BANKING / INVESTMENTS \ ADVISORY

ABLV

ABLV Bank, AS

Consolidated annual report
for the year ended 31 December 2011

Riga, 23 February 2012

Contents

1. Report of the Council and the Board 3
2. The Council and the Board 7
3. Statement of Management's Responsibility 8
4. Financial Statements:
   - Statements of Comprehensive Income 9
   - Statements of Financial Position 10
   - Statements of Changes in Shareholders' Equity 12
   - Cash Flow Statements 14
   - Notes 15
5. Auditors' Report 78

ABLV Bank, AS
Report of the Council and the Board

Dear shareholders and employees of ABLV Bank, AS,

We congratulate you on successful performance in 2011! Both the bank and the group ended the year with the profit. Other key financial indicators also remain at high level. Our bank ranked first among all Latvian banks in terms of total amount of deposits and fourth – in terms of total assets. We are satisfied, since financial objectives set for the reporting year have been surpassed, and evidence the first months of 2012 continuing growth.

Looking back at 2011, we see that it was rather difficult and eventful year in the financial and economic sector both in Latvia and globally.

Although most leading world economies demonstrated stable improvement in the first half of the year, later during the second half the pace of economic growth decreased rapidly. Compared with 2010, increase of gross domestic product (GDP) declined in 2011. According to general estimates, the world's GDP can be around 4.2% in 2011. In 2010 it was equal to 4.6%. The pace of GDP growth is also expected to decline in 2012: OECD has changed its estimated GDP increase in 2012 from 4.6% to 3.4%.
In 2011 debt crisis in developed economies increased, especially in euro area. The government debt lead to partial default of Greece and seriously affected Italy and Spain. The world major economy has also been affected: for the first time in the history, Standard&Poor's rating agency decreased the US rating from AAA to AA+. Macroeconomic indicators and political events show that debt issue of 2012 will remain topical and, most probably, will have negative impact on the world's economy.

Economy of our country kept the growing trend, and GDP increase of Latvia was equal to 5.3% in 2011, which is one of the highest in the European Union. Considerable improvement of production and export volumes was observed as early as in 2010, and these positive trends were still present in 2011. In the reporting year 2011, the production volume increased by 9%, whereas export volume – by 28%. The growth rate of economy is the highest since the end of 2007. On 21 December 2011, the International Monetary Fund (IMF) board decided to close the Latvian loan programme. Under this programme, Latvia has used EUR 4.4 billion, i.e. LVL 3 billion of the loans granted by IMF, the European Commission and the World Bank since 23 December 2008, when the first loan part was approved by IMF.

At the same time Latvia experienced several changes in its political environment. The number of population also continued to decrease. In future, the Latvian economic situation still will be affected by situation in global markets, international debt crises and consequent reduction of governments' expenditures. Therefore, rapid bloom of Latvia's economy is not expected in the medium term. The Bank of Latvia decreased its forecast on the state GDP growth in 2012 from initial 2.5% to 1.3%.

In the banking sector of Latvia, just like in other European states, regulatory requirements become even stricter. In 2012 capital adequacy requirements set for operating in the local market will be increased and differentiated. ABLV Bank is able to completely comply with new capital adequacy requirements. Payments to the deposit guarantee fund will be also increased. The European Union plans to introduce new tax on bank transactions, and the banks have to prepare for implementation of Basel III requirements. While regulation in the sector becomes stricter, the banks' expenses increase, and therefore services provided by the banks will inevitably become more expensive. In recent years there were several normative acts adopted in Latvia, restricting rights of the banks as creditors. Therefore, considerable increase in mortgage lending cannot be expected in the foreseeable future, and we found once again that our decision on significant decrease of our activity in the mortgage loans market made in 2008 was timely and correct.

Bank

Growth in all lines of ABLV group business ensured the group's profit for 2011 to be equal to LVL 18.4 million, whereas profit of ABLV Bank, AS amounted to LVL 19.1 million.

Due to implementation of business strategy and all planned measures, the group's and the bank's financial indicators continued to improve in 2011:

- In 2011, the bank's operating income before allowances for credit losses amounted to LVL 71.4 million, which is by 54.5% more than in 2010 (LVL 46.2 million).

- During 2011, the amount of deposits with the bank has increased significantly – by 28.4% to reach LVL 1.6 billion. As at the end of 2011, ABLV Bank, AS ranked first among all commercial banks operating in Latvia in terms of attracted deposits.
- As at 31 December 2011, the amount of the bank's assets equalled LVL 1.8 billion; ABLV Bank, AS ranked fourth among the Latvian commercial banks in terms of the amount of assets.
- The bank's loan portfolio has decreased to LVL 470.6 million (as at 31 December 2010, it was LVL 517.5 million). As at 31 December 2011, the loan portfolio constituted 26.3% of the bank's total assets. At the same time, the loan portfolio quality has improved: allowances for credit losses made in 2011 totalled LVL 17.1 million (2010: LVL 28.9 million).
- The bank's shareholders' equity totals LVL 90.2 million (31 December 2010: LVL 75.4 million).
- As at 31 December 2011, the bank's capital adequacy ratio was 15.47%, whereas liquidity equalled 73.26%.
- ROE reached 22.06%, and ROA – 1.2%, as at the end of the year.

To diversify structure of the bank's assets, we continued investing in securities. The total amount of the securities portfolio was equal to LVL 541 million, as at 31 December 2011. In the reporting period, annual yield of the securities portfolio amounted to 4%. It should be mentioned that in the last year the bank gained extraordinary profit of LVL 9.5 million as a result of successful investment in the US treasuries.

An important event in the reporting period was change of the legal name of the bank and other group companies names alongside the implementation of new brand ABLV. Having changed the name and visual identity, the process of amending business lines, aimed at rendering tailored financial services in accordance with the highest standards, was completed.

To improve customer service via Internet, we launched new Internetbank version on 16 July 2011. The new Internetbank version was developed considering all customers' needs. Both employees and customers were engaged in testing. New sections and useful options have been added to the new Internetbank version, enabling customers to perform almost any bank transaction remotely, as well as several security improvements of settlements have been made.

Investments

At the end of the last year, the bank has successfully placed its first public bond issue, the total amount of which equalled LVL 33.7 million. To the investors were offered the bonds in EUR and USD maturing in 2 years. The notice on corporate management is published at the bank's Internet web page www.ablv.com. At the same time, the subordinated bonds in EUR have been issued. This issue of the bonds continues implementation of the strategic decision on gradual replacement of long-term deposits with the bonds issued by the bank. The bonds were offered and sold to customers of ABLV group. More than 80 customers took part in the initial placement.

In 2011 subsidiary companies of ABLV Bank – investment brokerage joint stock company ABLV Capital Markets and investment management joint stock company ABLV Asset Management – worked hardly on launching new products and improving existing ones.

As at the end of 2011, ABLV Asset Management, IPAS total assets under management amounted to LVL 29.4 million, of which LVL 24 million were customers' investments in the funds managed by the company and LVL 5.4 million were customers' funds invested in individual investment programmes. ABLV Asset Management, IPAS closed 2011 with operating profit of LVL 194 thousand.

At the end of the last year, ABLV Asset Management, IPAS established new corporate bond subfund ABLV High Yield CIS RUB Bond Fund. The currency of the subfund is Russian roubles. Customers continuously demonstrate high interest in making investments in this currency, and we decided to meet their wishes. Customers can acquire investment certificates of this subfund starting from January 2012. Assets of open-end corporate bond fund ABLV High Yield CIS RUB Bond Fund are invested in short-term and medium-term debt instruments, the performance under which is secured by corporations and financial institutions of the CIS states. This is the first financial instrument in roubles registered at stock exchanges in Baltic countries.

2011 was also successful for ABLV Capital Markets, IBAS, which executes customers' orders for purchasing and selling all types of financial instruments in the world's major stock markets. In the last year, the company's operating profit amounted to LVL 1.2 million. As at the end of 2011, total assets of the company's customers invested in financial instruments were equal to LVL 253 million.

Also continued to develop the bank's subsidiary company ABLV Private Equity Management, SIA, established in 2010. The company establishes and manages risk capital investment funds for making investments in share capital of promising Latvian and foreign companies. Currently, ABLV Private Equity Management, SIA manages direct investment fund ABLV Private Equity Fund 2010, KS, established in July 2010. The fund has already acquired capital shares of biogas producing company, leading pharmaceutical company and special private clinic. As at the end of 2011, assets of ABLV Private Equity Fund 2010, KS totalled EUR 10 million. In the middle of 2012, the fund will also be opened for other investors – the customers of the bank.

The group of ABLV Transform companies was actively operating in the real estate market. The main aim of those companies is to be in charge of taken over and purchased real estate development, management and maintenance until sale. In the last year, ABLV Transform companies completed such large-scale projects in the field of real estate development as “Saules Rasa”, “Pine Breeze” and “Mārtiņa Nams 2”. In total, during 2011 companies of ABLV Transform group sold 150 real estate properties for more than LVL 13 million.

Advisory

Significant work was performed in the third area of ABLV group business – advisory development and improvement. The service of obtaining residence permit in Latvia, rendered by ABLV Corporate Services, SIA, is very popular among customers, as well as legal and tax advice provided by this company.

In the last year the bank’s and ABLV Corporate Services customers were also offered new advisory services, such as establishment of holding structures, settlement of trusts, and assistance in changing tax residency.

In November 2011, subsidiary company of ABLV Corporate Services, SIA in Cyprus – ABLV Corporate Services, LTD – started its operations. The company is located in Cyprus capital Nicosia, and it provides various advisory services, as well as financial management, accounting, legal and professional management services.

ABLV Consulting Services, AS was also operating successfully, assisting in maintaining relations with existing customers and attracting new customers at ABLV group target markets. ABLV group has 10 representative offices abroad in 7 countries – in Russia, Ukraine, Belarus, Kazakhstan, Tajikistan, Azerbaijan, and Uzbekistan.

Changes in the bank’s management

With our deepest grief we were facing a sudden loss of the long-term Chairman of the Council of the bank Aleksandrs Bergmanis on 23 August 2011. The new bank’s Council was therefore appointed at an extraordinary meeting of shareholders on 23 September. The new Council is lead by Oļegs Fiļs, former Deputy Chairman of the Board. Jānis Krīgers and Igors Rapoports will continue to be the Members of the Council. Due to the above changes, since the 17 October 2011, the Members of the Board are as follows:

- Ernests Bernis, Chairman of the Board, Chief Executive Officer (CEO)
- Vadims Reinfelds, Deputy Chairman of the Board, Deputy Chief Executive Officer (dCEO)
- Māris Kannenieks, Member of the Board, Chief Financial Officer (CFO), Procurator
- Aleksandrs Pāže, Member of the Board, Chief Compliance Officer (CCO)
- Edgars Pavlovičs, Member of the Board, Chief Risk Officer (CRO)
- Rolands Citajevs, Member of the Board, Chief Information Officer (CIO)
- Romāns Surnačovs, Member of the Board, Chief Operating Officer (COO).

Luxembourg

In the reporting period, ABLV Bank, AS established the entity - ABLV Luxembourg, S.A., the aim of which is to explore the financial market of Luxembourg and make the necessary arrangements for obtaining a banking license. ABLV Bank, AS, subsidiary bank in Luxembourg is supposed to start its operations at the end of 2012, and it will offer private banking and investment services to customers – investment management and brokerage services, as well as other banking services. Initial paid-in share capital of ABLV Luxembourg, S.A. equals EUR 2 million.

Plans for 2012

Just like those in the reporting period, major tasks for 2012 will be to ensure development of the group and the bank, to increase their profitability, meanwhile improving the methods of risk management of operations.

Making plans for 2012, we expect the activities of our customers to increase at least by 25%. We are sure in 2012 ABLV group will continue working with profit.

Looking to the future with careful optimism, we plan to expand operations of the group and the bank. About 70 vacancies are going to be created and filled in 2012, and approximately 60 of those will be in Latvia.

Due to complicated situation in the financial markets and the global economy on the whole, investing of attracted funds will be a great challenge for us, ensuring maximum prudence in the risk management.

For society

In 2011, ABLV Bank, in cooperation with ABLV Charitable Foundation, continued supporting of various socially important projects.

Annual ABLV Charity Golf Tournament took place in 2011. The tournament participants were the bank's customers and employees. The funds donated during the tournament were used to support 'Schoolbag' fund. This project has been implemented for several years already, and its objective is to help low-income families buy school goods for their children. The total amount of funds raised during ABLV Charity Golf Tournament 2011 provided for supporting 45 first formers.

Art exhibitions supported by the bank and charitable foundation were also greatly appreciated by public. Traditionally, the largest number of visitors was attracted by dress exhibition presented by famous fashion historian Alexandre Vassiliev. This year he brought to Riga collection from Paris, and the exhibition name was "From mini to maxi. The fashion of 1960s". This was already third exhibition of Alexandre Vassiliev's dress collection in Riga supported by ABLV.

At the end of the year, in cooperation with ABLV Charitable Foundation, we arranged annual fund drive "Help children on Christmas!". The funds donated under this fund drive were used to buy hearing devices for children who need them and to help children learn communicating with other children. Till now, new digital hearing devices were bought for 18 children using the donations made during the fund drive.

Since cooperation with ABLV Charitable Foundation began, the bank donated LVL 1.37 million to the foundation.

There will be new challenges and new opportunities in the future. To use those opportunities in full, personal input of each employee will be important, alongside efficient work in the team. We are sure that our employees are ready for upcoming challenges and new achievements.

We express our gratitude to our shareholders and customers for their loyalty and to all the employees for their important contribution in achieving the goals of the company!

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 23 February 2012

ABLV Bank, AS
The Council and the Board

The Council of the Bank:

Chairman of the Council:	Date of election:
Oļegs Fiļs	04/10/2011
Deputy Chairman of the Council:	Date of re-election:
Jānis Krīgers	04/10/2011
Council Member:	Date of re-election:
Igors Rapoports	04/10/2011
Resigned as Chairman of the Council:	Date of resignation:
Aleksandrs Bergmanis	23/08/2011
Resigned as Council Member:	Date of resignation:
Vladimirs Kutovojs	13/12/2010

The Board of the Bank:

Chairman of the Board:	Date of re-election:
Ernests Bernis - Chief Executive Officer (CEO)	17/10/2011
Deputy Chairman of the Board:	Date of re-election:
Vadims Reinfelds – Deputy Chief Executive Officer (dCEO)	17/10/2011
Resigned as Deputy Chairman of the Board:	Date of resignation:
Oļegs Fiļs – Deputy Chief Executive Officer (dCEO)	03/10/2011
Board Members:	Date of re-election:
Aleksandrs Pāže – Chief Compliance Officer (CCO)	17/10/2011
Edgars Pavlovičs – Chief Risk Officer (CRO)	17/10/2011
Māris Kannenieks – Chief Financial Officer (CFO)	17/10/2011
Rolands Citajevs – Chief IT Officer (CIO)	17/10/2011
	Date of election:
Romāns Surnačovs – Chief Operating Officer (COO)	17/10/2011
Resigned as Board Member :	Date of resignation:
Vadims Reinfelds – Chief Operating Officer (COO)	16/10/2011

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 23 February 2012

ABLV Bank, AS
Statement of Management's Responsibility

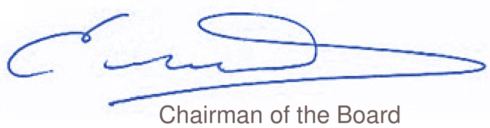
The Council and the Board of the Bank (hereinafter – the Management) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group). The financial statements are prepared in compliance with the requirements of the Law of the Republic of Latvia on Credit Institutions, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

The financial statements set out on pages 7 to 77 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2011 and 2010, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis, consistently applying accounting policies in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of the Bank are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud and other irregularities in the Group. The Management of the Bank are also responsible for operating the Group and the Bank in compliance with the Law of the Republic of Latvia on Credit Institutions, Regulations of the Bank of Latvia and the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

Chairman of the Council
Oļegs Fiļs



Chairman of the Board
Ernests Bernis

Riga, 23 February 2012

ABLV Bank, AS
Income statements and other statements of comprehensive income for the years ended 31 December 2011 and 2010

	Notes	Group 01/01/2011-31/12/2011 LVL '000	Group 01/01/2010-31/12/2010 LVL '000	Bank 01/01/2011-31/12/2011 LVL '000	Bank 01/01/2010-31/12/2010 LVL '000
Interest income	3	38,042	36,431	37,725	36,375
Interest expense	3	(15,678)	(18,850)	(15,566)	(18,808)
Net interest income		**22,364**	**17,581**	**22,159**	**17,567**
Commission and fee income	4	26,120	22,876	23,521	20,146
Commission and fee expense	4	(3,418)	(3,241)	(2,994)	(2,979)
Net commission and fee income		**22,702**	**19,635**	**20,527**	**17,167**
Net (loss)/ gain from financial assets and liabilities at fair value through profit or loss	5	(5,646)	12,589	(5,598)	12,589
Net realised gain from available-for-sale financial assets	5	1,827	418	1,827	418
Net realised gain from financial assets at amortised cost	5	9,480	(1,823)	9,480	(1,823)
Net result from foreign exchange trading and revaluation	5	20,910	(1,153)	20,963	(1,209)
Other income	6	9,493	4,768	1,349	1,440
Income from dividends		1	4	707	52
Change in allowances for credit losses	7	(16,991)	(28,917)	(17,138)	(28,917)
Operating income		**64,140**	**23,102**	**54,276**	**17,284**
Administrative expense	9	(28,149)	(22,494)	(24,081)	(20,186)
Depreciation	19, 20	(1,852)	(1,692)	(1,516)	(1,587)
Other expense	6	(9,167)	(4,584)	(4,954)	(2,499)
(Loss)/ gain from sale of tangible and intangible fixed assets		32	287	16	7
Impairment of financial instruments		(1,756)	(14)	(1,756)	(14)
Impairment of non-financial assets	8	(1,260)	(2,867)	355	(832)
Total operating expense		**(42,152)**	**(31,364)**	**(31,936)**	**(25,111)**
Profit/ (loss) before corporate income tax		21,988	(8,262)	22,340	(7,827)
Corporate income tax	10	(3,586)	703	(3,234)	880
Net profit/ (loss) for the year		**18,402**	**(7,559)**	**19,106**	**(6,947)**
Attributable to:					
Equity holders of the Bank		18,745	(7,519)		
Non-controlling interests		(343)	(40)		
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		(4,996)	627	(4,996)	627
Charge to income statement as a result of sale of available-for-sale securities		(1,827)	1,405	(1,827)	1,405
Charge to income statement due to recognised impairment of available-for-sale securities		1,756	14	1,756	14
Change in deferred corporate income tax		758	(305)	758	(305)
Other comprehensive income, total		**(4,309)**	**1,741**	**(4,309)**	**1,741**
Total comprehensive income		**14,093**	**(5,818)**	**14,797**	**(5,206)**
Attributable to:					
Equity holders of the Bank		14,436	(5,778)		
Non-controlling interests		(343)	(40)		
Earnings/ (loss) per share attributable to the equity holders of the Bank, LVL		131.24	(52.53)		

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 23 February 2012

ABLV Bank, AS
Statements of financial position as at 31 December 2011 and 2010

		Group	Group	Bank	Bank
		31/12/2011	31/12/2010	31/12/2011	31/12/2010
Assets	Notes	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with the Bank of Latvia	12	143,663	82,120	143,663	82,120
Balances due from credit institutions	13	518,881	325,352	518,472	325,326
Financial assets at fair value through profit or loss		8,922	23,372	8,922	23,372
Debt securities and other fixed income securities	14	-	19,367	-	19,367
Shares and other non-fixed income securities	15	753	674	753	674
Derivatives	16	8,169	3,331	8,169	3,331
Available-for-sale financial assets		373,006	168,657	373,006	168,657
Debt securities and other fixed income securities	14	370,744	166,431	370,744	166,431
Shares and other non-fixed income securities	15	2,262	2,226	2,262	2,226
Loans and receivables		469,424	528,872	470,603	528,561
Loans	17	469,424	517,811	470,603	517,500
Debt securities and other fixed income securities	14	-	11,061	-	11,061
Held-to-maturity investments		166,778	155,112	166,778	155,112
Debt securities and other fixed income securities	14	166,778	155,112	166,778	155,112
Prepaid expense and accrued income		686	339	335	292
Investments in subsidiaries and associates	18	315	-	71,286	58,661
Investment properties	19	21,542	20,658	16,662	16,670
Tangible fixed assets	20	10,071	7,954	4,954	5,253
Intangible fixed assets	20	3,493	3,701	3,368	3,548
Current corporate income tax receivables		15	266	-	176
Deferred corporate income tax	10	3,386	5,736	3,359	5,718
Other assets	21	58,117	45,388	7,753	5,099
Total assets		**1,778,299**	**1,367,527**	**1,789,161**	**1,378,565**

Chairman of the Council
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Ernests Bernis

