Baltikums Bank
Relations That Work

Baltikums Bank AS

Annual Report
2012

CONTENTS

MANAGEMENT REPORT

Dear shareholders, customers and partners!

2012 was a successful year for Latvia, despite the complicated state of global economies, particularly within the European Union. Economic performance improved and the state's investment ratings were upgraded. This all allowed the government to continue implementing earlier reforms and return to international markets in full force, which had a favourable effect on the wealth of the country's population. The positive trends in the Latvian economy were a great foundation for development in the banking system.

2012 was also a successful year for Baltikums Bank. The bank demonstrated its best financial performance to date, increasing efficiency and ramping up all of its core lines of business, in every region where it is active. We have taken forward positions among financial institutions in Latvia across a whole range of key indicators such as the rate of growth of assets and funds under management, as well as return on equity.

During the reporting period, we have carried out a series of important activities which, coupled with positive results brought about by the Bank's efficient growth strategy have laid the groundwork for continued dynamic development. We have made a considerable step forward on the way to achieving our strategic goals: increased profit and return on equity.

In 2012, we achieved record net profits, reaching 7.12 million Latvian lats (10.13 million Euros), 3.2 times our performance in 2011. Moreover, ROE reached 27%, compared to 10% in 2011. Two important indicators in the development of the bank – customer deposits and assets – showed increases of 56% and 55% respectively.

We should note that these results were achieved in an environment of high uncertainty concerning the global economy and unstable financial markets, reaffirming the correct growth strategy selected by Baltikums Bank, the Bank's ability to demonstrate robust growth across all of its lines of business.

This reporting period marked a year when we applied every effort to qualitatively update our income structure and increase the bank's operational efficiency.

We have continued developing our corporate investment business, providing customers the broadest spectrum of full-service banking solutions. The Bank's team of highly qualified specialists ensured stable business development by upholding high standards of quality, solving problems efficiently and achieving the goals that were set.

Our Private Banking business has been just as successful, if not more. The Bank's private capital management performance last year was formidable – assets, including assets under management, grew by 46% to reach 408 million Latvian lats (580.6 million Euros). The amount of assets under management increased by 12.7 million Latvian lats (18.1 million Euros), or 19%.

The expansion of advisory services also brought us notable success, increasing the efficiency of sales and bringing customer service to a whole new level.

We devoted great attention to optimising business processes in 2012. We carefully studied interactions among the Bank's structural divisions and enhanced a number of customer service procedures, including lending to corporate customers – considerably reducing the time required to consider loan applications.

The Bank's operational business was also brought up to date. In view of international regulation matters, the Bank revised procedures and methodologies for working with customers internationally. New specialists and management staff with many years of experience have joined the staff.

MANAGEMENT REPORT

The Bank was an active participant on the capital and finance markets in 2012, significantly increasing its investment portfolio. The Bank operated on multiple debt capital markets, took part in a number of syndicated projects and was actively engaged on the interbank lending market. The network of the Bank's international partners was vastly expanded.

In order to attract long-term resources, the bank approved and initiated subscription for two issues of subordinated bonds in 2012, for 10 million U.S. dollars and 10 million Euros respectively. These steps towards reinforcing the funding foundation enable the bank to go ahead with its plans to increase lending.

During the year, we adopted a new strategy for developing our information systems. We successfully launched work on achieving key goals: making operation of the Bank's information systems more flexible for prompt provision of current data, improving the quality and speed of decision-making. We focussed on enhancing information systems used for operations by our customers, including remote access solutions.

Other notable events during the reporting period include obtaining full membership in both MasterCard and Visa international payment systems. We also obtained a Central European license for acquiring payment cards on the Internet. All this allows us to expand our line of services with premium solutions, which would allow us to offer customers the other major payment card system's premium products, and eventually provide acquiring services to E-commerce merchants.

Stable development of the Bank included creating 37 new staff positions during the reporting year, attracting promising young graduates and experienced specialists to contribute to the Bank's operation.

We also made charitable contributions to benefit the needy, supporting orphanages and youth sporting organisations.

As we evaluate our prospects for 2013, we do not expect significant improvements in the global economy. As regards the Bank's development strategy, we expect a relatively positive macroeconomic environment. We intend to continue gradually developing our most profitable business segments, enhancing operational efficiencies and improving corporate governance.

We thank all of our customers and partners for their trust, and look forward to continuing our fruitful cooperation!

Aleksandrs Peškovs	Dmitrijs Latiševs
Chairman of the Council	*Chairman of the Board*

28 February 2013

COUNCIL AND BOARD OF THE BANK

As at the date of signing the financial statements, members of the Board and Council of the Bank (hereafter “Bank’s management”) were as follows:

Council as at 31 December 2012

Name, Surname	Position	Date of Appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Andrejs Kočetkovs	Member of the Council	22 June 2001

Board as at 31 December 2012

Name, Surname	Position	Date of Appointment
Dmitrijs Latiševs	Board Member	1 July 2002
	Deputy Chairman of the Board	25 April 2003
	Chairman of the Board	21 April 2011
Leonarda Višņevska	Board Member	25 April 2003
Tatjana Drobina	Board Member	30 April 2008
Aleksandrs Halturins	Board Member	30 April 2008

On behalf of the Bank’s management,

Aleksandrs Peškovs Chairman of the Council	Dmitrijs Latiševs Chairman of the Board

28 February 2013

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of Baltikums Bank AS (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank.

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

The Group consolidated and Bank separate financial statements on pages 8 to 70 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2012 and the consolidated results of its operations and cash flows for the year then ended, as well as the financial position of the Bank as at 31 December 2012 and the results of its operations and cash flows for the year ended 31 December 2012.

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's and Bank's assets, and the prevention and detection of fraud and other irregularities in the Group and Bank. Management is also responsible for operating the Group and Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,

Aleksandrs Peškovs *Chairman of the Council*	Dmitrijs Latiševs *Chairman of the Board*

28 February 2013

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00
Fax +371 670 380 02
Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of Baltikums Bank AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Baltikums Bank AS ("the Bank"), which comprise the separate statement of financial position as at 31 December 2012, the separate income statement, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 70. We have also audited the accompanying consolidated financial statements of Baltikums Bank AS and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 70.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of Baltikums Bank AS as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Baltikums Bank AS and its subsidiaries as at 31 December 2012, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 2 to 3, the preparation of which is the responsibility of management, is consistent with the separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate and consolidated financial statements. In our opinion, the management report is consistent with the separate and consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
28 February 2013

Inga Lipšāne
Sworn Auditor
Certificate No 112

GROUP CONSOLIDATED AND BANK SEPARATE INCOME STATEMENT

	Note	2012		2011	
		Group	Bank	Group	Bank
		LVL'000	LVL'000	LVL'000	LVL'000
Interest income	6	4 777	4 919	4 261	4 174
Interest expense	7	(1 042)	(1 010)	(761)	(657)
Net interest income		**3 735**	**3 909**	**3 500**	**3 517**
Fee and commission income	8	11 064	11 034	7 591	7 558
Fee and commission expense	9	(1 022)	(1 022)	(755)	(755)
Net fee and commission income		**10 042**	**10 012**	**6 836**	**6 803**
Gain/loss from financial assets and liabilities at fair value through profit or loss	10	1 258	1 258	(1 082)	(1 082)
Net foreign exchange gains	11	3 463	3 466	2 150	2 151
Share of profit of equity accounted associated companies	23	51	-	44	-
Other operating income	12	522	185	1 141	250
Operating income		**19 071**	**18 830**	**12 589**	**11 639**
Administrative expenses	13	(7 918)	(7 796)	(6 081)	(5 790)
Other operating expenses	14	(597)	(435)	(1 819)	(1 095)
Net impairment losses	15	(2 369)	(2 401)	(1 766)	(1 950)
Total operating expenses		**(10 884)**	**(10 632)**	**(9 666)**	**(8 835)**
Profit before income tax		**8 187**	**8 198**	**2 923**	**2 804**
Corporate income tax	16	(1 082)	(1 082)	(567)	(596)
Net profit for the year		**7 105**	**7 116**	**2 356**	**2 208**
Attributable to:					
Equity holders of the Bank		*7 105*	*7 116*	*2 308*	*2 208*
Non-controlling interest		-	-	*48*	-

The accompanying notes on pages 15 - 70 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented on pages 8 - 70 on 28 February 2013. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2013

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF COMPREHENSIVE INCOME

		2012		2011	
		Group	**Bank**	**Group**	**Bank**
	Note	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Net profit for the year		**7 105**	**7 116**	**2 356**	**2 208**
Other comprehensive income					
Revaluation of vessels		-	-	(1 030)	-
Revaluation reserve – AFS financial assets		10	10	-	-
Total other comprehensive income		**10**	**10**	**(1 030)**	**-**
Total comprehensive income		**7 115**	**7 126**	**1 326**	**2 208**
Attributable to:					
Equity holders of the Bank		7 115	7 126	1 278	2 208
Non controlling interest		-	-	48	-

The accompanying notes on pages 15 - 70 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 - 70 on 28 February 2013. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2013

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

		2012		2011	
Assets	**Note**	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash and demand deposits with central banks	17	34 690	34 690	16 299	16 298
Deposits with credit institutions	18	200 987	200 971	113 298	113 297
Demand deposits with credit institutions		*133 413*	*133 397*	*65 499*	*65 498*
Term deposits with credit institutions		*58 038*	*58 038*	*47 799*	*47 799*
Loans issued to credit institutions		*9 536*	*9 536*	*-*	*-*
Financial assets at fair value through profit or loss		10 299	10 299	17 031	17 031
Fixed income securities	*19*	*10 080*	*10 080*	*13 267*	*13 267*
Non fixed-income securities	*19*	*218*	*218*	*772*	*772*
Derivatives	*34*	*1*	*1*	*2 992*	*2 992*
Available-for-sale financial assets	20	63	63	34	34
Non fixed-income securities		*63*	*63*	*34*	*34*
Loans and receivables	21	19 776	24 004	19 174	23 236
Held-to-maturity financial assets	22	37 988	37 988	24 490	24 490
Investments in associates	23	2 528	1 100	2 568	1 100
Investments in subsidiary undertakings	23	-	6 091	-	8 448
Investment property	24	4 897	3 423	8 049	3 435
Property and equipment	25	8 203	237	8 244	294
Intangible assets	26	671	184	708	206
Prepayments and accrued income		67	67	57	42
Other assets	27	6 771	6 046	2 867	1 957
Total assets		**326 940**	**325 163**	**212 819**	**209 868**

The accompanying notes on pages 15 - 70 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 - 70 on 28 February 2013. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs	Dmitrijs Latiševs
Chairman of the Council	*Chairman of the Board*

28 February 2013

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

Liabilities and Equity	**Note**	**2012**		**2011**	
		Group	**Bank**	**Group**	**Bank**
		LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Due to credit institutions on demand	28	2 211	2 211	474	474
Derivatives	34	79	79	114	114
Financial liabilities carried at amortized cost		292 049	292 306	187 493	186 439
Loans from other financial institutions	29	-	-	*1 210*	-
Deposits	30	*288 406*	*288 663*	*185 385*	*185 541*
Deposits (subordinated)	30	*1 464*	*1 464*	*898*	*898*
Debt securities issued (subordinated)	31	*2 179*	*2 179*	-	-
Deferred income and accrued expenses		304	304	172	172
Provisions	32	220	216	183	180
Current tax liabilities		440	441	105	105
Other liabilities	33	403	259	160	163
Total liabilities		**295 706**	**295 816**	**188 701**	**187 647**
Equity					
Share capital	35	19 756	19 756	19 756	19 756
Reserves	35	17	17	17	17
Revaluation reserve – AFS financial assets		10	10	-	-
Retained earnings		9 846	9 564	2 740	2 448
Total equity attributable to equity holders of the Bank		**29 629**	**29 347**	**22 513**	**22 221**
Non-controlling interest		1 605	-	1 605	-
Total equity		**31 234**	**29 347**	**24 118**	**22 221**
Total capital and reserves and liabilities		**326 940**	**325 163**	**212 819**	**209 868**
Contingent liabilities and commitments	37	7 371	7 371	7 160	7 160

