BANKING / INVESTMENTS \ ADVISORY

ABLV

ABLV Bank, AS

Interim condensed consolidated annual report for the year ended 31 December 2012

Contents

Bank's Management Report

Dear shareholders of ABLV Bank, AS,

The year 2012 was marked by success and growth of ABLV Bank, AS and the group. The business volume continued to increase, and the bank's profit reached EUR 23.4 million.

Globally, economic growth considerably declined in 2012. A number of leading economies, including the euro zone and the UK, entered recession once again. According to the IMF estimates, the world's GDP growth in 2012 can amount to 3.3%, whereas in 2011 it was equal to 3.8%. Moreover, the euro zone and the UK economies might have lost about 0.4% over the last year. Compared with the previous year, growth of the German economy decreased as well – from 3.1% to 0.9%, while that of China declined from 9.2% to 7.8%. According to forecasts, the US experienced growth – its GDP is supposed to increase from 1.8% to 2.2%, and that of Japan – from 0.8% to 2.2%.

A negative trend of 2012 can be considered the fact that almost all developed countries once again ended the year with budget deficits. The last year was also full of dramatic events in the field of combating debt crisis in the euro zone. In June, Spain and Cyprus were forced to seek help from European authorities. In the second half of the year, the initiative was taken by the euro zone leadership. After several successful decisions were made, including expansion of powers of the stabilization fund, establishment of the banking union, and especially after the decision on purchasing bonds without amount restriction was taken by the European Central Bank, the crisis has receded.

Given this background, the economic situation in Latvia was very successful. GDP growth over 2012 is estimated to reach 5.1%, which might be one of the best economy growth indicators in the EU. Latvia continued becoming a regional financial centre alongside development of foreign customer service, investment and asset management, and international trade finance. Export of financial services is an important part of Latvian national economy, likewise other exportable sectors – woodworking, pharmaceutical industry, metalworking, and logistics. There are new jobs created in this segment and related services developed. Deposits of foreign customers ensure additional financing opportunities for business development in Latvia. Now the total direct effect of exporting financial services on GDP amounts to almost 1%.

Given overall development in the financial sector, ABLV Bank strengthened its position of the largest private bank in Latvia and major market player in the field of export of financial services. There were 59 jobs created within the group during the year, most of which in Latvia. As at the end of 2012, there were 608 people working at ABLV Group. The bank expanded geography of its operations, gradually becoming a notable financial market player internationally. An important contribution to this was ensured by establishing subsidiary bank in Luxembourg and obtaining the licence for banking operations.

Bank

The group's profit in 2012 amounted to EUR 22.6 million, whereas that of ABLV Bank, AS – to EUR 23.4 million. The bank's profit for 2012 is EUR 3.8 million less than that for 2011, because considerable part of the profit in 2011 was constituted by extraordinary income generated by sale of securities.

Due to implementation of business strategy and all planned measures, the bank improved financial indicators even more and strengthened its position in Latvian financial sector in 2012.

- In 2012, the bank's operating income before allowances for credit losses amounted to EUR 94.0 million.
- During 2012, the amount of deposits with the bank has increased – by 16.6% to reach EUR 2.66 billion.
- As at 31 December 2012, the amount of the bank's assets equalled EUR 3.04 billion; ABLV Bank, AS ranked fourth among commercial banks operating in Latvia in terms of the amount of assets.
- The bank's loan portfolio amounted to EUR 716.6 million (as at 31 December 2011, it was equal to EUR 669.6 million). As at 31 December 2012, the loan portfolio constituted 23.5% of the bank's total assets. The loan portfolio quality continued to improve. In 2012, allowances made for credit losses amounted to EUR 17.1 million (in 2011 – EUR 23.5 million).
- The bank's capital and reserves amounted to EUR 152.0 million (EUR 128.3 million as at 31 December 2011).
- As at 31 December 2012, the bank's capital adequacy ratio was 16.04%, whereas liquidity equalled 62.51%.
- ROE reached 16.64%, and ROA – 0.82%, as at the end of the year.

The bank continued investing available funds in securities. The total amount of the securities portfolio was equal to EUR 1.28 billion, as at 31 December 2012. The bank's securities portfolio is mostly composed of fixed-income debt securities. Securities having credit rating AA- and higher constitute 74.5% of the total securities portfolio. In terms of the investment amount, the securities are allocated as follows: USA – 24.0%, Russia – 15.2%, Canada – 13.8%, Germany – 12.1%, Sweden – 6.7%, Latvia – 3.1%, whereas 10.0% is constituted by securities issued by international institutions – the European Commission, ERAB, etc. In the reporting period, annual yield of the securities portfolio amounted to 2.35%.

One of the major events in 2012 was increase of the equity by issuing shares. The bank's shareholders were paid dividends for 2011, at the same time allowing a possibility to re-invest the funds in the bank's growth – i.e., to acquire the bank's newly issued shares. There were 10 600 shares issued, thus increasing the bank's equity by EUR 21.3 million. At the 2nd stage of share offer, the demand was 4.5 times higher than supply. 35 current shareholders of the bank acquired the issued shares. In March 2012, there were also employee shares issued and distributed between 21 key officers of the bank, thus establishing unified motivation system for achieving successful results. Currently, the bank's equity is constituted by 131 600 shares, i.e., 120 600 voting shares and 11 000 employee shares without voting rights attached.

Among products and services offered by the bank, the payment card segment was especially successful. The number of issued premium credit cards increased considerably. The bank's revenues under payment cards grew by 39.5%, reaching EUR 8.0 million.