Riga, 23 February 2012

ABLV Bank, AS
Statements of financial position as at 31 December 2011 and 2010

		Group	Group	Bank	Bank
		31/12/2011	31/12/2010	31/12/2011	31/12/2010
Liabilities	Notes	LVL '000	LVL '000	LVL '000	LVL '000
Demand deposits from credit institutions	22	1,779	1,906	1,779	1,906
Financial liabilities at fair value through profit or loss		141	226	141	226
Derivatives	16	141	226	141	226
Term deposits from credit institutions	22	9,167	3,502	6,699	550
Deposits	23	1,595,438	1,236,791	1,603,143	1,248,190
Deferred income and accrued expense		6,121	2,769	5,182	2,460
Current corporate income tax liabilities		173	150	-	-
Other liabilities		6,922	4,333	4,123	2,973
Deferred corporate income tax	10	186	21	-	-
Issued securities	24	51,507	22,921	56,258	22,921
Subordinated deposits	25	21,662	23,962	21,662	23,962
Other liabilities		**1,693,096**	**1,296,581**	**1,698,987**	**1,303,188**
Shareholders' equity					
Paid-in share capital	26	16,500	16,500	16,500	16,500
Share premium		5,255	5,255	5,255	5,255
Reserve capital and other reserves		1,500	1,500	1,500	1,500
Fair value revaluation reserve of available-for-sale financial assets		(2,480)	1,829	(2,480)	1,829
Retained earnings brought forward		45,180	52,699	50,293	57,240
Retained earnings/ (accumulated deficit) for the period		18,745	(7,519)	19,106	(6,947)
Attributable to the equity holders of the Bank		84,700	70,264	90,174	75,377
Attributable to non-controlling interests		503	682	-	-
Total shareholders' equity		**85,203**	**70,946**	**90,174**	**75,377**
Total liabilities and shareholders' equity		**1,778,299**	**1,367,527**	**1,789,161**	**1,378,565**
Memorandum items					
Funds under trust management		116,884	116,823	87,492	84,167
Contingent liabilities	29	12,055	21,125	12,055	21,125
Financial commitments	29	20,940	12,934	20,940	12,934

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 23 February 2012

ABLV Bank, AS
Statements of changes in shareholders' equity of the Group for the years ended 31 December 2011 and 2010

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the Bank	Non-controlling interests	Total shareholders' equity
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
As at 1 January 2010	**15,000**	**255**	**1,500**	**88**	**52,699**	**69,542**	**(561)**	**68,981**
Total comprehensive income for the year 2010	-	-	-	1,741	(7,519)	(5,778)	(40)	(5,818)
Issue of shares	1,500	5,000	-	-	-	6,500	-	6,500
Increase of non-controlling interests	-	-	-	-	-	-	1,283	1,283
As at 31 December 2010	**16,500**	**5,255**	**1,500**	**1,829**	**45,180**	**70,264**	**682**	**70,946**

As at 1 January 2011	**16,500**	**5,255**	**1,500**	**1,829**	**45,180**	**70,264**	**682**	**70,946**
Total comprehensive income for the year 2011	-	-	-	(4,309)	18,745	14,436	(343)	14,093
Increase of non-controlling interests	-	-	-	-	-	-	164	164
As at 31 December 2011	**16,500**	**5,255**	**1,500**	**(2,480)**	**63,925**	**84,700**	**503**	**85,203**

ABLV Bank, AS
Statements of changes in shareholders' equity of the Bank
for the years ended 31 December 2011 and 2010

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
		LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
As at 1 January 2010	**15,000**	**255**	**1,500**	**88**	**57,240**	**74,083**
Total comprehensive income for the year 2010	-	-	-	1,741	(6,947)	(5,206)
Issue of shares	1,500	5,000	-	-	-	6,500
As at 31 December 2010	**16,500**	**5,255**	**1,500**	**1,829**	**50,293**	**75,377**

As at 1 January 2011	**16,500**	**5,255**	**1,500**	**1,829**	**50,293**	**75,377**
Total comprehensive income for the year 2011	-	-	-	(4,309)	19,106	14,797
As at 31 December 2011	**16,500**	**5,255**	**1,500**	**(2,480)**	**69,399**	**90,174**

ABLV Bank, AS
Cash flow statements of the Group and the Bank for the years ended 31 December 2011 and 2010

	Group	Group	Bank	Bank
	01/01/2011-31/12/2011	01/01/2010-31/12/2010	01/01/2011-31/12/2011	01/01/2010-31/12/2010
Cash flow from operating activities	LVL '000	LVL '000	LVL '000	LVL '000
Profit/ (loss) before corporate income tax	21,988	(8,262)	22,340	(7,827)
Amortisation and depreciation of fixed assets	1,852	1,692	1,516	1,587
Increase in allowances for credit losses	16,991	28,917	17,138	28,917
Decrease/ (increase) in non-financial assets	1,260	2,867	(355)	832
(Increase)/ decrease in financial assets at fair value through profit or loss	246	(1,029)	198	(1,029)
Recognised impairment of available-for-sale financial assets	1,756	14	1,756	14
Increase/ (decrease) in investments in other entities	164	2,125	-	-
Unrealised (gain)/ loss from revaluation of foreign currency positions	(5,130)	9,377	(5,130)	9,377
Net cash flow from operating activities before changes in assets and liabilities	**39,127**	**35,701**	**37,463**	**31,871**
(Increase)/ decrease in balances due from credit institutions	(4,079)	22,836	(4,080)	22,836
Decrease/ (increase) in loans	32,075	(15,244)	30,411	(12,038)
Decrease/ (increase) in financial assets at fair value through profit or loss	14,106	(12,842)	14,154	(12,842)
(Increase)/ decrease in prepaid expense and accrued income	(347)	166	(43)	159
(Increase)/ decrease in other assets	(13,626)	(19,266)	(2,333)	3,375
(Decrease) in balances due to credit institutions	(485)	(1,977)	-	(1,958)
Increase in deposits	355,305	347,948	351,611	348,833
(Decrease)/ increase in financial liabilities at fair value through profit or loss	13	50	13	50
Increase in deferred income and accrued expense	3,352	953	2,722	711
Increase/ (decrease) in other liabilities	2,621	3,739	1,149	518
Net cash flow from operating activities before corporate income tax	**428,062**	**362,064**	**431,067**	**381,515**
Corporate income tax (paid)	(175)	(262)	-	(250)
Net cash flow from operating activities	**427,887**	**361,802**	**431,067**	**381,265**
Cash flow from investing activities				
(Purchase) of held-to-maturity investments	(86,683)	(146,302)	(86,683)	(146,302)
Sale of held-to-maturity investments	108,387	-	108,387	-
(Purchase) of available-for-sale financial assets	(406,910)	(192,990)	(406,910)	(192,990)
Sale of available-for-sale financial assets	177,650	140,010	177,650	140,010
(Purchase) of intangible and tangible fixed assets and investment properties	(4,689)	(4,621)	(1,071)	(1,380)
Sale of intangible and tangible fixed assets	44	220	44	28
(Purchase) of investments in other entities	(315)	(842)	(12,247)	(23,949)
Decrease in investments in other entities	-	-	-	600
Net cash flow from investing activities	**(212,516)**	**(204,525)**	**(220,830)**	**(223,983)**
Cash flow from financing activities				
(Repayment) of subordinated loans	(2,300)	(4,707)	(2,300)	(4,707)
Issue of securities	28,293	9,799	33,044	9,799
Issue of shares	-	6,500	-	6,500
Net cash flow from financing activities	**25,993**	**11,592**	**30,744**	**11,592**
Net cash flow	**241,364**	**168,869**	**240,981**	**168,874**
Cash and cash equivalents at the beginning of the year	**391,251**	**210,926**	**391,225**	**210,895**
Gain from revaluation of foreign currency positions	3,606	11,456	3,606	11,456
Cash and cash equivalents at the end of the year	**636,221**	**391,251**	**635,812**	**391,225**

	Group	Group	Bank	Bank
	01/01/2011-31/12/2011	01/01/2010-31/12/2010	01/01/2011-31/12/2011	01/01/2010-31/12/2010
Operational cash flows from interest and dividends	LVL '000	LVL '000	LVL '000	LVL '000
Interest received	32,946	29,674	33,572	29,745
Interest paid	(13,112)	(16,771)	(12,998)	(16,739)
Dividends received	1	4	707	52
Dividends paid	-	-	-	-

	Group	Group	Bank	Bank
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash and cash equivalents	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with the Bank of Latvia	143,663	82,120	143,663	82,120
Balances due from credit institutions	501,036	311,587	500,627	311,561
Balances due to credit institutions	(8,478)	(2,456)	(8,478)	(2,456)
Total cash and cash equivalents	**636,221**	**391,251**	**635,812**	**391,225**

Note 1

General information

ABLV Bank, AS (hereinafter – the Bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company, under unified registration number 50003149401. At present, the legal address of the Bank is Elizabetes Street 23, Riga.

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

The Group's and Bank's main scope of activity is investment services, settlement products, asset management, financial consultations and real estate management.
The Group and the Bank operate the central office and two lending centres in Riga, as well as foreign representation offices in Azerbaijan – Baku, in Belarus - Minsk, in Kazakhstan - Almaty, in Russia – Moscow, St. Petersburg and Yekaterinburg, in Ukraine – Kyiv with its branch in Odessa, in Uzbekistan - Tashkent and Tajikistan – Dushanbe.

The following abbreviations are used in the notes to these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Accounting Standards Board (IASB), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

These consolidated and separate financial statements contain the financial information about the Bank and its subsidiaries (jointly – the Group), as well as separately about the Bank. The Bank's separate financial statements are included in these consolidated financial statements to comply with legal requirements. The Bank is the parent of the Group.

The consolidated financial statements of the Group and the separate financial statements of the Bank for the year ended 31 December 2011 were approved by the Bank's Board on 23 February 2012.

The Group comprises the following subsidiaries:

No	Company	Country of incorporation	Registration number	Business profile	Bank's share (% of total share capital)
1.	ABLV Asset Management, IPAS	LV	40003814724	Financial services	100
2.	ABLV Capital Markets, IBAS	LV	40003814705	Financial services	100
3.	ABLV Consulting Services, AS	LV	40003540368	Consulting services	100
4.	ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100
5.	ABLV Corporate Services, LTD	CY	HE273600	Consulting services	100
6.	ABLV Luxembourg, S.A.	LU	B 162048	Investment activities	100
7.	ABLV Transform Partnership, KS	LV	40103260921	Holding company	99.9997
8.	AB.LV Transform Investments, SIA	LV	40103191969	Real estate transactions	100
9.	Transform 1, SIA	LV	40103193211	Real estate transactions	100
10.	Transform 2, SIA	LV	40103193033	Real estate transactions	100
11.	Transform 3, SIA	LV	40103193067	Real estate transactions	100
12.	Transform 4, SIA	LV	40103210494	Real estate transactions	100
13.	Transform 6, SIA	LV	40103237323	Real estate transactions	100
14.	Transform 7, SIA	LV	40103237304	Real estate transactions	100
15.	Transform 8, SIA	LV	40103240484	Real estate transactions	100
16.	Transform 9, SIA	LV	40103241210	Real estate transactions	100
17.	Transform 10, SIA	LV	50103247681	Real estate transactions	100
18.	Transform 11, SIA	LV	40103258310	Real estate transactions	100
19.	Transform 12, SIA	LV	40103290273	Real estate transactions	100
20.	Transform 13, SIA	LV	40103300849	Real estate transactions	100
21.	Transform 14, SIA	LV	50103313991	Real estate transactions	100
22.	Transform 17, SIA	LV	40103424617	Real estate transactions	100
23.	Transform 18, SIA	LV	40103492079	Real estate transactions	100
24.	Elizabetes 21a, SIA	LV	50003831571	Real estate transactions	91.6
25.	New Hanza City, SIA	LV	40103222826	Real estate transactions	100
26.	ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100
27.	ABLV Private Equity Fund 2010, KS	LV	40103307758	Investment activities	100
28.	PEF Investments, SIA	LV	40103484940	Agriculture	100
29.	Gas Stream, SIA	LV	42103047436	Electricity generation	49
30.	Bio Future, SIA	LV	42103047421	Electricity generation	49

Note 2

Information on principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2011 and 2010, is set out below.

a) Statement of Compliance

These consolidated and separate financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted by the EU.

The accounting policies are applied consistently by all entities of the Group.
During the year ended 31 December 2011, the Group and the Bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below.

Adoption of new and/ or changed IFRSs and IFRIC interpretations in the reporting year

In the reporting period, the Group/ Bank has adopted the following new and amended IFRS and IFRIC interpretations, which do not have a significant impact on the financial statements:

- IAS 24 *Related Party Disclosures* (Revised);
- IAS 32 *Classification on Rights Issues* (Amended);
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amended);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments;*
- Improvements to IFRSs (May 2010).

IAS 24 *Related Party Transactions* (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively. This amendment did not produce a material impact on the related party disclosures in these financial statements.

IAS 32 *Financial Instruments: Presentation* (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is applied retrospectively. The adoption of this amendment did not affect the Group's/ Bank's financial position or performance because the Group/ Bank does not have such instruments.

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment is applied retrospectively. This amendment did not affect these financial statements because the Group/ Bank does not have defined benefit assets.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This interpretation did not affect these financial statements because the Group/ Bank does not have such transactions.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group and the Bank, its impact is described below:

IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. This improvement clarifies that the amendments to IFRS 7 *Financial Instruments: Disclosures*, IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).
Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. These amendments do not affect the Group's/ Bank's financial statements.

IFRS 7 *Financial Instruments - Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group/Company reflects the revised disclosure requirements in Note 31.

IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. This amendment does not affect the Group's/ Bank's financial statements.

IAS 27 *Consolidated and Separate Financial Statements*: This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 *The Effect of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. This amendment does not affect the Group's/ Bank's financial statements.

IFRIC 13 *Customer Loyalty Programmes*: This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. This improvement does not affect the Group's/ Bank's financial statements.

Standards issued but not yet effective and not early adopted

IAS 1 *Financial Statement Presentation* (Amended) – *Presentation of Items of Other Comprehensive Income*
The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. This amendment has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/ Bank.

IAS 12 *Income Taxes* (Amended) – *Recovery of Underlying Assets*
The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment has not yet been endorsed by the EU. The Group/ Bank has assessed that this amendment will not affect its financial position and performance because the Group/ Bank measure their investment properties according to the cost model.

IAS 19 *Employee Benefits* (Amended)
The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/ Bank.

IAS 27 *Separate Financial Statements* (Revised)
The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank.

IAS 28 *Investments in Associates and Joint Ventures* (Revised)
The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/ Bank.

IAS 32 *Financial Instruments: Presentation* (Amended) - *Offsetting Financial Assets and Financial Liabilities*
The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 *Offsetting Financial Assets and Financial Liabilities* amendments. This amendment has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of the amendment on the financial position or performance of the Group/ Bank.

IFRS 7 *Financial Instruments: Disclosures* (Amended) - *Offsetting Financial Assets and Financial Liabilities*
The amendment is effective for annual periods beginning on or after 1 January 2013.The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of the amendment on the financial position or performance of the Group/ Bank.

IFRS 9 *Financial Instruments - Classification and Measurement*
The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of the new standard on the financial position or performance of the Group/ Bank.

IFRS 10 *Consolidated Financial Statements*
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.This standard has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of the new standard on the financial position or performance of the Group/ Bank.

IFRS 11 *Joint Arrangements*
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of the new standard on the financial position or performance of the Group/ Bank.

IFRS 12 *Disclosures of Involvement with Other Entities*
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of the new standard on the financial position or performance of the Group/ Bank.

IFRS 13 *Fair Value Measurement*
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of the new standard on the financial position or performance of the Group/ Bank.

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*
The interpretation is effective for annual periods beginning on or after 1 January 2013.This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (striping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. The Group/ Bank is in the process of assessing the impact of the new interpretation on the financial position or performance of the Group/ Bank.

The Group/ Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Significant accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to depreciation rates of tangible fixed assets (paragraph (r)) and intangible fixed assets (paragraph (q)), valuation and depreciation rates of investment properties (paragraph (s)), calculation of deferred corporate income tax (paragraph (u)), the ability to maintain the held-to-maturity portfolio (paragraph (i)), the credit quality cycle, the loan may become loans in collection six months after the first day of delay, determining the allowance for credit losses and the collateral value (paragraph (p)), and the fair value of financial assets and liabilities (paragraph (e)).

b) Basis of Preparation

These consolidated and separate financial statements are reported in thousands of lats (LVL'000), unless otherwise stated. These consolidated and separate financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value (see Note 31).

Unless otherwise stated, the monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia, which is the functional and presentation currency of the Bank.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the Bank's and Group's financial statements were as follows:

Reporting date	USD	EUR	RUB
31 December 2011	0.544	0.702804	0.0170
31 December 2010	0.535	0.702804	0.0176

Information given herein in brackets represents comparative figures for the year ended 31 December 2010, unless otherwise stated.

As described in the Report of the Council and the Board (pages 3 to 6), considering the current economic situation, the management of the Bank have a reasonable expectation that the Group and the Bank will have adequate resources to continue the operational existence for the foreseeable future.

Accordingly, these consolidated and separate financial statements for the year ended 31 December 2011 are prepared on a going concern basis, consistently applying IFRS as adopted by the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies and Investment Management Companies.

c) Basis of Consolidation

Consolidated financial statements include all subsidiaries controlled by the parent. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases.

Control is presumed to exist when the parent controls more than half of the voting power of the subsidiary, or owns the power to govern the financial and operating policies of the subsidiary or the power to appoint or remove the majority of the members of the board of the subsidiary.

The Bank's and its subsidiaries' financial statements are consolidated in the Group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication of impairment. Non-controlling interests represent the portion of profit or loss, as well as the equity in a subsidiary not attributable, directly or indirectly, to the Bank. The profit or loss attributable to non-controlling interests is separately disclosed in the statement of comprehensive income. Non-controlling interests are also presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

The Bank's subsidiaries comply with the Bank's policies and risk management methods.

Investments in subsidiaries are presented in the Bank's separate financial statements in accordance with the cost method.

In the consolidated financial statements, the acquisition price of a subsidiary is attributed to the fair value of the subsidiary's assets, liabilities, and contingent liabilities upon acquisition. An acquisition price, which exceeds the fair value of the subsidiary's acquired assets and liabilities, is recorded as goodwill.

d) Recognition and Derecognition of Financial Assets and Liabilities

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The Group recognises financial assets and liabilities in its statement of financial position when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Group and the Bank have transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.
A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account.

e) Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the Group's and Bank's financial assets and liabilities is presented in Note 31.

f) Income and Expense Recognition

All major income and expense items are recognised on an accrual basis.
Interest income/ expense is recognised in the statement of comprehensive income for financial assets/ liabilities measured at amortised cost using the effective interest method.

Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income/ expense directly attributable to financial assets/ liabilities measured at amortised cost – for these assets/ liabilities the respective commission and fee income/ expense form an integral part of the effective interest rate.

Commission and fee income received once in a year for the whole reporting period is recognised in the statement of comprehensive income systematically on a straight-line basis during the period.

g) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at exchange rates set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at exchange rates set by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as profit or loss from revaluation of foreign currency positions.

h) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group and the Bank intend to sell immediately or in the near term and those that the Group and the Bank upon initial recognition designate as at fair value through profit or loss;
- those that the Group and the Bank, upon initial recognition, designate as available for sale; or
- those for which the Group and the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment) as presented in Note 7. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process. Loans and receivables include loans and fixed income securities. Fixed income securities to be included in the respective portfolio are defined by a separate policy of the Bank. Securities included in the loans and receivables portfolio are held for the foreseeable future or to maturity with the purpose of generating profit from coupon and principal payments.
For the purposes of these financial statements, finance lease receivables are classified as loans.

i) Held-to-maturity Portfolio

Held-to-maturity portfolio represents non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market. The Group/ Bank has the intention to hold the financial assets included in the held-to-maturity portfolio to maturity with the purpose of generating profit from coupon and principal payments.
The financial assets of the held-to-maturity portfolio are initially recognised at cost and subsequently measured at amortised cost using the effective interest method, less impairment loss. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through the amortisation process.

Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process.

j) Available-for-Sale Portfolio

The Group and the Bank acquire available-for-sale securities to hold them for an undefined period and generate interest income and/or profit from the increase in prices of securities. The available-for-sale portfolio includes fixed income securities, investments in shares and investment funds.

After initial recognition at fair value, including direct transaction costs, available-for-sale securities are measured at fair value. The revaluation result is charged through the statement of comprehensive income to the shareholders' equity as the fair value revaluation reserve of available-for-sale financial assets. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

For available-for-sale securities acquired at a discount (premium), the respective discount (premium) amount is amortised on a systematic basis, using the effective interest method. Amortised amounts are charged to the statement of comprehensive income as interest income from debt securities.

Any gain or loss resulting from disposal of available-for-sale securities and the fair value revaluation reserve accrued until such disposal are included in the statement of comprehensive income as net realised gain/ (loss) from available-for-sale financial assets.
Available-for-sale securities are divided into two portfolios:

- liquidity portfolio, which is aimed at forming the Bank's liquidity reserve with a minimum interest rate risk and credit risk;
- investments' held for undefined period portfolio, which is aimed at gaining maximum profit from long-term investments in financial assets.

k) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are assets that are held for trading. Financial assets held for trading are included in the trading portfolio. Fixed income securities of the trading portfolio are held by the Group and the Bank for the purpose of selling and/or acquired for generating profit in the near term from the expected spread between purchasing and selling prices. The financial assets and liabilities to be included in the trading portfolio are defined by the Bank's trading portfolio policy.

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the statement of comprehensive income under "Net gain/ (loss) from financial assets at fair value through profit or loss". Meanwhile, interest income earned and/ or accrued is charged to the statement of comprehensive income as interest income from debt securities using the effective interest rate method while dividend income is recorded as income from dividends if the right to the payment is established.

l) Assets Taken over for Sale

Assets taken over for sale represent real estate taken over by the Group/ Bank for the purpose of selling as collateral for the outstanding loans. Such assets are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

m) Finance Leases – Where the Bank is Lessor

Finance lease receivables are recognised as assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Income from finance leases is recognised over the lease term to produce a constant periodic return on the remaining balance of the liability.
Lease payments are charged to the statement of comprehensive income on a straight-line basis over the lease term.

n) Derivatives

In the ordinary course of business, the Group and the Bank use derivative financial instruments: currency swaps, futures, and forward foreign exchange rate contracts.

