reports. Our focus was on strengthening risk culture throughout the organization and corporate social responsibility.

Offsetting

Group and Bank **2013**

	Gross carrying amount LVL'000	Amounts offset in the statement of financial position LVL'000	Carrying amount LVL'000	Amounts not offset in the statement of financial position LVL'000	Amounts after possible netting LVL'000
Assets					
Derivatives	23,214	-	23,214	3,441	19,773
Liabilities					
Derivatives	22,645	-	22,645	3,441	19,204

b) Market risk

The Group is exposed to foreign currency risk (hereinafter – FX risk) and interest rate risk, and discloses its sensitivity to the mentioned risks below. The Group does not have any open positions in commodity or equity instruments and is not exposed to changes in commodity or equity prices. During the year 2013 there were no significant changes in market risk management process.

Currency risk

The Group and the Bank seek to match assets, liabilities and off-balance sheet items denominated in foreign currencies in order to keep foreign currency exposures within limits set by the Credit Institution Law and internally by the sole shareholder DNB Bank ASA. According to the Credit Institution Law the Bank's open position in each foreign currency may not exceed 10% of the Bank's own funds and that the total foreign currency open position may not exceed 20% of the Bank's own funds. During the year 2013 the Bank was in compliance with all limits.

Sensitivity to foreign exchange risk

Sensitivity of the Bank to FX risk is calculated by multiplying foreign currency open positions by reasonably possible changes in FX rates.

FX risk parameters for the Bank are provided in the table below. For December 31, 2013 EUR currency is assumed to pose no foreign exchange risk taking into consideration Latvia joining the Eurozone on 01.01.2014.

Currency	Possible change
USD	5,30%
LTL	0,20%
PLN	5,60%
DKK	0,10%
NOK	4,00%
Other currencies	5,00%

A presumable change in FX rates has an impact on the Bank's profit or loss and makes LVL 10 thousand as of December 31, 2013 (December 31, 2012: LVL 102 thousand).

Interest rate risk

In normal course of business, the interest rate risk arise due to timing differences in the maturity (for fixed rate) and repricing (for floating rate) of the Group's and the Bank's assets, liabilities and off-balance sheet items.

Sensitivity to interest rate risk (basis point value)

Interest rate risk from single currency positions is calculated and monitored, using the Basis Point Value (BPV) analysis, which reflects the sensitivity of the present value of the Group's future cash flows to a parallel shift of 0.01% in market interest rates. The Group follows a conservative approach to interest rate risk and seeks to match maturity and repricing profiles of assets, liabilities and off-balance sheet items in order to keep BPV within limits set by the sole shareholder, DNB Bank ASA. Limits are set for each currency in which the Group and the Bank have significant activity as well as for all currencies altogether. During the year 2013 the Group and the Bank were in compliance with the limits.

Sensitivity of the Group to an interest rate risk, in terms of a basis point value, is provided in the table below. For December 31, 2013 LVL-denominated on- and off-balance sheet items are added to EUR-denominated items taking into consideration Latvia joining the Eurozone on 01.01.2014.

		LVL'000
	December 31, 2013	December 31, 2012
LVL	-	(5,8)
EUR	0,3	6,6
USD	0,1	(0,1)
Other currencies	0,1	0,1
Total	4,5	12,7

Interest rate risk management involves the usage of funding and fund placements for different time periods or/and different repricing periods as well as derivative financial instruments, such as interest rate swap agreements.

c) Liquidity risk

The Group has a low liquidity risk profile as it is strongly supported by a committed long-term multicurrency funding line from the sole shareholder DNB Bank ASA (counterparty credit rating A-1/A+/Stable, affirmed by Standard & Poor's in September 2013), signed in mid 2011. DNB Bank ASA acts as a lender of a last resort. This commitment was proven during the recent global financial turmoil, when DNB Bank ASA supplied the Group with liquidity at all times in sufficient amounts and in a timely manner.

Liquidity risk management process

The level of the Bank's liquidity risk is limited by the surviving periods analyzed across different stress scenarios, which are based on both idiosyncratic and systemic stress assumptions. The survival periods are defined as a period with a positive cumulative cash flow; these are regularly measured and reported to the Bank's management bodies.

The Bank uses a set of liquidity risk metrics to measure its liquidity position, structural liquidity mismatches, and a concentration of funding. Liquidity ratio, set by the Financial and Capital Market Commission, as of December 31, 2013 is 52.8% (December 31, 2012: 53.4%), which is sufficiently above the regulatory minimum of 30%.

Liquidity risk is managed in a manner to ensure a constant ability to settle contractual obligations. The Bank has developed a set of early warning indicators for a timely identification of liquidity crises, and a contingency funding plan to manage the Bank's liquidity during the market disruption.

d) Operational risk

Operational risk management

Operational risk management in the Group is performed by following the policy for the management of operational risk. Operational risk should be low, and risk management should ensure that the risk of unwanted losses is reduced.

All managers are responsible for knowing and managing operational risk within their own area of responsibility. This is to be ensured through risk assessment of everyday operations of all major changes in operations as well as of particularly critical functions. When a need for improvement measures is identified, special follow-ups are initiated. In order to limit the consequences of serious events, operational disruptions etc., comprehensive contingency and business continuity plans have been drawn up to be able to handle a crisis situation in a rational and effective manner, thus contributing to limiting damage and restoring a normal situation.

The Group's insurance coverage is an element in operational risk management. Insurance contracts are entered into to limit the financial consequences of undesirable events which occur in spite of established security routines and other risk-mitigating measures. The insurance program also covers legal liabilities the Group may face related to its operations.

Operational risk measurement

Operational risk events in the Group which result in losses and near-events with a loss potential are registered, reported and followed up on an ongoing basis in the Group's event database. Undesirable events which cause, or could have caused, financial losses for the Group represent valuable information and learning about necessary improvement needs.

The Group's management is kept updated on the status of operational risk through the periodic risk report, which provides a basis for analysing the risk situation. In addition, the Group's management is kept updated on the Group's operational risk in the annual status report on ongoing management and control of operational and business risk. The status report includes a presentation of key group-wide risks, relevant improvement measures and a detailed qualitative assessment based on the Group's ambitions within key areas of risk management and quality assurance.

5 INTEREST INCOME

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Interest income:				
Interest on financial assets measured at amortised cost:	41,812	53,183	39,214	50,194
- interest on loans and receivables to customers	38,546	48,682	35,948	45,693
- interest on impaired loans	2,708	3,764	2,708	3,764
- interest on balances due from credit institutions and central banks	558	737	558	737
Interest on financial assets designated at fair value through profit or loss	974	1,488	974	1,488
Interest on derivatives	304	-	304	-
Total interest income	**43,090**	**54,671**	**40,492**	**51,682**

6 INTEREST EXPENSE

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Interest expense:				
- interest on deposits from customers	(2,330)	(4,071)	(2,340)	(4,106)
- interest on balances due to credit institutions	(7,321)	(14,517)	(6,080)	(12,972)
- payments on Guarantee fund and charge of financial stability	(1,966)	(2,361)	(1,966)	(2,361)
- interest on derivatives	-	(2,079)	-	(2,079)
Total interest expense	**(11,617)**	**(23,028)**	**(10,386)**	**(21,518)**

Net interest income	**31,473**	**31,643**	**30,106**	**30,164**

7 FEES AND COMMISSION INCOME

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Money transfers	6,163	6,275	6,163	6,276
Credit card service	1,846	1,690	1,846	1,690
Assets management	1,734	1,395	672	588
Commissions on loans monitoring and service	763	890	500	643
Client service	946	819	919	784
Guarantees	522	500	531	500
Insurance	628	477	628	477
Cash operations	458	354	458	354
Trade finance	90	121	90	121
Investments products	136	107	148	139
Other	456	518	456	518
Total fees and commission income	**13,742**	**13,146**	**12,411**	**12,090**

8 FEES AND COMMISSION EXPENSES

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Money transfers	(2,421)	(2,280)	(2,421)	(2,279)
Cash operations	(731)	(639)	(731)	(639)
Client service	(280)	(236)	(280)	(236)
Loans monitoring expense	(206)	(224)	(193)	(206)
Guarantees	(55)	(96)	(55)	(96)
Commissions on loans	(62)	(75)	(62)	(75)
Credit cards service	(35)	(22)	(35)	(22)
Other	(411)	(223)	(328)	(222)
Total fee and commission expenses	**(4,201)**	**(3,795)**	**(4,105)**	**(3,775)**
Net fees and commission	**9,541**	**9,351**	**8,306**	**8,315**

9 NET GAIN/(LOSS) FROM OPERATIONS WITH FOREIGN CURRENCY, TRADING SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Gain from operations with foreign currencies	4,274	4,197	4,297	4,137
Gain from trading with financial instruments at fair value through profit or loss	504	241	504	241
Gain / (Loss) from revaluation of financial assets at fair value through profit or loss	(237)	984	(237)	984
(Loss) from foreign currency revaluation	(22)	(120)	(21)	(122)
Gain from derivatives revaluation	40	1,791	40	1,791
	4,559	**7,093**	**4,583**	**7,031**

10 NET RESULT FROM OPERATIONS WITH INVESTMENT PROPERTY

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Net rental expenses/income				
Rent of investment property*	632	444	64	98
Investment property related expenses	(1,905)	(1,970)	(782)	(1,246)
	(1,273)	**(1,526)**	**(718)**	**(1,148)**
Net profit / loss from revaluation and sale				
Unrealized gain / (loss) from investment property revaluation	1,418	2,464	(589)	1,157
Realized profit from sale of investment property	757	477	335	195
	2,175	**2,941**	**(254)**	**1,352**
Total	**902**	**1,415**	**(972)**	**204**

*Group and Bank receive income from renting commercial objects only.

11 OTHER OPERATING INCOME

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Profit from sale of fixed assets	36	73	17	70
Operating lease income	130	320	-	-
Income from subsidiaries	-	-	1,994	1,457
Other operating income	2,924	706	2,558	499
	3,090	**1,099**	**4,569**	**2,026**

12 ADMINISTRATIVE EXPENSES

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Salary to Management Board	673	315	673	315
Salary to employees	10,316	9,914	9,974	9,558
Social insurance contributions	2,518	2,520	2,435	2,434
Total salaries and related expenses	**13,507**	**12,749**	**13,082**	**12,307**
Cost related with IT development system	3,978	3,633	3,978	3,633
Maintenance of equipment and other IT cost	2,591	2,527	2,432	2,409
Advertising and representation	1,452	1,927	1,355	1,829
Maintenance and occupancy costs of building	2,211	1,924	2,833	2,751
Payments for management services to Group	905	1,499	905	1,499
Communications	611	686	579	653
Professional services	145	397	97	232
Training	223	197	219	191
Insurance to personnel	170	170	164	166
Insurance	157	161	135	141
Business travel	101	113	99	110
Other	2,014	1,253	2,097	1,424
Total other administrative expenses	**14,558**	**14,487**	**14,893**	**15,038**
Total administrative expenses	**28,065**	**27,236**	**27,975**	**27,345**

Average number of staff employed by the Group in 2013 was 855, by the Bank was 832 (by the Group in 2012 was 859, by the Bank was 837).