Other lines of business were improved as well. Starting from June 2012, our customers can obtain financing secured not just by securities, but also by balances of precious metals accounts.

Investments

Our open-end mutual bond funds also demonstrated great results last year. Currently, we offer 4 bond funds and 2 stock funds. The latest one is bond fund in RUB, which was made available to the customers from 17 January 2012.

Evaluating return of open-end mutual funds, it should be noted that most of those managed to surpass the level of 10%: one-year return of ABLV Emerging Markets USD Bond Fund reached 15.63% as at the end of 2012, that of ABLV Emerging Markets EUR Bond – 15.88%, ABLV High Yield CIS USD Bond Fund – 17.96%, ABLV High Yield CIS RUB Bond Fund – 6.92%, ABLV Global USD ETF Fund – 9.33%, and ABLV Global EUR ETF Fund – 11.67%.

As at the end of 2012, ABLV Asset Management, IPAS total assets under management amounted to EUR 54.4 million, of which EUR 51.1 million were customers' investments in mutual funds managed by the company and EUR 3.3 million were customers' funds invested in individual investment programmes. The said growth was also facilitated by increasing number of customers. More and more our customers wish to diversify their investment portfolios by acquiring shares of ABLV mutual funds.

In 2012, liquidation process of bankrupt company MF Global UK was performed. MF Global UK was one of the custodians of our customers' securities and cooperation partner in securities trading. Taking care of our customers' assets, we made a significant decision that will facilitate development of the bank's investment business: the bank assumed the customers'– securities holders' risks and possible losses related to their assets with MF Global UK, as well as covered administrative expenses under getting the funds and securities back from MF Global UK. The bank used its own funds to acquire securities worth EUR 10.5 million to substitute the customers' securities held with MF Global UK. The bank's direct expenses and allowances under assuming the customers' risk equalled EUR 2.1 million in the reporting period. Therefore, the bank's profit indicator for the first half of the year was decreased, but this paid off by growing customers' loyalty and investment business development already in the second half of the year. This was also a valuable experience, which will be useful in future.

Due to this, 2012 was a record year for the bank's subsidiary company ABLV Capital Markets, IBAS. Business of ABLV Capital Markets, IBAS has been growing rapidly, and the customers' assets increased by 67.0%, amounting to historical maximum of EUR 605.4 million, thus allowing the company to end 2012 with profit of EUR 2.1 million.

In 2012, the bank continued gradual replacement of long-term deposits with bonds, which was initiated at the end of 2011. We have already performed 9 public bond issues earlier. Under the First Bond Offer Programme, there were 3 bond issues performed in 2011, their face value amounting to EUR 25 million and USD 30 million. Whereas under the Second Bond Offer Programme, there were 6 issues performed in 2012, their face value amounting to EUR 20 million and USD 145 million. The issued bonds have been included in NASDAQ OMX Riga list of debt securities. ABLV Bank, AS statement of corporate governance is available at the bank's home page www.ablv.com.

According to NASDAQ OMX Riga data, in 2012 ABLV Bank, AS, ensured 86.7% of the listed debt securities trading turnover in Riga market, whereas in the Baltics (Riga, Tallinn, Vilnius) our securities constituted 29.8% of the total trading turnover. This is the second best result among 14 members of the Baltic Stock Exchange. Our achievements were also appraised by NASDAQ OMX Riga presenting Stock Exchange Annual Award 2012 to ABLV Bank, AS, for important contribution to formation of Latvian securities market by expanding the range of available financial instruments and services.

Since the bank's customers demonstrate great interest in such investment products, the bonds will be also issued in the future.

The bank's subsidiary company ABLV Private Equity Management, SIA continued its development; this company establishes and manages risk capital investment funds for making investments in share capital of promising Latvian and foreign companies. ABLV Private Equity Management, SIA manages direct investment fund ABLV Private Equity Fund 2010, KS, established in July 2010.

In the reporting period, ABLV Private Equity Fund 2010, KS participated in the transaction which allowed management of SIA Depo DIY to increase their share in SIA Depo DIY from 28% to 75% by purchasing shares previously owned by financial investors. SIA DEPO DIY operates the largest building materials and household goods retail chain in Latvia – Depo. As a result of the transaction, ABLV Private Equity Fund 2010 owns 25% of SIA Depo DIY capital shares. Earlier, the fund has acquired capital shares of biogas producing company, pharmaceutical company and special private clinic Orto.

The last year was also important for our real estate development and trading group. The real estate line of business was launched to ensure completion, maintenance, and sale of taken over properties that were used as collateral under loans before crisis. In 2012, the real estate line of business acquired new brand – Pillar. The number of properties sold in 2012 has doubled compared with 2011, amounting to 254 real estate units. 125 of those were apartments in existing homes, but 101 – in new projects. The total value of properties sold by Pillar in 2012 was EUR 15.7 million.

Given customers' demand, intensive work on completing apartment blocks has been performed. In 2012, there were 3 new projects completed: 33 apartments in Pine Breeze project at Lašu 1A in Jurmala, 50 apartments in Mārtiņa nams 2 project at Slokas 59A in Riga, and 47 apartments at Liesmas 4 in Riga. The total amount invested by Pillar in developing these projects reached EUR 10.7 million.

Whereas in 2013 Pillar will complete an upscale project – Elizabetes Park House in Riga centre, at Elizabetes 21a. Most of 18 premium apartments in this building have already been reserved during renovation. In 2013, Pillar also plans to complete two more projects in Riga: 80 apartments in Lielezeres Apartment House and 54 apartments at Dārza 32, as well as several small individual projects.