Derivative financial instruments are carried at cost and restated at fair value at the date of recognition and beyond. Derivative financial instruments are presented in the statement of financial position in a separate caption "Derivatives" under assets and liabilities respectively. The mark-to-market value is defined based on the quoted market prices or discounted cash flow models. Any gain or loss resulting from fair value movements of derivatives is recognised in the statement of comprehensive income as “Net gain/ (loss) from financial assets at fair value through profit or loss”.

o) Off-balance Sheet Instruments

In the ordinary course of business, the Group and the Bank are involved in off-balance sheet financial instruments comprising loan and credit line commitments, financial guarantees, as well as commercial letters of credit. Such financial instruments do not involve outflow of the Bank’s economic benefits, thus they are not recorded as the Bank’s liabilities. These financial instruments are presented in the financial statements as memorandum items upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for establishing allowances on loans as described in paragraph (p) below.

p) Provisions and Allowances

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

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

Allowances for financial assets and financial commitments

Non-performing debts are defined as financial assets and financial commitments with regard to which, based on the monitoring activities performed or other information obtained, the Management of the Group and the Bank believe that the contractual interest and principal due might not be collected or customers might default on other contractual conditions, which might result in an outflow of resources embodying economic benefits. According to the approved impairment assessment policy, the Group and the Bank determine individual and collective impairment.

The individual impairment allowance is determined after individually reviewing all credits for potentially uncollectable amounts. Individual assessment is made for credits that individually have objective evidence of impairment, based on the borrower’s financial position, value of collateral, and fulfilment of the loan agreement.

The collective (portfolio) allowance relates to existing credit losses, as well as to the impairment losses ‘incurred, but not yet known to the Bank’. The collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account changes in collateral values, and general economic and market conditions or events that have occurred prior to the reporting date and that indicate an adverse impact on the future cash flows from certain loans and receivable balances outstanding. This method permits attributing each group of loans with similar credit characteristics to historical loss experience and observable market data reflecting current circumstances.

When a loan has been classified as non-performing, an allowance for credit losses is established for that specific loan or amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the Group’s and Bank’s past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers’ ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advances collectability and collateral values. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance.

The above estimates are reviewed periodically. As changes of the allowance become necessary as a result of the review made, respective allowance changes are taken to the statement of comprehensive income of the reporting period. The Management of the Group and the Bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available facts and information.

When loans cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

The Group/ Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired. Based on the estimates of the Management of the Group/ Bank, a decline in the fair value of the instrument by more than 20% below its cost or for more than one financial year is treated as objective evidence of significant and prolonged impairment of available-for-sale financial instruments. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

q) Intangible Fixed Assets

Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.
The Group and the Bank have applied the annual rates ranging from 5% to 20% to amortise their intangible assets.

r) Tangible Fixed Assets

Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Fixed assets, including leasehold improvements under construction and preparation, are not depreciated. Land is not subject to depreciation.

The Group and the Bank have applied the following depreciation rates:

Category	Annual rate
Buildings and property improvements	5.5%
Vehicles	20%
EDP equipment and software	16-33%
Office equipment	10-33%

Costs of maintenance and repair are charged to the statement of comprehensive income as incurred. Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

s) Investment Properties

Investment properties comprise land and buildings, as well as costs of the investment property development project in progress, that are not used by the Group and the Bank, and are held with the main purpose to earn rentals, as well as gain on value appreciation. Such investments are classified as investment property and are accounted for using the cost model of accounting for investment properties. Investment properties are carried in the statement of financial position at their cost value less accumulated depreciation. The annual depreciation rate applied to investment properties is 5%.

t) Employee Benefits

Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and allowances, as well as life insurance premiums are charged to the statement of comprehensive income as administrative expense in the period when the services are provided.

The accrual for employee vacation pay is estimated for the Group's or Bank's personnel based on the total number of vacation days earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

u) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank's financial statements or tax returns. The deferred tax liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on fixed assets, accrual for employee vacation pay, and revaluation of items of the statement of financial position, including securities revaluation and fair value revaluation reserve, and temporary difference in securities in excess of set limits and tax losses carried forward for the subsequent years. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

v) Impairment of Non-financial Assets

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase amount constitutes reversal of impairment losses.

w) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

Note 3

Interest income and expense

	Group	Group	Bank	Bank
	01/01/2011-31/12/2011	01/01/2010-31/12/2010	01/01/2011-31/12/2011	01/01/2010-31/12/2010
Interest income	LVL '000	LVL '000	LVL '000	LVL '000
on loans and advances to customers	23,539	26,243	23,235	26,187
non-impaired	20,070	18,923	19,763	18,867
impaired	3,469	7,320	3,472	7,320
on debt securities and other fixed income securities	12,756	9,087	12,753	9,087
financial assets at fair value through profit or loss	345	18	342	18
available-for-sale financial assets	5,769	5,204	5,769	5,204
held-to-maturity investments	6,460	2,865	6,460	2,865
non-impaired	6,388	2,865	6,388	2,865
impaired	72	-	72	-
loans and receivables	182	1,000	182	1,000
non-impaired	182	963	182	963
impaired	-	37	-	37
on balances due from credit institutions and central banks	1,742	1,034	1,732	1,034
other interest income	5	67	5	67
Total interest income	**38,042**	**36,431**	**37,725**	**36,375**
Interest expense				
on deposits from non-bank customers	9,269	13,400	9,281	13,400
on subordinated deposits	1,407	1,759	1,407	1,759
on debt securities issued	1,957	1,501	1,959	1,501
on balances due to credit institutions and central banks	143	67	17	25
other interest expense	2,902	2,123	2,902	2,123
Total interest expense	**15,678**	**18,850**	**15,566**	**18,808**

Note 4

Commission and fee income and expense

	Group	Group	Bank	Bank
	01/01/2011-31/12/2011	01/01/2010-31/12/2010	01/01/2011-31/12/2011	01/01/2010-31/12/2010
Commission and fee income	LVL '000	LVL '000	LVL '000	LVL '000
commission on payment transfer handling on behalf of	14,243	12,221	14,243	12,221
commission on handling of settlement cards	3,995	3,195	3,995	3,195
service fees	2,878	2,468	2,878	2,468
commission on brokerage operations	2,343	2,175	363	310
commission on trust transactions	1,127	926	513	397
commission on documentary transactions	531	401	531	401
other commission and fee income	1,003	1,490	998	1,154
Total commission and fee income	**26,120**	**22,876**	**23,521**	**20,146**
Commission and fee expense				
correspondent bank service charges	1,868	2,085	1,868	2,085
commission on transactions with settlement cards	1,124	888	1,124	888
other commission and fee expense	426	268	2	6
Total commission and fee expense	**3,418**	**3,241**	**2,994**	**2,979**

Note 5

Net gains/ losses on financial assets

	Group	Group	Bank	Bank
	01/01/2011-31/12/2011	01/01/2010-31/12/2010	01/01/2011-31/12/2011	01/01/2010-31/12/2010
Financial instruments at fair value through profit or loss	LVL '000	LVL '000	LVL '000	LVL '000
(Loss)/ gain from revaluation of financial instruments at fair value through profit or loss	(246)	1,029	(198)	1,029
Derivatives	44	1,008	44	1,008
Securities	(290)	21	(242)	21
(Loss)/ gain from trading with financial instruments at fair value through profit or loss	(5,400)	11,560	(5,400)	11,560
Derivatives	(5,767)	11,044	(5,767)	11,044
Securities	367	516	367	516
Net (loss)/ gain from financial instruments at fair value through profit or loss	**(5,646)**	**12,589**	**(5,598)**	**12,589**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	1,827	418	1,827	418
Net realised gain from available-for-sale financial instruments	**1,827**	**418**	**1,827**	**418**
Financial instruments at amortised cost				
Gain/ (loss) from sale of securities of the loans and receivables portfolio	2	(1,823)	2	(1,823)
Gain from sale of held-to-maturity securities	9,478	-	9,478	-
Net realised gain/ (loss) from sale of financial instruments at amortised cost	**9,480**	**(1,823)**	**9,480**	**(1,823)**
Foreign exchange				
Profit from foreign currency exchange	15,780	8,224	15,833	8,168
Gain/ (loss) from revaluation of foreign currency positions	5,130	(9,377)	5,130	(9,377)
Net result from foreign exchange trading and revaluation	**20,910**	**(1,153)**	**20,963**	**(1,209)**

The gain totalling LVL 9.5 million from the sale of long-term US Treasury bonds included in the held-to-maturity portfolio was recognised in the reporting year. The Bank sold these financial assets, having analysed its ability to meet the additional minimum capital requirements which, according to the FCMC regulations issued on 1 April 2011, became effective on 30 September 2011. The additional minimum capital requirement set for the Bank is 12.30% instead of the previous 8%. The Bank’s management also considered other possibilities for meeting these additional requirements; however, the Bank’s management admit that no additional share issue could be performed within such limited timeframe and believes that the decision to sell these financial assets was necessary to ensure the Bank’s compliance with the aforementioned FCMC requirements in the due term. Consequently, the Bank's management concluded that such sale of the US treasuries is considered to be a single non-recurring event, which is outside of the Bank's control and could not be anticipated. Therefore, the rest of the Bank's portfolio of held-to-maturity financial instruments is retained.

The result of foreign exchange transactions mainly represents currency exchange loss or gain. The profit from foreign currency exchange for the year 2011 rose substantially owing to the noteworthy growth of customer transactions.

The Group/ Bank manages its exposure of currency risk by applying the limits specified in the Limits Policy. As at 31 December 2011, all the above limits were met. To hedge its exposure of currency risk, the Group/ Bank enters into currency forwards. Therefore, to objectively assess the revaluation result of foreign currency positions, the net gain/ (loss) from revaluation of and trading with Group’s/ Bank’s derivatives as well as revaluation of currency positions should be analysed.

Note 6

Other operating income and expense

	Group	Group	Bank	Bank
	01/01/2011-31/12/2011	01/01/2010-31/12/2010	01/01/2011-31/12/2011	01/01/2010-31/12/2010
Other income	LVL '000	LVL '000	LVL '000	LVL '000
sale of assets taken over for resale	6,284	3,083	53	171
other income from the sale of products of subsidiaries and associates	1,690	336	-	-
penalties received	689	788	689	788
sale of subsidiaries	464	391	-	-
lease income	176	22	23	21
sale of services to subsidiaries and associates	-	-	440	312
other operating income	190	148	144	148
Total other income	**9,493**	**4,768**	**1,349**	**1,440**
Other expense				
sale of assets taken over for resale	5,956	3,182	252	214
customer attraction	1,748	992	4,419	2,036
other expense related to the sale of products of associates	1,155	126	-	-
membership fees	308	284	283	249
Total other expense	**9,167**	**4,584**	**4,954**	**2,499**

Note 7

Allowances for credit losses

The table below presents changes in allowances for credit losses of the Group in 2011:

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Other assets	**Total**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Individual allowances	2,417	17,842	26	-	64	78	1,202	605	22,234
Portfolio allowances	44,242	129	210	568	-	-	-	-	45,149
Total allowances at the beginning of the year	**46,659**	**17,971**	**236**	**568**	**64**	**78**	**1,202**	**605**	**67,383**
Increase/ (decrease) in allowances for the year	14,485	502	56	1,269	50	887	-	(258)	16,991
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	-	93	93
Increase in allowances for the year due to currency fluctuations	3	5	-	-	6	7	-	-	21
(Elimination) of allowances for the year due to write-offs	(18,190)	(4,125)	(229)	(546)	-	-	(1,202)	(70)	(24,362)
Individual allowances	1,570	14,190	-	694	120	972	-	370	17,916
Portfolio allowances	41,387	163	63	597	-	-	-	-	42,210
Total allowances at the end of the year	**42,957**	**14,353**	**63**	**1,291**	**120**	**972**	**-**	**370**	**60,126**

The table below presents changes in allowances for credit losses of the Bank in 2011:

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Other assets	**Total**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Individual allowances	2,417	17,842	26	-	64	78	1,202	605	22,234
Portfolio allowances	44,242	129	210	568	-	-	-	-	45,149
Total allowances at the beginning of the year	**46,659**	**17,971**	**236**	**568**	**64**	**78**	**1,202**	**605**	**67,383**
Increase/ (decrease) in allowances for the year	14,485	676	56	1,269	50	887	-	(285)	17,138
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	-	93	93
Increase in allowances for the year due to currency fluctuations	3	5	-	-	6	7	-	-	21
(Elimination) of allowances for the year due to write-offs	(18,190)	(4,125)	(229)	(546)	-	-	(1,202)	(70)	(24,362)
Individual allowances	1,570	14,364	-	694	120	972	-	343	18,063
Portfolio allowances	41,387	163	63	597	-	-	-	-	42,210
Total allowances at the end of the year	**42,957**	**14,527**	**63**	**1,291**	**120**	**972**	**-**	**343**	**60,273**

In the reporting year, the borrowers' ability to repay their loans on a timely basis stabilised. As a result, in 2011 the decline in the recoverable amount of loans decelerated.

The table below presents changes in allowances for credit losses of the Group and the Bank in 2010:

	Mortgage loans	Business loans	Consumer loans	Other loans	Securities at fair value	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Other assets	**Total**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Individual allowances	920	11,028	30	594	2	191	-	4,013	338	17,116
Portfolio allowances	31,960	-	230	1,674	-	-	-	-	-	33,864
Total allowances at the beginning of the year	**32,880**	**11,028**	**260**	**2,268**	**2**	**191**	**-**	**4,013**	**338**	**50,980**
Increase/ (decrease) in allowances for the year	14,824	13,035	200	818	(2)	(150)	78	(120)	234	28,917
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	-	-	33	33
Increase in allowances for the year due to currency fluctuations	34	-	-	-	-	23	-	73	-	130
(Elimination) of allowances for the year due to write-offs	(1,079)	(6,092)	(224)	(2,518)	-	-	-	(2,764)	-	(12,677)
Individual allowances	2,417	17,842	26	-	-	64	78	1,202	605	22,234
Portfolio allowances	44,242	129	210	568	-	-	-	-	-	45,149
Total allowances at the end of the year	**46,659**	**17,971**	**236**	**568**	**-**	**64**	**78**	**1,202**	**605**	**67,383**

As at 31 December 2011, the Group's and Bank's financial assets and liabilities were not past due, except for loans (see Note 17) and coupon payments from securities totalling LVL 49 (149) thousand.

Note 8

Impairment of other assets

The Group’s and Bank’s management have determined the fair value of non-financial assets - the immovable properties taken over for sale - on the basis of the expected discounted future cash flow from the sale of the above properties as well as assessed other non-financial assets, including investments in subsidiaries, and established that the previously recognised impairment has changed. Based on the analysis carried out, in 2011 and 2010 the Group and the Bank recognised impairment of non-financial assets.

The table below presents changes in impairment for non-financial assets of the Group and the Bank in 2011 and 2010:

	Group 01/01/2011-31/12/2011	Group 01/01/2010-31/12/2010	Bank 01/01/2011-31/12/2011	Bank 01/01/2010-31/12/2010
Category	LVL '000	LVL '000	LVL '000	LVL '000
Non-financial assets taken over for sale	1,260	2,532	23	78
Prepayments for investment properties	-	335	-	-
Investments in subsidiaries	-	-	(378)	754
Total impairment adjustment	**1,260**	**2,867**	**(355)**	**832**

Note 9

Administrative expense

Category	Group 01/01/2011-31/12/2011 LVL '000	Group 01/01/2010-31/12/2010 LVL '000	Bank 01/01/2011-31/12/2011 LVL '000	Bank 01/01/2010-31/12/2010 LVL '000
Remuneration to personnel	16,249	12,894	14,285	11,943
Statutory social insurance contributions	3,767	3,141	3,357	2,918
Rent of premises, repairs and maintenance costs	1,784	1,498	1,370	1,224
IT system maintenance expense	1,693	1,229	1,658	1,220
Remuneration to the Council and the Board	1,160	996	849	813
Advertising and marketing expense	1,115	476	1,041	452
Other personnel expense	476	530	359	465
Communication expense	348	486	399	418
Other taxes	280	296	125	126
Investment property maintenance costs	310	302	91	110
Donations	24	-	24	-
Other administrative expense	943	646	523	497
Total administrative expense	**28,149**	**22,494**	**24,081**	**20,186**

In 2011, the Group and the Bank employed an average of 530 (514) and 470 (473) persons (full-time equivalent).

The following table specifies employees of the Group and the Bank as at 31 December 2011 and 2010:

	Group 31.12.2011 number	Group 31.12.2010 number	Bank 31.12.2011 number	Bank 31.12.2010 number
Management	15	15	10	10
Heads of divisions and departments	96	96	79	85
Other personnel	438	408	394	379
Total at the end of the year	**549**	**519**	**483**	**474**

Note 10

Taxation

	Group 01/01/2011-31/12/2011 LVL'000	Group 01/01/2010-31/12/2010 LVL'000	Bank 01/01/2011-31/12/2011 LVL'000	Bank 01/01/2010-31/12/2010 LVL'000
Profit/ (loss) before corporate income tax	21,988	(8,262)	22,340	(7,827)
Group's profit adjustments for corporate income tax	1,465	(1,565)	-	-
Theoretical corporate income tax	**3,330**	**(1,474)**	**3,351**	**(1,174)**
Permanent differences	100	537	(273)	67
Actual corporate income tax expense for the reporting year	**3,430**	**(937)**	**3,078**	**(1,107)**
Adjustments to prior-year deferred tax	39	204	39	197
Tax paid abroad	117	30	117	30
Total corporate income tax expense	**3,586**	**(703)**	**3,234**	**(880)**

Deferred corporate income tax calculation:

	Group	Group	Bank	Bank
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
	Amounts subject to temporary differences	Amounts subject to temporary differences	Amounts subject to temporary differences	Amounts subject to temporary differences
	LVL'000	LVL'000	LVL'000	LVL'000
Accumulated excess of tax depreciation over accounting depreciation	4,943	4,674	3,604	4,497
Fair value revaluation reserve of available-for-sale financial assets	(2,917)	2,135	(2,917)	2,135
Revaluation of derivatives and securities	5,220	(2,925)	5,397	(2,127)
Revaluation of assets and vacation pay reserve	(3,399)	1,023	(1,463)	1,023
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	-	-
Tax losses	(28,832)	(40,766)	(27,012)	(43,646)
Unrecognised tax asset	5,888	-	-	-
Basis for calculation of deferred corporate income tax	**(21,332)**	**(38,094)**	**(22,391)**	**(38,118)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/	**(3,386)**	**(5,736)**	**(3,359)**	**(5,718)**
liability at the end of the year	**186**	**21**	**-**	**-**

	Group	Group	Bank	Bank
	01/01/2011-31/12/2011	01/01/2010-31/12/2010	01/01/2011-31/12/2011	01/01/2010-31/12/2010
	LVL'000	LVL'000	LVL'000	LVL'000
Deferred corporate income tax at the beginning of the year	**(5,736)** **21**	**(5,458)** **22**	**(5,718)** **-**	**(5,079)** **-**
Increase/ (decrease) charged to the statement of comprehensive income	3,234	(754)	3,078	(1,107)
(Decrease)/ increase attributable to fair value revaluation reserve under equity	(758)	305	(758)	305
Adjustment for the previous periods	39	170	39	163
Deferred corporate income tax (asset)/	**(3,386)**	**(5,736)**	**(3,359)**	**(5,718)**
liability at the end of the year	**186**	**21**	**-**	**-**

The Group’s and Bank’s management believe that there is reasonable confidence that future taxable profit will be sufficient to fully recover the recognised deferred tax asset in the taxation periods following the reporting year.