13 OTHER OPERATING EXPENSES

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Loss from write off and sale of fixed assets	73	147	61	104
Other operating expenses	945	476	895	380
	1,018	**623**	**956**	**484**

14 CORPORATE INCOME TAX

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Corporate income tax for the year	(111)	281	3	2
Deferred tax	(130)	(29)	(99)	457
	(241)	**252**	**(96)**	**459**

Corporate income tax differs from the theoretically calculated tax amount, which would be applicable on profit before taxation at the 15% rate as stipulated by the law (see below):

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Profit before taxation	7,223	9,380	5,931	8,062
Theoretically calculated tax at a tax rate of 15%	1,084	1,407	890	1,209
Undeductable revaluation of securities a nd derivatives	(140)	(739)	180	(590)
Impairment for debtors	83	53	43	25
Other net expenses not deductible for tax purposes	47	353	129	387
Non-taxable income	(92)	(60)	(92)	(60)
Unrecognised deferred tax asset	(871)	(733)	(1,150)	(971)
	111	**281**	-	-
Deferred tax liability at the beginning of the year	(5,975)	(5,946)	(6,026)	(6,483)
Change in deferred tax asset during the year	(130)	(29)	(99)	457
Deferred tax at the end of the year	**(6,105)**	**(5,975)**	**(6,125)**	**(6,026)**

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Gross deferred income tax liability:				
Temporary difference on property and equipment depreciation	1,730	1,127	639	508
Gross deferred income tax asset:				
Temporary difference on accruals for unused annual leave and bonuses	(193)	(171)	(189)	(169)
Other temporary differences	284	(1,077)	84	(1,059)
Change in unrecognised deferred tax asset	17,636	21,108	18,547	21,098
Tax loss carried forward	(25,562)	(26,962)	(25,206)	(26,404)
Net deferred tax assets	**(6,105)**	**(5,975)**	**(6,125)**	**(6,026)**

Deferred income tax assets are recognised for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised at 31 December 2013 in respect of tax losses have been based on profitability assumptions over five year horizon. The expected future taxable profits are based on business plan assumptions taking into consideration uncertainties arising from the current economic environment. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of existing deferred tax assets may need to be adjusted.

As at 31 December 2013 tax losses of the Group constituted LVL 170 mln. In accordance with the law "On Corporate Income Tax" tax losses can be carried forward and set off against taxable income during the unlimited period of time.

15 CASH AND CASH EQUIVALENTS

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Cash	28,677	21,442	28,677	21,442
Balances with the central banks	108,993	44,174	108,993	44,174
Total cash and balances on demand with central banks	**137,670**	**65,616**	**137,670**	**65,616**
Balances due from other credit institutions with the original maturity less than 3 months	217,589	177,209	217,181	176,825
Balances on demand due to other credit institutions	(11,419)	(20,535)	(11,419)	(20,535)
Total cash and cash equivalents	**343,840**	**222,290**	**343,432**	**221,906**

The correspondent account with the Bank of Latvia reflects the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

The Bank is required to comply with minimum reserve requirements set by the Bank of Latvia. This requires the Bank's monthly average LVL balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

The Bank was in compliance with the reserve requirement during the reporting period.

16 DUE FROM CREDIT INSTITUTIONS

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions	418	405	6	18
OECD credit institutions*	37,226	17,224	37,226	17,224
Non-OECD credit institutions	502	1,371	502	1,371
Total demand deposits	**38,146**	**19,000**	**37,734**	**18,613**
Term deposits				
Republic of Latvia credit institutions	1,510	1,232	1,510	1,232
OECD credit institutions**	179,810	157,283	179,810	157,283
Non-OECD credit institutions	-	1,300	-	1,300
Total term deposits	181,320	**159,815**	181,320	**159,815**
Total	**219,466**	**178,815**	**219,054**	**178,428**

The effective interest rate on balances due from other credit institutions as at 31 December 2013 was 0.3% (2012: 0.2%).

*Including DNB Bank ASA LVL 37,027 thou (2012: LVL 16,767 thou)

**Including DNB Bank ASA LVL 179,438 thou (2012: LVL 156,900 thou)

17 LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of loans by original maturity

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Less than a year	116,325	216,022	141,906	158,831
More than a year	1,260,328	1,245,743	1,184,208	1,249,948
Accrued interest	4,038	6,640	4,008	6,610
	1,380,691	**1,468,405**	**1,330,122**	**1,415,389**
Less allowances for loan impairment	(169,981)	(221,180)	(147,322)	(196,586)
Less allowances for unpaid interest	(1,270)	(1,748)	(1,270)	(1,748)
Total	**1,209,440**	**1,245,477**	**1,181,530**	**1,217,055**

Loan portfolio includes loans secured by the Republic of Latvia Government guarantees of LVL 2,251 thou (2012: LVL 1,843 thou).

The effective interest rate on loans as at 31 December 2013 was 2.6% (2012: 2.8%).

b) Analysis of loans by client type

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Individuals	803,805	849,138	781,134	832,497
Private companies	519,484	578,456	494,618	536,461
Public companies	28,536	12,987	21,854	12,102
Management/employees of Bank	11,379	12,569	10,694	11,915
Local government	13,448	8,615	13,030	8,212
Finance institutions	-	-	4,783	7,592
Accrued interest	4,038	6,640	4,008	6,610
	1,380,691	**1,468,405**	**1,330,122**	**1,415,389**
Less allowances for loan impairment	(169,981)	(221,180)	(147,322)	(196,586)
Less allowances for unpaid interest	(1,270)	(1,748)	(1,270)	(1,748)
Total	**1,209,440**	**1,245,477**	**1,181,530**	**1,217,055**

c) Analysis of loans by products

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Mortgage loans	680,680	718,227	680,680	718,226
Commercial loans	479,853	523,974	534,202	564,308
Private loans	96,459	111,658	96,459	111,658
Leasing	105,095	93,529	207	210
Card loans	8,347	8,590	8,347	8,590
Consumer loans	6,100	5,655	6,100	5,655
Other	119	132	119	132
Accrued interest	4,038	6,640	4,008	6,610
	1,380,691	**1,468,405**	**1,330,122**	**1,415,389**
Less allowances for loan impairment	(169,981)	(221,180)	(147,322)	(196,586)
Less allowances for unpaid interest	(1,270)	(1,748)	(1,270)	(1,748)
Total	**1,209,440**	**1,245,477**	**1,181,530**	**1,217,055**

d) Analysis of loans by industry

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Individuals	801,086	853,776	777,808	829,215
Management of real estate	149,923	163,868	202,469	209,329
Manufacturing	82,846	94,550	65,879	82,836
Trade	58,722	78,268	49,368	67,122
Transport	34,829	50,906	11,944	29,778
Agriculture	20,033	23,124	11,786	14,771
Construction	15,981	16,771	5,526	7,215
Management/employees of Bank	11,379	12,569	10,694	11,915
Non-profit and religious organizations	4,769	1,569	4,769	1,569
Other	179,174	145,675	167,960	134,340
Total loans to residents	**1,358,742**	**1,441,076**	**1,308,203**	**1,388,090**
Loans issued to non-residents	17,911	20,689	17,911	20,689
Accrued interest	4,038	6,640	4,008	6,610
	1,380,691	**1,468,405**	**1,330,122**	**1,415,389**
Less allowances for loan impairment	(169,981)	(221,180)	(147,322)	(196,586)
Less allowances for unpaid interest	(1,270)	(1,748)	(1,270)	(1,748)
Total	**1,209,440**	**1,245,477**	**1,181,530**	**1,217,055**

e) Analysis of loans by countries

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Latvia	1,358,742	1,441,076	1,308,203	1,388,090
Other countries	17,911	20,689	17,911	20,689
Accrued interest	4,038	6,640	4,008	6,610
Total	**1,380,691**	**1,468,405**	**1,330,122**	**1,415,389**
Less allowances for loan impairment	(169,981)	(221,180)	(147,322)	(196,586)
Less allowances for unpaid interest	(1,270)	(1,748)	(1,270)	(1,748)
Total	**1,209,440**	**1,245,477**	**1,181,530**	**1,217,055**

f) Gross investment in finance lease

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Not later than 1 year	28,630	32,255	4	4
1 – 5 years	80,333	73,295	-	-
More than 5 years	633	87	-	-
Total gross finance lease receivables	**109,596**	**105,637**	**4**	**4**

Unearned future interest income from investments in finance lease

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Not later than 1 year	495	2,172	1	1
1 – 5 years	3,815	2,169	-	-
Total unearned future interest income	**4,307**	**4,341**	**1**	**1**

Net investment in finance lease

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Not later than 1 year	28,135	30,084	3	3
1 – 5 years	76,521	71,125	-	-
More than 5 years	633	87	-	-
Total investment in finance lease	**105,289**	**101,296**	**3**	**3**
Less allowances for loan impairment	(20,021)	(20,062)	-	-
Less allowances for homogenous groups of loans	(471)	(595)	-	-
Total net investment in finance lease	**84,797**	**80,639**	**3**	**3**

g) The following table provides the division of loans and advances to customers by quality:

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Neither past due nor impaired	998,745	988,021	985,949	981,485
Past due but not impaired	88,778	100,366	74,343	79,784
Impaired	289,130	373,378	265,822	347,510
Accrued interest	4,038	6,640	4,008	6,610
Total gross loans and advances to customers	**1,380,691**	**1,468,405**	**1,330,122**	**1,415,389**
Less allowances for loan impairment	(159,835)	(204,213)	(137,647)	(180,214)
Less allowances for homogenous groups of loans	(10,146)	(16,967)	(9,675)	(16,372)
Less allowances for unpaid interest	(1,270)	(1,748)	(1,270)	(1,748)
Total net loans and advances to customers	**1,209,440**	**1,245,477**	**1,181,530**	**1,217,055**

h) The following table provides the division of loans and advances to customers neither past due nor impaired:

Grades	Risk classes	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Corporate *	**Low**	82,584	54,243	137,560	95,898
	Medium	176,879	170,199	165,735	167,889
	High	56,924	55,339	54,431	54,066
SME*	**Low**	8,387	19,013	423	498
(Small and medium sized enterprises)	**Medium**	61,638	43,510	37,636	33,593
	High	22,035	26,627	17,249	24,242
Private individuals	**Low**	286,283	323,710	280,297	315,756
	Medium	234,953	243,240	225,984	238,127
	High	69,062	52,140	66,634	51,416
	Total	**998,745**	**988,021**	**985,949**	**981,485**

* The information is based on business lines. The legal entities are treated as Corporate if gross commitments are over 1 MEUR or turnover is more than 10 MEUR. Central and local government are also treated as Corporate.

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Mortgage loans	512,393	533,707	512,393	533,707
Commercial	351,612	321,710	410,558	376,156
Leasing	71,742	60,983	-	1
Private loans	52,534	60,661	52,534	60,661
Card loans	4,903	5,784	4,903	5,784
Consumer loans	5,561	5,162	5,561	5,162
Other	-	14	-	14
Total	**998,745**	**988,021**	**985,949**	**981,485**

i) The following table provides the division of loans and advances to customers past due but not impaired:

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Commercial loans				
Past due up to 30 days	6,228	9,163	4,809	7,419
Past due 31-60 days	1,511	1,782	729	1,350
Past due 61-90 days	164	91	164	91
Past due over 90 days	1,268	3,694	1,268	3,694
Total	**9,171**	**14,730**	**6,970**	**12,554**
Mortgage loans (issued to private individuals secured with real estate collateral)				
Past due up to 30 days	42,417	36,598	42,417	36,598
Past due 31-60 days	8,053	12,161	8,053	12,161
Past due 61-90 days	3,590	5,452	3,590	5,452
Past due over 90 days	608	514	608	514
Total	**54,668**	**54,725**	**54,668**	**54,725**
Private loans (issued to private individuals secured with real estate collateral)				
Past due up to 30 days	7,084	6,405	7,084	6,405
Past due 31-60 days	1,361	1,950	1,361	1,950
Past due 61-90 days	990	1,126	990	1,126
Past due over 90 days	513	736	513	736
Total	**9,948**	**10,217**	**9,948**	**10,217**

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Consumer loans				
Past due up to 30 days	126	161	126	161
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	1	1	1	1
Total	**127**	**162**	**127**	**162**
Leasing				
Past due up to 30 days	7,460	13,831	-	1
Past due 31-60 days	2,124	1,551	-	-
Past due 61-90 days	552	729	-	-
Past due over 90 days	2,098	2,296	-	-
Total	**12,234**	**18,407**	**-**	**1**
Card loans				
Past due up to 30 days	2,556	2,057	2,556	2,057
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	-	-	-	-
Total	**2,556**	**2,057**	**2,556**	**2,057**
Other loans				
Past due up to 30 days	6	-	6	-
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	68	68	68	68
Total	**74**	**68**	**74**	**68**
Past due up to 30 days	65,877	68,215	56,998	52,641
Past due 31-60 days	13,049	17,444	10,143	15,461
Past due 61-90 days	5,296	7,398	4,744	6,669
Past due over 90 days	4,556	7,309	2,458	5,013
Total	**88,778**	**100,366**	**74,343**	**79,784**
Total gross loans and advances to customers past due but not impaired	**88,778**	**100,366**	**74,343**	**79,784**
Fair value of collateral	**85,340**	**82,870**	**84,847**	**80,382**

j) The following table provides the division of impaired loans and advances to customers of Group and Bank:

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Commercial	119,070	179,942	116,674	175,597
Mortgage loans	113,619	129,794	113,619	129,794
Private loans	33,977	40,780	33,977	40,780
Leasing	21,119	21,732	207	209
Card loans	887	749	887	749
Consumer loans	413	331	413	331
Other	45	50	45	50
Total	**289,130**	**373,378**	**265,822**	**347,510**

j) The following table provides the division of Group's loans and advances to customers individually impaired:

	Commer-cial loans LVL'000	Mortgage loans LVL'000	Private loans LVL'000	Consu-mer loans LVL'000	Leasing LVL'000	Card loan LVL'000	Other loans LVL'000	**Total LVL'000**
31 December 2013								
Impaired loans	119,070	113,619	33,977	413	21,119	887	45	**289,130**
Fair value of collateral	75,431	38,946	13,586	-	20	-	-	**127,983**
31 December 2012								
Impaired loans	179,942	129,794	40,780	331	21,732	749	50	**373,378**
Fair value of collateral	100,522	49,474	17,051	-	21	-	-	**167,068**

j) The following table provides the division of Bank's loans and advances to customers individually impaired:

	Commer-cial loans LVL'000	Mortgage loans LVL'000	Private loans LVL'000	Consu-mer loans LVL'000	Leasing LVL'000	Card loan LVL'000	Other loans LVL'000	**Total LVL'000**
31 December 2013								
Impaired loans	116,674	113,619	33,977	413	207	887	45	**265,822**
Fair value of collateral	75,431	38,946	13,586	-	20	-	-	**127,983**
31 December 2012								
Impaired loans	175,597	129,794	40,780	331	209	749	50	**347,510**
Fair value of collateral	100,522	49,474	17,051	-	21	-	-	**167,068**

k) The following table provides the division of restructured loans and advances to customers:

Information regarding all kinds of restructured loans included (impaired, past due but not impaired and neither past due nor impaired)

	2013 Group LVL'000	**2012 Group LVL'000**	**2013 Bank LVL'000**	**2012 Bank LVL'000**
Mortgage loans	89,941	114,727	89,941	114,727
Commercial	103,512	110,058	102,982	110,058
Private loans	18,571	24,226	18,571	24,226
Leasing	2,875	4,720	13	13
Consumer loans	85	105	85	105
Other	68	68	68	68
Total	**215,052**	**253,904**	**211,660**	**249,197**

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2013:

	Neither past due nor impaired LVL'000	Past due but not impaired LVL'000	Impaired LVL'000	**Total LVL'000**
Mortgage loans	20,050	18,900	50,991	**89,941**
Commercial	25,812	1,569	76,131	**103,512**
Private loans	3,621	3,225	11,725	**18,571**
Leasing	556	1,031	1,288	**2,875**
Consumer loans	21	10	54	**85**
Other	-	68	-	**68**
Total	**50,060**	**24,803**	**140,189**	**215,052**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2013:

	Neither past due nor impaired LVL'000	Past due but not impaired LVL'000	Impaired LVL'000	**Total LVL'000**
Mortgage loans	20,050	18,900	50,991	**89,941**
Commercial	25,812	1,569	75,601	**102,982**
Private loans	3,621	3,225	11,725	**18,571**
Leasing	-	-	13	**13**
Consumer loans	21	10	54	**85**
Other	-	68	-	**68**
Total	**49,504**	**23,772**	**138,384**	**211,660**

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2012:

	Neither past due nor impaired LVL'000	Past due but not impaired LVL'000	Impaired LVL'000	**Total LVL'000**
Mortgage loans	33,503	23,666	57,558	**114,727**
Commercial	13,511	3,666	92,881	**110,058**
Private loans	5,997	4,279	13,950	**24,226**
Leasing	2,015	1,161	1,544	**4,720**
Consumer loans	36	11	58	**105**
Other	-	68	-	**68**
Total	**55,062**	**32,851**	**165,991**	**253,904**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2012

	Neither past due nor impaired LVL'000	Past due but not impaired LVL'000	Impaired LVL'000	**Total LVL'000**
Mortgage loans	33,503	23,666	57,558	**114,727**
Commercial	13,511	3,666	92,881	**110,058**
Private loans	5,997	4,279	13,950	**24,226**
Consumer loans	36	11	58	**105**
Leasing	-	-	13	**13**
Other	-	68	-	**68**
Total	**53,047**	**31,690**	**164,460**	**249,197**

Loan is considered as restructured if at least one of following action has been performed:

- There are postponed or cancelled principal payment for the Loan for period that is longer than 90 calendar days or repeatedly postponed or cancelled principal payments and total period in last year exceeds 90 calendar days;
- There are postponed, cancelled or capitalized interest payments for the Loan for period that is longer than 90 calendar days or repeatedly postponed, cancelled or capitalized interest payments and total period in last year exceeds 90 calendar days;
- Change of Loan principal repayment schedule that result in decrease of monthly payments by more than 30%;
- There are repossessed collateral or other assets for full or partial loan repayment;
- Substitution of initial borrower or attraction of additional borrower if in case attraction of additional borrower would not be performed that would result in overdue of payments more than 90 days;
- Decrease of loan interest rate due to financial difficulties of the customer.

Loan is not considered as restructured anymore if at least for one year customer has done all payments in accordance with amount and term stated in new changed agreement never behind the schedule by more than 30 days.

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Investment funds				
Latvian government securities	28,751	65,714	28,751	65,714
Total debt securities	**28,751**	**65,714**	**28,751**	**65,714**
Investment funds				
DNB Rezerves fonds	384	383	384	383
Total investment funds	**384**	**383**	**384**	**383**
Total	**29,135**	**66,097**	**29,135**	**66,097**

		2013		2012	
High grade	**Moody's equivalent grade**	**LVL'000**	**%**	**LVL'000**	**%**
Risk rating class 1	**Aaa**	-	-	-	-
Risk rating class 2	**Aa1-A3**	-	-	-	-
Risk rating class 3	**Baa1-Baa2**	568	2	-	-
Risk rating class 4	**Baa3**	-	-	9,890	15
Not rated		28,567	98	56,207	85
Total		**29,135**	**100**	**66,097**	**100**

The effective interest rate on securities at fair value through profit or loss as at December 31, 2013 was 2.8% (2012: 2.8%).

19 INVESTMENTS IN SUBSIDIARIES

The Bank's investments in subsidiaries are specified as follows:

	Share capital LVL'000	Bank's share %	Investment value 2013 LVL'000	Impair-ment 2013 LVL'000	Net investment Value 2013 LVL'000	Investment value 2012 LVL'000	Impair-ment 2012 LVL'000	Net investment value 2012 LVL'000
SIA DNB līzings	3,400	100	3,400	-	3,400	3,400	-	3,400
IPAS DNB Asset Managemant	420	100	666	-	666	666	-	666
SIA Skanstes 12	830	100	830	-	830	830	-	830
SIA SALVUS*	2,261	100	2,261	1,450	811	2,261	1,450	811
SIA SALVUS 2*	2,130	100	2,130	2,050	80	2,130	2,050	80
SIA SALVUS 3*	40	100	40	-	40	40	-	40
SIA SALVUS 4*	200	100	200	-	200	200	-	200
SIA SALVUS 5*	200	100	200	-	200	-	-	-
	9,481		**9,727**	**3,500**	**6,227**	**9,527**	**3,500**	**6,027**

*Subsidiaries of AS DNB banka established with an aim to ensure sales and/or management of real estate foreclosed in the course of compulsory and/or voluntary collection proceedings.

20 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments whose value depends on the value of one or more underlying assets defined in the contract. The prices of the derivatives are related to those of the underlying spot market instruments through several important mechanisms.

Derivatives are financial instruments predominantly used for hedging against risks under the Group's risk management positions. The Group and the Bank enters into transactions involving the foreign exchange, interest rate and commodity derivative instruments. Currency derivatives are primarily designated as hedges of the foreign currency risk. Interest rate derivatives can be used to hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers and financing transactions, also could be designated as fair value hedges to hedge the interest rate risk of fixed rate positions.

Types of derivatives held:

- **Foreign exchange forward contracts** - agreements to buy or sell a specified quantity of foreign or domestic currency on a specified future date at an agreed rate.
- **Foreign exchange swaps** – agreements to exchange different currencies at an agreed rate for a certain period of time. It is agreed to buy/sell certain amount of the same currency and simultaneously make the opposite trade at a later date.
- **Interest rate swaps.** An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.
- **Cross-currency interest rate swaps** - contractual agreements according to which a cash flow based on the fixed interest rate calculated on the notional amount in one currency is replaced with a cash flow based on the floating interest rate calculated on the same notional amount in another currency or vice versa. In addition, cross-currency swaps of floating rate and notional amount in one currency vs. floating rate and notional amount in another currency or fixed rate and notional amount in one currency vs. fixed rate and notional amount in another currency can be contracted.
- **Interest rate caps** – an interest rate cap is a combination of interest rate calls designed to protect a borrower in a floating-rate loan against increases in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate exceeds agreed level of rate.
- **Interest rate floors** – an interest rate floor is a combination of interest rate puts designed to protect buyer from losses resulting from a decrease in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate is below agreed level of rate.
- **Interest rate collars** – An interest rate collar is combination of an interest rate cap and an interest rate floor. For this right the buyer of interest rate collar option pays or receives (depending on the terms) an initial payment – a premium.

- **Commodity swaps** - contractual agreements according to which a cash flow based on the fixed price calculated on the notional amount of commodity is replaced with a cash flow based on the floating price calculated on the same notional amount of commodity or vice versa.

The Group's and the Bank's credit risk represents the potential cost to replace derivative contracts if counterparties fail to perform their obligation. Credit risk divides into current and potential credit risk. Current credit risk is the risk that the party owing more than the bank in a derivative contract will default right now. Potential credit risk is the risk that the counterparty will default at any time during the life of the contract.

To control the level of credit risk taken, the Group and the Bank assess counterparties using similar techniques as for its lending activities. The primary method used to manage credit risk is to limit the amount of exposure to a given party.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on off balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Group's and the Bank's exposure to credit risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates, foreign exchange rates or commodity prices relative to their terms.

The notional amounts and fair values of derivative instruments held are set out in the following table:

	2013			2012		
	Contract/	Fair value		Contract/	Fair value	
	notional amount	Assets	Liabilities	notional amount	Assets	Liabilities
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Derivatives held for trading:						
- currency swaps*	532,256	13,967	14,507	658,800	6,651	8,197
- interest rate swaps	211,035	1,688	1,521	172,437	3,361	4,023
- forwards	18,278	21	19	85,877	1,017	928
- options	100,426	1,202	396	123,565	1,987	1,610
- commodity	31,336	6,336	6,202	33,904	1,038	944
Derivatives designated as fair value hedges						
- interest rate swaps	-	-	-	16,305	-	491
Total		**23,214**	**22,645**		**14,054**	**16,193**

* Including cross-currency interest rate swaps

21 INTANGIBLE ASSETS

Movement table of intangible assets of the Group and the Bank for 2013 is as follows:

	Licences and software Group LVL'000	Goodwill Group LVL'000	Total intangible assets Group LVL'000	Licences and software Bank LVL'000	Total intangible assets Bank LVL'000
Historical cost					
31 December 2012	**4,748**	**247**	**4,995**	**4,331**	**4,331**
Additions	546	-	**546**	542	**542**
Disposals and write-offs	(29)	-	**(29)**	-	**-**
31 December 2013	**5,265**	**247**	**5,512**	**4,873**	**4,873**
Amortisation					
31 December 2012	**3,326**	**-**	**3,326**	**3,020**	**3,020**
Amortisation for the period	520	-	**520**	479	**479**
Disposals and write-offs	(29)	-	**(29)**	-	**-**
31 December 2013	**3,817**	**-**	**3,817**	**3,499**	**3,499**
Net book value					
31 December 2012	**1,422**	**247**	**1,669**	**1,311**	**1,311**
31 December 2013	**1,448**	**247**	**1,695**	**1,374**	**1,374**

Intangible assets include advance payments for acquired intangible assets as of 31 December 2013 in amount of LVL 331 thou (2012: LVL 213 thou).