The accompanying notes on pages 15 - 70 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 - 70 on 28 February 2013. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs	Dmitrijs Latiševs
Chairman of the Council	*Chairman of the Board*

28 February 2013

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital LVL`000	Reserves LVL`000	Fair value reserve LVL`000	Retained earnings LVL`000	Total equity attributable to equity holders of the parent LVL`000	Non controlling interest LVL`000	Total equity LVL`000
Balance at 31 December 2010	**19 118**	**17**	**1 030**	**1 070**	**21 235**	**-**	**21 235**
Total comprehensive income for the reporting period							
Net profit for the year	-	-	-	2 308	**2 308**	**48**	**2 356**
Changes in the revaluation reserve due to disposal of other assets - vessels	-	-	(1 030)	-	**(1 030)**	-	**(1 030)**
Total comprehensive income for the reporting period	**-**	**-**	**(1 030)**	**2 308**	**1 278**	**48**	**1 326**
Non-controlling interest			-	-	-	**1 557**	**1 557**
Transactions with shareholders recorded directly in equity							
Transfer of retained earnings to increase share capital	638	-	-	(638)	-	-	-
Balance at 31 December 2011	**19 756**	**17**	**-**	**2 740**	**22 513**	**1 605**	**24 118**
Prior year adjustment				1	**1**		**1**
Net profit for the year	-	-	-	7 105	**7 105**	-	**7 105**
Revaluation reserve – AFS financial assets	-	-	10	-	**10**	-	**10**
Total comprehensive income for the reporting period			**10**	**7 105**	**7 115**	-	**7 115**
Balance at 31 December 2012	**19 756**	**17**	**10**	**9 846**	**29 629**	**1 605**	**31 234**

The accompanying notes on pages 15 - 70 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 70 on 28 February 2013. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs	Dmitrijs Latiševs
Chairman of the Council	*Chairman of the Board*

28 February 2013

BANK SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital LVL'000	Reserves LVL'000	Fair value reserve LVL'000	Retained earnings LVL'000	Total capital and reserves LVL'000
Balance at 31 December 2010	**19 118**	**17**	**-**	**878**	**20 013**
Net profit for the reporting period	**-**	**-**	**-**	**2 208**	**2 208**
Total comprehensive income for the reporting period	**-**	**-**	**-**	**2 208**	**2 208**
Transfer of retained earnings to increase share capital	**638**	**-**	**-**	**(638)**	**-**
Balance at 31 December 2011	**19 756**	**17**	**-**	**2 448**	**22 221**
Net profit for the reporting period	**-**	**-**	**-**	**7 116**	**7 116**
Revaluation reserve – AFS financial assets	**-**	**-**	**10**	**-**	**10**
Balance at 31 December 2012	**19 756**	**17**	**10**	**9 564**	**29 347**

The accompanying notes on pages 15 - 70 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 - 70 on 28 February 2013. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2013

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS

	Note	2012 Group LVL'000	2012 Bank LVL'000	2011 Group LVL'000	2011 Bank LVL'000
Cash flow from operating activities					
Profit before income tax		8 187	8 198	2 923	2 804
Amortization and depreciation		224	216	83	82
Impairment of financial assets		2 308	2 337	(849)	(1 011)
Foreign exchange (gain)/loss		(29)	(30)	(29)	(53)
Revaluation of assets		(40)	10	65	(55)
(Gain)/loss from disposal of subsidiaries		(193)	(1)	28	896
		10 457	**10 730**	**2 221**	**2 663**
(Increase)/decrease in loans and receivables		(2 692)	(2 858)	1 500	(2 097)
(Increase)/decrease in available-for-sale financial assets		(29)	(29)	-	-
Increase in financial assets at fair value through profit or loss		6 732	6 735	2 773	2 773
(Increase)/decrease in held-to-maturity financial assets		(23 171)	(21 961)	(17 571)	(17 797)
(Increase)/decrease in prepayments and accrued income		(10)	(25)	(16)	(4)
Increase /(decrease) in other assets		(4 096)	(4 018)	(194)	172
Increase in customer deposits		103 756	103 857	84 887	83 221
Increase/(decrease) in held-for-trading financial liabilities		(35)	(35)	(461)	(461)
Increase/(decrease) in other liabilities and current tax liabilities		1 347	(1)	(4 417)	(355)
Increase/(decrease) in deferred income and accrued expenses		132	132	(51)	58
Net cash from operating activities before tax		**92 391**	**92 527**	**68 671**	**68 173**
Corporate income tax paid		(613)	(613)	(512)	(511)
Net cash from operating activities		**91 778**	**91 914**	**68 159**	**67 662**
Cash flow from investing activities					
Purchase of property and equipment and intangible assets		(177)	(144)	(173)	(157)
Disposal of property and equipment		23	12	175	175
Acquisition of subsidiaries, net of cash acquired		-	(72)	(2 499)	(2 500)
Sales of associated companies and subsidiaries		2 126	2 116	1 722	1 721
Other cash inflow/(outflow) from investment activities		-	-	6	469
Dividends received		91	-	-	-
Net cash from/(used in) investing activities		**2 063**	**1 912**	**(769)**	**(292)**
Cash flows from financing activities					
Debt securities issued		2 179	2 179	-	-
Net cash from/(used in) financing activities		**2 179**	**2 179**	**-**	**-**
Net changes in cash and cash equivalents		**96 020**	**96 005**	**67 390**	**67 370**
Cash and cash equivalents at the beginning of the reporting year		**124 702**	**124 700**	**57 283**	**57 277**
Effects of exchange rates fluctuations on cash held		29	30	29	53
Cash and cash equivalents at the end of the year	36	**220 751**	**220 735**	**124 702**	**124 700**

The accompanying notes on pages 15 - 70 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 - 70 on 28 February 2013. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2013

1. GENERAL INFORMATION

Baltikums Bank AS ("the Bank") is a Joint Stock Company which was registered with the Enterprise Register of the Republic of Latvia on 22 August 2001. The address of the Bank is Smilsu iela 6, Riga, LV 1050, Latvia. The Bank holds a banking license issued in Latvia and it acts in accordance with the legislation of Latvia and the European Union. The primary lines of business for the Bank are servicing corporate customers and wealthy private individuals, and managing investments and finances.

The sole shareholder of the Bank is Joint Stock Company BBG that holds 100% voting shares of the Bank. JSC BBG is a financial management company registered in Latvia. The entity is owned by four Latvian companies and two individuals.

The Bank has a number of subsidiaries in Latvia, special purpose vehicles in other countries and investments in associated companies. These entities form the Baltikums Group which comprises the following:

Name of the company	Country of incorporation	Line of business	Holding 31.12.2012, %	Holding 31.12.2011, %
AS IPS Baltikums Asset Management	Latvia	Financial services	*100*	*100*
SIA Baltikums International	Latvia	Financial services	*100*	*100*
SIA Konsalting Invest	Latvia	Financial services	-	*100*
Rostman Ltd.	Belize	Shipping	*100*	*100*
SIA CityCap Service	Latvia	Real estate development	*100*	*100*
SIA Zapdvina Development	Latvia	Real estate development	*100*	*100*
KamalyDevelopment EOOD	Bulgaria	Real estate development	*100*	*100*
KamalyDevelopment UAB	Lithuania	Management of overtaken collaterals	*100*	-
SIA Pils pakalpojumi	Latvia	Real estate development	*61*	*61*
Foxtran Management Ltd.	Belize	Management of overtaken collaterals	*100*	-
Enarlia International Inc	Belize	Management of overtaken collaterals	*100*	-
SIA Mateli Estate	Latvia	Real estate development	-	*100*
SIA Darzciems Estate	Latvia	Real estate development	-	*100*
SIA Mazirbe Estate	Latvia	Real estate development	-	*100*

Investments in associated companies (the Bank and the Group):

Company	Country of incorporation	Line of business	Holding 31.12.2012, %	Holding 31.12.2011, %
AAS Baltikums	Latvia	Insurance services	*19,45*	*19,45*
AS Termo biznesa Centrs	Latvia	Real estate development	26,15	26,15

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia ('FCMC' or the 'Regulator') in force as at 31 December 2012.

The Bank separate and Group consolidated financial statements were authorized for issue by the Management Board of the Bank on 28 February 2013. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

(2) Functional and presentation currency

These Group consolidated and Bank financial statements are presented in Latvian lats, which is the Bank's functional currency. Except where indicated otherwise, the financial information presented in Latvian lats has been rounded to the nearest thousand.

(3) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items which are carried at fair value: non-hedging derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss, financial assets available for sale except for those whose fair value cannot be reliably estimated, and vessels as further described in notes 3.(6), 3.(7), 3.(11).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting principles used in the preparation of the Bank's separate and the Group's consolidated financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2011.

(1) Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiary financial statements are included in consolidation as at the date when the control is obtained until the date it ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Intra-Group balances and transactions, and any unrealized gains arising from intra-Group transactions, are eliminated in the preparation of these consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

(2) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of the net identifiable assets and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of business combinations is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gains and losses on the disposal of an entity are determined after including the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognized immediately in the income statement.

(3) Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the Bank and its subsidiaries at the exchange rate set by Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized directly in equity.

The exchange rates for the most significant currencies as set by the Bank of Latvia at reporting date are as follows:

	31 December 2012	31 December 2011
EUR	0.7028	0.7028
USD	0.5310	0.5440

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into LVL at exchange rates set by Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into LVL at spot exchange rates at the dates of the transactions.

Foreign currency differences arising on translation to the Bank functional currency are recognized in equity in a foreign currency translation reserve, through other comprehensive income.

(4) Financial instruments

a) Classification:

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are held-for-trading financial instruments and financial assets and liabilities that the Bank and the Group initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorized as held for trading unless they are designated as a hedging instrument for hedge accounting purposes.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group or the Bank intends to sell immediately or in the short-term, (b) those that the Group or the Bank upon initial recognition designates as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply with these classification criteria.

Available-for-sale financial assets are financial assets classified at inception as available for sale or assets other than classified as financial assets at fair value through profit and loss, held to maturity or loans and receivables. Available-for-sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Bank and the Group to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortized cost represent financial liabilities of the Bank and the Group other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits, debt securities issued and other financial liabilities.

Financial liabilities carried at amortized cost are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Subordinated deposits have a fixed term of at least five years from the date of placement and they are repayable before maturity only in the event of termination of the Bank's operations or the Bank's bankruptcy and such deposits rank before shareholders' claims. Similarly, subordinated debt securities issued are repayable before maturity only in the event of termination of the Bank's operations or the Bank's bankruptcy and such debt securities rank before shareholders' claims.

b) Recognition

The Group and the Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

c) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

d) *Measurement*

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial measurement, all financial assets and liabilities designed at fair value through profit or loss and all available for sale financial assets are measured at fair value except those available-for-sale financial instruments which have no quoted market price in an active market or for which no reliable fair value measurement is possible. Such instruments are carried at cost less transaction costs and impairment.

All financial liabilities other than those measured at fair value through profit or loss, loans and receivables and held to maturity assets are measured at amortized cost using the effective interest rate method. All such instruments are subject to revaluation when impaired.