Taxes paid by the Group and the Bank:

	Group	Group	Bank	Bank
	01/01/2011-31/12/2011	01/01/2010-31/12/2010	01/01/2011-31/12/2011	01/01/2010-31/12/2010
Tax	LVL'000	LVL'000	LVL'000	LVL'000
Statutory social insurance contributions	4,689	3,937	4,279	3,694
Personal income tax	2,951	3,042	2,661	2,873
Real estate tax	230	197	124	126
Corporate income tax	175	262	-	250
Value added tax	125	27	4	17
Unemployment risk duty	1	1	1	1
Total	**8,171**	**7,466**	**7,069**	**6,961**

Note 11

Classification of financial and non-financial instruments

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2011:

	At fair value through profit or loss	Available-for sale	Held-to-maturity	At amortised cost	**Total**
Assets	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
Cash and deposits with central banks	-	-	-	143,663	**143,663**
Balances due from credit institutions	-	-	-	518,881	**518,881**
Fixed income securities	-	370,744	166,778	-	**537,522**
Shares and other non-fixed income securities	753	2,262	-	-	**3,015**
Derivatives	8,169	-	-	-	**8,169**
Loans and receivables	-	-	-	469,424	**469,424**
Total financial assets	**8,922**	**373,006**	**166,778**	**1,131,968**	**1,680,674**
Non-financial assets	-	-	-	-	**97,625**
Total assets	**8,922**	**373,006**	**166,778**	**1,131,968**	**1,778,299**
Liabilities					
Balances due to credit institutions	-	-	-	10,946	**10,946**
Derivatives	141	-	-	-	**141**
Deposits	-	-	-	1,595,438	**1,595,438**
Issued securities	-	-	-	51,507	**51,507**
Subordinated deposits	-	-	-	21,662	**21,662**
Total financial liabilities	**141**	**-**	**-**	**1,679,553**	**1,679,694**
Non-financial liabilities	-	-	-	-	**13,402**
Shareholders' equity	-	-	-	-	**85,203**
Total liabilities and shareholders' equity	**141**	**-**	**-**	**1,679,553**	**1,778,299**

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2010:

	At fair value through profit or loss	Available-for-sale	Held-to-maturity	At amortised cost	Total
Assets	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
Cash and deposits with central banks	-	-	-	82,120	**82,120**
Balances due from credit institutions	-	-	-	325,352	**325,352**
Fixed income securities	19,367	166,431	155,112	11,061	**351,971**
Shares and other non-fixed income securities	674	2,226	-	-	**2,900**
Derivatives	3,331	-	-	-	**3,331**
Loans and receivables	-	-	-	517,811	**517,811**
Total financial assets	**23,372**	**168,657**	**155,112**	**936,344**	**1,283,485**
Non-financial assets	-	-	-	-	**84,042**
Total assets	**23,372**	**168,657**	**155,112**	**936,344**	**1,367,527**
Liabilities					
Balances due to credit institutions	-	-	-	5,408	**5,408**
Derivatives	226	-	-	-	**226**
Deposits	-	-	-	1,236,791	**1,236,791**
Issued securities	-	-	-	22,921	**22,921**
Subordinated deposits	-	-	-	23,962	**23,962**
Total financial liabilities	**226**	**-**	**-**	**1,289,082**	**1,289,308**
Non-financial liabilities	-	-	-	-	**7,273**
Shareholders' equity	-	-	-	-	**70,946**
Total liabilities and shareholders' equity	**226**	**-**	**-**	**1,289,082**	**1,367,527**

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2011:

	At fair value through profit or loss	Available-for-sale	Held-to-maturity	At amortised cost	Total
Assets	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
Cash and deposits with central banks	-	-	-	143,663	**143,663**
Balances due from credit institutions	-	-	-	518,472	**518,472**
Fixed income securities	-	370,744	166,778	-	**537,522**
Shares and other non-fixed income securities	753	2,262	-	-	**3,015**
Derivatives	8,169	-	-	-	**8,169**
Loans and receivables	-	-	-	470,603	**470,603**
Total financial assets	**8,922**	**373,006**	**166,778**	**1,132,738**	**1,681,444**
Non-financial assets	-	-	-	-	**107,717**
Total assets	**8,922**	**373,006**	**166,778**	**1,132,738**	**1,789,161**
Liabilities					
Balances due to credit institutions	-	-	-	8,478	**8,478**
Derivatives	141	-	-	-	**141**
Deposits	-	-	-	1,603,143	**1,603,143**
Issued securities	-	-	-	56,258	**56,258**
Subordinated deposits	-	-	-	21,662	**21,662**
Total financial liabilities	**141**	**-**	**-**	**1,689,541**	**1,689,682**
Non-financial liabilities	-	-	-	-	**9,305**
Shareholders' equity	-	-	-	-	**90,174**
Total liabilities and shareholders' equity	**141**	**-**	**-**	**1,689,541**	**1,789,161**

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2010:

	At fair value through profit or loss	Available-for-sale	Held-to-maturity	At amortised cost	**Total**
Assets	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
Cash and deposits with central banks	-	-	-	82,120	**82,120**
Balances due from credit institutions	-	-	-	325,326	**325,326**
Fixed income securities	19,367	166,431	155,112	11,061	**351,971**
Shares and other non-fixed income securities	674	2,226	-	-	**2,900**
Derivatives	3,331	-	-	-	**3,331**
Loans and receivables	-	-	-	517,500	**517,500**
Total financial assets	**23,372**	**168,657**	**155,112**	**936,007**	**1,283,148**
Non-financial assets	-	-	-	-	**95,417**
Total assets	**23,372**	**168,657**	**155,112**	**936,007**	**1,378,565**
Liabilities					
Balances due to credit institutions	-	-	-	2,456	**2,456**
Derivatives	226	-	-	-	**226**
Deposits	-	-	-	1,248,190	**1,248,190**
Issued securities	-	-	-	22,921	**22,921**
Subordinated deposits	-	-	-	23,962	**23,962**
Total financial liabilities	**226**	**-**	**-**	**1,297,529**	**1,297,755**
Non-financial liabilities	-	-	-	-	**5,433**
Shareholders' equity	-	-	-	-	**75,377**
Total liabilities and shareholders' equity	**226**	**-**	**-**	**1,297,529**	**1,378,565**

Note 12

Cash and deposits with the Bank of Latvia

	Group/ Bank	Group/ Bank
	31.12.2011	31.12.2010
	LVL'000	LVL'000
Cash	6,038	3,551
Deposits with the Bank of Latvia	137,625	78,569
Total cash and deposits with central banks	**143,663**	**82,120**

In accordance with the resolution of the Council of the Bank of Latvia, credit institutions have to comply with the obligatory reserve requirement. As at 31 December 2011, the obligatory reserve requirement for liabilities with the original maturity above two years was 3% (3%), while for other liabilities included in the reserve basis it was 5% (5%). The Group and the Bank were in compliance with this requirement as at 31 December 2011.

Note 13

Balances due from credit institutions

As at 31 December 2011, the Bank had established correspondent relationships with 27 (29) credit institutions registered in the EU and OECD area, 7 (6) credit institutions registered in Latvia, and 19 (20) credit institutions incorporated in other countries.

Balances due from credit institutions to the Group by geographical area and structure as at 31 December 2011:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Demand deposits with credit institutions	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Correspondent account balances	534	183,567	3,275	162,416	35,567	385,359
Overnight deposits	-	-	-	-	-	-
Total demand deposits with credit institutions	**534**	**183,567**	**3,275**	**162,416**	**35,567**	**385,359**
Other balances due from credit institutions						
Security deposits	-	7,239	-	10,880	-	18,119
Term deposits	-	29,924	67,234	-	5,102	102,260
Other balances	-	-	-	-	13,143	13,143
Total other balances due from credit institutions	**-**	**37,163**	**67,234**	**10,880**	**18,245**	**133,522**
Total balances due from credit institutions	**534**	**220,730**	**70,509**	**173,296**	**53,812**	**518,881**

As at 31 December 2011, the Group's and Bank's major balances due from credit institutions registered in the EU and OECD area were as follows: LVL 69 (138) million due from JPMorgan Chase Bank, N.A., LVL 66 (0) million due from Euroclear Bank SA/NV, LVL 63 (3) million due from Credit Suisse, LVL 60 (1) million due from Nordea Bank Finland Plc, LVL 42 (29) million due from the Bank of Montreal, and LVL 39 (6) million due from UBS AG.

Balances due from credit institutions to the Group by geographical area and structure as at 31 December 2010:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Demand deposits with credit institutions	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Correspondent account balances	295	18,386	1,475	41,027	14,049	75,232
Overnight deposits	-	72,433	-	107,001	28	179,462
Total demand deposits with credit institutions	**295**	**90,819**	**1,475**	**148,028**	**14,077**	**254,694**
Other balances due from credit institutions						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
Total other balances due from credit institutions	**-**	**13,901**	**44,484**	**-**	**12,273**	**70,658**
Total balances due from credit institutions	**295**	**104,720**	**45,959**	**148,028**	**26,350**	**325,352**

Balances due from credit institutions to the Bank by geographical area and structure as at 31 December 2011:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Demand deposits with credit institutions	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Correspondent account balances	500	183,491	3,275	162,416	35,545	385,227
Overnight deposits	-	-	-	-	-	-
Total demand deposits with credit institutions	**500**	**183,491**	**3,275**	**162,416**	**35,545**	**385,227**
Other balances due from credit institutions						
Security deposits	-	6,962	-	10,880	-	17,842
Term deposits	-	29,924	67,234	-	5,102	102,260
Other balances	-	-	-	-	13,143	13,143
Total other balances due from credit institutions	**-**	**36,886**	**67,234**	**10,880**	**18,245**	**133,245**
Total balances due from credit institutions	**500**	**220,377**	**70,509**	**173,296**	**53,790**	**518,472**

Balances due from credit institutions to the Bank by geographical area and structure as at 31 December 2010:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Demand deposits with credit institutions	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Correspondent account balances	283	18,386	1,475	41,027	14,035	75,206
Overnight deposits	-	72,433	-	107,001	28	179,462
Total demand deposits with credit institutions	**283**	**90,819**	**1,475**	**148,028**	**14,063**	**254,668**
Other balances due from credit institutions						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
Total other balances due from credit institutions	**-**	**13,901**	**44,484**	**-**	**12,273**	**70,658**
Total balances due from credit institutions	**283**	**104,720**	**45,959**	**148,028**	**26,336**	**325,326**

Concentration of balances due from credit institutions by geographical area:

	Group	Bank	Group/ Bank
	31/12/2011	31/12/2011	31/12/2010
Balances over LVL 25,000,000	number	number	number
Other EU Member States	1	1	1
EMU countries	3	3	2
other OECD countries	3	3	1
Balances below LVL 25,000,000			
Other EU Member States	10	10	9
EMU countries	10	9	13
other countries	20	20	18
other OECD countries	6	6	8
Latvia	2	2	4
Total			
Other EU Member States	11	11	10
EMU countries	13	12	15
other countries	20	20	18
other OECD countries	9	9	9
Latvia	2	2	4

Note 14

Debt securities and other fixed income securities

The Group's and Bank's investments in debt securities are classified by the investment type as follows:

	Group/ Bank 31/12/2011			Group/ Bank 31/12/2010				
Issuer	Available-for-sale LVL'000	Held-to-maturity LVL'000	**Total** LVL'000	At fair value LVL'000	Available-for-sale LVL'000	Held-to-maturity LVL'000	Loans and receivables LVL'000	**Total** LVL'000
Latvia								
Central governments	-	5,870	5,870	-	-	-	3,406	3,406
Credit institutions	15	176	191	-	15	-	176	191
International organisations	71,555	26,188	97,743	-	2,373	2,204	-	4,577
EU Member States								
Central governments	55,694	13,215	68,909	8,134	1,429	3,351	-	12,914
Credit institutions	92,608	3,101	95,709	5,755	755	164	-	6,674
Corporate companies	-	-	-	-	-	-	267	267
Other OECD countries								
Central governments	48,036	15,480	63,516	-	106,985	107,185	-	214,170
Credit institutions	23,363	2,861	26,224	2,743	-	-	-	2,743
State-owned enterprises	19,422	5,542	24,964	-	-	-	-	0
Corporate companies	2,209	-	2,209	-	13	-	-	13
Other countries								
Central governments and central banks	14,175	18,733	32,908	-	5,461	3,423	247	9,131
Municipalities	801	528	1,329	-	457	516	501	1,474
Financial auxiliary	91	-	91	-	-	-	-	0
Credit institutions	23,858	32,299	56,157	2,735	33,682	17,313	5,010	58,740
Corporate companies	18,917	42,785	61,702	-	15,261	20,956	1,454	37,671
Net fixed income securities	**370,744**	**166,778**	**537,522**	**19,367**	**166,431**	**155,112**	**11,061**	**351,971**

The Group's/ Bank's fixed income securities totalled LVL 538 (352) million as at 31 December 2011. Most of these assets (88.6%) have been invested by the Bank in investment-grade securities (see Note 34). The Bank has no investments in securities issued by the central governments of the European countries that are still struggling to solve their financial and budget problems, such as Greece, Ireland, Spain and Italy, except for an insignificant investment of LVL 191 thousand made in the securities of the Portuguese central government.

In the reporting year, impairment was recognised for the following securities of the available-for-sale portfolio:

- securities of three credit institutions of other countries – totalling LVL 1,014 thousand;
- securities of a Latvian credit institution – totalling LVL 56 thousand;
- securities of three companies of other countries – totalling LVL 379 thousand;
- securities of a government of other countries – totalling LVL 103 thousand.

Given the above, in the reporting year the annual yield of the Bank's securities portfolio was 4% (6.2%), while the income earned from the securities portfolio reached LVL 16.5 million. The additional disclosure of the securities transactions is presented in Note 5.

As at 31 December 2011, the following available-for-sale securities of the Bank were not listed on stock exchanges:

- LVL 0 (6) thousand – debt securities issued by companies of other countries;
- LVL 1,697 (0) thousand – debt securities issued by international organisations;
- LVL 27,361 (106,985) thousand – debt securities issued by central governments of OECD countries.

As at 31 December 2011, the following held-to-maturity securities of the Bank were not listed on stock exchanges:

- LVL 342 (62) thousand – debt securities issued by companies of other countries;
- LVL 503 (0) thousand – debt securities issued by credit institutions of other countries;
- LVL 176 (0) thousand – debt securities issued by a Latvian credit institution.

Note 15

Shares and other non-fixed income securities

The Group's and Bank's investments in shares and investment funds are classified as follows:

	Group/ Bank			Group/ Bank		
	31/12/2011			31/12/2010		
	Listed	Non-listed	Total	Listed	Non-listed	Total
At fair value	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Investments in funds registered in Latvia	277	-	277	324	-	324
Equity shares in Latvian corporate entities	36	-	36	40	-	40
Equity shares in foreign corporate entities	299	-	299	82	-	82
Equity shares in foreign credit institutions	141	-	141	66	162	228
Total shares and other non-fixed income securities at fair value through profit or loss	**753**	**-**	**753**	**512**	**162**	**674**
Available-for-sale						
Investments in foreign funds	-	2,201	2,201	-	2,165	2,165
Equity shares in foreign financial auxiliaries	-	61	61	-	61	61
Total shares and other non-fixed income securities included in the available-for-sale portfolio	**-**	**2,262**	**2,262**	**-**	**2,226**	**2,226**
Total shares and other non-fixed income securities	**753**	**2,262**	**3,015**	**512**	**2,388**	**2,900**

Note 16

Derivatives

The table below presents the notional amounts of foreign currency exchange contracts and other derivative financial instruments and their fair values. The notional amount of foreign currency exchange contracts is the amount receivable. The notional amount of other derivative financial instruments is the value of the underlying assets of these instruments.

	Group/ Bank		Group/ Bank		Group/ Bank	
	31/12/2011	31/12/2010	31/12/2011		31/12/2010	
	Notional amount		Fair value		Fair value	
			Assets	Liabilities	Assets	Liabilities
Foreign currency exchange contracts	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Gold futures	640	289	44	-	-	15
Forwards	15,620	5,984	210	136	858	96
Swaps	114,187	73,508	7,915	5	1,451	115
Futures	-	88,770	-	-	1,022	-
Total foreign currency exchange contracts	**130,447**	**168,551**	**8,169**	**141**	**3,331**	**226**
Total derivatives	**130,447**	**168,551**	**8,169**	**141**	**3,331**	**226**

Note 17

Loans

The breakdown of loans issued by the Group and the Bank by customer profile:

Customer profile	Group 31/12/2011 LVL'000	Group 31/12/2010 LVL'000	Bank 31/12/2011 LVL'000	Bank 31/12/2010 LVL'000
Other private individuals	384,710	427,114	384,710	427,114
Corporate companies	115,782	122,049	117,135	121,738
Financial institutions	22,461	28,986	22,461	28,986
Bank's employees	5,134	5,096	5,134	5,096
Total loans	**528,087**	**583,245**	**529,440**	**582,934**
Less allowance for credit losses	(58,663)	(65,434)	(58,837)	(65,434)
Net loans	**469,424**	**517,811**	**470,603**	**517,500**

Credit quality analysis for the Group is as follows:

	31/12/2011		31/12/2010	
	Loans, total	Incl. past due payments	Loans, total	Incl. past due payments
Not individualy impaired loans	LVL '000	LVL '000	LVL '000	LVL '000
Mortgage loans	288,485	1,185	321,205	1,021
Business loans	106,211	314	112,135	932
Consumer loans	819	-	1,029	-
Other loans	17,691	-	17,661	-
Total non-impaired loans, gross	**413,206**	**1,499**	**452,030**	**1,953**
Impaired loans				
Mortgage loans	78,802	42,527	86,850	51,898
Business loans	33,854	10,756	43,349	14,021
Consumer loans	81	12	296	44
Other loans	2,144	186	720	190
Total impaired loans, gross	**114,881**	**53,481**	**131,215**	**66,153**
Total loans, gross	**528,087**	**54,980**	**583,245**	**68,106**
Less allowance for credit losses	(58,663)		(65,434)	
Total loans, net	**469,424**		**517,811**	

Credit quality analysis for the Bank is as follows:

	31/12/2011		31/12/2010	
	Loans, total	Incl. past due payments	Loans, total	Incl. past due payments
Not individualy impaired loans	LVL '000	LVL '000	LVL '000	LVL '000
Mortgage loans	288,485	1,185	321,205	1,021
Business loans	107,217	314	111,862	932
Consumer loans	819	-	1,029	-
Other loans	17,691	-	17,623	-
Total non-impaired loans, gross	**414,212**	**1,499**	**451,719**	**1,953**
Impaired loans				
Mortgage loans	78,802	42,527	86,850	51,898
Business loans	34,201	10,756	43,349	14,021
Consumer loans	81	12	296	44
Other loans	2,144	186	720	190
Total impaired loans, gross	**115,228**	**53,481**	**131,215**	**66,153**
Total loans, gross	**529,440**	**54,980**	**582,934**	**68,106**
Less allowance for credit losses	(58,837)		(65,434)	
Total loans, net	**470,603**		**517,500**	

The table below provides the aging analysis of the Group's and Bank's past due loans that have not been impaired individually as at 31 December 2011:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	440	13	-	-	453
31 - 59 days	234	53	-	-	287
60 - 89 days	331	8	-	-	339
More than 90 days	180	240	-	-	420
Total past due loans	**1,185**	**314**	**-**	**-**	**1,499**

The table below provides the aging analysis of the Group's and Bank's past due loans that have not been impaired individually as at 31 December 2010:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	420	63	-	-	483
31 - 59 days	179	13	-	-	192
60 - 89 days	178	17	-	-	195
More than 90 days	244	839	-	-	1,083
Total past due loans	**1,021**	**932**	**-**	**-**	**1,953**

Below is provided the collateral analysis for the Group's and Bank's loans that have been impaired individually:

	31/12/2011		31/12/2010	
	Total loans	Fair value of collateral	Total loans	Fair value of collateral
Loan type	LVL '000	LVL '000	LVL '000	LVL '000
Mortgage loans	78,802	48,066	86,850	42,093
Business loans	34,201	20,942	43,349	33,964
Consumer loans	81	-	296	-
Other loans	2,144	-	720	22
Total impaired loans, gross	**115,228**	**69,008**	**134,720**	**76,079**
Less allowance for credit losses	(54,448)		(61,066)	
Total impaired loans, net	**60,780**		**73,654**	

As at 31 December 2011, the gross amount of loans having the maturity date for principal or interest changed was LVL 97,433 (123,674) thousand. These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due.

Note 18

Investments in subsidiaries

As at 31 December 2011, the Bank held shares in the following subsidiaries:

		31/12/2011			31/12/2010		
	Country of incorporation	Share capital	Equity	Bank's share (% of total share capital)	Share capital	Equity	Bank's share (% of total share capital)
Company		LVL'000	LVL'000	(%)	LVL'000	LVL'000	(%)
ABLV Transform Partnership, KS	LV	56,224	51,986	99.9997	49,196	45,345	99.9997
ABLV Private Equity Fund 2010, KS	LV	7,028	7,241	100	3,514	3,574	100
New Hanza City, SIA	LV	2,900	2,861	100	2,900	2,884	100
Elizabetes 21a, SIA	LV	2,500	1,677	91.6	2,500	1,828	91.6
ABLV Luxembourg, S.A.	LU	1,406	1,331	100	-	-	-
ABLV Asset Management, IPAS	LV	400	594	100	400	447	100
ABLV Capital Markets, IBAS	LV	400	1,602	100	400	1,060	100
ABLV Consulting services, AS	LV	375	402	100	375	385	100
Transform 1, SIA	LV	500	124	100	200	(7)	100
ABLV Private Equity Mangement, SIA	LV	120	132	100	120	148	100
ABLV Corporate Services, SIA	LV	20	44	100	20	40	100
	Total, gross	**71,873**	**67,994**		**59,625**	**55,704**	
Impairment expense		(377)			(754)		
	Total, net	**71,496**			**58,871**		

During the reporting year, the Bank increased its investment in the share capital of ABLV Transform Partnership, KS by EUR 10 million. The Bank also increased the share capital of Transform 1, SIA and ABLV Private Equity Fund 2010, KS by LVL 300 thousand and LVL 3,514 thousand respectively. The above capital increases were aimed at ensuring expansion of the subsidiaries' business and their successful development.

In the reporting year, the Bank established its subsidiary in Luxembourg - ABLV Luxembourg S.A. whose aim is to research the financial market in Luxembourg and carry out all the required preparations to obtain a banking licence. This subsidiary bank will provide customers with private banking and investment services, such as investment management, brokerage and other banking services. It is planned that the subsidiary will start operating mid-next year. The initial paid-in share capital of ABLV Luxembourg S.A. is EUR 2,000,000.
In the reporting year, the investment fund ABLV Private Equity Fund 2010, KS acquired 40% of shares in Orto, SIA.

As at 31 December 2011, funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation amounted to LVL 29,392 (32,656) thousand. The value of financial instruments of the ABLV Capital Markets, IBAS customers as at 31 December 2011 was LVL 253,693 (280,021) thousand.