Movement table of intangible assets of the Group and the Bank for 2012 is as follows:

	Licences and software Group LVL'000	Goodwill Group LVL'000	Total intangible assets Group LVL'000	Licences and software Bank LVL'000	Total intangible assets Bank LVL'000
Historical cost					
31 December 2011	**3,811**	**247**	**4,058**	**3,408**	**3,408**
Additions	1,039		1,039	982	982
Disposals and write-offs	(102)		(102)	(59)	(59)
31 December 2012	**4,748**	**247**	**4,995**	**4,331**	**4,331**
Amortisation					
31 December 2011	**2,871**	**-**	**2,871**	**2,576**	**2,576**
Amortisation for the period	558	-	558	503	503
Disposals and write-offs	(103)	-	(103)	(59)	(59)
31 December 2012	**3,326**	**-**	**3,326**	**3,020**	**3,020**
Net book value					
31 December 2011	**940**	**247**	**1,187**	**832**	**832**
31 December 2012	**1,422**	**247**	**1,669**	**1,311**	**1,311**

22 PROPERTY AND EQUIPMENT

Movement table of property and equipment of the Group for 2013 is as follows:

	Land and buildings	Office equipment	Vehicles	Leasehold improvements	Operating lease	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Historical cost or revaluation						
31 December 2012	**20,452**	**13,120**	**22**	**2,337**	**1,002**	**36,933**
Additions	117	865	-	87	-	1,069
Disposals and write-offs	-	(905)	(22)	(458)	(481)	(1,866)
31 December 2013	**20,569**	**13,080**	**-**	**1,966**	**521**	**36,136**
Depreciation						
31 December 2012	**1,280**	**9,180**	**22**	**1,353**	**650**	**12,485**
Depreciation for the year	501	1,460	-	210	68	2,239
Disposals and write-offs	-	(891)	(22)	(408)	(357)	(1,678)
31 December 2013	**1,781**	**9,749**	**-**	**1,155**	**361**	**13,046**
Net book value						
31 December 2012	**19,172**	**3,940**	**-**	**984**	**352**	**24,448**
31 December 2013	**18,788**	**3,331**	**-**	**811**	**160**	**23,090**

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	Land and buildings	Office equipment	Vehicles	Leasehold improvements	Operating lease	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Historical cost or revaluation						
31 December 2011	**20,499**	**11,984**	**307**	**2,375**	**3,266**	**38,431**
Additions	79	1,419	-	75	-	1,573
Disposals and write-offs	(126)	(283)	(285)	(113)	(2,264)	(3,071)
31 December 2012	**20,452**	**13,120**	**22**	**2,337**	**1,002**	**36,933**
Depreciation						
31 December 2011	**904**	**7,924**	**271**	**1,176**	**2,023**	**12,298**
Depreciation for the year	502	1,537	13	243	220	2,515
Disposals and write-offs	(126)	(281)	(262)	(66)	(1,593)	(2,328)
31 December 2012	**1,280**	**9,180**	**22**	**1,353**	**650**	**12,485**
Net book value						
31 December 2011	**19,595**	**4,060**	**36**	**1,199**	**1,243**	**26,133**
31 December 2012	**19,172**	**3,940**	**-**	**984**	**352**	**24,448**

Movement table of property and equipment of the Bank for 2013 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
Historical cost or revaluation					
31 December 2012	**875**	**13,030**	**22**	**2,006**	**15,933**
Additions	84	854	-	81	1,019
Disposals and write-offs	-	(904)	(22)	(417)	(1,343)
31 December 2013	**959**	**12,980**	**-**	**1,670**	**15,609**
Depreciation					
31 December 2012	**136**	**9,146**	**22**	**1,261**	**10,565**
Depreciation for the year	8	1,446	-	181	1,635
Disposals and write-offs	-	(892)	(22)	(369)	(1,283)
31 December 2013	**144**	**9,700**	**-**	**1,073**	**10,917**
Net book value					
31 December 2012	**739**	**3,884**	**-**	**745**	**5,368**
31 December 2013	**815**	**3,280**	**-**	**597**	**4,692**

Movement table of property and equipment of the Bank for 2012 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
Historical cost or revaluation					
31 December 2011	**991**	**11,911**	**307**	**2,115**	**15,324**
Additions	10	1,402	-	4	1,416
Disposals and write-offs	(126)	(283)	(285)	(113)	(807)
31 December 2012	**875**	**13,030**	**22**	**2,006**	**15,933**
Depreciation					
31 December 2011	**254**	**7903**	**271**	**1,109**	**9,537**
Depreciation for the year	8	1 524	13	218	1,763
Disposals and write-offs	(126)	(281)	(262)	(66)	(735)
31 December 2012	**136**	**9,146**	**22**	**1,261**	**10,565**
Net book value					
31 December 2011	**737**	**4,008**	**36**	**1,006**	**5,787**
31 December 2012	**739**	**3,884**	**-**	**745**	**5,368**

Minimum lease payments receivable under operating leases

	2013 Group LVL'000	2012 Group LVL'000
Not later than 1 year	97	186
Later than 1 year and not later than 5 years	63	166
Later than 5 years	-	-
Total	**160**	**352**

23 INVESTMENT PROPERTY

Investment property contains properties that Group has overtaken form existing loans (as collaterals) and expects increase in value of those properties.

The structure of investment property by type (based on investment amount) is following:

	2013 Group	2012 Group
Residential (apartments and living houses)	49%	58%
Land plots	18%	17%
Commercial objects	33%	25%

The structure of investment property by geographic location:

	2013 Group	2012 Group
Riga and Riga region (incl. Jurmala)	90%	87%
Other regions	10%	13%

	Group LVL'000	Bank LVL'000
Investment property book value as at 31 December 2011	**38,375**	**17,287**
Additions, purchases of new properties	8,759	3,284
Additions, capitalized investments	179	-
Net gains resulting from adjustment to fair value of projects	2,941	1,352
Disposals	(9,719)	(5,145)
Investment property book value as at 31 December 2012	**40,535**	**16,778**
Additions, purchases of new properties	13,006	265
Net gains resulting from adjustment to fair value of projects	2,175	(254)
Disposals	(8,634)	(4,581)
Investment property book value as at 31 December 2013	**47,082**	**12,208**

Detailed information regarding fair value measurement of investment properties is described in Note 35.

24 OTHER ASSETS

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Guarantee deposits for auctions and prepayments for investment property	3,074	2,270	57	51
Prepayments and overpaid taxes	254	707	-	-
Credit card claims and other payment services	42	1,757	42	1,757
Short term debts	191	274	191	274
Other	4,743	1,949	2,863	618
Total	**8,304**	**6,957**	**3,153**	**2,700**
Less provisions for debtors	(1,249)	(1,016)	(317)	(98)
Total	**7,055**	**5,941**	**2,836**	**2,602**

25 PROVISIONS FOR CREDIT LOSSES

Group provisions for impairment loans and other assets	Loans Total LVL'000	Com-mercial LVL'000	Mort-gage loans LVL'000	Con-sumer loans LVL'000	Leasing LVL'000	Card loans LVL'000	Private and other LVL'000	IBNR LVL'000	Other assets LVL'000	Off balance sheet liabili-ties LVL'000	Total LVL'000
31 December 2011	238,886	95,625	90,905	212	17,680	356	28,476	5,632	5,583	-	244,469
Fully provided for and written off	(26,237)	(22,827)	(464)	(82)	(13)	(106)	(2,745)	-	(136)	-	(26,373)
Charge to income statement:	37,480	18,785	13,997	188	112	397	3,429	572	186	-	37,666
- individual loans and assets	36,918	18,785	13,997	188	122	397	3,429	-	186	-	37,104
- homogenous groups of loans	562	-	-	-	(10)	-	-	572	-	-	562
Interest income due to shortening of discounting period	(3,764)	(3,233)	(224)	-	-	-	(307)	-	-	-	(3,764)
Released during the period	(27,825)	(8,174)	(9,725)	(29)	(1,473)	(112)	(2,724)	(5,588)	-	-	(27,825)
Provisions internal movement	4,386	44	-	-	4 239	-	-	103	(4,617)	-	(231)
Exchange rate diffe-rence	2	8	(12)	-	11	(1)	(3)	(1)	-	-	2
31 December 2012	222,928	80,228	94,477	289	20,556	534	26,126	718	1,016	-	223,944
Fully provided for and written off	(59,061)	(40,284)	(13,710)	-	-	(13)	(5,054)	-	(50)	-	(59,111)
Charge to income statement:	22,772	12,080	8,004	103	-	215	1,836	534	283	14	23,069
- individual loans and assets	22,238	12,080	8,004	103	-	215	1,836	-	283	14	22,535
- homogenous groups of loans	534	-	-	-	-	-	-	534	-	-	534
Interest income due to shortening of discounting period	(2,709)	(2,330)	(171)	-	-	-	(208)	-	-	(1)	(2,710)
Released during the period	(12,679)	(5,565)	(6,148)	-	(151)	-	(815)	-	-	-	(12,679)
- individual loans and assets	(5,324)	(5,282)	-	-	(42)	-	-	-	-	-	(5,324)
- homogenous groups of loans	(7,355)	(283)	(6,148)	-	(109)	-	(815)	-	-	-	(7,355)
31 December 2013	171,251	44,129	82,452	392	20,405	736	21,885	1,252	1,249	13	172,513

Income statement item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of LVL 413 thou (2012: LVL 528 thou).

Income statement item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of LVL 532 thou (2012: LVL 981).

Bank provisions for impairment loans and other assets	**Loans Total** **LVL'000**	Commercial LVL'000	Mortgage loans LVL'000	Consumer loans LVL'000	Card loans LVL'000	Private and other LVL'000	IBNR LVL'000	**Other assets** **LVL'000**	**Off balance sheet liabilities** **LVL'000**	**Total** **LVL'000**
31 December 2011	**217,124**	**91,543**	**90,905**	**212**	**356**	**28,476**	**5,632**	**3,613**	**25,329**	**246,066**
Fully provided for and written off	**(26,046)**	(22,649)	(464)	(82)	(106)	(2,745)	-	**(136)**	**(178)**	**(26,360)**
Charge to income statement:	**37,316**	18,785	13,997	188	397	3,429	520	**121**	**-**	37,437
- individual loans and assets	**36,796**	18,785	13,997	188	397	3,429	-	**121**	**-**	**36,917**
- homogenous groups of loans	**520**	-	-	-	-	-	520	-	-	520
Interest income due to shortening of discounting period	**(3,764)**	(3,233)	(224)	-	-	(307)	-	**-**	**-**	**(3,764)**
Released during the period	**(26,300)**	(8,174)	(9,725)	(29)	(112)	(2,724)	(5 536)	**-**	**(1,525)**	**(27,825)**
Exchange rate difference	**4**	21	(12)	-	(1)	(3)	(1)	**-**	**(1)**	3
31 December 2012	**198,334**	**76,293**	**94,477**	**289**	**534**	**26,126**	**615**	**3,598**	**23,625**	**225,557**
Fully provided for and written off	**(57,413)**	(38,636)	(13,710)	-	(13)	(5,054)	-	**-**	**(1,675)**	**(59,088)**
Charge to income statement:	22,860	12,153	8,004	103	215	1,836	549	**219**	**195**	**23,274**
- individual loans and assets	**22,311**	12,153	8,004	103	215	1,836	-	**219**	**195**	**22,725**
- homogenous groups of loans	**549**	-	-	-	-	-	549	**-**	**-**	**549**
Interest income due to shortening of discounting period	**(2,709)**	(2,330)	(171)	-	-	(208)	-	**-**	(1)	(2,710)
Released during the period	**(12,480)**	(5,517)	(6,148)	-	-	(815)	-	**-**	**(606)**	**(13,086)**
- individual loans and assets	**(5,234)**	(5,234)	-	-	-	-	-		(405)	(5,639)
- homogenous groups of loans	**(7,246)**	(283)	(6,148)	-	-	(815)	-		(201)	(7,447)
31 December 2013	**148,592**	**41,963**	**82,452**	**392**	**736**	**21,885**	**1,164**	**3,817**	**21,538**	**173,947**

Income statement item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of LVL 413 thou (2012: LVL 528 thou).