Profit or loss arising from changes in the fair value of financial instruments designated at fair value through profit or loss are recognized in the income statement. Profit or loss arising from changes in the fair value of available-for-sale financial instruments is recognized in equity through other comprehensive income (except for impairment losses and foreign exchange gains and losses on monetary assets) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest on an available-for-sale financial asset is recognized in the income statement using the effective interest rate method.

e) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group and the Bank transfer substantially all of the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Group and the Bank is recognized as a separate asset or liability.

The Group and the Bank derecognize a financial liability when its contractual obligations are discharged or cancelled or expire.

f) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a legal right to set off the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the trading activity.

(5) Identification and measurement of impairment of financial assets

Loans are stated at the amount of the principal outstanding, less any impairment allowances. Impairment losses and recoveries are recognized monthly based on regular loan reviews. Allowances during the period are recognized in the income statement.

At each reporting date the Bank assesses whether there is objective evidence that financial assets other than carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the impairment event has an impact on the future cash flows of the asset that can be estimated reliably.

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

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at the specific asset level. All loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment.

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

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

If, in a subsequent period, the fair value of an impaired available for sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed, with the amount of the reversal recognized in income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognized directly in other comprehensive income.

(6) Fair value measurement

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 on the measurement date.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the income statement depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

When available, the Group and Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank and Group establish fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the terms of instrument. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(7) Derivatives

Derivatives include foreign currency swaps and forwards. The Bank and Group classify all derivative financial instruments held at 31 December 2012 and 31 December 2011 as trading.

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

Changes in the fair value of derivatives are recognized immediately in the income statement.

(8) Repo transactions

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities continue to be recognized on the statement of financial position. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized on the statement of financial position. The amount paid for securities is recognized as a loan provided to the seller. The Bank and the Group are involved in two types of such transactions – classic *repo* and *buy/sellback* transactions. The result of *repo* and *buy/sellback* transactions is recognized in the income statement as interest income or expense according to the accrual principle.

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

(9) Investment in subsidiaries

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

Investments in subsidiaries are carried at the initial cost less impairment, if any, in the Bank financial statements. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition.

(10) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both.

If the mode of use of the property is changed, investment properties are reclassified to property and equipment.

Investment property is initially measured at acquisition cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The useful life of investment property has been estimated at 20 years with the annual depreciation rate of 5%.

(11) Repossessed assets

As part of the normal course of business the Group and Bank occasionally take title to property and other assets that originally were pledged as security for a loan. When the Group and Bank acquires (i.e. gains a full title to) an asset in this way, the asset's classification follows the nature of its intended use by the Group and Bank. When the Group and Bank is uncertain of its intentions with respect to property that it has repossessed, those properties are classified as investment property.

Repossessed property is valued at lower of cost and net realizable value.

Other types of repossessed collateral are classified as other assets and are measured at lower of cost and net realizable value. Vessels are stated at fair value with all changes in fair value recorded in other comprehensive income. When vessels are sold the Group and the Bank opt to transfer the revaluation reserve to retained earnings.

(12) Property and equipment

Items of property and equipment are measured at acquisition cost including direct costs, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis. Based on the useful life and residual value of the respective item of property and equipment, the following annual depreciation rates are applied:

Furniture and equipment	20%
Computers	25%
Other	20%

Gains and losses on the disposal of property and equipment are recognized in the income statement in the period of disposal. Repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and useful life is extended.

Depreciation methods, useful lives and residual amounts are reviewed at each reporting date.

(13) Investments in associates

Associates are those entities in which the Group or Bank has significant influence, but no control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments in favor of an associate. Investments in associates are accounted using the equity method.

(14) Fund management

The Group and Bank manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group or Bank controls the trust or investment vehicle.

(15) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank.

Intangible assets are recorded at acquisition cost less accumulated amortization and amortized to the income statement in equal amounts over the useful life of the intangible asset. The annual amortization rate for software is 20%

(16) Impairment of non financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(17) Recognition of income and expenses

All significant income and expense categories, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Interest income and expenses include discount or premium amortization or other difference between the carrying amount of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Fees and commission (excluding commission for long-term loans issued) are recognized as the related services are performed. Income and expense that refers to the accounting period are reflected in the income statement regardless of the date of receipt or payment. Loan origination fees together with the related direct costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(18) Credit-related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

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

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

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

(19) Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to the items recognized in other comprehensive income or directly in equity. Then they are recognized either in other comprehensive income or directly in equity.

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

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

A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(20) Dividends

The Group and Bank receive dividends from the equity instruments that are recorded to income when the right to receive payment is established. Proposed dividends are recognized in the financial statements only when approved by the shareholders.

(21) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprises cash, deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months. The balances under sale and repurchase agreements are not included in the cash and cash equivalents.

(22) Leases

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to a lessee. Title may or may not eventually be transferred. When assets are leased out or under a finance lease, the net investment in the finance lease is recognized as a receivable. The net investment in the finance lease represents the difference between the gross receivable and the unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease. Assets leased out under an operating lease, are presented within property and equipment in the statement of financial position, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned Property and equipment. Income is recognized on a straight-line basis over each lease term.

(23) Provisions

Provisions are recognized when the Bank and the Group 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.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(24) Short-term employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis. The Group and the Bank pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and Bank will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

(25) Assets under management

Assets managed by the Bank and the Group on behalf of customers are not treated as assets of the Bank and the Group. The Bank and the Group assumes no risk on the assets.

(26) Fair value of financial assets and liabilities

A number of the Bank and the Group's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from other credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans to customers

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rates used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For a non-material amount of non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount", approved for the respective year by the shareholders' meeting, representing the price for new share allocation and the participants' quit price.

Derivatives

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into lats, applying the exchange rate set by the Bank of Latvia. EURIBOR and LIBOR interest rates are used for discounting purposes.

Liabilities to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand, as they are largely due on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(27) New standards and interpretations

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2012 and have not been applied in preparing these financial statements:

- Amendments to IFRS 7 and IAS 32 on *Offsetting Financial Assets and Financial Liabilities*

  Amendments to IFRS 7 Disclosures (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

  Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Group and Bank do not expect the Amendments to have a significant impact on the financial statements, as they have not entered into master netting or similar arrangements.

- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

(1) it is exposed or has rights to variable returns from its involvements with the investee;
(2) it has the ability to affect those returns through its power over that investee; and
(3) there is a link between power and returns.

The new IFRS 10 also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements.

Under the new IFRS 11, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- A joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. IFRS 11 eliminates the free choice of equity accounting or proportionate consolidation; the equity method must always be used in financial statements.

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Group and Bank do not expect that the new standards will have a material impact on the financial statements.

- IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains ‘how’ to measure fair value when it is required or permitted by other IFRSs. The Group and Bank do not expect IFRS 13 to have a material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13 in material terms.

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively). The amendments:
    - require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.
    - change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the Bank were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: LVL 10 thousand recognized in the fair value reserve. If the Group were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: LVL 10 thousand recognized in the fair value reserve.

- Amendments to IAS 12: *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendments are not relevant to the Group's and Bank's financial statements, since the Group and Bank do not have any investment properties measured using the fair value model in IAS 40.

- IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply). The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognizing actuarial gains and losses, and eliminates the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognized in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendments are not relevant to the Group's and Bank's financial statements, since the Group and Bank do not have any defined benefit plans.

- IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014) introduces minor clarifications. The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*. The Bank does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the Bank's accounting policy.

- IAS 28 (2011) *Investments in Associates and Joint Ventures* (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). There are limited amendments made to IAS 28 (2008):
    - *Associates and joint ventures held for sale.* IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an *associate or a joint venture.*
    - *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

  The Group and Bank do not expect the amendments to Standard to have material impact on the financial statements since the Group and Bank do not have any investments in associates or joint ventures that will be impacted by the amendments.

4. RISK MANAGEMENT

Within the framework of internal control system, the Bank and the Group have developed and follow the Risk Management Policy or fundamental principles which are defined below:

1) general guidelines observed by the Bank and the Group in its activities aimed at decreasing all types of risks which may lead to losses;
2) description of risk transactions and other risks to which the Bank and the Group is exposed;
3) general daily control of risk transactions and management of transaction related risks.

The Risk Management Policy describes and determines the aggregate of measures to ensure that the possibility to suffer losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffer other losses. The Board and the Council of the Bank have approved the Risk Management Policy. The Board and the Council of the Bank have also approved all other policies listed below related to risk management. The Bank's board supervises the Risk Management System, but the structural units of the respective sectors are responsible for the daily activities. The Risk Management System is monitored by the Internal Audit Division on a regular basis is being continuously developed pursuant to the development of the Bank and the Group and activities in the financial markets.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfillment of contractual obligations by the Bank and the Group's debtor or counterparty.

Credit risk is managed in accordance with the credit risk management policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, restriction and control.

The management of risks related to ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements, is controlled by the Asset and Liability Committee that sets limits for transactions with each counter party.

The Bank and the Group monitor the concentration of significant assets, liabilities, as well as contingent liabilities and commitments' credit risk by geographical regions (i.e., countries, groups of countries, specific regions within the countries etc), customer groups (i.e., central governments, local authorities, state enterprises, private enterprises, private individuals, etc) and industries.

(2) Currency risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of assets, liabilities, as well as contingent liabilities and commitments denominated in foreign currencies due to change in exchange rates.

The Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency.

The foreign exchange rate of LVL/EUR was pegged as at 31 December 2012 and 31 December 2011.

The Asset and Liability Committee sets limits for the open position in each currency providing an acceptable overall level of foreign currency risk.

An analysis of sensitivity of the Bank's net profit or loss for the year and comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 5% change in USD or EUR to LVL exchange rates is as follows:

'000 LVL	2012 Profit or loss	2011 Profit or loss
5% appreciation of USD against LVL	(19)	144
5% depreciation of USD against LVL	19	(144)
5% appreciation of EUR against LVL	(355)	(203)
5% depreciation of EUR against LVL	355	203

(3) Interest rate risk

Interest rate risk is the risk of potential loss the Bank and the Group may incur as a result of fluctuations of interest rates.

For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analyses of assets and liabilities by maturity and type of interest. A change of interest rates by 100 basis points would result in the following changes in profit or loss and capital and reserves:

	2012 LVL'000	2011 LVL'000
LVL	211	119
EUR	282	227
USD	505	743

The interest reprising analysis is disclosed in Note 44.

(4) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavorable prices in order for the Bank and the Group to fulfill its liabilities to creditors and depositors.

Liquidity risk management is based on the analysis of the structure of assets and liabilities performed by the Bank's Financial Analysis and Risk Management Department. That includes the analysis of dynamics in customer funds by customer group and assessment of the possibilities of external borrowing. Based on this information, the Asset and Liability Committee monitors the Bank and the Group's ability to fulfill all its commitments. Operating short-term liquidity management, i.e. the attraction and placement of resources, in the Bank and the Group is performed by the Resources Department of the Bank and the Group based on the short-term liquidity forecast.

Details of the reported ratio of net liquid assets at the reporting date were as follows:

	2012	2011
As at December 31	78.00 %	71.94%

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities.

(5) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Bank and the Group perform an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfill their obligations.

(6) Operational risks

The Bank's and the Group's organizational structure, precise job specifications, clear division of responsibilities as well as control procedures allow the Bank and the Group to monitor operational risks. The Bank has also developed an action plan for various emergency situations. The Bank and the Group have set up an independent "Internal audit service" (IAS) whose primary function is to ensure that the Bank's and the Group's activities comply with existing legislation, approved plans, policies and other internal Bank and the Group documents and to monitor the compliance of the Bank's and the Group's department activities with internal control procedures.