Note 19

Investment properties

	Group	Group	Bank	Bank
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Item	LVL'000	LVL'000	LVL'000	LVL'000
Investment properties	21,147	18,426	16,527	16,535
Prepayments for investment properties	395	2,232	135	135
Total investment properties	**21,542**	**20,658**	**16,662**	**16,670**

The movements in the Group's and Bank's investment properties in 2011 are as follows:

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, less prepayments
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Acquisition value as at 01/01/2011	**18,246**	**217**	**18,463**	**16,355**	**217**	**16,572**
Additions	-	2,729	2,729	-	-	-
Disposals	-	-	-	-	-	-
Acquisition value as at 31/12/2011	**18,246**	**2,946**	**21,192**	**16,355**	**217**	**16,572**
Accumulated depreciation as at 01/01/2011	**-**	**37**	**37**	**-**	**37**	**37**
Depreciation charge	-	8	8	-	8	8
Depreciation of disposals	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2011	**-**	**45**	**45**	**-**	**45**	**45**
Net carrying amount as at 01/01/2011	**18,246**	**180**	**18,426**	**16,355**	**180**	**16,535**
Net carrying amount as at 31/12/2011	**18,246**	**2,901**	**21,147**	**16,355**	**172**	**16,527**

The movements in the Group's and Bank's investment properties in 2010 are as follows:

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, less prepayments
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Acquisition value as at 01/01/2010	**17,654**	**198**	**17,852**	**16,334**	**198**	**16,532**
Additions	593	-	593	22	-	22
Reclassification	-	59		-	59	59
Disposals	(1)	(40)	(41)	(1)	(40)	(41)
Acquisition value as at 31/12/2010	**18,246**	**217**	**18,404**	**16,355**	**217**	**16,572**
Accumulated depreciation as at 01/01/2010	**-**	**40**	**40**	**-**	**40**	**40**
Depreciation charge	-	10	10	-	10	10
Depreciation of disposals	-	(13)	(13)	-	(13)	(13)
Accumulated depreciation as at 31/12/2010	**-**	**37**	**37**	**-**	**37**	**37**
Net carrying amount as at 01/01/2010	**17,654**	**158**	**17,812**	**16,334**	**158**	**16,492**
Net carrying amount as at 31/12/2010	**18,246**	**180**	**18,426**	**16,355**	**180**	**16,535**

The market value of the Group's and Bank's investment properties as at 31 December 2011 was LVL 21 (20) million and LVL 19 (19) million respectively. The management of the Bank and the Group believe that the most credible market value of investment properties was identified based on the evaluations presented by both external real estate appraisers and Bank's real estate experts. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not properly developed.

Rentals from investment properties in 2011 amounted to LVL 24 (21) thousand, whereas the related property maintenance expense was LVL 91 (110) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to LVL 77 (84) thousand.

Note 20

Intangible and tangible fixed assets

Item	Group 31.12.2011 LVL'000	Group 31.12.2010 LVL'000	Bank 31.12.2011 LVL'000	Bank 31.12.2010 LVL'000
Intangible fixed assets	3,037	3,126	2,912	2,982
Prepayments for intangible fixed assets	456	575	456	566
Total intangible fixed assets	**3,493**	**3,701**	**3,368**	**3,548**

Land	129	129	129	129
Buildings and property improvements	8,170	3,364	3,314	3,364
Leasehold improvements	142	190	142	190
Construction in progress	-	2,184	-	-
Vehicles	479	446	285	356
Office equipment, total	1,121	1,271	1,059	1,189
Incl. EDP equipment	571	787	567	778
Incl. other tangible fixed assets	550	484	492	411
Prepayments for tangible fixed assets	30	370	25	25
Total tangible fixed assets	**10,071**	**7,954**	**4,954**	**5,253**

The movements in the Group's intangible and tangible fixed assets in 2011 are as follows:

	Intangible fixed assets LVL'000	Land LVL'000	Buildings and property improvements LVL'000	Leasehold improvements LVL'000	Construction in progress LVL'000	Vehicles LVL'000	Office equipment LVL'000	Total, less prepayments LVL'000
Acquisition value as at 01/01/2011	**5,884**	**129**	**4,865**	**682**	**2,184**	**952**	**6,370**	**21,066**
Additions	425	-	3,032	11	-	246	542	4,256
Reclassification	-	-	2,184	-	(2,184)	-	-	-
Disposals	-	-	-	-	-	(188)	(301)	(489)
Acquisition value as at 31/12/2011	**6,309**	**129**	**10,081**	**693**	**-**	**1,010**	**6,611**	**24,833**
Accumulated depreciation as at 01/01/2011	**2,758**	**0**	**1,501**	**492**	**-**	**506**	**5,099**	**10,356**
Depreciation charge	514	-	410	59	-	174	687	1,844
Depreciation of disposals	-	-	-	-	-	(149)	(296)	(445)
Accumulated depreciation as at 31/12/2011	**3,272**	**0**	**1,911**	**551**	**-**	**531**	**5,490**	**11,755**
Net carrying amount as at 01/01/2011	**3,126**	**129**	**3,364**	**190**	**2,184**	**446**	**1,271**	**10,710**
Net carrying amount as at 31/12/2011	**3,037**	**129**	**8,170**	**142**	**-**	**479**	**1,121**	**13,078**

The movements in the Group's intangible and tangible fixed assets in 2010 are as follows:

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Construction in progress	Vehicles	Office equipment	Total, less prepayments
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Acquisition value as at 01/01/2010	**3,426**	**321**	**4,921**	**666**	**-**	**921**	**6,277**	**16,532**
Additions	2,472	-	3	16	2,184	151	568	5,394
Reclassification	-	-	(59)	-	-	-	-	(59)
Disposals	(14)	(192)	-	-	-	(120)	(475)	(801)
Acquisition value as at 31/12/2010	**5,884**	**129**	**4,865**	**682**	**2,184**	**952**	**6,370**	**21,066**
Accumulated depreciation as at 01/01/2010	**2,233**	**-**	**1,303**	**439**	**-**	**437**	**4,853**	**9,265**
Depreciation charge	532	-	198	53	-	175	724	1,682
Depreciation of disposals	(7)	-	-	-	-	(106)	(478)	(591)
Accumulated depreciation as at 31/12/2010	**2,758**	**-**	**1,501**	**492**	**-**	**506**	**5,099**	**10,356**
Net carrying amount as at 01/01/2010	**1,193**	**321**	**3,618**	**227**	**-**	**484**	**1,424**	**7,267**
Net carrying amount as at 31/12/2010	**3,126**	**129**	**3,364**	**190**	**2,184**	**446**	**1,271**	**10,710**

As at 31 December 2011, the Group and the Bank owned intangible and tangible fixed assets having the net carrying amount of 0 and the cost value of LVL 6,120 (5,103) thousand and LVL 5,854 (5,087) thousand respectively.

The movements in the Bank's intangible and tangible fixed assets in 2011 are as follows:

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, less prepayments
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Acquisition value as at 01/01/2011	**5,653**	**129**	**4,865**	**682**	**780**	**6,226**	**18,335**
Additions	394	-	151	11	96	529	1,181
Disposals	-	-	-	-	(135)	(295)	(430)
Acquisition value as at 31/12/2011	**6,047**	**129**	**5,016**	**693**	**741**	**6,460**	**19,086**
Accumulated depreciation as at 01/01/2011	**2,671**	**-**	**1,501**	**492**	**424**	**5,037**	**10,125**
Depreciation charge	464	-	201	59	128	656	1,508
Depreciation of disposals	-	-	-	-	(96)	(292)	(388)
Accumulated depreciation as at 31/12/2011	**3,135**	**-**	**1,702**	**551**	**456**	**5,401**	**11,245**
Net carrying amount as at 01/01/2011	**2,982**	**129**	**3,364**	**190**	**356**	**1,189**	**8,210**
Net carrying amount as at 31/12/2011	**2,912**	**129**	**3,314**	**142**	**285**	**1,059**	**7,841**

The movements in the Bank's intangible and tangible fixed assets in 2010 are as follows:

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, less prepayments
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Acquisition value as at 01/01/2010	**3,225**	**129**	**4,921**	**666**	**749**	**6,184**	**15,874**
Additions	2,431	-	3	16	100	512	3,062
Reclassification	-	-	(59)	-	-	-	(59)
Disposals	(3)	-	-	-	(69)	(470)	(542)
Acquisition value as at 31/12/2010	**5,653**	**129**	**4,865**	**682**	**780**	**6,226**	**18,335**
Accumulated depreciation as at 01/01/2010	**2,186**	**-**	**1,303**	**439**	**353**	**4,810**	**9,091**
Depreciation charge	488	-	198	53	139	699	1,577
Depreciation of disposals	(3)	-	-	-	(68)	(472)	(543)
Accumulated depreciation as at 31/12/2010	**2,671**	**-**	**1,501**	**492**	**424**	**5,037**	**10,125**
Net carrying amount as at 01/01/2010	**1,039**	**129**	**3,618**	**227**	**396**	**1,374**	**6,783**
Net carrying amount as at 31/12/2010	**2,982**	**129**	**3,364**	**190**	**356**	**1,189**	**8,210**

Information about contractual commitments on the purchase of intangible and tangible fixed assets is disclosed in Note 29.

Note 21

Other assets

Asset type	Group 31/12/2011 LVL'000	Group 31/12/2010 LVL'000	Bank 31/12/2011 LVL'000	Bank 31/12/2010 LVL'000
Non-financial assets taken over for sale	49,967	44,425	524	585
Payments for financial instruments	5,196	205	5,196	205
Receivables	1,392	1,429	933	3,137
Clearing of payment cards	791	335	791	335
Tax receivables	386	729	18	209
Gold	347	309	347	309
Other assets	410	488	310	397
Total other assets	**58,489**	**47,920**	**8,119**	**5,177**
Impairment expense	(372)	(2,532)	(366)	(78)
Total other assets, net	**58,117**	**45,388**	**7,753**	**5,099**

Note 22

Balances due to credit institutions

	Group 31/12/2011 LVL'000	Group 31/12/2010 LVL'000	Bank 31/12/2011 LVL'000	Bank 31/12/2010 LVL'000
Other term deposits	9,167	3,502	6,699	550
Demand deposits from credit institutions	1,779	1,906	1,779	1,906
Total balances due to credit institutions	**10,946**	**5,408**	**8,478**	**2,456**

Note 23

Deposits

Customer profile	Group 31/12/2011 LVL'000	Group 31/12/2010 LVL'000	Bank 31/12/2011 LVL'000	Bank 31/12/2010 LVL'000
Corporate companies	1,410,294	1,091,402	1,418,181	1,102,801
Private individuals	174,165	122,476	173,983	122,476
Financial institutions	4,785	4,417	4,785	4,417
State-owned enterprises	4,331	16,596	4,331	16,596
Non-profit institutions serving private individuals	1,841	1,500	1,841	1,500
Municipalities	22	400	22	400
Total deposits	**1,595,438**	**1,236,791**	**1,603,143**	**1,248,190**

The Group's/ Bank's top 20 customers in terms of the deposit amount account for 17.5% (20%) of the total deposits.

Geographical profile of customer residence	Group 31/12/2011 LVL'000	Group 31/12/2010 LVL'000	Bank 31/12/2011 LVL'000	Bank 31/12/2010 LVL'000
Other countries	1,056,560	737,982	1,056,560	737,982
Other EU Member States	318,820	222,754	318,820	222,754
EMU countries	105,442	96,802	106,252	96,802
Latvia	59,567	53,718	66,462	65,117
Other OECD countries	55,049	125,535	55,049	125,535
Total deposits	**1,595,438**	**1,236,791**	**1,603,143**	**1,248,190**

Of the total deposits placed with the Group and the Bank, 85.8% (82.6%) are from customers whose beneficiaries are CIS residents.

Note 24

Issued securities

At the end of 2011, the Bank placed the first public issue of bonds, which was driven by large customer demand for investment products. The strategic goal of the issue is to replace long-term deposits with customer bond investments, which will bring higher yields to customers as compared to deposits. As opposed to deposits, bonds are more liquid financial instruments that offer greater advantages to customers for their wider use in transactions.

According to the base prospectus, several bond issues were initiated. The Bank performed two ordinary bond issues and one subordinated bond issue. The Bank had already had successful subordinated bond issues, which were offered to a limited number of customers. Considering that the Bank's customers show great interest in fixed income investments, it has been resolved to organise new issues and launch bonds also on the regulated securities market. According to the conditions of the issue, these bonds are to be admitted to trading on the regulated market in March 2012.

Type	ISIN	Currency	Number	Par value	Date of maturity	Discount/ coupon rate	Group 31/12/2011 LVL'000	Bank 31/12/2011 LVL'000	Group/ Bank 31/12/2010 LVL'000
Subordinated discount bonds	LV0000800712	EUR	125,000	100	01.10.2018	10.00%	7,404	7,404	6,716
Subordinated discount bonds	LV0000800936	EUR	150,000	100	22.12.2021	4.80%	7,659	7,659	-
Subordinated discount bonds	LV0000800720	USD	200,000	100	01.10.2018	9.50%	9,247	9,247	8,288
Subordinated discount bonds	LV0000800845	USD	200,000	100	15.09.2020	6.50%	8,582	8,582	7,917
Subordinated bonds, total							**32,892**	**32,892**	**22,921**
Ordinary coupon bonds	LV0000800910	EUR	10,000	1,000	20.12.2013	6-month Euribor + 1.5%	2,285	7,036	-
Ordinary coupon bonds	LV0000800928	USD	30,000	1,000	21.12.2013	6-month Libor + 1.5%	16,330	16,330	-
Ordinary bonds, total							**18,615**	**23,366**	**-**
Issued securities, total							**51,507**	**56,258**	**22,921**

Note 25

Subordinated liabilities

As at 31 December 2011, the Group's and Bank's subordinated liabilities of LVL 54,554 (46,883) thousand comprised subordinated bonds amounting to LVL 32,892 (22,921) thousand and subordinated loans amounting to LVL 21,662 (23,962) thousand.

Subordinated bonds were issued by the Bank in 2008, 2010, and 2011. As at 31 December 2011, the carrying amount of all the subordinated bonds was USD 32,8 (30,3) million and EUR 21,4 (9,6) million. The issues of the subordinated bonds made in 2008 and 2010 were closed and these bonds are not registered with Riga Stock Exchange. Meanwhile, the subordinated bonds issued in 2011 are to be launched on the regulated market as early as in March 2012, according to the issue prospectus.

The Bank also received subordinated loans for the total amount of USD 36,7 (43) million and EUR 2,4 (1,2) million. Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the Bank's share capital.

The analysis of subordinated loans as at 31 December 2011:

Major lenders	Loan amount LVL'000	Accumulated interest LVL'000	% of total subordinated capital (%)	Interest rate	Currency	Date of the agreement	Date of maturity
Harpic group Ltd	8,160	35	14.96	5.13	USD	14/08/2008	19/08/2018
Other lenders							
non-residents	11,756	24		1.99 - 8.39	USD		
non-residents	1,683	4		3.46 - 3.90	EUR		
Other lenders in total	**13,439**	**28**					
Total subordinated deposits	**21,599**	**63**					

The analysis of subordinated loans as at 31 December 2010:

Lenders	Loan amount LVL'000	Accumulated interest LVL'000	% of total subordinated capital (%)	Interest rate	Currency	Date of the agreement	Date of maturity
Harpic Group LTD	8,025	34	17.12	5.04	USD	14/08/2008	19/08/2018
Multicross LLC	5,350	32	11.41	7.14	USD	19/03/2007	02/04/2017
Euro swiss LLC	5,350	32	11.41	7.14	USD	19/03/2007	02/04/2017
Total major lenders	**18,725**	**98**					
Other lenders							
residents	241	1		8.13 - 8.39	USD		
non-residents	4,043	10		2.83 - 8.39	USD		
residents	35	-		7.14	EUR		
non-residents	808	1		3.53 - 7.14	EUR		
Other lenders in total	**5,127**	**12**					
Total subordinated deposits	**23,852**	**110**					

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital.
The remaining weighted average maturity of subordinated deposits from other lenders is 5.37 (3.06) years. The basic conditions of the subordinated bonds issued by the Bank are disclosed in Note 24.

Note 26

Paid-in share capital

As at 31 December 2011, the paid-in share capital of the Bank amounted to LVL 16,5 million (16,5 million). The share capital consists of ordinary shares with voting rights only. All the shares have the par value of LVL 150 (150) each.
As at 31 December 2011, the Bank had 123 (128) shareholders, including 13 (11) legal entities and 110 (117) private individuals, holding the total of 110,000 (110,000) shares.

As at 31 December 2011, the members of the Board directly held 42.22% (86.16%) of the share capital, while the members of the Council – 46.06% (5.69%) of the share capital.

The major shareholders of the Bank and the groups of related shareholders are as follows:

	31/12/2011		31/12/2010	
Shareholders	Paid-in share capital LVL'000	% of total paid-in share capital (%)	Paid-in share capital LVL'000	% of total paid-in share capital (%)
Oļegs Fiļs	7,086	42.95	7,086	42.95
Ernests Bernis and Nika Berne (total group of related shareholders)	7,086	42.95	7,086	42.95
Other shareholders, total	2,328	14.10	2,328	14.10
Total	**16,500**	**100.00**	**16,500**	**100.00**

Note 27

Related party disclosures

Related parties of the Group and the Bank are defined as shareholders who have a qualifying holding in the Bank, and Chairman and Members of the Bank's Council and Board, Head and Members of the Internal Audit Department, key management personnel that are authorised to plan, manage and control Bank's operations and are responsible for these functions, and spouses, parents and children of the individuals referred to previously, Bank's subsidiaries and companies in which the Bank has an interest as well as companies in which these individuals have a qualifying holding.

The Group and the Bank supply their related parties with standard services on an arm's length basis.

Group's transactions with related parties:

	31/12/2011			31/12/2010		
	Management	Related companies	Other related individuals	Management	Related companies	Other related individuals
Assets	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Loans	527	2,000	776	136	1,930	514
Impairment expense	-	-	-	-	-	-
Loans, net	527	2,000	776	136	1,930	514
Liabilities						
Deposits	1,368	493	1,421	2,136	1,204	1,395
Subordinated deposits	-	-	-	54	-	-
Subordinated bonds	67	317	115	3	83	101
Memorandum items						
Undrawn credit facilities	316	86	-	241	562	-
Guarantees	134	-	-	133	-	-

	01/01/2011 - 31/12/2011			01/01/2010 - 31/12/2010		
	Management	Related companies	Other related individuals	Management	Related companies	Other related individuals
Income/ expense	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Interest income	7	127	26	2	89	15
Commission and fee income	11	22	7	7	29	6
Interest expense	(6)	(3)	(11)	(5)	(12)	(23)

Bank's transactions with related parties:

	31/12/2011				31/12/2010			
	Management	Related companies	Subsidiaries	Other related individuals	Management	Related companies	Subsidiaries	Other related individuals
Assets	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Loans	527	2,000	10,182	481	136	1,930	8,764	514
Impairment expense	-	-	(174)	-	-	-	-	-
Loans, net	527	2,000	10,008	481	136	1,930	8,764	514
Liabilities								
Deposits	1,368	493	7,893	1,341	2,136	1,204	11,636	1,341
Subordinated deposits	-	-	-	-	54	-	-	-
Subordinated bonds	67	317	-	14	3	83	-	-
Memorandum items								
Undrawn credit facilities	316	86	627	-	241	562	2,280	-
Guarantees	134	-	5	-	133	-	-	-

	01/01/2011 - 31/12/2011				01/01/2010 - 31/12/2010			
	Management	Related companies	Subsidiaries	Other related individuals	Management	Related companies	Subsidiaries	Other related individuals
Income/ expense	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Interest income	7	127	633	15	4	117	89	13
Commission and fee income	11	20	252	4	7	23	242	4
Interest expense	(6)	(3)	(13)	(11)	(7)	(13)	(80)	(30)
Other operating income	-	-	440	-	-	-	312	-
Other operating expense	-	-	(2,671)	-	-	-	(1,044)	-
Change in allowances for credit losses	-	-	(174)	-	-	-	182	-

The Latvian banking legislation requires that the total credit exposure to related parties may not exceed 15% of credit institution's equity. As at 31 December 2011, the Bank was in compliance with the above statutory requirements.

Note 28

Dividends proposed and paid

In 2011 and 2010, there were no dividends proposed and/ or paid.

Note 29

Memorandum items

	Group/ Bank	Group/ Bank
	31/12/2011	31/12/2010
Contingent liabilities	LVL'000	LVL'000
Outstanding guarantees	11,587	20,871
Letters of credit	468	254
Total contingent liabilities	**12,055**	**21,125**
Financial commitments		
Undrawn credit facilities on settlement cards	7,291	6,224
Loan commitments	6,821	3,636
Unutilised credit lines	6,726	2,877
Contractual commitments on purchase of intangible assets	77	171
Contractual commitments on purchase of investment properties	21	-
Contractual commitments on purchase of other tangible assets	4	26
Total financial commitments	**20,940**	**12,934**
Total contingent liabilities and financial commitments	**32,995**	**34,059**

As at 31 December 2011, funds under trust management by the Group amounted to LVL 116,884 (116,823) thousand, while funds under trust management by the Bank amounted to LVL 87,492 (84,167) thousand. The Bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the Bank. Meanwhile, the Group's funds under trust management also include funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation.
The related credit risk and all other risks remain fully with the customer, which provided these funds to the Group and/or the Bank.

Note 30

Segment information

The Group and the Bank believe that they are organised into three segments based on the core business activities as follows: banking, investments, and consultations. The Group defines its operating segments based on its organisational structure. The Bank views its operations as one single segment, without making any separate disclosures, while at the Group level the Bank and all its subsidiaries are attributed to the Group's operating segments as follows:

- banking: ABLV Bank, AS, ABLV Asset Management, IPAS, ABLV Capital Markets, IBAS, and ABLV Luxembourg, S.A;
- consultations: ABLV Consulting Services, AS, ABLV Corporate Services, SIA, ABLV Corporate Services, LTD;
- investments: ABLV Transform Partnership, KS, AB.LV Transform Investments, SIA, Transform 1, SIA, Transform 2, SIA, Transform 3, SIA, Transform 4, SIA, Transform 6, SIA, Transform 7, SIA, Transform 8, SIA, Transform 9, SIA, Transform 10, SIA, Transform 11, SIA, Transform 12, SIA, Transform 13, SIA, Transform 14, SIA, Transform 17, SIA, Transform 18, SIA, Elizabetes 21a, SIA, New Hanza City, SIA, ABLV Private Equity Fund 2010, KS, PEF Investments, SIA, ABLV Private Equity Management, SIA, Gas Stream, SIA, Bio Future, SIA.

Operating segment information is prepared on the basis of internal reports.