In total, Pillar has sold 450 properties over several years. Currently, Pillar supervises more than 1 200 properties worth about EUR 85.4 million, which is one of the largest real estate portfolios in Latvia.

In the last year, we sold 100% of SIA AB.LV Transform Investment capital shares for EUR 3.7 million. The main asset of the company were commercial premises in Moscow.

Advisory

The service of obtaining residence permit in Latvia remains to be the most popular one among those rendered by ABLV Corporate Services, SIA. In total, during 2012 we have assisted 102 persons in receiving residence permits – they were our customers and their families. 80% of them obtained residence permits due to acquiring real estate, thus their investments contributed to increasing liquidity of Latvian real estate market and the sector development.

During the reporting period, the customers also used other advisory services – advice on establishing holding structures, settling trusts, and assistance in choosing tax residency.
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 in 7 countries – in Russia, Ukraine, Belarus, Kazakhstan, Tajikistan, Azerbaijan, and Uzbekistan.

At the beginning of April 2012, ABLV representative office in Minsk moved to new premises located at 70 Mjasnikova street. The new office follows the pattern of meeting premises in Riga office, maintaining our customer service standards and complying with the brand requirements. The premises of other representative offices will be also gradually redesigned to meet these standards.

Luxembourg

In the reporting period, the Luxembourg Ministry of Finance issued banking licence to ABLV Bank Luxembourg, S.A. ABLV Bank Luxembourg, S.A. is an independent company, the founder and sole shareholder of which is ABLV Bank, AS. ABLV Bank, AS invested EUR 20 million in capital of Luxembourg subsidiary bank.

The subsidiary bank in Luxembourg was established in order to develop the existing customer base and strengthen their loyalty, providing larger range of investment and fiduciary services, as well as to attract new customers. ABLV Bank is the first bank from the Baltic countries to establish subsidiary bank in Luxembourg.

The Board of ABLV Bank Luxembourg, S.A. will be composed of Ernests Bernis, Vadims Reinfelds, Leonīds Kiļs, Paul Mousel, Benoît Wtterwulghe, and Andris Riekstiņš. Daily bank management is assigned to the Chief Executive Officer – Benoît Wtterwulghe and the Deputy Chief Executive Officer – Andris Riekstiņš, who have managed the company since its establishment – during research and preparatory period. At the beginning of 2013, preliminary offering of the bank's products to limited number of customers was started.

Plans for 2013

Planning growth, increase of profitability and overall income in 2013, great attention will be paid to assessing and reducing possible impact of negative factors, as well as to risk management and compliance with regulatory requirements. At the same time, the bank and subsidiaries companies rendering investment services are expected to grow faster than on average within the sector, retaining leading positions in the field of export of financial services, as well as the status of the largest bank.

We continue work on increasing the number of active customers and services used by them, and we are going to implement some new investment products. Therefore we plan operating income of ABLV Group to rise by at least 19% in 2013. We will considerably increase the amount of granted commercial loans, mainly focusing on Latvian and Russian markets. In 2013, we will substantially enhance investments in Latvian government securities. To ensure business growth in 2013, we plan considerable staff increase – there will be more than 90 jobs created.

For society

In 2012, ABLV Bank, in cooperation with ABLV Charitable Foundation, continued supporting various socially important projects.

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. The name of the exhibition brought to Riga this time was Art Nouveau Fashion. This was already fourth 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!". The funds donated under this fund drive were used to buy hearing devices for children who need them and to help children from poor families and children with special needs go to summer camps.

Since the foundation was established, the bank has donated EUR 1.95 million to charity through the intermediary of the foundation. The funds were used to implement about 200 charitable projects.

At the end of the last year, the bank decided to acquire new office premises for ABLV Charitable Foundation for EUR 372.8 thousand, thus allowing the foundation to operate even more successfully.

We express our gratitude to our shareholders and customers for their loyalty and to all officers for their important contribution in achievement of the company's targets!

Chairman of the Council	Chairman of the Board
Oļegs Fiļs	**Ernests Bernis**

Riga, 25 February 2013

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

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
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:
Romans Surnačovs – Chief Operating Officer (COO)	17/10/2011

There were no changes in the council and the board of the bank during the reporting year.

Statement of management's responsibility

The council and the board of ABLV Bank, AS (hereinafter – the bank) are responsible for the preparation of the financial statements of the bank as well as for the preparation of the consolidated financial statements of the bank and its subsidiaries (hereinafter – the group).

The financial statements set out on pages 9 to 34 are prepared in accordance with the source documents and present truly and fairly the financial position of the bank and the group as at 31 December 2012 and 2011, 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 in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, as well as 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 council and the board of the bank (hereinafter – the management) are responsible for the maintenance of proper accounting records, the safeguarding of the group's assets, and the prevention and detection of fraud and other irregularities in the group. The 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, 25 February 2013

Income statements and other statements of comprehensive income for the years ended 31 December 2012 and 2011*