(7) Reputational risk

The Bank and the Group recognize the importance of the prevention of money laundering and terrorism financing. To that end, the Bank has set up the Reputation Risk Management Department and an internal control system that helps monitor the transactions performed by the customers and their business partners as they take place. The department monitors the execution of policies and procedures governing the prevention of money laundering and terrorism financing on a regular basis.

(8) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Capital requirements for the Bank are set and monitored by the Regulator.

Under the current capital requirements set by the F CMC, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2012 is 8%, in accordance with the special requirement of the FCMC the Bank needs to ensure the minimum capital adequacy of at least 14.00% for the period 1 October 2012 to 30 September 2013. As at 31 December 2012 the Bank and the Group were in compliance with the capital adequacy and the minimum capital requirement specified in the law On Credit Institutions and the rules of the FCMC, as well as in compliance with the higher ratio required by the FCMC. For the calculation of capital adequacy refer to Note 45 – Capital Adequacy.

(9) Know-your-customer (KYC) policies

The primary goal of the Bank's KYC policy is a well-established customer identification program which includes the ascertainment of beneficial owners, client business and client partners.

In addition to obligatory identification of the customer, the Bank's KYC policy foresees interviewing and completing a customer's form. Based on this information, a new basic profile of the customer emerges, which becomes the keystone for the customer's file.

The main objective of this stage is to understand the business and profile of the customer. All activities of the Bank and the Group are aimed at increasing the security of financial transactions. Such an attitude will allow the Bank and the Group to develop an optimum service configuration for each customer in the future. Additionally, the policy helps the Bank and the Group decrease the risk of unusual and suspicious financial operations emerging in the future.

As the working relationship between the customer and the Bank progresses, further understanding of the customer's business deepens. The customer's profile expands and should contain detailed information, business description and transaction type. Knowing the customers' business and their transactions allows the Bank and the Group to prevent any efforts of unauthorized money transfers, access to the account's information and other crimes.

5. USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty:

(i) Allowances for doubtful debts

Financial assets are evaluated individually for impairment and it is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and possible net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are reviewed by the Credit Risk function.

(ii) Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policies. For financial instruments that trade infrequently and have no observable prices, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) Impairment of financial instruments

The determination of impairment indication is based on a comparison of the financial instrument's carrying value and fair value. Due to periodic illiquidity in capital markets, the market price is not always a reliable source for impairment indication. The Bank use valuation models based on quoted market prices of similar products.

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

(v) Impairment of goodwill

The recoverable amount of goodwill is estimated at each reporting date for the purposes of measuring impairment loss. The recoverable amount of goodwill is the greater of value in use of the underlying cash-generating unit and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(vi) Valuation of repossessed collateral

Depending on classification, repossessed collateral is valued either at lower of cost and net realizable value or at fair value. The management estimates the net realizable value of assets whenever there are indications that the carrying amount may have decreased below its cost. If this is the case, assets are written down to their net realizable value.

Vessels are stated at fair value with all changes in fair value recorded in other comprehensive income. When measuring the fair value of vessels, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on discounted estimated future cash flows from the assets. Comparative method is based on recent market transactions with comparable assets.

(vii) Fair value of assets and liabilities at acquisition

The fair value of assets acquired in a business combination is based on the discounted estimated cash flows from individual assets and/or external valuations.

6. INTEREST INCOME

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income on assets at amortized cost:	2 488	2 630	2 067	1 980
Deposits with credit institutions	*633*	*633*	*512*	*512*
Loans and receivables	*1 770*	*1 912*	*1 345*	*1 258*
Interest income from impaired assets	*85*	*85*	*210*	*210*
Interest income from securities at fair value through profit or loss	953	953	1 016	1 016
Interest income from held-to-maturity securities	1 336	1 336	1 178	1 178
Total interest income	**4 777**	**4 919**	**4 261**	**4 174**

7. INTEREST EXPENSE

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest expense from liabilities measured at amortized cost:	167	167	378	343
Deposits and balances due to financial institutions	-	-	*26*	*24*
Deposits	*167*	*167*	*352*	*319*
Interest from debt securities issued	17	17	-	-
Other interest expense	858	826	383	314
Total interest expenses	**1 042**	**1 010**	**761**	**657**

8. FEE AND COMMISSION INCOME

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Payments	6 004	6 004	4 675	4 678
Corporate banking fee income	262	262	118	118
Securities transactions	1 669	1 669	816	816
Trust operation	1 349	1 349	890	890
Account servicing	852	853	567	567
Management of investment funds and plans	31	-	36	-
Other	897	897	489	489
Total fee and commission income	**11 064**	**11 034**	**7 591**	**7 558**

9. FEE AND COMMISSION EXPENSE

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Correspondent accounts	561	561	447	447
Cash transactions and payment card transaction	158	158	106	106
Securities transactions	303	303	202	202
Total fee and commission expense	**1 022**	**1 022**	**755**	**755**

10. NET GAIN/ (LOSS) FROM FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net gain/ (loss) from trading with financial assets and liabilities held-for-trading	464	464	(527)	(527)
Net gain/(loss) from revaluation of financial assets and liabilities	794	794	(555)	(555)
Net gain/ (loss) from financial assets and liabilities at fair value through profit or loss	**1 258**	**1 258**	**(1 082)**	**(1 082)**

11. NET FOREIGN EXCHANGE GAINS

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net gain from trading with foreign currency	3 434	3 436	2 121	2 098
Net gain from revaluation of foreign currency	29	30	29	53
Net foreign exchange gains	**3 463**	**3 466**	**2 150**	**2 151**

12. OTHER OPERATING INCOME

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Penalties received	16	16	13	13
Rental income from real estate	148	43	175	54
Profit from sale of subsidiary	193	1	69	-
Dividends received	19	110	11	176
Income from the shipping business	-	-	560	-
Other	129	-	313	7
Recovery of written-off assets	15	15		
Goodwill	2	-	-	-
Total other operating income	**522**	**185**	**1 141**	**250**

13. ADMINISTRATIVE EXPENSES

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Remuneration of the Council and the Board	233	228	265	254
Staff remuneration	3 472	3397	2 793	2 769
Compulsory state social security contributions	851	833	708	700
Other staff costs	299	293	202	201
Communications and transport	246	239	203	195
Professional services	1 117	1 101	682	581
Rent, utilities and maintenance	804	897	468	499
Depreciation and amortization costs	259	216	388	248
Computer network	193	193	157	156
Advertising and marketing	127	127	55	55
Other taxes	139	91	94	67
Insurance	21	20	11	8
Other	157	161	55	57
Total administrative expenses	**7 918**	**7 796**	**6 081**	**5 790**

The average number of employees in the Bank in 2012 was 203 (2011: 187).

14. OTHER OPERATING EXPENSES

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Membership fees	56	56	41	41
Fees for real estate management	44	6	62	8
Loss from disposal of subsidiaries	-	-	28	896
Fines paid	111	111	1	-
Operating costs of the shipping business	-	-	1 460	-
Other	386	262	227	150
Total other operating expenses	**597**	**435**	**1 819**	**1 095**

15. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of assets for the Bank

	2012 LVL'000	**2011 LVL'000**
Total allowances as at the beginning of the reporting period	**1 846**	**3 001**
Increase in the impairment allowance for loans and other assets	*2 159*	*2 590*
Increase in the impairment allowance for securities	-	*44*
Increase in the impairment allowance for correspondent accounts	-	*601*
Impairment allowances for investments and subsidiaries	*250*	-
Release of previously recognized allowances for loans and held-to-maturity financial assets	*(8)*	*(1 285)*
Change for the year	**2 401**	**1 950**
Assets written off during the year	(1 136)	(3 090)
Change of previously recognized allowances due to currency fluctuations	(73)	(15)
Total allowance as at the end of the reporting period	**3 038**	**1 846**

Impairment of assets for the Group

	2012 LVL'000	2011 LVL'000
Total allowances as at the beginning of the reporting period	**1 846**	**3 026**
Increase in the impairment allowance for loans	*2 159*	*2 638*
Increase in the impairment allowance for securities	-	*44*
Increase in the impairment allowance for correspondent accounts	-	*601*
Allowances for other assets	*218*	-
Release of previously recognized allowances for loans and held-to-maturity financial assets	*(8)*	*(1 517)*
Change for the year	**2 369**	**1 766**
Assets written off during the year	*(1 136)*	*(2 931)*
Change of previously recognized allowances due to currency fluctuations	*(73)*	*(15)*
Total allowance as at the end of the reporting period	**3 006**	**1 846**

16. CORPORATE INCOME TAX

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Corporate tax expense	1 112	1 112	595	590
Adjustment for previous years	(30)	(30)	(28)	6
Total current year tax expense	**1 082**	**1 082**	**567**	**596**

The table below shows the reconciliation between the current tax expense and the theoretically calculated tax amount using the tax rate set by the law, which was 15% in 2012 and 2011.

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Profit before tax	8 187	8 198	2 923	2 804
Theoretically calculated tax at rate 15%	1 228	1 230	438	421
Non-deductible expenses and exempt income, net	(166)	(66)	157	169
Adjustment for previous years	(30)	(30)	(28)	6
Total income tax expense	**1 082**	**1 082**	**567**	**596**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2012 and 2011.

These deductible temporary differences, which have no expiry dates, are listed below at their tax affected accumulated values:

	Assets		Liabilities		Net	
‘000 LVL	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Financial instruments at fair value through profit and loss	57	141	-	-	57	141
Property and equipment	-	-	(58)	(63)	(58)	(63)
Other liabilities	5	6	-	-	5	6
Total deferred tax asset /(liabilities)	**62**	**147**	**(58)**	**(63)**	**4**	**84**
Unrecognized deferred tax asset	**-**	**-**	**-**	**-**	**(4)**	**(84)**

The rate of tax applicable for deferred tax was 15% (2011: 15%).

17. CASH AND DUE FROM THE CENTRAL BANK

	2012		2011	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Cash	539	539	497	496
Balance with the Bank of Latvia (including minimum reserve deposit)	34 151	34 151	15 802	15 802
Total	**34 690**	**34 690**	**16 299**	**16 298**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank at the end of each month should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. As at 31 December 2012, the required amount of obligatory reserves was LVL 11,198 thousand (2011: LVL 11,125 thousand).

18. DEPOSITS WITH CREDIT INSTITUTIONS

	2012		2011	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Demand deposits with credit institutions				
Credit institutions registered in Latvia	2 534	2 534	8 630	8 630
Credit institutions registered in OECD countries	112 015	112 015	46 358	46 358
Credit institutions of other countries	19 456	19 440	11 112	11 111
Impairment allowance	(592)	(592)	(601)	(601)
Total demand deposits with credit institutions	**133 413**	**133 397**	**65 499**	**65 498**
Loans issued to credit institutions	**9 536**	**9 536**	**-**	**-**
Term deposits with credit institutions	**58 038**	**58 038**	**47 799**	**47 799**
Total loans and receivables from banks	**200 987**	**200 971**	**113 298**	**113 297**

As at 31 December 2012, the Bank had correspondent accounts with 45 banks (2011: 46). The largest account balances were with CREDIT SUISSE (Switzerland) – LVL 20,238 thousand (2011: LVL 12,869 thousand) and NORDEA BANK FINLAND PLC – LVL 21,213 thousand (2011: LVL 4 thousand).

As at 31 December 2012 the Bank had amounts due from 2 banks and other financial institutions (2011: 1), which exceeded 10% of total due from credit institutions. The aggregate value of these balances as of 31 December 2012 was LVL 41,451 thousand (2011: LVL 12,869 thousand).