	Group					Group	Bank	Bank
	31/12/2011					31/12/2010	31/12/2011	31/12/2010
	Banking	Investments	Consultations	Banking	Investments	Consultations	Banking	Banking
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with the Bank of Latvia	143,663	-	-	82,120	-	-	143,663	82,120
Balances due from credit institutions	518,824	35	23	325,326	12	14	518,472	325,326
Debt securities and other fixed income securities	538,614	-	-	353,315	-	-	538,614	353,315
Shares and other non-fixed income securities	537	-	-	411	-	-	537	411
Investments in funds	2,478	-	-	2,489	-	-	2,478	2,489
Derivatives	8,169	-	-	3,331	-	-	8,169	3,331
Loans	519,239	8,848	-	574,099	9,089	58	529,441	582,935
Prepaid expense and accrued income	478	191	18	303	13	23	335	292
Investments in subsidiaries and associates	-	315	-	-	-	-	71,286	58,661
Tangible and intangible fixed assets	8,509	4,935	120	8,962	2,539	154	8,322	8,801
Other assets	27,736	55,541	125	26,409	46,073	93	28,116	28,190
Total assets per internal reporting	**1,768,247**	**69,865**	**286**	**1,376,765**	**57,726**	**342**	**1,849,433**	**1,445,871**
Less allowance for credit losses*	60,099			67,306			60,272	67,306
Total assets per IFRS	**1,708,148**	**69,865**	**286**	**1,309,459**	**57,726**	**342**	**1,789,161**	**1,378,565**
Liabilities								
Balances due to credit institutions	8,478	2,468	-	2,456	2,952	-	8,478	2,456
Derivatives	141	-	-	226	-	-	141	226
Deposits and issued securities	1,668,425	182	-	1,283,474	200	-	1,681,063	1,295,073
Deferred income and accrued expense	5,123	969	30	2,547	222	-	5,182	2,460
Allowance for credit losses	60,098	-	-	67,306	-	-	60,272	67,306
Other liabilities	3,851	3,164	266	2,933	1,474	97	4,123	2,973
Total liabilities per internal reporting	**1,746,116**	**6,783**	**296**	**1,358,942**	**4,848**	**97**	**1,759,259**	**1,370,494**
Total liabilities and shareholders' equity	**1,836,277**	**1,774**	**347**	**1,433,055**	**1,651**	**127**	**1,849,433**	**1,445,871**
Less allowance for credit losses*	60,099			67,306			60,272	67,306
Total liabilities per IFRS	**1,776,178**	**1,774**	**347**	**1,365,749**	**1,651**	**127**	**1,789,161**	**1,378,565**

* - for internal reporting purposes the allowance for credit losses is disclosed separately as a liability rather than impairment of assets

	Group			Group			Bank	Bank
	31/12/2011			31/12/2010			31/12/2011	31/12/2010
Income statement	Banking	Investments	Consultations	Banking	Investments	Consultations	Banking	Banking
Interest income	37,112	930	-	36,286	145	-	37,725	36,375
Interest expense	(15,562)	(116)	-	(18,727)	(123)	-	(15,566)	(18,808)
Commission and fee income	26,106	-	14	22,479	109	288	23,521	20,146
Commission and fee expense	(3,418)	-	-	(3,304)	63	-	(2,994)	(2,979)
Net result from securities trading and revaluation	5,709	(48)	-	11,184	-	-	5,709	11,184
Net result from foreign exchange trading and revaluation	20,981	(51)	(20)	(1,201)	56	(8)	20,963	(1,209)
Other income	863	8,310	320	982	891	-	1,349	1,440
Income from dividends	1	-	-	4	-	-	707	52
Administrative expense	(25,221)	(729)	(2,199)	(20,900)	(452)	(1,142)	(24,081)	(20,186)
Depreciation	(1,584)	(224)	(44)	(1,648)	(3)	(41)	(1,516)	(1,587)
Other expense	(2,305)	(6,862)	-	(1,542)	(130)	-	(4,954)	(2,499)
Change in allowances for credit losses	(16,965)	(26)	-	(28,917)	-	-	(17,138)	(28,917)
Result from sale of tangible and intangible fixed assets	32	-	-	(9)	277	2	16	7
Impairment of financial instruments	(1,756)	-	-	(14)	-	-	(1,756)	(14)
Impairment of non-financial assets	(23)	(1,237)	-	(78)	(2,789)	-	355	(832)
Corporate income tax	(3,328)	(252)	(6)	752	(43)	(6)	(3,234)	880
Net profit/ (loss) for the year	**20,642**	**(305)**	**(1,935)**	**(4,653)**	**(1,999)**	**(907)**	**19,106**	**(6,947)**

Note 31

Fair value of financial instruments

The Group and the Bank disclose the fair values of each category of financial assets and financial liabilities in such a manner so as to be able to compare the fair values with the carrying amounts. The breakdown of the Group's and Bank's financial assets and financial liabilities by categories is presented in Note 11. The Group and the Bank assume that the fair value of liquid financial assets and liabilities or financial assets and liabilities with a short maturity (less than three months) approximates to their carrying amount. This assumption also applies to demand deposits and savings accounts.

The carrying amounts and fair values of the Group's financial assets and financial liabilities are as follows:

	31/12/2011		31/12/2010	
Financial assets	Carrying amount LVL '000	Fair value LVL '000	Carrying amount LVL '000	Fair value LVL '000
Cash and deposits with central banks	143,663	143,663	82,120	82,120
Balances due from credit institutions	518,881	518,881	325,352	325,352
Financial assets at fair value through profit or loss	8,922	8,922	23,372	23,372
Available-for-sale financial assets	373,006	373,006	168,657	168,657
Loans and receivables	469,424	467,327	528,872	527,821
Held-to-maturity investments	166,778	162,254	155,112	155,605
Total financial assets	**1,680,674**	**1,674,053**	**1,283,485**	**1,282,927**
Financial liabilities				
Demand deposits from credit institutions	1,779	1,779	1,906	1,906
Financial liabilities at fair value through profit or loss	141	141	226	226
Financial liabilities at amortised cost	1,677,774	1,684,761	1,287,176	1,292,843
Total financial liabilities	**1,679,694**	**1,686,681**	**1,289,308**	**1,294,975**

The carrying amounts and fair values of the Bank's financial assets and financial liabilities are as follows:

	31.12.2011		31.12.2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	143,663	143,663	82,120	82,120
Balances due from credit institutions	518,472	518,472	325,326	325,326
Financial assets at fair value through profit or loss	8,922	8,922	23,372	23,372
Available-for-sale financial assets	373,006	373,006	168,657	168,657
Loans and receivables	470,603	468,507	528,561	527,510
Held-to-maturity investments	166,778	162,254	155,112	155,605
Total financial assets	**1,681,444**	**1,674,824**	**1,283,148**	**1,282,590**
Financial liabilities				
Demand deposits from credit institutions	1,779	1,779	1,906	1,906
Financial liabilities at fair value through profit or loss	141	141	226	226
Financial liabilities at amortised cost	1,687,762	1,688,050	1,295,623	1,301,290
Total financial liabilities	**1,689,682**	**1,689,970**	**1,297,755**	**1,303,422**

Hierarchy of input data for determining the fair value of financial assets and liabilities

The Group and the Bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

- Level 1: Quoted prices in active markets;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable.
- Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 3 inputs, i.e. other valuation techniques, are used for available-for-sale financial assets not quoted in the market and for which no quoted prices for similar assets in active markets are available. In determining the fair value for such financial assets, valuation models are based on the assumptions and estimates regarding the potential future financials of the investment property, and the industry and geographical area risks in which the respective investment property operates.

The Group's and Bank's financial assets defined at fair value and available for sale according to the hierarchy of input data for determining the fair value:

	31/12/2011				31/12/2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Financial assets at fair value through profit or loss	797	8,125	-	8,922	20,901	2,471	-	23,372
incl. fixed income securities	-	-	-	-	19,367	-	-	19,367
incl. shares and other non-fixed income securities	753	-	-	753	512	162	-	674
incl. derivatives	44	8,125	-	8,169	1,022	2,309	-	3,331
Available-for-sale financial assets	370,744	-	2,262	373,006	165,722	709	2,226	168,657
incl. fixed income securities	370,744	-		370,744	165,722	709	-	166,431
incl. shares and other non-fixed income securities	-	-	2,262	2,262	-	-	2,226	2,226
Total financial assets	**371,541**	**8,125**	**2,262**	**381,928**	**186,623**	**3,180**	**2,226**	**192,029**
Financial liabilities								
Financial liabilities at fair value through profit or loss	-	141	-	141	15	211	-	226
incl. derivatives	-	141	-	141	15	211	-	226
Total financial liabilities	**-**	**141**	**-**	**141**	**15**	**211**	**-**	**226**

During the reporting year, no transfers of financial instruments between the levels of the fair value hierarchy took place.

In 2011 and 2010, the fair value of only one investment fund was determined by applying the terms of Level 3 of the fair value hierarchy. The analysis of the audited financial statements of the above mentioned fund did not show any impairment of the Group's and Bank's initial investment during the reporting year. Considering the positive financials reported in the audited financial statements of the closed investment fund, the value of the Group's and Bank's investment has increased. However, the Group's and Bank's management, having prudently assessed risks related to this investment, believe that the fair value of the investment corresponds to its net carrying amount.

Note 32

Capital management and capital adequacy

The primary objective of the Group's and Bank's capital management is to ensure that the Group and the Bank comply with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the Group and the Bank maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

The goals of the Group's and Bank's capital management are consistent with those of the previous years. According to the capital adequacy rules of Basel II, the Group and the Bank apply the standardised approach to calculate the capital requirements for credit risk and market risks and the basic indicator approach to calculate the capital requirement for operational risk.

Capital adequacy refers to the sufficiency of the Group's and Bank's capital resources to cover credit risk, operational risk, and market risks.

As at 31 December 2011, the Bank's capital adequacy ratio in accordance with the FCMC requirements was 15.47% (12.45%), while the Group's capital adequacy ratio was 13.57% (11.41%). The additional minimum capital requirement has been set for the Bank starting from 30 September 2011, and the Bank is in compliance with this requirement. More detailed information about the additional capital requirement is disclosed in Note 5.

The Group's and Bank's equity consists of Tier 1 and Tier 2. Tier 1 comprises paid-in share capital, share premium, reserve capital, retained earnings, including current year's profit which is not to be paid in dividends, less negative fair value revaluation reserve of available-for-sale financial assets and intangible fixed assets. Tier 2 includes subordinated capital and positive fair value revaluation reserve of available-for-sale financial assets (45%).

The reserve capital is the value of the Group's and Bank's property, which, following the defined procedure, is accrued to cover unexpected losses or for other financing needs, based on the decision of the shareholders' meeting. There are no legal restrictions on utilisation of the reserves.

Apart from the calculation of the minimum capital adequacy ratio, the Bank documents and assesses internal capital adequacy (Pillar 2). The internal capital adequacy assessment (ICAAP) procedure performed by the Bank comprises both quantitative capital adequacy assessment and qualitative aspects, including long-term business planning and formulation of the development strategy, identification of material risks, determination of acceptable risk exposure, development and improvement of risk management systems, as well as identification and control of risks inherent in the Bank's business (risk profile) on an ongoing basis.
The methods employed for the ICAAP purposes and the calculation procedure are detailed in the Statement on Information Disclosure published on the Bank's homepage www.ablv.com.

	Group	Group	Bank	Bank
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Tier 1	LVL'000	LVL'000	LVL'000	LVL'000
paid-in share capital	16,500	16,500	16,500	16,500
share premium	5,255	5,255	5,255	5,255
reserve capital	1,500	1,500	1,500	1,500
retained earnings	45,180	52,699	50,293	57,240
intangible fixed assets	(3,493)	(3,701)	(3,368)	(3,548)
non-controlling interests	503	682	-	-
current year's profit/ (loss)	18,714	(7,519)	19,106	(6,947)
negative fair value revaluation reserve of available-for-sale financial assets	(2,480)	-	(2,480)	-
decrease in Tier 1 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS (50%)	(188)	(144)	(188)	(144)
Total Tier 1	**81,491**	**65,272**	**86,618**	**69,856**
Tier 2				
fair value revaluation reserve of available-for-sale financial assets (45%)	-	823	-	823
decrease in Tier 2 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS (50%)	(188)	(144)	(188)	(144)
subordinated capital (based on the remaining maturity, with the adjustment rate of 40%-100%)	40,855	33,122	43,404	34,999
Total Tier 2	**40,667**	**33,801**	**43,216**	**35,678**
Total equity	**122,158**	**99,073**	**129,834**	**105,534**
Capital charge for credit risk on banking book	59,190	57,419	59,010	58,304
Total capital charge for market risks on trading book	5,183	4,163	934	1,809
incl. capital charge for foreign currency risk	4,699	3,151	450	797
incl. capital charge for position risk	258	904	258	904
incl. capital charge for counterparty risk	226	108	226	108
Capital charge for operational risk	7,645	7,889	7,196	7,678
Total capital charge	**72,018**	**69,471**	**67,140**	**67,791**
Capital adequacy ratio (%)	**13.57**	**11.41**	**15.47**	**12.45**

The Group's and Bank's capital charge for credit risk exposures by the following exposure categories:

	Group	Group	Bank	Bank
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Exposure category	LVL '000	LVL '000	LVL '000	LVL '000
Central governments or central banks	2,067	1,123	2,067	1,086
Regional or local governments	120	118	120	118
International development banks	139	-	139	-
Institutions	13,256	9,927	13,256	9,893
Commercial companies	19,252	12,758	19,252	17,451
Low risk portfolio	12,617	2,345	12,617	2,345
Secured by real estate	480	861	480	861
Past due exposures	3,178	3,725	3,178	3,725
High risk exposures	264	260	264	260
Other items	7,637	26,302	7,637	22,565
Total capital charge for credit risk	**59,010**	**57,419**	**59,010**	**58,304**

Note 33

Risk management

Risks are inherent in the Group's and Bank's business and risk management is one of the Group's and Bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the Group and the Bank. Managing risks permits keeping the Group's and Bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the Group and the Bank are exposed to various risks, the most significant of them being credit risk, liquidity risk and market risk (including interest rate risk, currency risk), as well as operational risk.

Risk management stands for identification, assessment and control of potential risks.

The risk management process includes the following:
- identification, assessment and measurement of the significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the Group and the Bank;
- regular revision and enhancement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the Council. The introduction and efficiency of such policies are controlled by the Board and the Chief Risk Officer, while the practical implementation is provided by the respective business structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

To create a highly disciplined, conservative and constructive risk management, and control environment, training seminars for the staff are organised on a regular basis.

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the Group's and the Bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the Group's and Bank's operational and financial market development. The improvement process is controlled by the Internal Audit Department on a regular basis.

Note 34

Credit risk

Credit risk is exposure to potential losses in case the Group's or Bank's counterparty or debtor will be unable to pay the contractual obligations to the Group or the Bank.

Credit risk management framework

Credit risk is managed according to the Credit Policy. The Group and the Bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral.

In analysing any potential cooperation with financial institutions, the Bank assesses each potential counterparty, analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis. Meanwhile, to assess solvency of private individuals, the Bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories. The Group and the Bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are also granted risk/ monitoring factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.
For effective credit risk management, the Bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The Bank analyses the quality of its loan portfolio on a regular basis. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc. Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the Bank considers such reduced value. As collateral, the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, factoring receivables, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

The Group and the Bank manage the credit quality of their financial assets by applying internal ratings. Loans to customers are assigned internal ratings where higher-rating assets are standard assets with a sound credit standing, while lower-rating assets are those assets which have doubtful credit quality and require close monitoring by the Group and the Bank. Meanwhile, balances due from credit institutions and securities are granted credit ratings assigned by rating agencies. Higher-rating assets represent investment-grade assets, i.e., assets having a rating of no lower than BBB-, while lower-rating assets represent assets rated below investment grade.

Financial assets of the Group by risk rating as at 31 December 2011:

	31/12/2011					31/12/2010				
	Higher rating	Lower rating	**Gross financial assets**	Allowance for credit losses	**Net financial assets**	Higher rating	Lower rating	**Gross financial assets**	Allowance for credit losses	**Net financial assets**
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	143,663	-	**143,663**	-	**143,663**	82,120	-	**82,120**	-	**82,120**
Balances due from credit institutions	492,466	26,415	**518,881**	-	**518,881**	305,988	19,364	**325,352**	-	**325,352**
Financial assets at fair value through profit or loss	8,169	753	**8,922**	-	**8,922**	22,693	679	**23,372**	-	**23,372**
Available-for-sale financial assets	338,726	34,400	**373,126**	(120)	**373,006**	130,298	38,423	**168,721**	(64)	**168,657**
Held-to-maturity investments	137,312	30,438	**167,750**	(972)	**166,778**	139,252	15,938	**155,190**	(78)	**155,112**
Loans and receivables	418,005	110,083	**528,088**	(58,664)	**469,424**	458,632	136,876	**595,508**	(66,636)	**528,872**
Incl. debt securities	-	-	-	-	-	606	11,657	12,263	(1,202)	11,061
Loans to customers	418,005	110,083	528,088	(58,664)	469,424	458,026	125,219	583,245	(65,434)	517,811
Mortgage loans	276,125	91,162	367,287	(42,957)	324,330	304,892	103,163	408,055	(46,659)	361,396
Business loans	122,816	17,249	140,065	(14,352)	125,713	134,186	21,298	155,484	(17,971)	137,513
Consumer loans	838	63	901	(63)	838	1,067	258	1,325	(236)	1,089
Other loans	18,226	1,609	19,835	(1,292)	18,543	17,881	500	18,381	(568)	17,813
Total financial assets	**1,538,341**	**202,089**	**1,740,430**	**(59,756)**	**1,680,674**	**1,138,983**	**211,280**	**1,350,263**	**(66,778)**	**1,283,485**

Financial assets of the Bank by risk rating:

	31/12/2011					31/12/2010				
	Higher rating	Lower rating	**Gross financial assets**	Allowance for credit losses	**Net financial assets**	Higher rating	Lower rating	**Gross financial assets**	Allowance for credit losses	**Net financial assets**
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	143,663	-	**143,663**	-	**143,663**	82,120	-	**82,120**	-	**82,120**
Balances due from credit institutions	492,057	26,415	**518,472**	-	**518,472**	305,988	19,338	**325,326**	-	**325,326**
Financial assets at fair value through profit or loss	8,169	753	**8,922**	-	**8,922**	22,693	679	**23,372**	-	**23,372**
Available-for-sale financial assets	338,726	34,400	**373,126**	(120)	**373,006**	130,298	38,423	**168,721**	(64)	**168,657**
Held-to-maturity investments	137,312	30,438	**167,750**	(972)	**166,778**	139,252	15,938	**155,190**	(78)	**155,112**
Loans and receivables	419,358	110,083	**529,441**	(58,838)	**470,603**	458,321	136,876	**595,197**	(66,636)	**528,561**
Incl. debt securities	-	-	-	-	-	606	11,657	12,263	(1,202)	11,061
Loans to customers	419,358	110,083	529,441	(58,838)	470,603	457,715	125,219	582,934	(65,434)	517,500
Mortgage loans	276,125	91,162	367,287	(42,957)	324,330	304,892	103,163	408,055	(46,659)	361,396
Business loans	124,169	17,249	141,418	(14,526)	126,892	133,913	21,298	155,211	(17,971)	137,240
Consumer loans	838	63	901	(63)	838	1,067	258	1,325	(236)	1,089
Other loans	18,226	1,609	19,835	(1,292)	18,543	17,843	500	18,343	(568)	17,775
Total financial assets	**1,539,285**	**202,089**	**1,741,374**	**(59,930)**	**1,681,444**	**1,138,672**	**211,254**	**1,349,926**	**(66,778)**	**1,283,148**

The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis. Regular stress tests of the Bank's loan portfolio are performed to assess the credit risk exposure and identify potential critical situations. The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date.
As at 31 December 2011, the amount of those properties which had been taken over during the loan restructuring process carried out by the Group/ Bank with the purpose of selling those properties to recover the debts was LVL 49,944 (41,940) thousand.

Credit risk concentration

To mitigate concentration risk, the Group and the Bank apply diversification and a system of limits. The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits. The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the Group and the Bank treat as high the credit exposure exceeding 10% of equity.