EUR'000

	Notes	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Interest income		54,500	54,129	54,052	53,678
Interest expense		(21,865)	(22,308)	(21,840)	(22,148)
Net interest income		**32,635**	**31,821**	**32,212**	**31,530**
Commission and fee income		45,987	37,165	41,549	33,467
Commission and fee expense		(5,588)	(4,863)	(5,013)	(4,260)
Net commission and fee income		**40,399**	**32,302**	**36,536**	**29,207**
Net gain on transactions with financial instruments and foreign exchange	3	20,790	37,807	20,997	37,951
Other income		23,751	13,507	2,254	1,919
Income from dividends		10	1	1,998	1,006
Impairment allowance	4	(19,101)	(24,176)	(18,837)	(24,385)
Operating income		**98,484**	**91,262**	**75,160**	**77,228**
Administrative expense		(43,042)	(40,052)	(34,099)	(34,264)
Amortisation and depreciation		(2,908)	(2,635)	(2,039)	(2,157)
Other expense		(21,115)	(13,043)	(8,170)	(7,049)
Gain/ (loss) from sale of tangible and intangible fixed assets		33	46	26	23
Provisions		(481)	-	(481)	-
Impairment of financial instruments		(487)	(2,499)	(487)	(2,499)
Impairment of non-financial assets		(2,275)	(1,793)	(1,172)	505
Total operating expense		**(70,275)**	**(59,976)**	**(46,422)**	**(45,441)**
Profit before corporate income tax		**28,209**	**31,286**	**28,738**	**31,787**
Corporate income tax	5	(5,633)	(5,102)	(5,326)	(4,602)
Net profit for the year		**22,576**	**26,184**	**23,412**	**27,185**
Attributable to:					
Equity holders of the bank		22,917	26,672		
Non-controlling interests		(341)	(488)		
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		6,791	(7,109)	6,791	(7,109)
Charge to income statement as a result of sale of available-for-sale securities		(23)	(2,600)	(23)	(2,600)
Charge to income statement due to recognised impairment of available-for-sale securities		487	2,499	487	2,499
Change in deferred corporate income tax		(1,087)	1,079	(1,087)	1,079
Other comprehensive income, total		**6,168**	**(6,131)**	**6,168**	**(6,131)**
Total comprehensive income		**28,744**	**20,053**	**29,580**	**21,054**
Attributable to:					
Equity holders of the bank		29,085	20,541		
Non-controlling interests		(341)	(488)		
Earnings per share attributable to the equity holders of the bank, EUR		230.77	186.73		

* - these interim condensed consolidated and separate interim condensed financial statements has been prepared based on data that are available in the annual report for the year ended 31 December 2012 and in the annual report for the year ended 31 December 2011 audited by SIA Ernst & Young Baltic (No 40003593454).

Statements of financial position as at 31 December 2012 and 31 December 2011*

EUR'000

Assets	Notes	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Cash and deposits with the Bank of Latvia		307,451	204,414	307,446	204,414
Balances due from credit institutions	6	559,053	738,301	553,020	737,719
Derivatives		115	11,623	115	11,623
Financial assets at fair value through profit or loss		4,742	1,071	4,742	1,071
Shares and other non-fixed income securities		4,742	1,071	4,742	1,071
Available-for-sale financial assets		779,388	530,740	779,388	530,740
Debt securities and other fixed income securities	7	776,191	527,521	776,191	527,521
Shares and other non-fixed income securities		3,197	3,219	3,197	3,219
Loans		711,133	667,930	716,574	669,608
Held-to-maturity investments		500,612	237,304	500,612	237,304
Debt securities and other fixed income securities	7	500,612	237,304	500,612	237,304
Investments in subsidiaries and associates	8	3,796	448	127,457	101,431
Investment properties		29,675	30,652	24,620	23,708
Tangible fixed assets		27,903	14,330	6,981	7,049
Intangible fixed assets		5,437	4,970	4,815	4,792
Current corporate income tax receivables		101	21	-	-
Deferred corporate income tax	5	575	4,818	105	4,779
Other assets		99,610	83,669	17,955	11,508
Total assets		**3,029,591**	**2,530,291**	**3,043,830**	**2,545,746**

Liabilities					
Derivatives		6,515	201	6,515	201
Demand deposits from credit institutions		1,376	2,531	3,423	2,531
Term deposits from credit institutions		3,173	13,043	11,959	9,532
Deposits	9	2,649,944	2,270,104	2,659,191	2,281,067
Current corporate income tax liabilities		1,811	246	1,504	-
Other liabilities		22,646	18,382	12,819	13,241
Deferred corporate income tax	5	101	265	-	-
Provisions		481	-	481	-
Issued securities	10	177,601	73,288	177,601	80,048
Subordinated deposits	11	18,372	30,822	18,372	30,822
Other liabilities		**2,882,020**	**2,408,882**	**2,891,865**	**2,417,442**
Shareholders' equity					
Paid-in share capital	12	28,087	23,477	28,087	23,477
Share premium		27,291	7,477	26,481	7,477
Reserve capital and other reserves		2,134	2,134	2,134	2,134
Fair value revaluation reserve of available-for-sale financial assets		2,639	(3,529)	2,639	(3,529)
Retained earnings brought forward		61,600	64,462	69,212	71,560
Retained earnings for the period		22,917	26,672	23,412	27,185
Attributable to the equity holders of the bank		144,668	120,693	151,966	128,304
Non-controlling interests		2,903	716	-	-
Total shareholders' equity		**147,571**	**121,409**	**151,965**	**128,304**
Total liabilities and shareholders' equity		**3,029,591**	**2,530,291**	**3,043,830**	**2,545,746**
Memorandum items					
Funds under trust management		196,129	166,311	141,815	124,490
Contingent liabilities		10,034	17,153	10,034	17,153
Financial commitments		43,079	29,795	43,079	29,795

* - these interim condensed consolidated and separate interim condensed financial statements has been prepared based on data that are available in the annual report for the year ended 31 December 2012 and in the annual report for the year ended 31 December 2011 audited by SIA Ernst & Young Baltic (No 40003593454).