Income statement item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of LVL 465 thou (2012: LVL 901 thou)

26 DUE TO OTHER CREDIT INSTITUTIONS

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions	10,289	17,387	10,289	17,387
OECD credit institutions*	560	2,392	560	2,392
Non-OECD credit institutions	570	756	570	756
Total demand deposits	**11,419**	**20,535**	**11,419**	**20,535**
Term deposits				
Republic of Latvia credit institutions	45,929	28,940	45,929	28,940
OECD credit institutions**	681,394	759,028	575,973	660,636
Non-OECD credit institutions	-	1,352	-	1,352
	727,323	**789,320**	**621,902**	**690,928**
Accrued interest	258	576	105	440
Total term deposits	**727,581**	**789,896**	**622,007**	**691,368**
Total deposits	**739,000**	**810,431**	**633,426**	**711,903**

*Including DNB Bank ASA LVL 291 thou (2012: LVL 1,809 thou)

**Including DNB Bank ASA for the Group LVL 660,636 thou, Bank – LVL 555,215 thou (2012: Group - LVL 723,888 thou, Bank - LVL 625,496 thou)

27 DUE TO CUSTOMERS

Analysis of deposits by maturity and client type

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Demand deposits				
Private companies	233,905	145,359	236,657	148,115
Individuals	186,522	131,261	186,522	131,261
State institutions	9,689	8,964	9,689	8,964
Funds in transit	1,867	12,125	1,867	12,125
Non-residents OECD	7,052	4,833	7,052	4,833
Non-residents non-OECD	5,920	4,033	5,920	4,033
Total demand deposits	**444 955**	**306,575**	**447,707**	**309,331**
Term deposit accounts				
Private companies	153,413	176,374	154,501	177,333
Individuals	113,984	125,289	113,984	125,289
State institutions	44,384	32,294	44,384	32,294
Non-residents OECD	1,194	827	1,194	827
Non-residents non- OECD	10,967	14,706	10,967	14,706
Accrued interest	728	1,348	731	1,356
Total term deposits	**324,670**	**350,838**	**325,761**	**351,805**
Total deposits and transit funds	**769,625**	**657,413**	**773,468**	**661,136**

28 ACCRUED EXPENSES AND DEFERRED INCOME

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Accrued expenses for unused annual leave and bonuses	1,287	1,140	1,260	1,126
Accrued expenses for payments to Deposit Guarantee Fund and FCMC	568	696	568	696
Other accrued expenses	2,593	1,999	2,333	1,881
	4,448	**3,835**	**4,161**	**3,703**

29 OTHER LIABILITIES

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Accrued liabilities	1, 341	2,101	50	1,415
Accounts payable	1,087	1,257	711	257
Other short-term liabilities	864	487	836	228
	3,292	**3,845**	**1,597**	**1,900**

30 PROVISIONS

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Provisions for SIA DNB līzings obligations	-	-	21,523	23,625
Other provisions	1,249	167	618	167
	1,249	**167**	**22,141**	**23,792**

Provisions were made for SIA DNB līzings obligations for the loan portfolio issued by SIA DNB līzings based on Bank's guarantee.

Calculations of the write downs were made based on the quality of the assets of the SIA DNB līzings using the same approach as in the Bank.

31 SHARE CAPITAL

As of December 31, 2013 100% of AS DNB banka shares were owned by DNB Bank ASA.

32 OFF-BALANCE SHEET ITEMS

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Memorandum items				
Contingent liabilities				
guarantees	38,441	28,048	38,441	28,048
Commitments				
loan issuing commitments	111,452	94,774	133,300	127,454
guarantee issue agreements	8,631	8,744	8,631	8,743
letters of credit	21	2,925	21	2,925
Other				
*euro cash front-loading**	16,975	-	16,975	-

* Liabilities to Bank of Latvia for issued Euro cash sets to customers (Euro cash front-loading). Until Euro changeover Euro cash front-loading is perceived as off balance sheet item.

33 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Balances due from banks	219,466	178,815	219,054	178,428
Loans and advances to customers	1,209,440	1,244,900	1,181,530	1,216,478
Securities designated at fair value through profit and loss	29,135	66,097	29,135	66,097
Derivative financial instruments	23,214	14,054	23,214	14,054
Credit risk exposures relating to off-balance sheet items are as follows:				
Contingent liabilities	38,441	28,048	38,441	28,048
Financial commitments	21	2,925	21	2,925

There is no collateral to balance items except item Loans and advances to customers (Note 17 j)

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

Due from related parties

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Due from parent companies:				
DNB Bank ASA	218,401	174,150	218,401	174,150
Due from subsidiaries	-	-	60,507	54,827
Due from other related parties:				
AB DNB bankas	106	1,351	106	1,351
DNB Bank Polska S.A.	14	10	14	10
DNB Pank	1	-	1	-
DNB Baltic IT A/S	27	11	27	11
Balances due from related parties	**218,549**	**175,522**	**279,056**	**230,349**

Due to related parties

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Due to parent companies:				
DNB Bank ASA	679,628	732,330	574,054	633,802
Due to subsidiaries	-	-	3,844	3,723
Due to other related parties:				
AB DNB bankas	570	2,136	570	2,136
DNB Pank	269	472	269	472
DNB Bank ASA Latvijas filiāle	2,737	-	2,737	3,423
Balances due to related parties	**683,204**	**734,938**	**581,474**	**643,556**

The Group's and Bank's income/expenses from transactions with related parties are analysed as follows:

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Interest received for deposits / loans	**467**	**545**	**1,188**	**1,565**
Parent companies	465	543	465	543
Subsidiaries	-	-	721	1,020
Other related parties	2	2	2	2
Commission received	**221**	**394**	**1,235**	**1,192**
Parent companies	-	-	-	-
Subsidiaries	-	-	399	401
Other related parties	221	394	221	394
Dividends	**-**	**-**	**615**	**397**
Parent companies	-	-	-	-
Subsidiaries	-	-	615	397
Other related parties	-	-	-	-
Other income	**119**	**25**	**2,074**	**1,482**
Parent companies	3	8	3	8
Subsidiaries	-	-	2,037	1,474
Other related parties	116	17	34	-
Interest paid on deposits / loans	**(6,101)**	**(13,994)**	**(4,870)**	**(12,484)**
Parent companies	(6,090)	(13,937)	(4,850)	(12,391)
Subsidiaries	-	-	(9)	(36)
Other related parties	(11)	(57)	(11)	(57)
Expenses from derivatives	**(888)**	**(1,708)**	**(888)**	**(1,708)**
Parent companies	(888)	(1,775)	(888)	(1,775)
Subsidiaries	-	-	-	-
Other related parties	-	67	-	67
Derivative revaluation result	**(6,965)**	**(4,846)**	**(6,965)**	**(4,846)**
Parent companies	(6,965)	(4,786)	(6,965)	(4,786)
Subsidiaries	-	-	-	-
Other related parties	-	(60)	-	(60)
Commission paid	**(123)**	**(80)**	**(123)**	**(80)**
Parent companies	(122)	(4)	(122)	(4)
Subsidiaries	-	-	-	-
Other related parties	(1)	(76)	(1)	(76)
Other expenses	**(3,591)**	**(4,284)**	**(4,918)**	**(6,064)**
Parent companies	(992)	(1,551)	(992)	(1,551)
Subsidiaries	-	-	(1,327)	(1,780)
Other related parties	(2,599)	(2,733)	(2,599)	(2,733)
	(16,861)	**(23,948)**	**(13,267)**	**(20,943)**

As at 31 December 2013 loans issued to key management personnel amounted to LVL 1,173 thou (2012: LVL 1,005 thou).

As at 31 December 2013 the provision for investment in subsidiaries were made in amount LVL 3,500 thou.

According to agreement the Bank made settlement for debtor in SIA DNB līzings in amount of LVL 1,675 thou (2012: LVL 178 thou) for debts covering and write-off.

Information regarding salary to Management Board see Note 12.

35 FAIR VALUES OF ASSETS AND LIABILITIES

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, there are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets

Fair value of securities has been estimated based on quoted price where available. In assessing the fair value for other financial assets, the management has performed discounted cash flow analysis; up-to-date market information at assessment moment is being used assessing cash flows. For loans, where base interest rates are pegged to floating market interest rates, the Group has considered difference between average interest margin of issued loans and average interest margin for newly issues loans. Given that for part of the loan portfolio this margin has been changed (increased) since issuance, the Group has estimated that for such loans the carrying value is considered equal to fair value.

Liabilities

Fair value of financial liabilities at amortised cost such as Due to credit institutions and Due to customers which are not on demand have been estimated based on discounted cash flow model using interest rates for similar products as at year end. Fair value of those financial liabilities that are on demand or have floating interest rate (e.g. Due to credit institutions) have been estimated to be approximately equal to its carrying amount.

a) Fair value hierarchy: assets and liabilities recognised at fair value in statement of financial position

Group 2013	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total fair value LVL'000	Balance sheet LVL'000
Recurring fair value					
Assets					
Derivatives	-	23,214	-	**23,214**	**23,214**
Financial assets designated at fair value through profit or loss	-	28,751	384	**29,135**	**29,135**
Financial assets available-for-sale	-	-	46	**46**	**46**
Investment properties	-	-	47,082	**47,082**	**47,082**
Liabilities					
Derivatives	-	22,645	-	**22,645**	**22,645**
Non-recurring fair value					
Assets					
Fixed assets - buildings	-	-	18,788	**18,788**	18,788

Group 2012	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total fair value LVL'000	Balance sheet LVL'000
Recurring fair value					
Assets					
Derivatives	-	14,054	-	**14,054**	**14,054**
Financial assets designated at fair value through profit or loss	-	65,714	383	**66,097**	**66,097**
Financial assets available-for-sale	-	-	26	**26**	**26**
Investment properties	-	-	40,535	**40,535**	**40,535**
Liabilities					
Derivatives	-	16,193	-	**16,193**	**16,193**
Non-recurring fair value					
Assets					
Fixed assets - buildings	-	-	19,172	**19,172**	**19,172**

Bank 2013	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total fair value LVL'000	Balance sheet LVL'000
Recurring fair value					
Assets					
Derivatives	-	23,214	-	**23,214**	**23,214**
Financial assets designated at fair value through profit or loss	-	28,751	384	**29,135**	**29,135**
Financial assets available-for-sale	-	-	46	**46**	**46**
Investment properties	-	-	12,208	**12,208**	**12,208**
Liabilities					
Derivatives	-	22,645	-	**22,645**	**22,645**
Non-recurring fair value					
Assets					
Fixed assets - buildings	-	-	815	**815**	**815**

Bank 2012	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total fair value LVL'000	Balance sheet LVL'000
Recurring fair value					
Assets					
Derivatives	-	14,054	-	**14,054**	**14,054**
Financial assets designated at fair value through profit or loss	-	65,714	383	**66,097**	**66,097**
Financial assets available-for-sale	-	-	26	**26**	**26**
Investment properties	-	-	16,778	**16,778**	**16,778**
Liabilities					
Derivatives	-	16,193	-	**16,193**	**16,193**
Non-recurring fair value					
Assets					
Fixed assets - buildings	-	-	739	**739**	**739**

b) Fair value hierarchy: assets and liabilities recognised at amortised cost in statement of financial position

Group	2013				
	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total fair value LVL'000	Balance sheet LVL'000
Assets					
Cash and balances with central banks	137,670	-	-	**137,670**	**137,670**
Due from credit institutions on demand	38,146	-	-	**38,146**	**38,146**
Loans	-	-	1,351,720	**1,351,720**	**1,390,760**
Liabilities					
Liabilities to credit institutions on demand	11,419	-	-	**11,419**	**11,419**
Financial liabilities at amortised cost	444,955	-	1,052,548	**1,497,503**	**1,497,206**