For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

The analysis of maximum geographical concentration for the Group as at 31 December 2011:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisations	Other countries	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	77,501	64,073	61	2,028	-	-	143,663
Balances due from credit institutions	534	220,730	70,509	173,296	-	53,812	518,881
Financial assets at fair value through profit or loss	413	563	270	7,215	-	461	8,922
Available-for-sale financial assets	15	84,081	64,282	93,032	71,555	60,041	373,006
Loans and receivables	410,638	3,388	24,020	3,310	-	28,068	469,424
Held-to-maturity investments	6,046	15,598	718	23,880	26,188	94,348	166,778
Total financial assets	**495,147**	**388,433**	**159,860**	**302,761**	**97,743**	**236,730**	**1,680,674**
Non-financial assets	97,625	-	-	-	-	-	97,625
Total assets	**592,772**	**388,433**	**159,860**	**302,761**	**97,743**	**236,730**	**1,778,299**
Contingent liabilities	9,608	240	155	6	-	2,046	12,055
Financial commitments	8,688	181	215	575	-	11,281	20,940
Total geographical concentration of assets and memorandum items	**611,068**	**388,854**	**160,230**	**303,342**	**97,743**	**250,057**	**1,811,294**

The analysis of maximum geographical concentration for the Group as at 31 December 2010:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	79,182	2,284	86	568	-	82,120
Balances due from credit institutions	283	104,720	45,959	148,054	26,336	325,352
Financial assets at fair value through profit or loss	1,210	5,755	8,133	5,229	3,045	23,372
Available-for-sale financial assets	15	1,194	1,985	108,668	56,795	168,657
Loans and receivables	455,406	765	8,651	19,102	44,948	528,872
Held-to-maturity investments	-	7,731	-	108,254	39,127	155,112
Total financial assets	**536,096**	**122,449**	**64,814**	**389,875**	**170,251**	**1,283,485**
Non-financial assets	83,448	3	-	590	1	84,042
Total assets	**619,544**	**122,452**	**64,814**	**390,465**	**170,252**	**1,367,527**
Contingent liabilities	19,402	188	346	54	1,135	21,125
Financial commitments	5,400	-	410	900	6,224	12,934
Total geographical concentration of assets and memorandum items	**644,346**	**122,640**	**65,570**	**391,419**	**177,611**	**1,401,586**

The analysis of maximum geographical concentration for the Bank as at 31 December 2011:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	International organisations	Other countries	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	77,501	64,073	61	2,028	-	-	143,663
Balances due from credit institutions	500	220,377	70,509	173,296	-	53,790	518,472
Financial assets at fair value through profit or loss	413	563	270	7,215	-	461	8,922
Available-for-sale financial assets	15	84,081	64,282	93,032	71,555	60,041	373,006
Loans and receivables	411,817	3,388	24,020	3,310	-	28,068	470,603
Held-to-maturity investments	6,046	15,598	718	23,880	26,188	94,348	166,778
Total financial assets	**496,292**	**388,080**	**159,860**	**302,761**	**97,743**	**236,708**	**1,681,444**
Non-financial assets	106,311	1,406	-	-	-	-	107,717
Total assets	**602,603**	**389,486**	**159,860**	**302,761**	**97,743**	**236,708**	**1,789,161**
Contingent liabilities	9,608	240	155	6	-	2,046	12,055
Financial commitments	8,688	181	215	575	-	11,281	20,940
Total geographical concentration of assets and memorandum items	**620,899**	**389,907**	**160,230**	**303,342**	**97,743**	**250,035**	**1,822,156**

The analysis of maximum geographical concentration for the Bank as at 31 December 2010:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	79,182	2,284	86	568	-	82,120
Balances due from credit institutions	283	104,720	45,959	148,028	26,336	325,326
Financial assets at fair value through profit or loss	1,210	5,755	8,133	5,229	3,045	23,372
Available-for-sale financial assets	15	1,194	1,985	108,668	56,795	168,657
Loans and receivables	455,133	765	8,651	19,064	44,948	528,561
Held-to-maturity investments	-	7,731	-	108,254	39,127	155,112
Total financial assets	**535,823**	**122,449**	**64,814**	**389,811**	**170,251**	**1,283,148**
Non-financial assets	94,823	3	-	590	1	95,417
Total assets	**630,646**	**122,452**	**64,814**	**390,401**	**170,252**	**1,378,565**
Contingent liabilities	19,402	188	346	54	1,135	21,125
Financial commitments	5,400	-	410	900	6,224	12,934
Total geographical concentration of assets and memorandum items	**655,448**	**122,640**	**65,570**	**391,355**	**177,611**	**1,412,624**

The credit risk inherent in the Group's and Bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers. The Group's and Bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities.

The Group's and Bank's securities portfolios by the credit rating classes:

	Group/ Bank 31/12/2011				Group/ Bank 31/12/2010				
	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity	Loans and receivables
Credit ratings	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
AAA to AA-	-	307,227	2,207	63,926	19,362	106,985	2,840	111,604	-
A+ to A-	-	-	-	-	-	-	-	164	-
BBB+ to BBB-	-	-	29,292	73,387	-	-	20,590	27,484	606
BB+ to BB-	-	-	17,327	18,169	-	-	18,447	6,795	3,652
B+ to B-	-	-	13,236	10,985	5	-	16,325	9,003	4,451
Below B-	-	-	587	135	-	-	784	62	2,133
No rating	-	-	868	176	-	-	460	-	219
Shares and investments in funds	753	-	2,262	-	674	-	2,226	-	-
Securities portfolio, net	**753**	**307,227**	**65,779**	**166,778**	**20,041**	**106,985**	**61,672**	**155,112**	**11,061**

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

The industry analysis of loans granted by the Group and the Bank and the maximum and minimum exposure are provided below:

	Group		Group		Bank		Bank	
	31/12/2011		31/12/2010		31/12/2011		31/12/2010	
	Maximum exposure	Minimum exposure	Maximum exposure	Minimum exposure	Maximum exposure	Minimum exposure	Maximum exposure	Minimum exposure
Industry profile*	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Private individuals (mortgage loans)	331,866	89,217	366,888	126,458	331,866	89,217	366,888	126,458
Real estate management	33,264	4,222	25,968	2,784	33,264	4,222	25,968	2,784
Trade	22,261	5,064	26,935	7,074	22,635	5,064	26,935	7,074
Private individuals (other loans)	7,103	2,602	9,388	2,743	7,103	2,602	9,388	2,743
Construction	2,875	49	6,551	76	2,875	49	6,551	76
Financial intermediaries	14,711	14,711	21,163	21,162	14,711	14,711	28,987	21,162
Transport and logistics	4,622	395	6,594	621	4,622	395	6,594	621
Other service industries	29,218	8,449	24,293	10,965	27,271	8,449	15,256	10,965
Manufacturing	4,687	-	6,139	109	4,687	-	6,139	109
Agriculture and forestry	898	-	36	-	898	-	36	-
Other industries	17,919	19,245	23,856	23,232	20,671	17,842	24,758	23,194
Total loans, net	**469,424**	**143,954**	**517,811**	**195,224**	**470,603**	**142,551**	**517,500**	**195,186**

* The industry profile of loans with the original maturity of up to one year is determined by the Bank based on the industry where the borrower operates, while for loans with the original maturity exceeding one year – based on the purpose of the loan granted (by the industry for the development of which the loan has been issued).

Ten major exposures as at 31 December 2011 amounted to 12.6% (14.2%) of the total Group's and Bank's net loan portfolio.

Apart from the effective management of credit risk concentration, the Bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits.

Note 35

Financial risks

a) Liquidity risk

Liquidity is the Group's and Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Group's and Bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Risk Officer (CRO) is responsible for liquidity risk management. The Risk Management Division is responsible for liquidity risk evaluation and control. The Chief Financial Officer (CFO) is responsible for liquidity management and the Financial Market Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted.

The key principles and procedures to timely identify, analyse and control liquidity risk are laid down in the liquidity management policy.

For ordinary liquidity risk management purposes, the Bank applies the following indicators having certain limits and restrictions set:

- deposit coverage ratio;
- net liquidity positions by all currencies in total and by each separate currency;
- current liquidity ratio;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

To identify the potential deterioration in the liquidity position on a timely basis, an early warning indicators system has been designed:

- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of “Less than 30 days”;
- simultaneous decrease of the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease of the proportion of liquid assets in the total assets of the Bank;
- negative information reported in the mass media about the Bank or its related parties that may harm the Bank’s reputation;
- the increasingly reported instances of limits reduced or annulled by counterparties.

As at 31 December 2011, the Bank’s liquidity ratio was 73.26% (68.10%). The FCMC stipulates that the Bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank’s total current liabilities. In the reporting year, the liquidity ratio required by the FCMC ranged from 67% (56.8 %) to 76.5% (66.8%).

Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the Bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, the Financial Market Division and the Risk Management Division. The Group and the Bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of Bank’s contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or a Bank specific event. These plans ensure that all roles and responsibilities are clearly defined and the necessary management information is in place.

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed which, if observed, also require certain actions to enhance liquidity.

The Bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the Bank’s liquidity management documents need to be revised.

The distribution of the Group’s assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2011:

	Overdue	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1-5 years	More than 5 years	Undated	More than 1 year, total	Pledged assets	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	-	143,663	-	-	143,663	-	-	-	-	-	143,663
Balances due from credit institutions	-	398,780	102,259	11	501,050	-	-	-	-	17,831	518,881
Financial assets at fair value through profit or loss	347	-	4,154	4,421	8,922	-	-	-		-	8,922
Available-for-sale financial assets	-	149	353,700	16,895	370,744	-	-	2,262	2,262	-	373,006
Loans and receivables	26,595	25,009	5,613	77,823	135,040	116,644	203,761	7	320,412	13,972	469,424
Held-to-maturity investments	-	99	213	1,888	2,200	87,756	69,661	-	157,417	7,161	166,778
Other assets	-	7,315	121	3,528	10,964	-	-	86,661	86,661	-	97,625
Total assets	**26,942**	**575,015**	**466,060**	**104,566**	**1,172,583**	**204,400**	**273,422**	**88,930**	**566,752**	**38,964**	**1,778,299**
Liabilities											
Demand deposits from credit institutions	-	1,779	-	-	1,779	-	-	-	-	-	1,779
Financial liabilities at fair value through profit or loss	-	-	62	79	141	-	-	-	-	-	141
Financial liabilities at amortised cost	-	1,161,874	165,157	265,465	1,592,496	13,526	71,752	-	85,278	-	1,677,774
Other liabilities	-	13,131	29	239	13,399	3	-	-	3	-	13,402
Total liabilities	**-**	**1,176,784**	**165,248**	**265,783**	**1,607,815**	**13,529**	**71,752**	**-**	**85,281**	**-**	**1,693,096**
Shareholders' equity	-	-	-	-	-	-	-	85,203	85,203	-	85,203
Total liabilities and shareholders' equity	-	**1,176,784**	**165,248**	**265,783**	**1,607,815**	**13,529**	**71,752**	**85,203**	**170,484**	**-**	**1,778,299**
Total memorandum items	**-**	**19,228**	**421**	**3,981**	**23,630**	**6,804**	**2,169**	**392**	**9,365**	**-**	**32,995**
Net liquidity position	x	(620,997)	300,391	(165,198)	(485,804)	184,067	199,501	3,727	387,295	x	x
Total liquidity position	x	(620,997)	(320,606)	(485,804)	x	(301,737)	(102,236)	(98,509)	x	x	x

The distribution of the Group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2010:

	Overdue	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1-5 years	More than 5 years	Undated	More than 1 year, total	Pledged	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	-	66,119	16,001	-	82,120	-	-	-	-	-	82,120
Balances due from credit institutions	-	267,002	37,912	20,290	325,204	148	-	-	148	-	325,352
Financial assets at fair value through profit or loss	-	-	4,990	18,382	23,372	-	-	-		-	23,372
Available-for-sale financial assets	-	206	164,192	2,019	166,417	2,240	-	-	2,240	-	168,657
Loans and receivables	32,131	56,415	5,656	64,702	158,904	148,280	221,688	-	369,968	-	528,872
Held-to-maturity investments	-	57	103,585	1,920	105,562	11,662	37,888	-	49,550	-	155,112
Other assets	-	7,935	148	6,071	14,154	-	-	69,888	69,888	-	84,042
Total assets	**32,131**	**397,734**	**332,484**	**113,384**	**875,733**	**162,330**	**259,576**	**69,888**	**491,794**	**-**	**1,367,527**
Liabilities											
Demand deposits from credit institutions	-	1,906	-	-	1,906	-	-	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	-	101	125	226	-	-	-	-	-	226
Financial liabilities at amortised cost	-	774,552	146,023	300,491	1,221,066	24,464	41,646	-	66,110	-	1,287,176
Other liabilities	-	7,273	-	-	7,273	-	-	-	-	-	7,273
Total liabilities	**-**	**783,731**	**146,124**	**300,616**	**1,230,471**	**24,464**	**41,646**	**-**	**66,110**	**-**	**1,296,581**
Shareholders' equity	-	-	-	-	-	-	-	70,946	70,946	-	70,946
Total liabilities and shareholders' equity	-	**783,731**	**146,124**	**300,616**	**1,230,471**	**24,464**	**41,646**	**70,946**	**137,056**	**-**	**1,367,527**
Total memorandum items	**-**	**27,534**	**79**	**3,541**	**31,154**	**2,697**	**208**	**-**	**2,905**	**-**	**34,059**
Net liquidity position	x	(413,531)	186,281	(190,773)	(418,023)	135,169	217,722	(1,058)	351,833	x	x
Total liquidity position	x	(413,531)	(227,250)	(418,023)	x	(282,854)	(65,132)	(66,190)	x	x	x

The distribution of the Bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2011:

	Overdue	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1-5 years	More than 5 years	Undated	More than 1 year, total	Pledged	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	-	143,663	-	-	143,663	-	-	-	-	-	143,663
Balances due from credit institutions	-	398,371	102,259	11	500,641	-	-	-	-	17,831	518,472
Financial assets at fair value through profit or loss	347	-	4,154	4,421	8,922	-	-	-	-	-	8,922
Available-for-sale financial assets	-	149	353,700	16,895	370,744	-	-	2,262	2,262	-	373,006
Loans and receivables	26,595	25,009	5,613	80,565	137,782	115,081	203,761	7	318,849	13,972	470,603
Held-to-maturity investments	-	99	213	1,888	2,200	87,756	69,661	-	157,417	7,161	166,778
Other assets	-	7,302	121	3,528	10,951	-	-	96,766	96,766	-	107,717
Total assets	**26,942**	**574,593**	**466,060**	**107,308**	**1,174,903**	**202,837**	**273,422**	**99,035**	**575,294**	**38,964**	**1,789,161**
Liabilities											
Demand deposits from credit institutions	-	1,779	-	-	1,779	-	-	-	-	-	1,779
Financial liabilities at fair value through profit or loss	-	-	62	79	141	-	-	-	-	-	141
Financial liabilities at amortised cost	-	1,171,862	165,157	265,465	1,602,484	13,526	71,752	-	85,278	-	1,687,762
Other liabilities	-	9,034	29	239	9,302	3	-	-	3	-	9,305
Total liabilities	**-**	**1,182,675**	**165,248**	**265,783**	**1,613,706**	**13,529**	**71,752**	**-**	**85,281**	**-**	**1,698,987**
Shareholders' equity	-	-	-	-	-	-	-	90,174	90,174	-	90,174
Total liabilities and shareholders' equity	-	**1,182,675**	**165,248**	**265,783**	**1,613,706**	**13,529**	**71,752**	**90,174**	**175,455**	**-**	**1,789,161**
Total memorandum items	**-**	**19,228**	**421**	**3,981**	**23,630**	**6,804**	**2,169**	**392**	**9,365**	**-**	**32,995**
Net liquidity position	x	(627,310)	300,391	(162,456)	(489,375)	182,504	199,501	8,861	390,866	x	x
Total liquidity position	x	(627,310)	(326,919)	(489,375)	x	(306,871)	(107,370)	(98,509)	x	x	x

The distribution of the Bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2010:

	Overdue	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1-5 years	More than 5 years	Undated	More than 1 year, total	Pledged	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	-	66,119	16,001	-	82,120	-	-	-	-	-	82,120
Balances due from credit institutions	-	266,976	37,912	20,290	325,178	148	-	-	148	-	325,326
Financial assets at fair value through profit or loss	-	-	4,990	18,382	23,372	-	-	-		-	23,372
Available-for-sale financial assets	-	206	164,192	2,019	166,417	2,240	-	-	2,240	-	168,657
Loans and receivables	32,131	56,415	5,656	64,391	158,593	148,280	221,688	-	369,968	-	528,561
Held-to-maturity investments	-	57	103,585	1,920	105,562	11,662	37,888	-	49,550	-	155,112
Other assets	-	4,754	148	5,619	10,521	-	-	84,896	84,896	-	95,417
Total assets	**32,131**	**394,527**	**332,484**	**112,621**	**871,763**	**162,330**	**259,576**	**84,896**	**506,802**	**-**	**1,378,565**
Liabilities											
Demand deposits from credit institutions	-	1,906	-	-	1,906	-	-	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	-	101	125	226	-	-	-	-	-	226
Financial liabilities at amortised cost	-	785,951	146,023	300,491	1,232,465	21,512	41,646	-	63,158	-	1,295,623
Other liabilities	-	5,433	-	-	5,433	-	-	-	-	-	5,433
Total liabilities	**-**	**793,290**	**146,124**	**300,616**	**1,240,030**	**21,512**	**41,646**	**-**	**63,158**	**-**	**1,303,188**
Shareholders' equity	-	-	-	-	-	-	-	75,377	75,377	-	75,377
Total liabilities and shareholders' equity	-	**793,290**	**146,124**	**300,616**	**1,240,030**	**21,512**	**41,646**	**75,377**	**138,535**	**-**	**1,378,565**
Total memorandum items	**-**	**27,534**	**79**	**3,541**	**31,154**	**2,697**	**208**	**-**	**2,905**	**-**	**34,059**
Net liquidity position	x	(426,297)	186,281	(191,536)	(431,552)	138,121	217,722	9,519	365,362	x	x
Total liquidity position	x	(426,297)	(240,016)	(431,552)	x	(293,431)	(75,709)	(66,190)	x	x	x

The Group and the Bank have prepared these consolidated financial statements on a going concern basis notwithstanding the fact that they have a significant negative liquidity gap in the "on demand" maturity range of assets and liabilities. The Group's and Bank's Management closely monitor and manage the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative liquidity gap in "on demand" assets and liabilities as at 31 December 2011 and 2010 is substantially due to significant "on demand" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The maturity gap analysis does not reflect the historical stability of current accounts. These balances are included in amounts due "on demand". The Group and the Bank have reviewed the historical stability of their current accounts and concluded that half of the balances have the ultimate maturity of more than one year.

The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group's and Bank's operations.
The Group's and Bank's ability to avoid adverse changes in their liquidity position depends on management's effectiveness in the continuing execution of the actions taken.

The assets, which have been impaired, are stated net of allowances. Meanwhile, as overdue are reported assets that are more than 14 days overdue; if the delay is less than 14 days, the respective assets are shown as "on demand".

In estimating the amount of expected financial liabilities, the Group and the Bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2011 and 2010 which is expected in the future but has not been assessed at the reporting date.

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future but has not been assessed as at 31 December 2011 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1 - 5 years	More than 5 years	More than 1 year, total	Total
Financial liabilities	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Demand deposits from credit institutions	1,779	-	-	1,779	-	-	-	1,779
Financial liabilities at fair value through profit or loss	-	62	79	141	-	-	-	141
Financial liabilities at amortised cost	1,161,941	165,782	271,447	1,599,170	33,180	85,547	118,727	1,717,897
Total financial liabilities	**1,163,720**	**165,844**	**271,526**	**1,601,090**	**33,180**	**85,547**	**118,727**	**1,719,817**
Memorandum items	19,228	421	3,981	23,630	6,804	2,169	9,365	32,995
Total financial liabilities and memorandum items	**1,182,948**	**166,265**	**275,507**	**1,624,720**	**39,984**	**87,716**	**128,092**	**1,752,812**

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future but has not been assessed as at 31 December 2010 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1 - 5 years	More than 5 years	More than 1 year, total	Total
Financial liabilities	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Demand deposits from credit institutions	1,906	-	-	1,906	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	101	125	226	-	-	-	226
Financial liabilities at amortised cost	774,552	146,992	308,514	1,230,058	33,924	43,766	77,690	1,307,748
Total financial liabilities	**776,458**	**147,093**	**308,639**	**1,232,190**	**33,924**	**43,766**	**77,690**	**1,309,880**
Memorandum items	6,684	604	12,514	19,802	9,790	4,467	14,257	34,059
Total financial liabilities and memorandum items	**783,142**	**147,697**	**321,153**	**1,251,992**	**43,714**	**48,233**	**91,947**	**1,343,939**

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2011 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1 - 5 years	More than 5 years	More than 1 year, total	Total
Financial liabilities	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Demand deposits from credit institutions	1,779	-	-	1,779	-	-	-	1,779
Financial liabilities at fair value through profit or loss	-	62	79	141	-	-	-	141
Financial liabilities at amortised cost	1,171,929	165,782	271,447	1,609,158	33,180	85,547	118,727	1,727,885
Total financial liabilities	**1,173,708**	**165,844**	**271,526**	**1,611,078**	**33,180**	**85,547**	**118,727**	**1,729,805**
Memorandum items	19,228	421	3,981	23,630	6,804	2,169	9,365	32,995
Total financial liabilities and memorandum items	**1,192,936**	**166,265**	**275,507**	**1,634,708**	**39,984**	**87,716**	**128,092**	**1,762,800**

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2010 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1 - 5 years	More than 5 years	More than 1 year, total	Total
Financial liabilities	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Demand deposits from credit institutions	1,906	-	-	1,906	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	101	125	226	-	-	-	226
Financial liabilities at amortised cost	785,951	146,984	308,431	1,241,366	33,823	43,766	77,589	1,318,955
Total financial liabilities	**787,857**	**147,085**	**308,556**	**1,243,498**	**33,823**	**43,766**	**77,589**	**1,321,087**
Memorandum items	6,684	604	12,514	19,802	9,790	4,467	14,257	34,059
Total financial liabilities and memorandum items	**794,541**	**147,689**	**321,070**	**1,263,300**	**43,613**	**48,233**	**91,846**	**1,355,146**

Market risks

Market risk is exposure to potential losses due to the revaluation of assets and liabilities and memorandum items caused by changes in the market prices of financial instruments resulting from the fluctuations of currency exchange rates, interest rates and other factors. Market risk identification, assessment and management are prescribed by several regulations, i.e., the Interest Rate Risk Management Policy, the Derivative Financial Instrument Policy, and the Bank's Securities Portfolio Policy.

The “loss” indicator is used by the Bank as one of the tools to manage market risk inherent in the securities portfolio in order to identify any reductions in the securities prices below the mandatory level in a timely fashion. Based on the above, the heads of responsible structural units may decide whether the affected securities should be sold or kept in the portfolio.