Statement of changes in shareholders' equity of the group for the years ended 31 December 2012 and 31 December 2011

EUR'000

	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
As at 1 January 2011	**23,477**	**7,477**	**2,134**	**2,602**	**64,462**	**100,152**	**970**	**101,122**
Total comprehensive income for the year 2011	-	-	-	(6,131)	26,672	20,541	(488)	20,053
Increase of non-controlling interests	-	-	-	-	-	-	233	233
As at 31 December 2011	**23,477**	**7,477**	**2,134**	**(3,529)**	**91,134**	**120,693**	**715**	**121,408**

As at 1 January 2012	**23,477**	**7,477**	**2,134**	**(3,529)**	**91,134**	**120,693**	**716**	**121,409**
Total comprehensive income for the year 2012	-	-	-	6,168	22,917	29,085	(341)	28,744
Dividends paid	-	-	-	-	(27,186)	(27,186)	-	(27,186)
Issue of personnel shares	2,348	-	-	-	(2,348)	-	-	-
Issue of shares	2,262	19,004	-	-	-	21,266	-	21,266
Increase of non-controlling interests	-	810	-	-	-	810	2,528	3,338
As at 31 December 2012	**28,087**	**27,291**	**2,134**	**2,639**	**84,517**	**144,668**	**2,903**	**147,571**

Statement of changes in shareholders' equity of the bank for the years ended 31 December 2012 and 31 December 2011

EUR'000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
As at 1 January 2011	**23,477**	**7,477**	**2,134**	**2,602**	**71,560**	**107,252**
Total comprehensive income for the year 2011	-	-	-	(6,131)	27,185	21,054
As at 31 December 2011	**23,477**	**7,477**	**2,134**	**(3,529)**	**98,745**	**128,304**

As at 1 January 2012	**23,477**	**7,477**	**2,134**	**(3,529)**	**98,745**	**128,304**
Total comprehensive income for the year 2012	-	-	-	6,168	23,412	29,580
Dividends paid	-	-	-	-	(27,185)	(27,185)
Issue of personnel shares	2,348	-	-	-	(2,348)	-
Issue of shares	2,262	19,004	-	-	-	21,266
As at 31 December 2012	**28,087**	**26,481**	**2,134**	**2,639**	**92,624**	**151,965**

Cash flow statements of the group and the bank for the years ended 31 December 2012 and 31 December 2011

EUR'000

Cash flow from operating activities	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Profit before corporate income tax	28,208	31,286	28,738	31,787
Amortisation and depreciation of fixed assets and investment properties	2,908	2,635	2,039	2,157
Allowance for impairment of assets	19,085	24,176	18,837	24,385
Impairment of non-financial assets	(2,275)	1,793	1,172	(505)
Decrease/ (increase) in financial instruments	(297)	2,849	(297)	2,780
Interest (income)	(54,500)	(54,129)	(54,052)	(53,678)
Interest expense	21,865	22,308	21,840	22,148
Other non-cash items	7,930	(7,066)	(211)	(7,299)
Net cash flow from operating activities before changes in assets and liabilities	**22,924**	**23,852**	**18,066**	**21,775**
(Increase) in balances due from credit institutions	(66,060)	(5,815)	(65,641)	(5,817)
(Increase)/ decrease in loans	(59,055)	48,053	(63,499)	44,341
(Increase)/ decrease in financial assets at fair value through profit or loss	(16,066)	26,955	(16,066)	27,023
(Increase)/ decrease in other assets	(9,781)	(19,882)	2,188	(3,381)
(Decrease)/ increase in balances due to credit institutions	(3,909)	1,010	10,259	1,700
Increase in deposits	409,945	504,855	408,230	499,599
Increase/ (decrease) in derivatives	17,824	(6,865)	17,824	(6,865)
Increase in other liabilities	4,069	8,499	(433)	5,508
Net cash flow from operating activities before corporate income tax	**299,891**	**580,662**	**310,928**	**583,883**
Interest received in the reporting year	46,344	46,878	46,851	47,769
Interest (paid) in the reporting year	(17,972)	(18,657)	(17,972)	(18,494)
Corporate income tax (paid)	(582)	(249)	-	-
Net cash flow from operating activities	**327,681**	**608,634**	**339,807**	**613,158**
Cash flow from investing activities				
(Purchase) of held-to-maturity investments	(350,482)	(123,259)	(350,482)	(123,259)
Redemption of held-to-maturity investments	20,824	154,221	20,824	154,221
(Purchase) of available-for-sale financial assets	(1,090,224)	(577,098)	(1,090,224)	(577,098)
Sale of available-for-sale financial assets	905,942	252,773	905,942	252,773
(Purchase) of intangible and tangible fixed assets and investment properties	(23,941)	(6,672)	(3,173)	(1,524)
Sale of intangible and tangible fixed assets	7,779	63	75	63
(Purchase) of investments in other entities	(3,348)	(448)	(33,739)	(17,426)
Decrease in investments in subsidiaries	-	-	6,919	-
Net cash flow from investing activities	**(533,450)**	**(300,420)**	**(543,858)**	**(312,250)**
Cash flow from financing activities				
Increase in subordinated loans	3,322	-	3,322	-
(Repayment) of subordinated loans	(15,481)	(3,339)	(15,481)	(3,339)
Sale of issued securities	128,556	40,257	128,556	47,017
(Repurchase) of issued securities	(25,723)	-	(32,481)	-
Dividends (paid)	(27,177)	-	(27,177)	-
Issue of shares	21,266	-	21,266	-
Net cash flow from financing activities	**84,763**	**36,918**	**78,005**	**43,678**
Net cash flow	**(121,006)**	**345,132**	**(126,046)**	**344,586**
Cash and cash equivalents at the beginning of the year	**906,961**	**556,700**	**906,379**	**556,663**
(Loss)/ gain from revaluation of foreign currency positions	(13,488)	5,129	(13,484)	5,130
Cash and cash equivalents at the end of the year	**772,467**	**906,961**	**766,849**	**906,379**