Group	2012				
	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total fair value LVL'000	Balance sheet LVL'000
Assets					
Cash and balances with central banks	65,616	-	-	**65,616**	**65,616**
Due from credit institutions on demand	19,000	-	-	**19,000**	**19,000**
Loans	-	-	1,204,880	**1,204,880**	**1,405,292**
Liabilities					
Liabilities to credit institutions on demand	20,535	-	-	**20,535**	**20,535**
Financial liabilities at amortised cost	306,575	-	1,139,499	**1,446,074**	**1,447,309**

Bank	2013				
	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total fair value LVL'000	Balance sheet LVL'000
Assets					
Cash and balances with central banks	137,670	-	-	**137,670**	**137,670**
Due from credit institutions on demand	37,734	-	-	**37,734**	**37,734**
Loans	-	-	1,323,810	**1,323,810**	**1,362,850**
Liabilities					
Liabilities to credit institutions on demand	11,419	-	-	**11,419**	**11,419**
Financial liabilities at amortised cost	447,707	-	948,065	**1,395,772**	**1,395,475**

Bank	2012				
	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total fair value LVL'000	Balance sheet LVL'000
Assets					
Cash and balances with central banks	65,616	-	-	**65,616**	**65,616**
Due from credit institutions on demand	18,613	-	-	**18,613**	**18,613**
Loans	-	-	1,160,209	**1,160,209**	**1,376,870**
Liabilities					
Liabilities to credit institutions on demand	20,535	-	-	**20,535**	**20,535**
Financial liabilities at amortised cost	309,331	-	1,041,932	**1,351,263**	**1,352,504**

c) Fair value: investment properties and fixed assets (building)

Classes of investment properties

Level 3 measurement of fair value is applied for all investment properties. Properties are categorized according to the real estate segment:

- residential (apartments, living houses)
- land plots
- commercial objects

Fair value measurement, valuation techniques, changes in valuation techniques, inputs and other key information

Valuation methods in fair value measurement has remained as before – market comparable method, income capitalization method and discounted cash flow method. All valuations are carried out according to the market value definition and calculations are performed at highest and best use.

Portfolio	Valuation technique	Inputs		Average per square meter 2013, LVL	Range* per sqm 2013, LVL
Residential					
Apartments	comparable method			410	100 – 2,100
Living house	comparable method			190	35 - 700
Land plots					
Agricultural	comparable method			0.25	0.10 – 0.50
Residential	comparable method			4.20	0.35 – 50
Commercial	comparable method, DCF			12	1 - 350
Commercial					
Offices	DCF	rent rate	3 - 7 LVL/m2		
		occupancy	70%-95%		
		discount rates	9%-12%		
		exit yield	8%-11%		
Industrial	DCF	rent rate	0.7 – 3.5 LVL/m2		
		occupancy	70%-90%		
		discount rates	10%-15%		
		exit yield	9%-14%		

* Due to extensive variety of properties in real estate portfolio, indicated price ranges are wide. Each portfolio consists of properties in different technical conditions/with different zoning, located in different regions of Latvia. Value difference between capital city and other cities/country side is very large.

Reconciliation of balances of classes of investment property

Group	Apartments LVL'000	Land plots LVL'000	Living houses LVL'000	Commercial objects LVL'000	Total LVL'000
Book value as at 31 December 2012	**LVL'000**	**7,226**	**6,983**	**10,525**	**40,535**
Additions, purchases of new properties	3,813	1,452	1,831	5,910	**13,006**
Net gain result from adjustment to fair value projects	674	871	114	516	**2,175**
Disposal	(4,662)	(605)	(2,557)	(810)	**(8,634)**
Book value as at 31 December 2013	**15,626**	**8,944**	**6,371**	**16,141**	**47,082**

Bank	Apartments LVL'000	Land plots LVL'000	Living houses LVL'000	Commercial objects LVL'000	Total LVL'000
Book value as at 31 December 2012	**6,807**	**2,755**	**4,740**	**2,476**	**16,778**
Additions, purchases of new properties	158	21	65	21	**265**
Net gain result from adjustment to fair value projects	3	(206)	(241)	190	**(254)**
Disposal	(2,301)	(330)	(1,428)	(522)	**(4,581)**
Book value as at 31 December 2013	**4,667**	**2,240**	**3,136**	**2,165**	**12,208**

Valuation process

Revaluation process is managed by SPV (SIA Salvus) and revaluation end results are approved by The Banks management board. Responsible management group that determines revaluation principles and process is the Bank's Chief Financial Officer (CFO) and Chief Risk Officer (CRO). Revaluation principles which are approved by CFO and CRO, determine precise guidelines for the whole annual revaluation process. The principles each year are reviewed together with internal/external auditors and internal evaluators (two employees, both of whom hold professional qualification certificates and has significant experience in real estate valuation) in order to determine whether any changes or adjustments are necessary.

General approach

Assets are divided in three groups or portfolios:

- Under 100K portfolio (book value under EUR 100 thou);
- Over 100K portfolio (book value between EUR 100 thou – EUR 500 thou);
- Over 500K portfolio (book value over EUR 500 thou).

Under 100K portfolio is revaluated trough The Matrix (tool developed by external evaluators which reflects quarterly prices changes for different type of properties in different locations) Over 100K portfolio and Over 500K portfolio is revaluated using individual valuations (prepared by external evaluators) which are not older then current year.

Adjustments

All individual valuations can be considered as subjective, so there exists and can exist a difference between two valuers/valuations (i.e. market values) for one property. According to the Latvian Association of Property Appraisers (also member of TEGVO and IVSC) the acceptable difference is up to 15% depending on the complexity of the property. To maintain conservative approach and to avoid reflecting overoptimistic valuations in the books, following adjustments to Individual valuations (i.e. market values) are applied:

- Under 100K portfolio - 10% adjustment (i.e. reduction) to the latest available valuations which further are used in The Matrix;
- Over 100K portfolio - 15% adjustment (i.e. reduction);
- Over 500K portfolio is reviewed manually and adjustments, if any, are made on high level judgment of responsible asset managers and internal evaluators;

Different types of properties, acquisition conditions and complicated VAT legislation determine that there is different applicability of VAT for different kind of properties when they are sold. In order not to reflect VAT in the books, possible VAT effect is taken in to account in individual cases and revaluation results are accordingly adjusted, if necessary.

Check-up of the results

All Individual valuations in Over 500K portfolio are reviewed by The Banks internal evaluators. All other Individual valuations are reviewed on a random basis.

Revaluation end results (after all adjustments) are manually reviewed by responsible asset managers. If any flaws are discovered, manual adjustments are performed based on high level judgment maintaining conservative approach;

Exceptions

There exists number (less than 30) of low value Assets (park territories, infrastructure objects etc.) which couldn't be revaluated with the Matrix. Revaluation of those Assets is based on high level judgment considering existing sales prices and/or previous valuation and/or existing book value and/or other relevant information.

Sensitivity information

Fair value measurement inputs (i.e. rent rates and their growth, occupancy rates, discount rates, yield etc.) used in income method calculations (direct income capitalization method or discounted cash flow method) can significantly influence outcome of calculations. Higher rent rates and occupancy rates gives higher value and vice versa if the rates are lower. Higher discount rates and exit yields gives lower value and vice versa if the rates are lower.

However all those inputs are connected and significant changes in one input trigger changes in other inputs; e.g. if an optimistic rent rates and long term occupancy rates are used then it affects discount rate and it should go up and this understanding is maintained through the whole valuation process.

Highest and best use

There are number of properties that currently are not used according to highest and best use. Mostly those are undeveloped (for residential, commercial or mixed development) land plots or unfinished development (unfinished multi-apartment or office buildings). In terms of value, it makes approximately EUR 10 million or 15% from whole real estate portfolio.

36 CAPITAL ADEQUACY

The Basel II regulations were introduced on January 1, 2007. The capital adequacy regulations now imply greater consistency between the authorities' capital adequacy requirements and the method applied by the institutions themselves. The Group from year to year concentrates its' attention to continuously improve capital adequacy assessment processes and is looking forward to meet possible challenges raised by introduction of Basel III in upcoming years.

The capital of the Group is calculated and allocated for the risk coverage following Capital Adequacy Assessment Policy and Minimum Capital Requirements Calculation Regulations. The Group's objectives when managing capital are:

1) to comply with the capital requirements set by the Financial and Capital Market Commission as well as the internal targets set by the Bank's senior management;

2) to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;

3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy report is submitted to the supervising authority monthly in accordance with the Financial and Capital Market Commission requirements. Internally reports on capital adequacy are available on call, however, usually prepared on a monthly or quarterly basis and submitted to the senior management afterwards.

The Group's regulatory capital is equal to Tier 1 capital which consists of the ordinary shares, share premium, mandatory reserve, retained earnings of the previous financial year, the audited profit of current financial year and less the intangible assets, revaluation profit of investment properties and current year losses, if any;

In the end of 2013 the Group's capital adequacy ratio is 12.3% and the Bank's – 13.3% (2012: 11.8%; 13.0%). Legislation determines minimum capital as at least 8% of the sum of the risk–weighted exposure.

According to the Financial and Capital Market Commission Regulations for Calculating the Minimum Capital Requirements, bank shall provide own funds which shall at all times exceed or equal the sum of the capital requirements for:

- credit risk;
- market risk;
- operational risk.

In compliance with these regulations the Group calculate credit risk minimum capital requirement by using standardised approach, the Group do not apply any VaR or other internal models for the calculation of market risk capital requirement and apply Basic Indicators Approach for calculating of operational risk capital requirement.

The risk-weighted assets are measured by means of risk weights classified according to the nature of each assets and counterparty. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

The Group review and improve the risk identification and management policies and procedures according to the changes in the Group's activities and financial situation at least once a year. Amendments and updates mostly are done during annual internal capital adequacy assessment process when significant risks are to be reassessed or identified and assessed.

	2013 Group LVL'000	2012 Group LVL'000	2013 Bank LVL'000	2012 Bank LVL'000
Total own funds for solvency purposes	**152,029**	**146,041**	**157,241**	**156,253**
Tier 1: Original own funds	152,029	146,041	157,241	156,253
--Paid up capital	134,361	134,361	134,361	134,361
--Share premium	48,994	48,994	48,994	48,994
Reserves	(25,721)	(26,445)	(23,669)	(24,703)
--Valuation differences to eligible as original own funds	(3,910)	(9,200)	(1,071)	(1,088)
Other deductions from Original Own Funds				
-- Intangible assets	(1,695)	(1,669)	(1,374)	(1,311)
Tier 2: Additional own funds	-	-	-	-
--Revaluation reserves	-	-	-	-
Total own funds for solvency purposes	**152,029**	**146,041**	**157,241**	**156,253**

Capital requirements	**98,985**	**99,139**	**94,792**	**96,157**
Standardised approach (SA)	90,747	91,357	87,161	88,560
Capital requirements for position foreign exchange and commodity risks	949	598	604	491
Capital requirements for operational risks (OpR)	7,289	7,184	7,027	7,106
Surplus /(Deficit) of own funds, before other and transitional capital requirements	53,044	46,902	62,449	60,096
Solvency ratio (%)	**12.3%**	**11.8%**	**13.3%**	**13.0%**
Internal assessment of capital	**152,029**	**146,041**	**157,241**	**156,253**

The Group use „Pillar 1 +" approach for internal capital adequacy assessment, at first minimum regulatory capital requirements are analyzed and after then internal capital add-ons are calculated without taking into account any diversification effects between particular risks.

During internal capital adequacy assessment process, the Group usually perform actions as follows:

- analyzes available amount of own funds and its historical volatility, including in the breakdown of certain capital elements;
- analyzes amount of minimum and internal capital requirements and its historical volatility in the breakdown of the risk types;
- analyzes significant risks for whom capital need to be maintained;
- analyzes asset and off-balance sheet items, including analysis of loan portfolio volume, structure, quality, amount of provisions made as well as estimates appropriate forecasts for following periods;

- calculates minimum and internal capital requirements by taking into account planned changes in the Group's activities and financial situation;
- performs stress testing and estimates capital buffer;
- prepare forecast of available own funds by taking into account planned incomes and expenses, including provision amount to be made, planned capital injections and other significant factors;
- prepare regulatory and internal capital adequacy forecast, including setting appropriate strategic goals.