The exposure of the trading portfolio to market risk and the capital charge for market risk are determined according to the standardised approach described in the FCMC Regulations for Calculation of Minimum Capital Requirement, calculating the general position risk of debt securities under the maturity method.

b) Currency risk

The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The Bank has major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Bank's open position in EUR is minimal. As a result, any fluctuations of the EUR exchange rate that may be caused by the financial difficulties faced by Greece or other EMU countries will not affect the Bank's financial performance. The Bank's open currency position in USD is also rather small as it is hedged by using currency forwards/ futures. As at 31 December 2011, the Bank's open currency position in USD was 1.5% (0.1%) of Bank's equity and, therefore, the effect of changes in the USD exchange rate is insignificant, and the Bank does not conduct more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy. As at 31 December 2011, all the above limits had been met.
The Bank's Limits Policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

The Group's currency position as at 31 December 2011:

	LVL	USD	EUR	RUB	Other currencies	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	77,501	2,015	64,073	-	74	143,663
Balances due from credit institutions	500	447,838	26,009	26,998	17,536	518,881
Financial assets at fair value through profit or loss	8,206	437	277	2		8,922
Available-for-sale financial assets	-	359,209	179	6,519	7,099	373,006
Loans and receivables	996	56,832	406,487	828	4,281	469,424
Held-to-maturity investments	-	147,540	7,512	9,057	2,669	166,778
Other assets	89,447	4,221	3,249	348	360	97,625
Total assets	**176,650**	**1,018,092**	**507,786**	**43,752**	**32,019**	**1,778,299**
Liabilities						
Demand deposits from credit institutions	-	1,459	260	-	21	1,779
Financial liabilities at fair value through profit or loss	141	-	-	-	-	141
Financial liabilities at amortised cost	21,230	1,106,386	475,738	43,530	30,890	1,677,774
Other liabilities	7,546	2,437	2,778	368	273	13,402
Total liabilities	**28,917**	**1,110,282**	**478,776**	**43,937**	**31,184**	**1,693,096**
Shareholders' equity	85,165	-	-	-	-	85,165
Total liabilities and shareholders' equity	**114,082**	**1,110,282**	**478,776**	**43,937**	**31,184**	**1,778,261**
Net long/ (short) balance sheet position	**62,568**	**(92,190)**	**29,010**	**(185)**	**835**	**x**
Derivatives, notional amount	(794)	94,167	(86,748)	555	114	x
Net open (short)/ long currency position	**61,774**	**1,977**	**(57,738)**	**370**	**949**	**x**

The Group's currency position as at 31 December 2010:

	LVL	USD	EUR	RUB	Other currencies	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	77,757	544	3,710	-	109	82,120
Balances due from credit institutions	28	220,502	73,012	12,039	19,771	325,352
Financial assets at fair value through profit or loss	3,371	17,067	390	3	2,541	23,372
Available-for-sale financial assets	0	163,093	169	4,899	496	168,657
Loans and receivables	4,688	73,796	445,893	1,456	3,039	528,872
Held-to-maturity investments	0	147,856	3,514	2,853	889	155,112
Other assets	77,383	348	5,410	176	725	84,042
Total assets	**163,227**	**623,206**	**532,098**	**21,426**	**27,570**	**1,367,527**
Liabilities						
Demand deposits from credit institutions	-	1,132	772	-	2	1,906
Financial liabilities at fair value through profit or loss	226	-	-	-	-	226
Financial liabilities at amortised cost	37,021	777,871	422,937	20,888	28,459	1,287,176
Other liabilities	3,755	1,627	1,628	258	5	7,273
Total liabilities	**41,002**	**780,630**	**425,337**	**21,146**	**28,466**	**1,296,581**
Shareholders' equity	70,946	-	-	-	-	70,946
Total liabilities and shareholders' equity	**111,948**	**780,630**	**425,337**	**21,146**	**28,466**	**1,367,527**
Net long/ (short) balance sheet position	**51,279**	**(157,424)**	**106,761**	**280**	**(896)**	**x**
Derivatives, notional amount	(11,748)	157,675	(145,637)	1,172	1,379	x
Net open (short)/ long currency position	**39,531**	**251**	**(38,876)**	**1,452**	**483**	**x**

The Bank’s currency position as at 31 December 2011:

	LVL	USD	EUR	RUB	Other currencies	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	77,501	2,015	64,073	-	74	143,663
Balances due from credit institutions	500	447,835	25,618	26,987	17,532	518,472
Financial assets at fair value through profit or loss	8,206	437	277	2	-	8,922
Available-for-sale financial assets	-	359,209	179	6,519	7,099	373,006
Loans and receivables	1,057	56,832	407,605	828	4,281	470,603
Held-to-maturity investments	-	147,540	7,512	9,057	2,669	166,778
Other assets	36,035	4,172	66,814	347	349	107,717
Total assets	**123,299**	**1,018,040**	**572,078**	**43,740**	**32,004**	**1,789,161**
Liabilities						
Demand deposits from credit institutions	-	1,459	260	39	21	1,779
Financial liabilities at fair value through profit or loss	141	-	-	-	-	141
Financial liabilities at amortised cost	24,742	1,106,415	482,183	43,532	30,890	1,687,762
Other liabilities	5,575	2,437	654	368	271	9,305
Total liabilities	**30,458**	**1,110,311**	**483,097**	**43,939**	**31,182**	**1,698,987**
Shareholders' equity	90,174	-	-	-	-	90,174
Total liabilities and shareholders' equity	**120,632**	**1,110,311**	**483,097**	**43,939**	**31,182**	**1,789,161**
Net long/ (short) balance sheet position	**2,667**	**(92,271)**	**88,981**	**(199)**	**822**	**x**
Derivatives, notional amount	(794)	94,167	(86,748)	555	114	x
Net open (short)/ long currency position	**1,873**	**1,896**	**2,233**	**356**	**936**	**x**
Percentage of shareholders' equity (%)	**1.4**	**1.5**	**1.7**	**0.3**	**0.7**	**x**

The Bank’s currency position as at 31 December 2010:

	LVL	USD	EUR	RUB	Other currencies	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	77,757	544	3,710	-	109	82,120
Balances due from credit institutions	28	220,501	73,000	12,028	19,769	325,326
Financial assets at fair value through profit or loss	3,371	17,067	390	3	2,541	23,372
Available-for-sale financial assets	0	163,093	169	4,899	496	168,657
Loans and receivables	4,686	73,748	445,638	1,450	3,039	528,561
Held-to-maturity investments	0	147,856	3,514	2,853	889	155,112
Other assets	38,223	268	56,025	176	725	95,417
Total assets	**124,065**	**623,077**	**582,446**	**21,409**	**27,568**	**1,378,565**
Liabilities						
Demand deposits from credit institutions	-	1,132	772	0	2	1,906
Financial liabilities at fair value through profit or loss	226	-	-	-	-	226
Financial liabilities at amortised cost	40,131	777,872	428,273	20,888	28,459	1,295,623
Other liabilities	3,188	1,594	399	248	4	5,433
Total liabilities	**43,545**	**780,598**	**429,444**	**21,136**	**28,465**	**1,303,188**
Shareholders' equity	75,377	-	-	-	-	75,377
Total liabilities and shareholders' equity	**118,922**	**780,598**	**429,444**	**21,136**	**28,465**	**1,378,565**
Net long/ (short) balance sheet position	**5,143**	**(157,521)**	**153,002**	**273**	**(897)**	**x**
Derivatives, notional amount	(11,748)	157,675	(145,637)	1,172	1,379	x
Net open (short)/ long currency position	**(6,605)**	**154**	**7,365**	**1,445**	**482**	**x**
Percentage of shareholders' equity (%)	**(6.3)**	**0.1**	**7.0**	**1.4**	**0.5**	**x**

The Law on Credit Institutions requires that Bank’s open positions in each foreign currency may not exceed 10% of equity and that the total Bank’s foreign currency open position may not exceed 20% of equity.
As at 31 December 2011, the Bank was in compliance with the above requirements of the Law on Credit Institutions.

c) Interest rate risk

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk.
Interest rate risk is assessed both in terms of income and economic value. The term economic value means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:
- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/maturity date;
- financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date;
- demand deposits are shown in those maturity bands which are determined on the basis of sensitivity to changes in interest rates, which the Bank evaluates from the following two aspects:
  - by analysing the depositors' willingness to place their demand deposits under the terms of the Bank's proposed term deposits, depending on the changes of deposit interest rates offered in the Bank's price list;
  - by analysing the impact of market interest rate index changes on the demand deposit decay rate of the Bank, stating the proportion of deposits that are sensitive to market interest rate index changes and their expected life cycle with the Bank.

Derivatives are represented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.
The effect of interest rate risk on the economic value is calculated according to the duration method, i.e., the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit/loss is analysed applying the gap analysis, i.e. analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The Bank performs regular interest rate stress tests aimed at assessing the effect of adverse changes in interest rates on the Bank's income and economic value in the event of a tough market situation.

The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2011 and 2010:

		Group/ Bank		Group/ Bank	
		31/12/2011		31/12/2010	
		+100bps	-100bps	+100bps	-100bps
		LVL'000	LVL'000	LVL'000	LVL'000
Total for all	Effect of changes on equity	(1,544)	1,544	(1,313)	1,313
currencies	Effect of changes on profit/ loss	(591)	591	3,402	(3,402)
USD	Effect of changes on equity	(1,544)	1,544	(1,313)	1,313
	Effect of changes on profit/ loss	(1,025)	1,025	308	(308)
EUR	Effect of changes on equity	-	-	-	-
	Effect of changes on profit/ loss	592	(592)	2,522	(2,522)
LVL	Effect of changes on equity	-	-	-	-
	Effect of changes on profit/ loss	(158)	158	572	(572)

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2011, based on interest rate changes:

Assets	Up to 1 month LVL '000	1-3 months LVL '000	3-6 months LVL '000	6-12 months LVL '000	1-5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and deposits with central banks	-	-	-	-	-	-	143,663	143,663
Balances due from credit institutions	116,175	6,800	-	42	-	-	395,864	518,881
Financial assets at fair value through profit or loss	-	-	-	-	-	-	8,922	8,922
Available-for-sale financial assets	19,457	25,532	27,453	80,509	209,914	3,832	6,309	373,006
Loans and receivables	179,125	100,314	125,836	15,453	9,707	927	38,062	469,424
Held-to-maturity investments	1,000	3,719	12,754	226	88,496	58,686	1,897	166,778
Other assets	-	-	-	-	-	-	97,625	97,625
Total assets	**315,757**	**136,365**	**166,043**	**96,230**	**308,117**	**63,445**	**692,342**	**1,778,299**
Liabilities								
Demand deposits from credit institutions	1,777	-	-	-	-	-	2	1,779
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	141	141
Financial liabilities at amortised cost	270,849	210,505	176,395	207,597	230,755	47,044	534,629	1,677,774
Other liabilities	-	-	-	-	-	-	13,402	13,402
Total liabilities	**270,849**	**210,505**	**176,395**	**207,597**	**230,755**	**47,044**	**548,172**	**1,693,096**
Shareholders' equity	-	-	-	-	-	-	85,203	85,203
Total liabilities and shareholders' equity	**270,849**	**210,505**	**176,395**	**207,597**	**230,755**	**47,044**	**633,375**	**1,778,299**
Futures, sold	5,268	2,689	1	-	-	-	-	7,958
Interest rate repricing maturity gaps	**50,176**	**(71,451)**	**(10,352)**	**(111,367)**	**77,362**	**16,401**	**58,967**	**x**
Effect on net interest income for the year	**480.85**	**(595.43)**	**(64.70)**	**(278.42)**	x	x	**(457.69)**	x

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2010, based on interest rate changes:

Assets	Up to 1 month LVL '000	1-3 months LVL '000	3-6 months LVL '000	6-12 months LVL '000	1-5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and deposits with central banks	78,568	-	-	-	-	-	3,552	82,120
Balances due from credit institutions	230,074	8,240	555	11,487	41	-	74,955	325,352
Financial assets at fair value through profit or loss	674	-	-	-	19,175	5	3,518	23,372
Available-for-sale financial assets	293	2,706	33,376	46,998	77,037	4,532	3,715	168,657
Loans and receivables	250,112	116,715	126,376	13,050	16,160	854	5,605	528,872
Held-to-maturity investments	1,458	2,535	603	270	10,602	137,804	1,840	155,112
Other assets	-	-	-	-	-	-	84,042	84,042
Total assets	**561,179**	**130,196**	**160,910**	**71,805**	**123,015**	**143,195**	**177,227**	**1,367,527**
Liabilities								
Demand deposits from credit institutions	-	-	-	-	-	-	1,906	1,906
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	226	226
Financial liabilities at amortised cost	151,076	151,880	88,317	56,553	20,510	38,617	780,223	1,287,176
Other liabilities	-	-	-	-	-	-	7,273	7,273
Total liabilities	**151,076**	**151,880**	**88,317**	**56,553**	**20,510**	**38,617**	**787,722**	**1,296,581**
Shareholders' equity	-	-	-	-	-	-	70,946	70,946
Total liabilities and shareholders' equity	**151,076**	**151,880**	**88,317**	**56,553**	**20,510**	**38,617**	**858,668**	**1,367,527**
Futures, sold	2,200	(125)	-	-	-	-	-	2,075
Interest rate repricing maturity gaps	**412,303**	**(21,809)**	**72,593**	**15,252**	**102,505**	**104,578**	**(681,441)**	**x**
Effect on net interest income for the year	**3,951.24**	**(181.74)**	**453.71**	**38.13**	x	x	**4,261.33**	x

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2011, based on interest rate changes:

Assets	Up to 1 month LVL '000	1-3 months LVL '000	3-6 months LVL '000	6-12 months LVL '000	1-5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and deposits with central banks	-	-	-	-	-	-	143,663	143,663
Balances due from credit institutions	116,175	6,800	-	42	-	-	395,455	518,472
Financial assets at fair value through profit or loss	-	-	-	-	-	-	8,922	8,922
Available-for-sale financial assets	19,457	25,532	27,453	80,509	209,914	3,832	6,309	373,006
Loans and receivables	179,125	100,314	128,578	15,453	8,135	927	38,071	470,603
Held-to-maturity investments	1,000	3,719	12,754	226	88,496	58,686	1,897	166,778
Other assets	-	-	-	-	-	-	107,717	107,717
Total assets	**315,757**	**136,365**	**168,785**	**96,230**	**306,545**	**63,445**	**702,034**	**1,789,161**
Liabilities								
Demand deposits from credit institutions	1,777	-	-	-	-	-	2	1,779
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	141	141
Financial liabilities at amortised cost	270,302	215,315	179,682	213,762	239,894	47,044	521,763	1,687,762
Other liabilities	-	-	-	-	-	-	9,305	9,305
Total liabilities	**270,302**	**215,315**	**179,682**	**213,762**	**239,894**	**47,044**	**531,209**	**1,698,987**
Shareholders' equity	-	-	-	-	-	-	90,174	90,174
Total liabilities and shareholders' equity	**270,302**	**215,315**	**179,682**	**213,762**	**239,894**	**47,044**	**621,383**	**1,789,161**
Futures, sold	5,268	2,689	1	-	-	-	-	7,958
Interest rate repricing maturity gaps	**50,723**	**(76,261)**	**(10,897)**	**(117,532)**	**66,651**	**16,401**	**80,651**	**x**
Effect on net interest income for the year	**486.10**	**(635.51)**	**(68.11)**	**(293.83)**	x	x	**(511.35)**	x

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2010, based on interest rate changes:

Assets	Up to 1 month LVL '000	1-3 months LVL '000	3-6 months LVL '000	6-12 months LVL '000	1-5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and deposits with central banks	78,568	-	-	-	-	-	3,552	82,120
Balances due from credit institutions	229,801	8,240	555	11,487	41	-	75,202	325,326
Financial assets at fair value through profit or loss	674	-	-	-	19,175	5	3,518	23,372
Available-for-sale financial assets	293	2,706	33,376	46,998	77,037	4,532	3,715	168,657
Loans and receivables	249,839	116,715	126,376	13,012	16,160	854	5,605	528,561
Held-to-maturity investments	1,458	2,535	603	270	10,602	137,804	1,840	155,112
Other assets	-	-	-	-	-	-	95,417	95,417
Total assets	**560,633**	**130,196**	**160,910**	**71,767**	**123,015**	**143,195**	**188,849**	**1,378,565**
Liabilities								
Demand deposits from credit institutions	-	-	-	-	-	-	1,906	1,906
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	226	226
Financial liabilities at amortised cost	151,076	151,880	88,317	56,553	17,558	38,617	791,622	1,295,623
Other liabilities	-	-	-	-	-	-	5,433	5,433
Total liabilities	**151,076**	**151,880**	**88,317**	**56,553**	**17,558**	**38,617**	**797,281**	**1,303,188**
Shareholders' equity	-	-	-	-	-	-	75,377	75,377
Total liabilities and shareholders' equity	**151,076**	**151,880**	**88,317**	**56,553**	**17,558**	**38,617**	**872,658**	**1,378,565**
Futures, sold	2,200	(125)	-	-	-	-	-	2,075
Interest rate repricing maturity gaps	**411,757**	**(21,809)**	**72,593**	**15,214**	**105,457**	**104,578**	**(683,809)**	**x**
Effect on net interest income for the year	**3,946.00**	**(181.74)**	**453.71**	**38.04**	x	x	**4,256.00**	x

Note 36

Non-financial risks

During the course of their operations, the Group and the Bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the Bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

Operational risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.

Operational risk is inherent in all products, activities, processes, and systems of the Group and the Bank.

The operational risk management policy is approved by the Council of the Bank. The Board of the Bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the Group and the Bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations.

The key principles allowing efficient operational risk management are as follows:

- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

To manage the Group's and Bank's exposure to operational risk, in September 2008 an operational risk event database was established. The key objectives of the database are as follows:

- collection of data about operational risk events and losses of the Group and the Bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the Bank to identify potential losses and take all required measures to prevent such losses.

In the reporting year, an operational risk stress test was carried out to assess the related potential loss. The test was based on external and internal events registered in the risk event database. Individual risk assessment models were designed for low-risk events and low-probability (rare) events having a significant effect (potential losses). The scenarios included changes in the Bank's operational environment affected by both internal and external factors and the Bank assessed a potential effect on its income and ability to continue as a going concern in the event of any material deterioration of circumstances in the sectors having the highest operational risk concentration for the Bank's risk profile.

During the reporting year, 1,162 (1,499) events were registered in the database, of which only 75 (82) events were those which resulted in actual losses amounting to LVL 106,8 (32,8) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the Group's and Bank's employees in the operational risk management and to the effectiveness of the control environment.

Money laundering and terrorism financing risk

Money laundering and terrorism financing (MLTF) risk is a risk that the Bank may be involved in money laundering and terrorism financing.

MLTF risk management and control are delegated to the Chief Compliance Officer (CCO). Experts of the Compliance Division perform MLTF risk management and design and implement risk mitigation activities to ensure the Bank's compliance with the existing anti-MLTF laws, regulations and standards and prevent any involvement of the Bank and the Group in money laundering and terrorism financing.

To ensure efficient customer monitoring and MLTF risk management, the Bank has set up a permanent Customer Control Committee whose functions include approval of procedures and instructions related to customer identification, acceptance and due diligence, consideration of the results of investigating suspicious transactions and adoption of relevant decisions, analysis of KYC (due diligence) results within the limits of its competence and decision-making on abstaining from/ termination or continuation of business relationships with a certain customer, as well as presentation to the Board of recommendations for improvement of the MLTF risk prevention system.

The principles of customer attraction and servicing based on the Bank's and Group's operational strategy that are implemented according to the local statutory requirements as well as good banking practice are defined in the Customer Policy.

To mitigate MLTF risk, the Bank has formulated and documented an internal MLTF risk management and prevention system encompassing activities and measures aimed at ensuring compliance with the requirements of the Anti-Money Laundering and Counter-Terrorism Financing Law, Cabinet Regulations, FCMC Regulations and other applicable regulations. All the Group's employees and authorised representatives involved in customer servicing and KYC processes are subject to the procedure prescribed by the aforementioned documents and relevant internal regulations.

Bank's MLTF risk management regulations lay down the following:

- criteria to commence cooperation with customers and counterparties;
- potential customers;
- procedure for commencing business relationships;
- procedure for customer identification and establishing actual beneficiaries;
- indicators of unusual and suspicious transactions, the procedure for establishing and investigating such indicators;
- procedure for abstaining from and reporting suspicious transactions to the Financial Intelligence Unit;
- customer risk identification;
- KYC procedures;
- customer transactions monitoring and customer due diligence.

Reputational risk

Reputational risk is a non-quantifiable risk and the consequences and losses that may be caused by this risk can hardly be determined. Reputational risk management by the Bank (measurement, applicable methods, control) is governed by the Reputational Risk Management Policy. The Bank intends to set reputational risk indicators and aggregate information about their level and then formulate a methodology to quantify reputational risk. It should be also noted that reputational risk is closely linked to operational risk (including legal risk) and for this reason those risks are hard to distinguish. At present, the Bank has decided not to segregate reputational risk and not to establish a separate capital charge for this risk.

Information system risk

The Bank has formulated the Information Technology Security Policy, the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the Bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital charge for operational risk. The Bank analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital charge for information system risk.

Note 37

Litigation and claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The Management believe that any legal proceedings pending as at 31 December 2011 will not result in material losses for the Bank and/ or the Group.

Note 38

Events after reporting date

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

In February 2012, the Bank sold its shares in Elizabetes 21A, SIA having the total par value of LVL 2,290,000 to another Bank's subsidiary ABLV Transform Partnership, KS. This sale was aimed at consolidating short-term and medium-term real estate development projects within one single group of entities.

In February 2012, the Bank's Board resolved to suggest that the general shareholders' meeting should initiate two new share issues (both staff and ordinary shares), thereby increasing the Bank's capital by LVL 14,946,000.

By mid-February 2012, the Bank's assets had reached LVL 2 billion. It is considerable evidence of growing loyalty of our customers.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of ABLV Bank AS

Report on the financial statements

We have audited the accompanying consolidated financial statements of ABLV Bank AS and its subsidiaries (the "Group") and the accompanying financial statements of ABLV Bank AS (the "Bank"), set out on pages 9 through 77 of the accompanying 2011 Consolidated Annual Report, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2011 (set out on pages 3 through 6 of the accompanying 2011 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2011.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No 153

Riga, 23 February 2012