As at 31 December 2012, no bank account balance were pledged as collaterals for over-the-counter currency futures (2011: LVL 3,866 thousand).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Fixed income securities:				
Eurobonds issued by companies and credit institutions of OECD countries	599	599	-	-
Eurobonds issued by companies and credit institutions of non-OECD countries	9 481	9 481	13 267	13 267
Total	**10 080**	**10 080**	**13 267**	**13 267**
Shares and other securities with non-fixed income:				
Bonds issued by companies and credit institutions of OECD countries	78	78	-	-
Shares issued by companies and credit institutions of non-OECD countries	140	140	9	9
Investment fund certificates	-	-	763	763
Total	**218**	**218**	**772**	**772**
Total securities at fair value through profit or loss	**10 298**	**10 298**	**14 039**	**14 039**

An analysis of the credit quality of financial instruments at fair value through profit or loss, based on rating agency ratings where applicable, is as follows:

	2012 '000 LVL	2011 '000 LVL
Fixed and non-fixed income securities		
- Government and municipal bonds		
Rated from BB+ to BB	599	-
Total Government and municipal bonds	**599**	**-**
- Corporate bonds		
Rated from BBB+ to BBB-	2 067	7 200
Rated from BB- to BB+	1 635	3 219
Rated below BB-	5 779	2 857
Not rated	218	-
Total corporate bonds	**9 699**	**13 276**
- Total investment fund certificates		
Not rated	-	763
Total investment fund certificates	**-**	**763**
Total fixed and non-fixed income securities	**10 298**	**14 039**

Information about derivative assets is disclosed in Note 34.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Shares and other securities with non-fixed income				
SWIFT shares	63	63	34	34
Total available-for-sale financial assets	**63**	**63**	**34**	**34**

During the year the Bank acquired additional SWIFT shares worth LVL 19 thousand.

21. LOANS AND RECEIVABLES

(a) Loans	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Financial institutions	-	-	2 270	2 270
Corporates	20 624	24 852	17 145	21 207
Individuals	1 341	1 341	994	994
Total loans and receivables	**21 965**	**26 193**	**20 409**	**24 471**
Impairment allowance	(2 189)	(2 189)	(1 235)	(1 235)
Net loans and receivables	**19 776**	**24 004**	**19 174**	**23 236**

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

(b) Analysis of loans by type	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loan portfolio				
Corporate loans	7 676	11 904	3 347	7 429
Industrial loans	5 389	5 389	4 580	4 580
Payment card loans	202	202	72	72
Mortgage loans	5 200	5 200	4 651	4 651
Factoring	1 276	1 276	-	-
Other loans	247	247	338	318
Total loan portfolio	**19 990**	**24 218**	**12 988**	**17 050**
Securities-backed loans				
Reverse repo	1 975	1 975	7 421	7 421
Total securities-backed loans	**1 975**	**1 975**	**7 421**	**7 421**
Total loans and receivables	**21 965**	**26 193**	**20 409**	**24 471**
Impairment allowance	(2 189)	(2 189)	(1 235)	(1 235)
Net loans and receivables	**19 776**	**24 004**	**19 174**	**23 236**

(c) Geographical segmentation of the loans

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loans to residents of Latvia	9 239	13 467	6 897	10 959
Loans to residents of OECD countries	1 214	1 214	399	399
Loans to residents of non-OECD countries	11 512	11 512	13 113	13 113
Total loans and receivables	**21 965**	**26 193**	**20 409**	**24 471**
Impairment allowance	(2 189)	(2 189)	(1 235)	(1 235)
Net loans and receivables	**19 776**	**24 004**	**19 174**	**23 236**

(d) Ageing structure of the loan portfolio

Bank At 31 December 2012	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms: Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying value of overdue loans
Net carrying value	**24 004**	23 210	67	-	-	727	794
Out of which impaired	**969**	247	-	-	-	722	722
At 31 December 2011							
Net carrying value	**23 236**	22 925	-	-	-	311	311
Out of which impaired	**1 168**	857	-	-	-	311	311

The Group's ageing structure is not materially different from that of the Bank.

(e) Impaired loans

	2012 '000 LVL Group	2012 '000 LVL Bank	2011 '000 LVL Group	2011 '000 LVL Bank
Impaired loans, gross	3 158	3 158	2 403	2 403
Impairment allowance	(2 189)	(2 189)	(1 235)	(1 235)
Net loans and receivables	**969**	**969**	**1 168**	**1 168**

(f) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2011 and 2012 are as follows:

	2012 Group LVL'000	2012 Bank LVL'000	2011 Group LVL'000	2011 Bank LVL'000
Opening balance	**1 235**	**1 235**	**2 744**	**2 533**
Increase in the impairment allowance for loans and receivables	2 159	2 159	2 638	2 590
Reversal of impairment loss	(5)	(5)	(1 517)	(1 099)
Loans written off	(1 136)	(1 136)	(2 615)	(2 774)
Effect of foreign currency translation	(64)	(64)	(15)	(15)
Closing balance	**2 189**	**2 189**	**1 235**	**1 235**

(g) Industry analysis of the loan portfolio of the Bank

	2012 '000 LVL	2011 '000 LVL
Water transport	2 141	4 476
Financial services	1 825	8 580
Wholesale	4 761	1 533
Real estate	4 224	4 082
Leisure, recreation, sports	1 018	1 032
Other services	10 035	3 533
Net loans and receivables	**24 004**	**23 236**

(h) Analysis of loans by type of collateral (Bank)

LVL'000	31 December 2012	% of loan portfolio	31 December 2011	% of loan portfolio
Commercial buildings	11 748	49	5 335	23
Real estate – first mortgage	2 359	10	467	2
Commercial assets pledge	3 115	13	3 376	15
Commercial assets: water transport	1 961	8	4 070	17
Traded securities	1 975	8	7 421	32
Other	2 846	12	2 567	11
Net loans and receivables	**24 004**	**100**	**23 236**	**100**

The amounts shown in the table above refer to the carrying value of the related loans, and do not necessarily represent the fair value of the collateral. The fair value of collaterals is not lower than the carrying amount of the loans.

(j) Restructured loans

As at 31 December 2012 and 2011, the loans restructured by the Bank possessed the following signs of restructuring:

LVL'000	2012 '000 LVL	2011 '000 LVL
Reduced interest rate	328	1 019
Extended repayment period	-	1 785
Total restructured loans	**328**	**2 804**

(k) Repossessed assets

In 2011, the Bank took over collaterals (movable property) of LVL 1,798 thousand and in 2012 – of LVL 2,900 thousand (see Note 27).

(l) Significant credit exposures

As at 31 December 2012 the Bank had one borrower or group of related borrowers whose loan balances exceeded 10% of loans and receivables from customers. The borrower's loan balance amounted to LVL 4,826 thousand. As at 31 December 2011 the Bank had one borrower or group of related borrowers whose loan balances exceeded 10% of loans and receivables from customers and the balance represented LVL 3,935 thousand.

According to applicable regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients of more than 25% of Bank's equity. As at 31 December 2011 and 2012 the Bank was in compliance with this requirement.

22. HELD-TO-MATURITY FINANCIAL ASSETS

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Debt securities and other securities with fixed income				
Eurobonds issued by companies and credit institutions of other countries	37 995	37 995	24 500	24 500
Total debt securities	**37 995**	**37 995**	**24 500**	**24 500**
Impairment allowance	(7)	(7)	(10)	(10)
Debt securities, net	**37 988**	**37 988**	**24 490**	**24 490**

An analysis of the credit quality of held-to-maturity financial assets, based on rating agency ratings where applicable, is as follows:

	2012 '000 LVL	2011 '000 LVL
Debt securities and other securities with fixed income		
- Government and municipal bonds		
Rated from AAA to A-	3 487	-
Rated from BBB+ to BBB-	4 557	-
Total Government and municipal bonds	**8 044**	**-**
- Corporate bonds		
Rated from AAA to A-	2 904	-
Rated from BBB+ to BBB-	14 489	10 545
Rated from BB- to BB+	10 440	7 162
Rated below BB-	2 111	6 783
Not rated		-
Total corporate bonds	**29 944**	**24 490**
Debt securities and other securities with fixed income	**37 988**	**24 490**

Analysis of movements in the impairment allowance

	2012 '000 LVL	2011 '000 LVL
Opening balance	10	282
Increase in the impairment allowance for securities	-	44
Adjustment of previously recognized allowances	(3)	-
Write-off of securities	-	(316)
Closing balance	**7**	**10**

Reclassification out of held-for-trading financial instruments

Pursuant to the amendments to IAS 39 and IFRS 7, in 2008 the Bank reclassified certain trading assets to financial assets held to maturity.

Under the amendments to IAS 39 the reclassifications were made effective from 1 July 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

'000 LVL	1 July 2008 Carrying amount	1 July 2008 Fair value	31 December 2012 Carrying amount	31 December 2012 Fair value
Held-for-trading assets reclassified to held-to-maturity financial assets	5 755	5 755	1 836	1 894
	5 755	**5 755**	**1 836**	**1 894**

The table below sets out the amounts actually recognized in profit or loss and equity during 2012 in respect of financial assets reclassified out of trading assets:

'000LVL	Net income	Shareholders' equity
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	-	-
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	(3)	-
Coupon income	155	-
Net losses from appreciation of value	(3)	-

The table below sets out the amounts that would have been recognized in the period following reclassification during 2012 if the reclassifications had not been made:

LVL'000	Profit or loss
Net profit on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	58

Reclassification according to IAS 39 was performed on 9 September 2011 at the value of that date. The table below sets out the financial assets reclassified and their carrying and fair values:

'000 LVL	9 September 2011 Carrying amount	9 September 2011 Fair value	31 December 2012 Carrying amount	31 December 2012 Fair value
Held-for-trading assets reclassified to held-to-maturity financial assets	5 475	5 475	4 758	4 890
	5 475	**5 475**	**4 758**	**4 890**

The table below sets out the amounts actually recognized in profit or loss and equity during 2012 in respect of financial assets reclassified out of trading assets:

‘000LVL	**Net income**	**Shareholders’ equity**
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	-	-
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	(53)	-
Coupon income	349	-
Net losses from appreciation of value	-	-

The table below sets out the amounts that would have been recognized in the period following reclassification during 2012 if the reclassifications had not been made:

LVL’000	**Profit or loss**
Net profit on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	132

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	**Capital contribution**	**Carrying amount 31.12.2012 LVL’000**	**Carrying amount 31.12.2011 LVL’000**
SIA Baltikums International	100%	1 930	1 860
AS IPS Baltikums Asset Management	100%	136	136
SIA Konsalting Invest	100%	-	2 115
SIA Zapdvina Development	100%	690	690
SIA CityCap Service	100%	380	380
Rostman Ltd.	100%	703	767
Rostman Ltd. *(impairment)*		(250)	-
UAB Kamaly Development		2	-
SIA Pils pakalpojumi	61%	2 500	2 500
		6 091	**8 448**

In February 2012 SIA Baltikums Lizings changed its name to SIA Baltikums International.
In December 2012, the Bank increased the share capital of its subsidiary, SIA Baltikums International, by 706 shares with nominal value of LVL 100.00 for a total of LVL 70,600. After this increase, the share capital of SIA Baltikums International consisted of 19,150 shares with nominal value of LVL 100.00 amounting to LVL 1,915,000.
In March 2012, the share capital of the subsidiary Rostman Ltd was decreased by EUR 90,000.

In October 2012, the Bank acquired a new subsidiary UAB Kamaly Development (Lithuania).