EUR'000

Cash and cash equivalents	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Cash and deposits with the Bank of Latvia	307,451	204,414	307,446	204,414
Balances due from credit institutions	468,439	712,910	462,826	712,328
Balances due to credit institutions	(3,423)	(10,363)	(3,423)	(10,363)
Total cash and cash equivalents	**772,467**	**906,961**	**766,849**	**906,379**

Notes to the interim condensed financial statements for the year ended 31 December 2012

Note 1

General information

ABLV Bank, AS was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company. 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 one lending centre 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 interim condensed consolidated and separate interim condensed financial statements has been prepared based on data that are available in the annual report for the year ended 31 December 2012 and in the annual report for the year ended 31 December 2011 audited by SIA Ernst & Young Baltic (No 40003593454).

These consolidated and separate financial statements contain the financial information about the bank and its subsidiaries 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 group comprises the following subsidiaries:

No	Company	Country of incorporation	Registration number	Business profile	Share in the entity's capital (%)
1	ABLV Bank, AS	LV	50003149401	Financial services	100
2	ABLV Asset Management, IPAS	LV	40003814724	Financial services	100
3	ABLV Capital Markets, IBAS	LV	40003814705	Financial services	100
4	ABLV Consulting Services, AS	LV	40003540368	Consulting services	100
5	ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100
6	ABLV Corporate Services, LTD	CY	HE273600	Consulting services	100
7	ABLV Bank Luxembourg, S.A.	LU	B 162048	Financial services	100
8	Pillar Holding Company, KS (previously - ABLV Transform Partnership, KS)	LV	40103260921	Holding company	99.9997
9	Pillar, SIA	LV	40103554468	Real estate transactions	100
10	Pillar Management, SIA (previously - Transform 1, SIA)	LV	40103193211	Real estate transactions	100
11	Pillar 2, SIA (previously - Transform 2, SIA)	LV	40103193033	Real estate transactions	100
12	Pillar 3, SIA (previously - Transform 3, SIA)	LV	40103193067	Real estate transactions	100
13	Pillar 4, SIA (previously - Transform 4, SIA)	LV	40103210494	Real estate transactions	100
14	Pillar 6, SIA (previously - Transform 6, SIA)	LV	40103237323	Real estate transactions	100
15	Pillar 7, SIA (previously - Transform 7, SIA)	LV	40103237304	Real estate transactions	100
16	Pine Breeze, SIA (previously - Transform 8, SIA)	LV	40103240484	Real estate transactions	100
17	Pillar 9, SIA (previously - Transform 9, SIA)	LV	40103241210	Real estate transactions	100
18	Pillar 10, SIA (previously - Transform 10, SIA)	LV	50103247681	Real estate transactions	100
19	Pillar 11, SIA (previously - Transform 11, SIA)	LV	40103258310	Real estate transactions	100
20	Pillar 12, SIA (previously - Transform 12, SIA)	LV	40103290273	Real estate transactions	100
21	Pillar 13, SIA (previously - Transform 13, SIA)	LV	40103300849	Real estate transactions	100
22	Lielezeres Apartment House, SIA (previously - Transform 14, SIA)	LV	50103313991	Real estate transactions	100
23	Pillar 17, SIA (previously - Transform 17, SIA)	LV	40103424617	Real estate transactions	100
24	Pillar 18, SIA (previously - Transform 18, SIA)	LV	40103492079	Real estate transactions	100
25	Elizabetes Park House, SIA	LV	50003831571	Real estate transactions	91.6
26	New Hanza City, SIA	LV	40103222826	Real estate transactions	100
27	ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100
28	ABLV Private Equity Fund 2010, KS	LV	40103307758	Investment activities	100
29	Vaiņode Agro Holding, SIA	LV	40103503851	Agriculture	70
30	Vaiņodes Agro, SIA	LV	40103484940	Agriculture	70
31	Vaiņodes Bekons, SIA	LV	42103019339	Agriculture	70
32	Gas Stream, SIA	LV	42103047436	Electricity generation	49
33	Bio Future, SIA	LV	42103047421	Electricity generation	49
34	Ortopēdijas, sporta traumatoloģijas un mugurkaula ķirurģijas klīnika ORTO, SIA	LV	40103175305	Medical services	60
35	Orto māja, SIA	LV	40103446845	Medical services	60

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 2012 and 2011, is set out below.

a) Basis of Preparation

These consolidated and separate financial statements are prepared with IAS 34 Interim Financial Reporting as adopted by the European Union, on a going concern basis.
These financial statements are prepared on a historical cost basis, except for financial assets and liabilities (available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, and derivatives) which are reported at fair value.

During the year ended 31 December 2012, 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 in *Adoption of new and/ or changed IFRSs and IFRIC interpretations in the reporting year*.

The accounting policies are applied consistently by all entities of the group.

The functional currency of the bank and its Latvian subsidiaries is the monetary unit of the Republic of Latvia (LVL). Transactions of the bank's foreign subsidiaries are accounted for in the currency of their economic environment. The presentation currency of the group and the bank is the lat (LVL).