Regular monitoring and control of capital adequacy has been carried out in the Group. Internal capital adequacy assessment process has been done according to Financial institution law and Financial and Capital Market Commission requirements. Internal capital adequacy assessment process is a part of DNB Bank ASA (Norway) capital adequacy assessment process as well as according to DNB Bank ASA (Norway) policies and guidelines were adjusted processes, models and methods adaptation to DNB Bank ASA requirements. Improvement of internal capital adequacy assessment process will continue in the coming years by taking into account changes in internal and external factors.

There were several risks that have been assessed as significant for 2013 and for whom adequate internal capital has been kept in addition to the set of minimum regulatory capital requirements.

Concentration risk

Internal capital requirements for individual and inter-connected party's concentration, industries concentration, collateral concentration and concentration of currencies are calculated. Group applies its internal methodology based on standardized Herfindahl-Hirshmann Index to calculate add-ons to the regulatory capital for specific concentration dimensions.

Operational risk

The basic indicator approach is used for the regulatory capital requirement calculation for the operational risk. The internal capital requirement is calculated by comparing regulatory capital requirement with the amount evaluated during the Internal Capital Adequacy Assessment Process. The most conservative of the two values is used for the capital requirement.

Business risk and Strategic risk

Business and strategic risks are mitigated through annual budgeting and strategic planning processes. However, according to the requirements stipulated by Financial and Capital Market Commission, the Group keep capital not less than 5% of the sum of minimum capital requirements to cover these risks.

Interest rate risk

For interest rate risk management the Group uses an internal model based on gap analysis and Basis Point Value method, which cover the most significant interest rate risk sources and allows assessing influence on the Group's income and economic value. The Group has set internal parameters for possible changes in interest rates for each significant currency. Capital add-on is calculated as an absolute maximum impact on the Group's economic value.

As ICAAP is an integral part of risk management framework, the risk definitions used are the same as in overall risk management.

37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2013 was as follows:

	Up to 1 month LVL`000	1 - 3 months LVL`000	3 – 12 months LVL`000	Over 12 months LVL`000	Total LVL`000
Assets					
Cash and balances with the Central banks	137,670	-	-	-	**137,670**
Due from other credit institutions (demand)	38,146	-	-	-	**38,146**
Derivatives	2,803	2,020	3,954	14,437	**23,214**
Financial assets at fair value through profit or loss	29,135	-	-	-	**29,135**
Financial assets available-for-sale	-	-	-	46	**46**
Loans and advances to customers	193,557	38,912	152,862	1,005,429	**1,390,760**
Due from other credit institutions (term)	179,436	1,510	374	-	181,320
Loans to customers	14,121	37,402	152,488	1,005,429	1,209,440
Accrued income and deferred expenses	162	60	661	7	**890**
Investment property	-	-	-	47,082	**47,082**
Fixed assets	19	17	63	22,991	**23,090**
Intangible assets	-	-	-	1,695	**1,695**
Other assets	5,546	92	4,211	3,762	**13,611**
Total assets	**407,038**	**41,101**	**161,751**	**1,095,449**	**1,705,339**
Liabilities					
Liabilities on demand to credit institutions	11,419	-	-	-	**11,419**
Derivatives	3,313	2,658	4,423	12,251	**22,645**
Financial liabilities at amortised cost:	586,254	150,708	152,523	607,721	**1,497,206**
Due to credit institutions (term)	42,096	19,676	68,702	597,107	727,581
Deposits from customers	544,158*	131,032	83,821	10,614	769,625
Accrued expenses and deferred income	2,292	709	1,447	-	**4,448**
Other liabilities	1,631	1,045	1,602	283	**4,561**
Total liabilities	**604,909**	**155,120**	**159,995**	**620,255**	**1,540,279**
Shareholders` equity	**-**	**-**	**-**	**165,060**	**165,060**
Total liabilities and shareholders` equity	**604,909**	**155,120**	**159,995**	**785,315**	**1,705,339**
Contingent liabilities	1,531	2,806	14,270	19,834	**38,441**
Commitments	75,263	3,375	28,031	13,435	**120,104**
Liquidity risk	**(274,665)**	**(120,200)**	**(40,545)**	**276,865**	**(158,545)**

* Including demand deposits from customers in amount of LVL 444,955 thou

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2012 was as follows:

	Up to 1 month LVL`000	1 - 3 months LVL`000	3 – 12 months LVL`000	Over 12 months LVL`000	Total LVL`000
Assets					
Cash and balances with the central banks	65,616	-	-	-	**65,616**
Due from other credit institutions (demand)	19,000	-	-	-	**19,000**
Derivatives	5,112	446	1,790	6,706	**14,054**
Financial assets at fair value through profit or loss	65,332	270	495	-	**66,097**
Financial assets available-for-sale	-	-	-	26	**26**
Loans and advances	207,462	45,610	131,608	1,020,612	**1,405,292**
Due from other credit institutions (term)	158,211	-	1	1,603	159,815
Loans to customers	49,251	45,610	131,607	1,019,009	1,245,477
Accrued income and deferred expenses	364	14	289	5	**672**
Investment property	-	-	-	40,535	**40,535**
Property and equipment	10	20	150	24,268	**24,448**
Intangible assets	-	-	-	1,669	**1,669**
Other assets	2,591	95	4,579	5,047	**12,312**
Total assets	**365,487**	**46,455**	**138,911**	**1,098,868**	**1,649,721**
Liabilities					
Liabilities to credit institutions (demand)	20,535	-	-	-	**20,535**
Derivatives	7,804	620	2,792	4,977	**16,193**
Financial liabilities at amortised cost:	484,246	289,197	194,796	479,070	**1,447,309**
Due to credit institutions (term)	35,996	194,050	96,000	463,850	789,896
Deposits from customers	436,133*	95,147	98,796	15,212	645,288
Other financial liabilities	12,117	-	-	8	12,125
Accrued expenses and deferred income	1,870	176	1,789	-	**3,835**
Other liabilities	1,182	889	1,046	1,220	**4,337**
Total liabilities	**515,637**	**290,882**	**200,423**	**485,267**	**1,492,209**
Shareholders' equity	**-**	**-**	**-**	**157,512**	**157,512**
Total liabilities and shareholders' equity	**515,637**	**290,882**	**200,423**	**642,779**	**1,649,721**
Contingent liabilities	1,190	1,276	3,758	21,824	**28,048**
Commitments	53,065	3,184	25,320	24,874	**106,443**
Liquidity risk	**(204,405)**	**(248,887)**	**(90,590)**	**409,391**	**(134,491)**

* Including demand deposits from customers in amount of LVL 306,575 thou

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2013 was as follows:

	Up to 1 month LVL`000	1 - 3 months LVL`000	3 – 12 months LVL`000	Over 12 months LVL`000	Total LVL`000
Assets					
Cash and balances with the Central banks	137,670	-	-	-	**137,670**
Due from other credit institutions (demand)	37,734	-	-	-	**37,734**
Derivatives	2,803	2,020	3,954	14,437	**23,214**
Financial assets at fair value through profit or loss	29,135	-	-	-	**29,135**
Financial assets available-for-sale	-	-	-	46	**46**
Loans and advances to customers	207,360	25,426	179,116	950,948	**1,362,850**
Due from other credit institutions (term)	179,436	1,510	374	-	181,320
Loans to customers	27,924	23,916	178,742	950,948	1,181,530
Accrued income and deferred expenses	26	53	571	-	**650**
Investment property	-	-	-	12,208	**12,208**
Fixed assets	2	-	-	4,690	**4,692**
Intangible assets	-	-	-	1,374	**1,374**
Investments in the share capital of related companies	-	-	-	6,227	**6,227**
Other assets	4,309	-	-	4,666	**8,975**
Total assets	**419,039**	**27,499**	**183,641**	**994,596**	**1,624,775**
Liabilities					
Liabilities on demand to credit institutions	11,419	-	-	-	11,419
Financial liabilities held for trading	3,313	2,658	4,423	12,251	**22,645**
Financial liabilities at amortised cost:	589,069	150,555	153,552	502,299	**1,395,475**
Due to credit institutions (term)	42,096	19,523	68,702	491,686	622,007
Deposits from customers	546,973*	131,032	84,850	10,613	773,468
Accrued expenses and deferred income	2,291	703	1,167	-	**4,161**
Other liabilities	1,598	2	10,909	11,229	**23,738**
Total liabilities	**607,690**	**153,918**	**170,051**	**525,779**	**1,457,438**
Shareholders` equity	**-**	**-**	**-**	**167,337**	**167,337**
Total liabilities and shareholders` equity	**607,690**	**153,918**	**170,051**	**693,116**	**1,624,775**
Contingent liabilities	1,531	2,806	14,270	19,834	**38,441**
Commitments	97,111	3,375	28,031	13,435	**141,952**
Liquidity risk	**(287,293)**	**(132,600)**	**(28,711)**	**268,211**	**(180,393)**

* Including demand deposits from customers in amount of LVL 447,707 thou

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2012 was as follows:

	Up to 1 month LVL`000	1 - 3 months LVL`000	3 – 12 months LVL`000	Over 12 months LVL`000	Total LVL`000
Assets					
Cash and balances with the central banks	65,616	-	-	-	**65,616**
Due from other credit institutions (demand)	18,613	-	-	-	**18,613**
Derivatives	5,112	446	1,790	6,706	**14,054**
Financial assets at fair value through profit or loss	65,332	270	495	-	**66,097**
Financial assets available-for-sale	-	-	-	26	**26**
Loans and advances	204,167	33,934	102,674	1,036,095	**1,376,870**
Due from other credit institutions (term)	158,211	-	1	1,603	159,815
Loans to customers	45,956	33,934	102,673	1,034,492	1,217,055
Accrued income and deferred expenses	179	5	267	1	**452**
Investment property	-	-	-	16,778	**16,778**
Property and equipment	-	-	-	5,368	**5,368**
Intangible assets	-	-	-	1,311	**1,311**
Investments in the share capital of related companies	-	-	-	6,027	**6,027**
Other assets	2,694	-	1	5,947	**8,642**
Total assets	**361,713**	**34,655**	**105,227**	**1,078,259**	**1,579,854**
Liabilities					
Liabilities to credit institutions (demand)	20,535	-	-	-	**20,535**
Derivatives	7,804	620	2,792	4,977	**16,193**
Financial liabilities at amortised cost:	487,017	289,061	195,748	380,678	**1,352,504**
Due to credit institutions (term)	35,996	193,914	96,000	365,458	691,368
Deposits from customers	438,904*	95,147	99,748	15,212	649,011
Other financial liabilities	12,117	-	-	8	12,125
Accrued expenses and deferred income	1,793	145	1,765	-	**3,703**
Other liabilities	2,170	3,305	8,426	11,791	**25,692**
Total liabilities	**519,319**	**293,131**	**208,731**	**397,446**	**1,418,627**
Shareholders' equity	**-**	**-**	**-**	**161,227**	**161,227**
Total liabilities and shareholders' equity	**519,319**	**293,131**	**208,731**	**558,673**	**1,579,854**
Contingent liabilities	1,190	1,276	3,758	21,824	**28,048**
Commitments	53,065	35,863	25,320	24,874	**139,122**
Liquidity risk	**(211,861)**	**(295,615)**	**(132,582)**	**472,888**	**(167,170)**