(b) Investments in subsidiaries (Group)

Company	Capital contribution	Cost as at 31.12.2012 LVL'000	Cost as at 31.12.2011 LVL'000
KamalyDevelopment EOOD	100%	486	486
SIA Mateli Estate	100%	-	2
SIA Darzciems Estate	100%	-	2
SIA Mazirbe Estate	100%	-	2
		486	**492**

(c) Investments in associates (Bank and Group)

Company	Capital contribution	Cost as at 31.12.2012 LVL'000		Cost as at 31.12.2011 LVL'000	
		Group	Bank	Group	Bank
AAS Baltikums	19,45%	1 229	1 100	1 269	1 100
AS Termo biznesa Centrs	26,15 %	1 299	-	1 299	-
Total		**2 528**	**1 100**	**2 568**	**1 100**

Despite holding 19.45% of the shares of AAS Baltikums, the Bank exercises significant influence through work on the council of the associated company.

	AS Termo biznesa Centrs	AAS Baltikums	Total
Value as at 31 December 2010	**1 299**	**2 945**	**4 244**
	-	**(1 720)**	**(1 720)**
Share in net profit of associated companies	**-**	**44**	**44**
Value as at 31 December 2011	**1 299**	**1 269**	**2 568**
Dividends received	**-**	(91)	**(91)**
Share in net profit of associated companies	**-**	51	**51**
Value as at 31 December 2012	**1 299**	**1 229**	**2 528**

Associated company carrying amount:

	Current assets LVL'000	Long-term investments LVL'000	Total assets LVL'000	Current liabilities LVL'000	Long-term liabilities LVL'000	Total liabilities LVL'000	Income LVL'000	Expenses LVL'000	Net profit LVL'000	Group share of net assets LVL'000	Group share of profit LVL'000
31 December 2011											
AAS „Baltikums"	4 951	11 552	16 503	(1 005)	(9 307)	(10 312)	2 613	(2 387)	226	1 204	44
31 December 2012											
AAS „Baltikums"	3 587	13 033	16 620	(1 132)	(9 531)	(10 663)	1 493	(1 235)	258	1 159	51

(d) Acquisition of subsidiaries in 2012

In October 2012, the Bank acquired a new subsidiary UAB Kamaly Development (Lithuania).

Acquisition of shares in 2012:	Shareholding acquired	Fair value of net assets on the acquisition date LVL'000	Consideration paid LVL'000	Negative goodwill LVL'000
UAB Kamaly Development	100%	4	(2)	(2)

(e) Sale of subsidiaries in 2012

In April 2012, the Bank disposed of 100% investment in the subsidiary SIA Konsalting Invest. As a result of the sale of the subsidiary, the Bank generated profit of LVL 164 thousand.

Sale of subsidiaries in 2012	Share in equity sold	Net assets at the date of the deal LVL'000	Goodwill LVL'000	Consider ation received LVL'000	Profit from sale of subsidiaries LVL'000
SIA Konsalting Invest	100%	(1 939)	(13)	2 116	164
		(1 939)	**(13)**	**2 116**	**164**

SIA Baltikums Lizings, the subsidiary, in 2012 acquired two subsidiaries: SIA Lielie Zaki, SIA Pulkarne Entity. Subsequently, SIA Baltikums Lizings disposed of five subsidiaries in 2012: SIA Mateli Estate, SIA Darzciems Estate, SIA Mazirbe Estate, SIA Pulkarne Entity and SIA Lielie Zaki. The result of subsidiaries' operations at the date of sale was a loss of LVL 29 thousand. As a result of the sale of the subsidiaries, the Group generated profit of LVL 29 thousand.

Sale of subsidiaries in 2012	Share in equity sold	Net assets at the date of the deal LVL'000	Goodwill LVL'000	Consideration received LVL'000	Profit from sale of subsidiaries LVL'000
SIA Darzciems Estate	**100%**	**(1)**	**-**	**2**	**3**
SIA Mazirbe Estate	**100%**	**-**	**-**	**2**	**2**
SIA Pulkarne Entity	**100%**	**(13)**	**-**	**2**	**15**
SIA Lielie Zaki	**100%**	**(1)**	**-**	**2**	**3**
SIA Mateli Estate	**100%**	**(4)**	**-**	**2**	**6**
Total		**(19)**	**-**	**10**	**29**

(f) Additional information about acquired subsidiary

In October 2011, the Bank acquired 61% of SIA Pils Pakalpojumi. The company owns a building in Riga, at Smilsu iela 6, and the Bank plans to use this building as an office. The Bank's management had reviewed the fair value of these assets on the acquisition date and believes that the fair value was not materially different from the carrying amount. As a result, goodwill in the amount of LVL 2 023 thousand was recognized on the acquisition date:

Acquisition of shares in 2011:	**Shareholding acquired**	**Fair value of net assets as assessed at acquisition LVL'000**	**Consideration paid LVL'000**	**Goodwill LVL'000**
SIA Pils pakalpojumi	61%	782	(2 500)	2 023

Non-controlling interest (39%) was calculated in proportion to the value of net assets at the acquisition date and was LVL 369 thousand.

In May 2012 the Group's management obtained an appraisal of market value of the real estate from an external certified valuation expert, which stated that its market value was higher. Management performed an assessment of the valuation report and concluded that the appraised market value was in force also at the acquisition date. Therefore, following the acquisition measurement period requirements, comparative information in these financial statements as at 31 December 2011 is adjusted retrospectively to increase the fair value of the item of property and equipment at the acquisition date by LVL 3 170 thousand, offset by a decrease in goodwill of LVL 1 934 thousand and an increase in the share of non-controlling interest by LVL 1 236 thousand.

Non-controlling interest (39%) was recalculated accordingly, in proportion to the value of net assets at the acquisition date.

As a result of this measurement period adjustment, the comparative information presented in the 2011 financial statements is revised as follows:

	31 December 2011	
	As stated originally	*Revised*
Property and equipment	5 074	8 244
Intangible assets	2 642	708
Non-controlling interest	369	1 605

24. INVESTMENT PROPERTY

The investment property of the Group consists of the following property items:

	2012		**2011**	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Real estate in Latvia	2 472	1 364	5 612	1 364
Real estate in Estonia	86	86	91	91
Real estate in Lithuania	1 973	1 973	1 980	1 980
Real estate in Bulgaria	366	-	366	-
	4 897	**3 423**	**8 049**	**3 435**

	Group LVL'000	**Bank LVL'000**

At 31 December 2009	**4 707**	**647**
Acquisition of investment property	408	42
Repossessed loan collaterals	1 978	1 978
Transfer from advances	(41)	(41)
Depreciation of buildings	(168)	(32)
At 31 December 2010	**6 884**	**2 594**
Acquisition of investment property	233	2
Reclassification and offset	1 322	1 322
Disposed	(308)	(538)
Depreciation of disposed assets	69	69
Depreciation of buildings	(151)	(14)
At 31 December 2011	**8 049**	**3 435**
Disposals (property in Latvia)	(3 140)	-
Depreciation of buildings	(5)	(5)
Value adjustment (property in Lithuania)	(7)	(7)
At 31 December 2012	**4 897**	**3 423**

Management has assessed the fair value of investment property as at 31 December 2012 and 2011 using market data and where applicable – the discounted cash flow method. Management has concluded that the fair value of investment property is not lower than its net carrying amount as at 31 December 2012 and 2011.

In 2012 Bank and Group’s income from investment property was LVL 2 974, expenses – LVL 98 143 and LVL 127 771, respectively.

25. PROPERTY AND EQUIPMENT

	Land for own use LVL'000		Leasehold improvement LVL '000		Vehicles LVL '000		Office equipment LVL'000		Total LVL'000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
At 31 December 2010	**1 255**	**1 255**	**169**	**169**	**90**	**90**	**640**	**631**	**2 154**	**2 145**
Additions	-	-	-	-	42	42	68	53	**110**	**95**
Acquired as a result of acquisition of subsidiaries	7 933	-	-	-	-	-	-	-	**7 933**	-
Disposals	(1 255)	(1 255)	-	-	(74)	(74)	(23)	(23)	**(1 352)**	**(1 352)**
At 31 December 2011	**7 933**	**-**	**169**	**169**	**58**	**58**	**685**	**661**	**8 845**	**888**
Additions	-	-	-	-	-	-	108	76	108	76
Disposals	-	-	(169)	(169)	-	-	(35)	(27)	(204)	(196)
At 31 December 2012		**-**	**-**	**-**	**58**	**58**	**758**	**710**	**8 749**	**768**
Depreciation										
At 31 December 2010	**-**	**-**	**137**	**137**	**61**	**61**	**320**	**316**	**518**	**514**
Depreciation	-	-	32	32	5	5	120	117	**157**	**154**
Disposals	-	-	-	-	(51)	(51)	(23)	(23)	**(74)**	**(74)**
At 31 December 2011	**-**	**-**	**169**	**169**	**15**	**15**	**417**	**410**	**601**	**594**
Depreciation	-	-	-	-	9	9	126	118	**135**	**127**
Disposals			(169)	(169)	-	-	(21)	(21)	**(190)**	**(190)**
At 31 December 2012	**-**	**-**	**-**	**-**	**24**	**24**	**522**	**507**	**546**	**531**
Net carrying amount										
At 31 December 2010	**-**	**-**	**32**	**32**	**29**	**29**	**320**	**315**	**1 636**	**1 631**
At 31 December 2011	**7 933**	**-**	**-**	**-**	**43**	**43**	**268**	**251**	**8 244**	**294**
At 31 December 2012	**7 933**	**-**	**-**	**-**	**34**	**34**	**236**	**203**	**8 203**	**237**

As described in Note 23(f) above, as a result of a measurement period adjustment, the comparative information presented in the 2011 financial statements was revised.

26. INTANGIBLE ASSETS

Group	**Goodwill LVL'000**	**Software LVL'000**	**Total LVL'000**
Acquisition cost			
At 31 December 2010	**437**	**564**	**8 001**
Acquired in the reporting period	92	65	157
Disposed in the reporting period	(30)	(78)	(108)
At 31 December 2011	**499**	**551**	**1 050**
Acquired in the reporting period	-	69	69
Disposed in the reporting period	(13)	(18)	(31)
At 31 December 2012	**486**	**602**	**1 088**
Amortization for the period			
At 31 December 2010	-	**340**	**340**
Amortization for the period	-	2	2
At 31 December 2011	-	**342**	**342**
Amortization for the period	-	84	84
Amortization of assets disposed in the reporting period		**(9)**	**(9)**
At 31 December 2012	-	**417**	**417**
Net carrying amount			
At 31 December 2010	**437**	**224**	**661**
At 31 December 2011	**499**	**209**	**708**
At 31 December 2012	**486**	**185**	**671**

As described in Note 23(f) above, as a result of a measurement period adjustment, the comparative information presented in the 2011 financial statements was revised.

Bank	**Software LVL'000**	**Total LVL'000**
Acquisition cost		
At 31 December 2010	**561**	**561**
Disposed in the reporting period	(78)	(78)
Acquired in the reporting period	62	62
At 31 December 2011	**545**	**545**
Disposed in the reporting period	(15)	(15)
Acquired in the reporting period	68	68
At 31 December 2012	**598**	**598**
Amortization		
At 31 December 2010	**337**	**337**
Amortization for the period	2	2
At 31 December 2011	**339**	**339**
Amortization for the period	84	84
Amortization of assets disposed in the reporting period	(9)	(9)
At 31 December 2012	**414**	**414**
Net carrying amount		
At 31 December 2010	**224**	**224**
At 31 December 2011	**206**	**206**
At 31 December 2012	**184**	**184**

27. OTHER ASSETS

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
VAT overpayment	42	42	40	40
Receivables from SPOT deals	13	13	20	20
Receivables in transactions with MasterCard Europe	36	36	24	24
Security deposit (MCEurope, VISA Card)	898	898	-	-
Prepayment to increase the share capital of a subsidiary	200	200	-	-
Assumed collaterals – movable property	4 698	4 698	1 798	1 798
Other debtors	1 102	159	985	75
Total other assets	**6 989**	**6 046**	**2 867**	**1 957**
Allowances for other assets	(218)	**-**	**-**	**-**
Other assets, net	**6 771**	**6 046**	**2 867**	**1 957**

.

28. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Credit institutions registered in Latvia	399	399	48	48
Credit institutions registered in OECD countries	265	265	-	-
Credit institutions registered in other countries (non-OECD)	1 547	1 547	426	426
	2 211	**2 211**	**474**	**474**

As at 31 December 2012 the Bank had four banks or credit institutions (2011: 2) whose account balances exceeded 10% of total deposits on demand with other credit institutions. The total account balances of banks or credit institutions as at 31 December 2012 amounted to LVL 1,754 thousand (2011: LVL 295 thousand).

29. LOANS FROM CREDIT INSTITUTIONS AND FINANCE COMPANIES

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Finance companies registered in Latvia	-	-	1 210	-
	-	**-**	**1 210**	**-**

30. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Current accounts:				
Financial institutions	5 398	5 398	690	690
Corporate entities	248 763	249 020	147 368	147 524
Individuals	25 733	25 733	17 675	17 675
	279 894	**280 151**	**165 733**	**165 889**
Term deposits:				
Exposures to Institutions	-	-	169	169
Subordinated liabilities	1 464	1 464	898	898
Other financial institutions	4 625	4 625	568	568
Corporate entities	2 474	2 474	12 710	12 710
Individuals	1 413	1 413	6 205	6 205
	9 976	**9 976**	**20 550**	**20 550**
Deposits total	**289 870**	**290 127**	**186 283**	**186 439**

As of 31 December 2012, the Bank maintained customer deposit balances of LVL 2,029 thousand (2011: LVL 2,989 thousand) which were blocked by the Bank as collateral for loans and other credit instruments granted by the Bank.

As at 31 December 2012 the Bank had no customers/customer groups with deposits exceeding 10% of the total customer deposits.

As at 31 December 2011 the Bank had no customers/customer groups with deposits exceeding 10% of the total customer deposits.

31. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: SUBORDINATED DEBT SECURITIES ISSUED

In November 2012 the Bank conducted the fifth issue of debt securities. The issue amounted to EUR 10 million (LVL 7,028 thousand) with the coupon rate of 6%. EUR 3 million were sold at nominal value (LVL 2,108 thousand). The issue amounted to USD 10 million (LVL 5,310 thousand) with the coupon rate of 6%. USD 100 thousand (LVL 53 thousand) were sold at nominal value. The maturity date of the bonds is 12 November 2019.

This issue is offered to a limited number of investors and it does not represent a public offer in the understanding of the Financial Instruments Market Law of the Republic of Latvia.

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Issued subordinated bonds	2 162	2 162	-	-
Accrued interest payments	17	17	-	-
Total	2 179	2 179	-	-

32. PROVISIONS

	Group LVL'000	Bank LVL'000
At 31 December 2010	**147**	**139**
Increase of provisions	36	41
At 31 December 2011	**183**	**180**
Increase of provisions	37	36
At 31 December 2012	**220**	**216**

Provisions consist of provisions for unused vacations of employees.

33. OTHER LIABILITIES

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Liabilities related to operating activities	193	159	11	14
Settlements related to credit cards	16	16	30	30
Settlements related to taxes	61	18	5	5
Settlements related to placing investments	-	-	-	63
Other closed customers account balances	66	66	50	50
Other liabilities	67	-	-	-
	403	**259**	**160**	**163**

34. DERIVATIVE ASSETS AND LIABILITIES

Group and Bank	2012 '000 LVL		2011 '000 LVL	
	Carrying amount	Notional amount	Carrying amount	Notional amount
Assets				
Forward and swap contracts	1	38 523	2 992	50 548
Total derivative financial assets	**1**	**38 523**	**2 992**	**50 548**
Liabilities				
Forward and swap contracts	79	38 601	114	47 670
Total derivative liabilities	**79**	**38 601**	**114**	**47 670**

As at 31 December 2012 the Bank had 20 foreign exchange forward contracts outstanding (2011: 25 contracts).

35. SHARE CAPITAL AND RESERVES

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2012		2011	
	Quantity	**'000 LVL**	**Quantity**	**'000 LVL**
Share capital				
Ordinary shares with voting rights	19 756 200	19 756	19 756 200	19 756
	19 756 200	**19 756**	**19 756 200**	**19 756**

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of Latvia, at the end of reporting period, retained earnings available for distribution amount to LVL 9,564 thousand (2011: LVL 2,448 thousand).

Reserve capital amounting to LVL 17 thousand (2011: LVL 17 thousand) represents a historically-established reserve accumulated from retained earnings in accordance with the legislation of the Republic of Latvia. The reserve capital is not subject to any restrictions and can be distributed to the shareholders on the appropriate decision.

36. CASH AND CASH EQUIVALENTS

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash and balances due from central banks	34 690	34 690	16 299	16 298
Due from credit institutions on demand and within 3 months	188 272	188 256	109 046	109 045
Due to credit institutions on demand and within 3 months	(2 211)	(2 211)	(643)	(643)
Total cash and cash equivalents	**220 571**	**220 735**	**124 702**	**124 700**

37. CONTINGENT LIABILITIES

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed to completely perform as contracted.

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Unutilized loan facilities	5 923	5 923	6 265	6 265
Unutilized credit card facilities	906	906	614	614
Guarantees	542	542	281	281
	7 371	**7 371**	**7 160**	**7 160**

Total contractual and above amounts of commitments to extend loans may not be equal to the cash flow required in the future as such commitments may expire before they are used.

38. LITIGATION

Management is unaware of any significant actual, pending or likely claims against the Group and Bank.

39. ASSETS UNDER MANAGEMENT

	2012		2011	
Assets under management	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Due from credit institutions registered in Latvia	6 623	6 623	12 048	12 048
Due from foreign credit institutions	8 641	8 641	7 880	7 880
Loans to customers	1 026	1 026	1 757	1 757
Non fixed-income securities	9 120	9 120	4 751	4 751
Fixed-income securities,	47 842	47 842	38 472	38 472
Of which: pledged under repo transactions	*249*	*249*	*366*	*366*
Other assets	5 864	5 864	2 371	2 371
Total assets under management	**79 116**	**79 116**	**67 279**	**67 279**
Liabilities under management				
Non-resident trust liabilities	77 578	77 578	65 418	65 418
Resident trust liabilities	1 538	1 538	1 861	1 861
Total liabilities under management	**79 116**	**79 116**	**67 279**	**67 279**

As at 31 December 2012 assets under management from related parties amounted to LVL 283 thousand. As of 31 December 2011 assets under management include transactions with related parties of the Bank in amount of LVL 548 thousand.

40. TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders who have a significant influence over the Bank, companies in which they have a controlling interest, members of the Council and the Board, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies. All transactions with related parties have been carried out at an arm's length. Loans, deposits and other claims and liabilities to related parties include the following:

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loans to related parties				
incl. the parent company	-	-	*1 423*	*1 423*
incl. subsidiaries	-	*4 228*	-	*4 082*
incl. members of the Council and Board	*5*	*5*	*8*	*8*
incl. other	*180*	*180*	*344*	*344*
Derivatives	-	-	12	12
Total loans and other claims	**185**	**4 413**	**1 787**	**5 869**
Term and demand deposits and loans				
incl. from the parent company	*1 076*	*1 076*	*13*	*13*
incl. from subsidiaries of the parent company	*10*	*10*	-	-
incl. from subsidiaries	-	*260*	-	*157*
incl. from associated companies	*3 770*	*3 770*	*404*	*404*
incl. from members of the Council and Board	*227*	*227*	*8 363*	*8 363*
incl. from others	*249*	*249*	*567*	*567*
Loans from other Group companies	-	-	1 210	-
Total deposits and liabilities	**5 332**	**5 592**	**10 557**	**9 504**
Contingent liabilities and commitments	**403**	**403**	**112**	**112**

	2012		2011	
	Group Interest rate %	**Bank Interest rate %**	**Group Interest rate %**	**Bank Interest rate %**
Loans to related parties	3,68	3,68	4,68	4,68
Term and demand deposits	0,44	0,44	0,55	0,55

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

The Council and the Board remuneration in 2012 was LVL 228 thousand (2011: LVL 254 thousand).

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Income from related party transactions				
Commission income	7	8	27	30
Interest income	101	243	130	199
Dividends	90	90	-	165
Other income	-	2	14	204
Expenses from related party transactions				
Interest expenses	5	5	6	7
Other expenses	37	352	49	275
Rent payments	305	452	125	125

41. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of financial assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of financial assets and liabilities as at 31 December 2012 was as follows:

2012
LVL'000

	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
Financial assets							
Cash and demand deposits with central banks	34 690	-	-	-	-	-	**34 690**
Deposits with credit institutions	185 748	2 558	1 573	11 065	27	-	**200 971**
Financial assets at fair value through profit or loss	9 096	-	24	1 179	-	-	**10 299**
Available-for-sale financial assets	-	-	-	-	-	63	**63**
Loans and receivables	2 912	3 529	181	2 246	9 591	5 545	**24 004**
Held-to-maturity financial assets	3 588	6 548	14 533	8 554	4 765	-	**37 988**
Total financial assets	**236 034**	**12 635**	**16 311**	**23 044**	**14 383**	**5 608**	**308 015**
Financial liabilities							
Due to credit institutions on demand	2 211	-	-	-	-	-	**2 211**
Derivatives	72	-	-	7	-	-	**79**
Financial liabilities carried at amortized cost	284 757	773	664	285	2 530	3 297	**292 306**
Total financial liabilities	**287 040**	**773**	**664**	**292**	**2 530**	**3 297**	**294 596**
Maturity gap	**(51 006)**	**11 862**	**15 647**	**22 752**	**11 853**	**2 311**	**13 419**
Contingent liabilities and commitments	**313**	**79**	**11**	**30**	**79**	**6 859**	**7 371**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The table below reflects the maturity analysis of financial assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2011 was as follows:

2011 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
Financial assets							
Cash and demand deposits with central banks	16 298	-	-	-	-	-	**16 298**
Deposits with credit institutions	109 045	2 845	1 407	-	-	-	**113 297**
Financial assets at fair value through profit or loss	16 224	6	6	795	-	-	**17 031**
Available-for-sale financial assets	-	-	-	-	-	34	**34**
Loans and receivables	8 154	56	1 021	3 225	6 694	4 086	**23 236**
Held-to-maturity financial assets	-	2 716	7 435	2 514	11 560	265	**24 490**
Total financial assets	**149 721**	**5 623**	**9 869**	**6 534**	**18 254**	**4 385**	**194 386**
Financial liabilities							
Due to credit institutions on demand	474	-	-	-	-	-	**474**
Derivatives	114	-	-	-	-	-	**114**
Financial liabilities carried at amortized cost	182 031	587	1 182	483	2 156	-	**186 439**
Total financial liabilities	**182 619**	**587**	**1 182**	**483**	**2 156**	**-**	**187 027**
Maturity gap	**(32 898)**	**5 036**	**8 687**	**6 051**	**16 098**	**4 385**	**7 359**
Contingent liabilities and commitments	**6 909**	**59**	**192**	**-**	**-**	**-**	**7 160**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

42. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

LVL'000

31 December 2012	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years and more**
Non-derivative liabilities						
Due to credit institutions on demand	2 211	(2 211)	(2 211)	-	-	-
Financial liabilities carried at amortized cost	292 306	(292 306)	(284 757)	(773)	(949)	(5 827)
Total non-derivative liabilities	**294 517**	**(294 517)**	**(286 968)**	**(773)**	**(949)**	**(5 827)**
Derivative liabilities						
Trading: outflow	38 118	(38 118)	(37 641)	-	(477)	-
Trading: inflow	(38 039)	38 039	37 569	-	470	-
Total derivative liabilities	**79**	**(79)**	**(72)**	**-**	**(7)**	**-**
Contingent liabilities and commitments	7 371	(7 371)	(7 172)	(79)	(41)	(79)
Total liabilities	**301 967**	**(301 967)**	**(294 212)**	**(852)**	**(997)**	**5 906)**

LVL'000

31 December 2011	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**
Non-derivative liabilities						
Due to credit institutions on demand	474	(474)	(474)	-	-	-
Financial liabilities carried at amortized cost	186 439	(186 439)	(182 031)	(587)	(1 665)	(2 156)
Total non-derivative liabilities	**186 913**	**(186 913)**	**(182 505)**	**(587)**	**(1 665)**	**(2 156)**
Derivative liabilities						
Trading: outflow	11 087	(11 087)	(11 087)	-	-	-
Trading: inflow	(10 973)	10 973	10 973	-	-	-
Total derivative liabilities	**114**	**(114)**	**(114)**	**-**	**-**	**-**
Contingent liabilities and commitments	7 160	(7 160)	(6 909)	(59)	(192)	-
Total liabilities	**194 187**	**(194 187)**	**(189 528)**	**(646)**	**(1 857)**	**(2 156)**

43. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity.