* Including demand deposits from customers in amount of LVL 309,331 thou

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2013:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	**Total LVL'000**
Short term funding	(53,479)	(1,891)	(1,986)	-	-	**(57,356)**
Long term funding	(230)	(18,007)	(68,666)	(598,466)	-	**(685,369)**
Demand deposits	(444,955)	-	-	-	-	**(444,955)**
Term deposits	(99,235)	(131,101)	(84,273)	(9,530)	(1,208)	**(325,347)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	201,990	34,927	30,748	14,166	250,410	**532,241**
outflow	(202,608)	(35,498)	(31,163)	(14,169)	(250,410)	**(533,848)**
Foreign exchange derivatives						
inflow	16,467	-	1,811	-	-	**18,278**
outflow	(16,468)	-	(1,810)	-	-	**(18,278)**
Derivatives settled on a net basis	(17)	(107)	(221)	(189)	-	**(534)**
Total	**(598,535)**	**(151,677)**	**(155,560)**	**(608,188)**	**(1,208)**	**(1,515,168)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2013:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	**Total LVL'000**
Short term funding	(53,479)	(1,891)	(1,986)	-	-	**(57,356)**
Long term funding	(137)	(17,829)	(67,838)	(492,919)	-	**(578,723)**
Demand deposits	(447,707)	-	-	-	-	**(447,707)**
Term deposits	(99,294)	(131,101)	(85,309)	(9,530)	(1,208)	**(326,442)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	201,990	34,927	30,748	14,166	250,410	**532,241**
outflow	(202,608)	(35,498)	(31,163)	(14,169)	(250,410)	**(533,848)**
Foreign exchange derivatives						
inflow	16,467	-	1,811	-	-	**18,278**
outflow	(16,468)	-	(1,810)	-	-	**(18,278)**
Derivatives settled on a net basis	(17)	(107)	(221)	(189)	-	**(534)**
Total	**(601,253)**	**(151,499)**	**(155,768)**	**(502,641)**	**(1,208)**	**(1,412,369)**

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2012:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	**Total LVL'000**
Short term funding	(46,316)	(1)	(3,145)	-	-	**(49,462)**
Long term funding	(10,905)	(292,069)	(93,424)	(366,584)	-	**(762,982)**
Demand deposits	(306,575)	-	-	-	-	**(306,575)**
Term deposits	(72,616)	(54,058)	(115,944)	(117,738)	(887)	**(361,243)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	117,753	206,267	61,483	17,347	254,250	**657,100**
outflow	(118,425)	(207,936)	(61,852)	(17,292)	(254,250)	**(659,755)**
Foreign exchange derivatives						
inflow	4,628	81,250	-	-	-	**85,878**
outflow	(4,644)	(81,234)	-	-	-	**(85,878)**
Derivatives settled on a net basis	(422)	(717)	(547)	2,912	1,189	**2,415**
Total	**(437,522)**	**(348,498)**	**(213,429)**	**(481,355)**	**302**	**(1,480,502)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2012:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	**Total LVL'000**
Short term funding	(46,316)	(1)	(3,145)	-	-	**(49,462)**
Long term funding	(10,821)	(193,649)	(93,424)	(366,584)	-	(664,478)
Demand deposits	(309,331)	-	-	-	-	**(309,331)**
Term deposits	(72,629)	(54,058)	(116,889)	(117,738)	(887)	**(362,201)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	117,753	206,267	61,483	17,347	254,250	**657,100**
outflow	(118,425)	(207,936)	(61,852)	(17,292)	(254,250)	**(659,755)**
Foreign exchange derivatives						
inflow	4,628	81,250	-	-	-	**85,878**
outflow	(4,644)	(81,234)	-	-	-	**(85,878)**
Derivatives settled on a net basis	(422)	(717)	(547)	2,912	1,189	**2,415**
Total	**(440,207)**	**(250,078)**	**(214,374)**	**(481,355)**	**302**	**(1,385,712)**

38 CURRENCY ANALYSIS

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

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the central banks	126,244	1,556	9,177	693	137,670
Due from other credit institutions (demand)	249	22,407	11,343	4,147	38,146
Derivatives	23,214	-	-	-	23,214
Financial assets at fair value through profit or loss	28,751	-	384	-	29,135
Financial assets available-for-sale	20	-	26	-	46
Loans and advances	48,100	11,112	1,327,283	4,265	1,390,760
Due from other credit institutions (term)	5,110	-	172,569	3,641	181,320
Loans to customers	42,990	11,112	1,154,714	624	1,209,440
Accrued income and deferred expenses	863	3	24	-	890
Investment property	12,208	-	34,874	-	47,082
Property and equipment	22,891	-	199	-	23,090
Intangible assets	1,695	-	-	-	1,695
Other assets	12,211	7	1,392	1	13,611
Total assets	**276,446**	**35,085**	**1,384,702**	**9,106**	**1,705,339**
Liabilities					
Liabilities to credit institutions (demand)	3,370	133	7,627	289	11,419
Derivatives	22,645	-	-	-	22,645
Financial liabilities at amortised cost:	273,683	75,646	1,120,811	27,105	1,497,206
Due to credit institutions (term)	2,408	20,085	705,039	49	727,581
Deposits from customers	271,275	55,522	415,772	27,056	769,625
Accrued expenses and deferred income	4,368	-	80	-	4,448
Other liabilities	2,277	-	2,284	-	4,561
Total liabilities	**306,343**	**75,740**	**1,130,802**	**27,394**	**1,540,279**
Shareholders' equity	**165,060**	**-**	**-**	**-**	**165,060**
Total liabilities and shareholders' equity	**471,403**	**75,740**	**1,130,802**	**27,394**	**1,705,339**
Net long/(short) position on balance sheet	(194,957)	(40,655)	253,900	(18,288)	-
Off-balance sheet claims arising from foreign exchange					
Net long/(short) position on foreign exchange	181,488	40,764	(242,389)	18,530	(1,607)
Net long/(short) position	**(13,469)**	**109**	**11,511**	**242**	**(1,607)**

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2012 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the central banks	57,064	2,079	5,786	687	65,616
Due from other credit institutions (demand)	777	1,168	9,546	7,509	19,000
Derivatives	5,692	6,043	2,312	7	14,054
Financial assets at fair value through profit or loss	65,714	-	383	-	66,097
Financial assets available-for-sale	-	-	26	-	26
Loans and advances	43,369	13,650	1,347,419	854	1,405,292
Due from other credit institutions (term)	*7,801*	*2*	*152,012*	*-*	*159,815*
Loans to customers	*35,568*	*13,648*	*1,195,407*	*854*	*1,245,477*
Accrued income and deferred expenses	654	5	13	-	672
Investment property	16,778	-	23,757	-	40,535
Property and equipment	24,448	-	-	-	24,448
Intangible assets	1,669	-	-	-	1,669
Other assets	9,828	711	1,765	8	12,312
Total assets	**225,993**	**23,656**	**1,391,007**	**9,065**	**1,649,721**
Liabilities					
Liabilities to credit institutions (demand)	6,415	12,833	1,228	59	20,535
Derivatives	5,726	1,585	8,880	2	16,193
Financial liabilities at amortised cost:	243,830	57,378	1,119,081	27,020	1,447,309
Due to credit institutions (term)	*7,558*	*-*	*782,283*	*55*	*789,896*
Deposits from customers	*236,272*	*57,378*	*336,798*	*26,965*	*657,413*
Accrued expenses and deferred income	3,668	33	134	-	3,835
Other liabilities	3,098	9	1,230	-	4,337
Total liabilities	**262,737**	**71,838**	**1,130,553**	**27,081**	**1,492,209**
Shareholders' equity	**157,512**	**-**	**-**	**-**	**157,512**
Total liabilities and shareholders' equity	**420,249**	**71,838**	**1,130,553**	**27,081**	**1,649,721**
Net long/(short) position on balance sheet	*(194,256)*	*(48,182)*	*260,454*	*(18,016)*	*-*
Off-balance sheet claims arising from foreign exchange					
Net long/(short) position on foreign exchange	*186,547*	*52,868*	*(259,850)*	*17,865*	*(2,570)*
Net long/(short) position	**(7,709)**	**4,686**	**604**	**(151)**	**(2,570)**

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

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the central banks	126,244	1,556	9,177	693	137,670
Due from other credit institutions (demand)	100	22,407	11,080	4,147	37,734
Derivatives	23,214	-	-	-	23,214
Financial assets at fair value through profit or loss	28,751	-	384	-	29,135
Financial assets available-for-sale	20	-	26	-	46
Loans and advances	72,360	12,262	1, 273,994	4,234	1,362,850
Due from other credit institutions (term)	5,110	-	172,569	3,641	181,320
Loans to customers	67,250	12,262	1,101,425	593	1,181,530
Accrued income and deferred expenses	647	3	-	-	650
Investment property	12,208	-	-	-	12,208
Property and equipment	4,652	-	40	-	4,692
Intangible assets	1,374	-	-	-	1,374
Investments in the share capital of related companies	6,227	-	-	-	6,227
Other assets	8,794	7	173	1	8,975
Total assets	**284,591**	**36,235**	**1,294,874**	**9,075**	**1,624,775**
Liabilities					
Liabilities to credit institutions (demand)	3,370	133	7,627	289	11,419
Derivatives	22,645	-	-	-	22,645
Financial liabilities at amortised cost:	275,113	76,789	1,016,468	27,105	1,395,475
Due to credit institutions (term)	2,408	20,085	599,465	49	622,007
Deposits from customers	272,705	56,704	417,003	27,056	773,468
Accrued expenses and deferred income	4,081	-	80	-	4,161
Other liabilities	2,686	9	21,043	-	23,738
Total liabilities	**307,895**	**76,931**	**1,045,218**	**27,394**	**1,457,438**
Shareholders' equity	**167,337**	**-**	**-**	**-**	**167,337**
Total liabilities and shareholders' equity	**475,232**	**76,931**	**1,045,218**	**27,394**	**1,624,775**
Net long (short) position on balance sheet	(190,641)	(40,696)	249,656	(18,319)	-
Off-balance sheet claims arising from foreign exchange					
Net long (short) position on foreign exchange	181,488	40,764	(242,389)	18,530	(1,607)
Net long/(short) position	**(9,153)**	**68**	**7,267**	**211**	**(1,607)**

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2012 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the central banks	57,064	2,079	5,786	687	65,616
Due from other credit institutions (demand)	700	1,159	9,245	7,509	18,613
Derivatives	5,692	6,043	2,312	7	14,054
Financial assets at fair value through profit or loss	65,714	-	383	-	66,097
Financial assets available-for-sale	-	-	26	-	26
Loans and advances	69,068	13,560	1,293,402	840	1,376,870
Due from other credit institutions (term)	7,801	2	152,012	-	159,815
Loans to customers	61,267	13,558	1,141,390	840	1,217,055
Accrued income and deferred expenses	444	5	3	-	452
Investment property	16,778	-	-	-	16,778
Property and equipment	5,368	-	-	-	5,368
Intangible assets	1,311	-	-	-	1,311
Investments in the share capital of related companies	6,027	-	-	-	6,027
Other assets	7,472	711	451	8	8,642
Total assets	**235,638**	**23,557**	**1,311,608**	**9,051**	**1,579,854**
Liabilities					
Liabilities to credit institutions (demand)	6,415	12,833	1,228	59	20,535
Derivatives	5,726	1,585	8,880	2	16,193
Financial liabilities at amortised cost:	247,149	57,419	1,020,916	27,020	1,352,504
Due to credit institutions (term)	7,558	-	683,755	55	691,368
Deposits from customers	239,591	57,419	337,161	26,965	661,136
Accrued expenses and deferred income	3,536	33	134	-	3,703
Other liabilities	4,862	9	20,821	-	25,692
Total liabilities	**267,688**	**71,879**	**1,051,979**	**27,081**	**1,418,627**
Shareholders' equity	**161,227**	**-**	**-**	**-**	**161,227**
Total liabilities and shareholders' equity	**428,915**	**71,879**	**1,051,979**	**27,081**	**1,579,854**
Net long (short) position on balance sheet	(193,277)	(48,322)	259,629	(18,030)	-
Off-balance sheet claims arising from foreign exchange					
Net long (short) position on foreign exchange	186,547	52,868	(259,850)	17,865	(2,570)
Net long/(short) position	**(6,730)**	**4,546**	**(221)**	**(165)**	**(2,570)**

39 LITIGATION AND CLAIMS

The Management of the Bank believes that any legal proceedings pending as at 31 December 2013 will not result in material losses for the Bank and/ or Group.

40 EVENTS AFTER BALANCE SHEET 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.