The LVL equivalent of assets and liabilities as at 31 December 2012 by the currencies in which they are denominated is as follows:

2012				**Other**	
LVL'000	**LVL**	**USD**	**EUR**	**currencies**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets					
Cash and demand deposits with central banks	22 518	144	11 999	29	**34 690**
Loans from banks	12	87 974	103 681	9 304	**200 971**
Financial assets at fair value through profit or loss	1	10 211	29	58	**10 299**
Available-for-sale financial assets	-	-	63	-	**63**
Loans and receivables	1 346	13 915	8 731	12	**24 004**
Held-to-maturity financial assets	-	27 040	10 948	-	**37 988**
Total financial assets	**23 877**	**139 284**	**135 451**	**9 403**	**308 015**
Financial liabilities					
Due to credit institutions on demand	-	1 966	229	16	**2 211**
Derivatives	79				**79**
Financial liabilities carried at amortized cost	2 105	171 505	108 361	10 335	**292 306**
Total financial liabilities	**2 184**	**173 471**	**108 590**	**10 351**	**294 596**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	-	37 670	4 731	1462	**43 863**
Spot and forward transaction liabilities	(1 047)	(3 865)	(38 700)	(317)	**(43 929)**
Net long/short currency position	**20 646**	**(382)**	**(7 108)**	**197**	**13 353**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

43. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity.

The LVL equivalent of assets and liabilities as at 31 December 2011 by the currencies in which they are denominated is as follows:

2011				**Other**	
LVL'000	**LVL**	**USD**	**EUR**	**currencies**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets					
Cash and demand deposits with central banks	13 224	87	2 952	35	**16 298**
Deposits with credit institutions	14	30 332	63 917	19 034	**113 297**
Financial assets at fair value through profit or loss	-	15 453	1 505	73	**17 031**
Available-for-sale financial assets	-	-	34	-	**34**
Loans and receivables	244	12 945	10 035	12	**23 236**
Held-to-maturity financial assets	-	23 578	912	-	**24 490**
Total financial assets	**13 482**	**82 395**	**79 355**	**19 154**	**194 386**
Financial liabilities					
Due to credit institutions on demand	-	314	155	5	**474**
Derivatives	114	-	-	-	**114**
Financial liabilities carried at amortized cost	1 562	110 271	56 756	17 850	**186 439**
Total financial liabilities	**1 676**	**110 585**	**56 911**	**17 855**	**187 027**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	1 049	43 607	12 849	1 581	**59 086**
Spot and forward transaction liabilities	(1 400)	(12 539)	(39 347)	(2 905)	**(56 191)**
Net long/short currency position	**11 455**	**2 878**	**(4 054)**	**(25)**	**10 254**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

44. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2012, interest rate re-pricing categories were:

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

2012 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Non interest bearing	Total LVL '000
ASSETS								
Cash and demand deposits with central banks	34 110	-	-	-	-	-	580	**34 690**
Loans from banks	52 297	2 549	1 573	11 010	27	-	133 515	**200 971**
Financial assets at fair value through profit or loss	1	-	1 870	260	3 937	3 847	384	**10 299**
Available-for-sale financial assets	-	-	-	-	-	-	63	**63**
Loans and receivables	4 648	3 474	129	2 296	8 036	5 388	33	**24 004**
Held-to-maturity financial assets	3 348	6 333	14 409	8 300	4 687	-	911	**37 988**
Investments in associates	-	-	-	-	-	-	1 100	**1 100**
Investments in subsidiary undertakings							6 091	**6 091**
Investment property	-	-	-	-	-	-	3 423	**3 423**
Property and equipment	-	-	-	-	-	-	237	**237**
Intangible assets	-	-	-	-	-	-	184	**184**
Prepayments and accrued income	-	-	-	-	-	-	67	**67**
Other assets	-	-	-	-	-	-	6 046	**6 046**
Total assets	**94 404**	**12 356**	**17 981**	**21 866**	**16 687**	**9 235**	**152 634**	**325 163**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	-	-	-	-	-	-	(2 211)	**(2 211)**
Derivatives	(72)	-	-	(7)	-	-	-	**(79)**
Financial liabilities carried at amortized cost	(12 264)	(669)	(642)	(275)	(1 054)	-	(277 402)	**(292 306)**
Deferred income and accrued expenses	-	-	-	-	-	-	(304)	**(304)**
Provisions	-	-	-	-	-	-	(216)	**(216)**
Current tax liabilities	-	-	-	-	-	-	(441)	**(441)**
Other liabilities	-	-	-	-	-	-	(259)	**(259)**
Capital and reserves	-	-	-	-	-	-	(29 347)	**(29347)**
Total liabilities and equity	**(12 336)**	**(669)**	**(642)**	**(282)**	**(1 054)**	**-**	**(310 180)**	**(325 163)**
Interest rate risk net position	**82 068**	**11 687**	**17 339**	**21 584**	**15 633**	**9 235**	**(157 546)**	**-**
Interest rate risk gross (cumulative) position	**82 068**	**93 755**	**111 094**	**132 678**	**148 311**	**157 546**	**-**	**-**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

44 REPRICING MATURITY ANALYSIS (BANK) (continued)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2011, interest rate re-pricing categories were:

2011 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Non interest bearing	Total LVL '000
ASSETS								
Cash and demand deposits with central banks	15 802	-	-	-	-	-	496	**16 298**
Deposits with credit institutions	109 039	2 838	1 406	-	-	-	14	**113 297**
Financial assets at fair value through profit or loss	4 516	1 972	1 792	743	5 811	1 142	1 055	**17 031**
Available-for-sale financial assets	-	-	-	-	-	-	34	**34**
Loans and receivables	11 527	56	1 019	1 803	4 790	3 974	67	**23 236**
Held-to-maturity financial assets	-	2 654	7 388	2 488	11 360	262	338	**24 490**
Investments in associates	-	-	-	-	-	-	1 100	**1 100**
Investments in subsidiary undertakings							8 448	**8 448**
Investment property	-	-	-	-	-	-	3 435	**3 435**
Property and equipment	-	-	-	-	-	-	294	**294**
Intangible assets	-	-	-	-	-	-	206	**206**
Prepayments and accrued income	-	-	-	-	-	-	42	**42**
Other assets	-	-	-	-	-	-	1 957	**1 957**
Total assets	**140 884**	**7 520**	**11 605**	**5 034**	**21 961**	**5 378**	**17 486**	**209 868**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	(474)	-	-	-	-	-	-	**(474)**
Derivatives	(114)	-	-	-	-	-	-	**(114)**
Financial liabilities carried at amortized cost	(22 409)	(719)	(1 163)	(477)	(1 283)	-	(160 388)	**(186 439)**
Deferred income and accrued expenses	-	-	-	-	-	-	(172)	**(172)**
Provisions	-	-	-	-	-	-	(180)	**(180)**
Current tax liabilities	-	-	-	-	-	-	(105)	**(105)**
Other liabilities	-	-	-	-	-	-	(163)	**(163)**
Capital and reserves	-	-	-	-	-	-	(22 221)	**(22 221)**
Total liabilities and equity	**(22 997)**	**(719)**	**(1 163)**	**(477)**	**(1 283)**	**-**	**(183 229)**	**(209 868)**
Interest rate risk net position	**117 887**	**6 801**	**10 442**	**4 557**	**20 678**	**5 378**	**(165 743)**	**-**
Interest rate risk gross (cumulative) position	**117 887**	**124 688**	**135 130**	**139 687**	**160 365**	**165 743**	**-**	**-**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

45. CAPITAL ADEQUACY CALCULATION (BANK)

	2012 '000 LVL	2011 '000 LVL
Tier 1		
Share capital	19 756	19 756
Reserves	17	17
Retained earnings for the previous periods	2 448	240
Profit for the year	7 116	2 208
Intangible assets	(184)	(206)
Total Tier 1	**29 153**	**22 015**
Tier 2 capital	**3 134**	**698**
Reduction of Tier 1 capital and Tier 2 capital	(734)	(468)
Shareholders' equity	**31 553**	**22 245**
Risk-weighted value		
Bank s portfolio	124 048	94 846
Trading portfolio	13 725	16 220
Operating risk	18 641	17 028
Total risk weighted assets	**156 414**	**128 094**
Total capital as percentage of risk weighted assets (total capital ratio)	**20%**	**17%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("Tier 1 capital ratio")	**19%**	**17%**

As of 31 December 2012, the Bank's capital adequacy ratio was 20% (2011: 17%) which is above the minimum required ratio of 8% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission of Latvia.

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group and Bank have performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The estimated fair values of financial instruments at fair value through profit or loss and quoted available-for-sale securities are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instrument at the reporting date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of all financial instruments of the Bank and Group approximate their carrying values at 31 December 2011 and 2012.

The table below details financial instruments carried at fair value, by valuation method:

Group

2012	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	10 080	-	**10 080**
Non fixed-income securities	218	-	**218**
Derivatives	-	1	**1**
Available-for-sale assets			
Non fixed-income securities	-	63	**63**
	10 298	**64**	**10 362**
Financial liabilities			
Derivatives	-	79	**79**
	-	**79**	**79**
2011			
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	13 267	-	**13 267**
Non fixed-income securities	772	-	**772**
Derivatives	-	2 992	**2 992**
Available-for-sale assets			
Non fixed-income securities	-	34	**34**
	14 039	**3 026**	**17 065**
Financial liabilities			
Derivatives	-	114	**114**
	-	**114**	**114**

Bank

2012	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	10 080	-	**10 080**
Non fixed-income securities	218	-	**218**
Derivatives	-	1	**1**
Available-for-sale assets			
Non fixed-income securities	-	63	**63**
	10 298	**64**	**10 362**
Financial liabilities			
Derivatives	-	79	**79**
	-	**79**	**79**
2011			
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	13 267	-	**13 267**
Non fixed-income securities	772	-	**772**
Derivatives	-	2 992	**2 992**
Available-for-sale assets			
Non fixed-income securities	-	34	**34**
	14 039	**3 026**	**17 065**
Financial liabilities			
Derivatives	-	114	**114**
	-	**114**	**114**

(1) Included in this category are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is considered quoted in an active market if quoted prices are readily and regularly available from a stock exchange, broker, industry group, rating or regulating agencies and prices represent the actual and regular market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

Included in this category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.