These consolidated and separate financial statements are reported in thousands of EUR (EUR'000), unless otherwise stated. Information given herein in brackets represents comparative figures for the year ended 31 December 2011.

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 2012	0.531	0.702804	0.0174
31 December 2011	0.544	0.702804	0.0170

b) 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:

- amendment to IFRS 7 *Financial Instruments* - Enhanced Derecognition Disclosure Requirements,
- amendment to IAS 12 *Deferred tax* - Recovery of Underlying Assets.

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects. The adoption of this amendment does not affect these financial statements because the group/ bank does not have such financial assets.

The amendment to IAS 12 *Deferred tax* is effective for annual periods beginning on or after 1 January 2012. The amendment clarifies 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 measures its investment properties according to the cost model.

Standards issued but not yet effective or not endorsed by the EU and not early adopted

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

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 disclosures to be included in these financial statements.

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 result of the new standards IFRS 10 and IFRS 12, this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 *Separate Financial Statements* requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. 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 IFRS 7 *Offsetting Financial Assets and Financial Liabilities* amendments. This amendment has not yet been endorsed by the EU.

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. 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 will eventually replace IAS 39 and it 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 the classification and measurement of financial assets and 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. Earlier 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 2014. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements as well as 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. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. 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 2014. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Instead, jointly controlled entities that are classified as joint ventures must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognise its relative share of assets, liabilities, revenues and expenses. 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 2014. 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 special purpose 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.

Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities*
The amendments are effective for annual periods beginning on or after 1 January 2014, once adopted by the EU. The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the group, as the parent of the group is not an investment entity.

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. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. The implementation of this interpretation will not have any impact on the group's and bank's financial statements because neither the group nor the bank is engaged in mining.

The IASB has issued the Annual Improvements to IFRSs 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS.
The effective date for the amendments is for annual periods beginning on or after 1 January 2013. Earlier application is permitted in all cases, provided that fact is disclosed. This project has not yet been endorsed by the EU. The group/ bank is in the process of assessing the impact of the project on the financial position or performance of the group/ bank:

- IAS 1 *Financial Statement Presentation*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. In addition, the opening statement of financial position (known as the "third balance sheet") must be presented in the following circumstances: when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to accompany the "third balance sheet".
- IAS 16 *Property, Plant and Equipment*: Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

- IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.
- IAS 34 *Interim Financial Reporting*: Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12). The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. The assessment of whether control exists is made at "the date of initial application" rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief. This guidance has not yet been endorsed by the EU. The group/ bank is in the process of assessing the impact of the guidance on the financial position or performance of the group/ bank.

The group/ bank plans to adopt the above mentioned standards and interpretations on their effectiveness date.

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

c) Significant 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 and intangible fixed assets, valuation and depreciation rates of investment properties, calculation of deferred corporate income tax, the ability to maintain the held-to-maturity portfolio, the credit quality cycle (the loan may be categorised as loans in collection six months after the first day of delay), determining the allowance for credit losses and the collateral value, and the fair value of financial assets and liabilities.
In the reporting year, the credit quality cycle was extended from six to twelve months, which will enable more accurate assessment as to whether the loan may be in collection. The effect of this change in estimates on the extent of allowances for mortgage loans represents an increase in allowances by EUR 4.6 million.
In the reporting year, an allowance of EUR 0,9 million was established for the claims against the brokerage firm MF Global. The allowance was supported by estimates based on the public information provided by the audit firm KPMG (the liquidator of MF Global) regarding the potential recoverable amount of assets.

Note 3

Net gains/ losses on financial assets

EUR'000

Financial instruments at fair value through profit or loss	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Gain/(loss) from revaluation of financial instruments at fair value through profit or loss	290	(350)	275	(282)
Derivatives	27	63	27	63
Securities	263	(413)	248	(344)
(Loss) from trading with financial instruments at fair value through profit or loss	(47)	(7,684)	(47)	(7,684)
Derivatives	(64)	(8,206)	(64)	(8,206)
Securities	17	522	17	522
Net gain/ (loss) from financial instruments at fair value through profit or loss	**243**	**(8,034)**	**228**	**(7,966)**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	23	2,600	23	2,600
Net realised gain from available-for-sale financial instruments	**23**	**2,600**	**23**	**2,600**
Financial instruments at amortised cost				
Gain from sale of securities of the loans and receivables portfolio	-	3	-	3
Gain from sale of held-to-maturity securities	-	13,486	-	13,486
Net realised gain from sale of financial instruments at amortised cost	**-**	**13,489**	**-**	**13,489**
Foreign exchange				
Profit from foreign currency exchange	20,075	22,452	20,297	22,528
Gain from revaluation of foreign currency positions	449	7,300	449	7,300
Net result from foreign exchange trading and revaluation	**20,524**	**29,752**	**20,746**	**29,828**
Net gain on transactions with financial instruments and foreign exchange	**20,790**	**37,807**	**20,997**	**37,951**

Note 4

Allowances for impairment of financial assets

The table below presents allowances for impairment of financial assets of the group in 2012:

EUR'000

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Other assets	**Total**
Individual allowances	2,234	20,191	-	987	171	1,383	526	25,492
Portfolio allowances	58,888	232	90	849	-	-	-	60,059
Total allowances at the beginning of the year	**61,122**	**20,423**	**90**	**1,836**	**171**	**1,383**	**526**	**85,551**
Increase/ (decrease) in allowances for the year	17,137	(2,237)	23	2,419	(54)	26	1,787	19,101
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	(356)	(356)
(Decrease) in allowances for the year due to currency fluctuations	(10)	(24)	-	-	(3)	(6)	-	(43)
(Elimination) of allowances for the year due to write-offs	(24,675)	(8,019)	(36)	(574)	-	(1,156)	-	(34,460)
Individual allowances	1,374	9,560	-	548	114	246	1,958	13,800
Portfolio allowances	52,200	583	77	3,133	-	-	-	55,993
Total allowances at the end of the year	**53,574**	**10,143**	**77**	**3,681**	**114**	**246**	**1,958**	**69,793**

The table below presents allowances for impairment of financial assets of the group in 2011:

EUR'000

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Other assets	**Total**
Individual allowances	3,439	25,385	37	-	91	111	1,710	861	31,634
Portfolio allowances	62,951	184	299	809	-	-	-	-	64,243
Total allowances at the beginning of the year	**66,390**	**25,569**	**336**	**809**	**91**	**111**	**1,710**	**861**	**95,877**
Increase/ (decrease) in allowances for the year	20,610	714	80	1,806	71	1,262	-	(367)	24,176
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	-	132	132
Increase in allowances for the year due to currency fluctuations	4	7	-	-	9	10	-	-	30
(Elimination) of allowances for the year due to write-offs	(25,882)	(5,869)	(326)	(777)	-	-	(1,710)	(100)	(34,664)
Individual allowances	2,234	20,189	-	989	171	1,383	-	526	25,492
Portfolio allowances	58,888	232	90	849	-	-	-	-	60,059
Total allowances at the end of the year	**61,122**	**20,421**	**90**	**1,838**	**171**	**1,383**	**-**	**526**	**85,551**

The table below presents allowances for impairment of financial assets of the bank in 2012:

EUR'000

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Other assets	**Total**
Individual allowances	2,234	20,438	-	987	171	1,383	488	25,701
Portfolio allowances	58,888	232	90	849	-	-	-	60,059
Total allowances at the beginning of the year	**61,122**	**20,670**	**90**	**1,836**	**171**	**1,383**	**488**	**85,760**
Increase/ (decrease) in allowances for the year	17,137	(2,484)	23	2,419	(54)	26	1,770	18,837
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	(355)	(355)
(Decrease) in allowances for the year due to currency fluctuations	(10)	(24)	-	-	(3)	(6)	-	(43)
(Elimination) of allowances for the year due to write-offs	(24,676)	(8,018)	(36)	(574)	-	(1,156)	-	(34,460)
Individual allowances	1,374	9,561	-	548	114	246	1,903	13,746
Portfolio allowances	52,199	583	77	3,133	-	-	-	55,992
Total allowances at the end of the year	**53,573**	**10,144**	**77**	**3,681**	**114**	**246**	**1,903**	**69,739**

The table below presents allowances for impairment of financial assets of the bank in 2011:

EUR'000

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Other assets	**Total**
Individual allowances	3,439	25,387	37	-	91	111	1,710	861	31,636
Portfolio allowances	62,951	184	299	808	-	-	-	-	64,242
Total allowances at the beginning of the year	**66,390**	**25,571**	**336**	**808**	**91**	**111**	**1,710**	**861**	**95,878**
Increase/ (decrease) in allowances for the year	20,610	962	80	1,806	71	1,262	-	(406)	24,385
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	-	132	132
Increase in allowances for the year due to currency fluctuations	4	7	-	-	9	10	-	-	30
(Elimination) of allowances for the year due to write-offs	(25,883)	(5,871)	(326)	(776)	-	-	(1,710)	(100)	(34,666)
Individual allowances	2,234	20,437	-	989	171	1,383	-	488	25,702
Portfolio allowances	58,887	232	90	849	-	-	-	-	60,058
Total allowances at the end of the year	**61,121**	**20,669**	**90**	**1,838**	**171**	**1,383**	**-**	**488**	**85,760**

Note 5

Taxation

EUR'000

	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Profit before corporate income tax	28,209	31,286	28,738	31,787
Theoretical corporate income tax	**4,231**	**4,693**	**4,312**	**4,768**
Permanent differences	1,251	188	737	(388)
Actual corporate income tax expense for the reporting year	**5,482**	**4,881**	**5,049**	**4,380**
Adjustments to prior-year corporate income tax	(126)	-	-	-
Adjustments to prior-year deferred tax	43	55	43	55
Tax paid abroad	234	167	234	167
Total corporate income tax expense	**5,633**	**5,102**	**5,326**	**4,602**

Deferred corporate income tax calculation:

EUR'000

	Group 31/12/2012 Amounts subject to temporary differences	Group 31/12/2011 Amounts subject to temporary differences	Bank 31/12/2012 Amounts subject to temporary differences	Bank 31/12/2011 Amounts subject to temporary differences
Accumulated excess of tax depreciation over accounting depreciation	12,225	7,033	6,158	5,128
Fair value revaluation reserve of available-for-sale financial assets	3,106	(4,151)	3,106	(4,151)
Revaluation of derivatives and securities	545	7,427	545	7,679
Revaluation of assets and accrual for vacation pay	(17,982)	(4,836)	(10,501)	(2,082)
Deferred tax asset on intra-group transactions	(3,180)	(3,180)	-	-
Tax loss	(11,986)	(41,024)	-	(38,435)
Unrecognised tax asset	14,119	8,378	-	-
Basis for calculation of deferred corporate income tax	**(3,153)**	**(30,353)**	**(692)**	**(31,861)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/ liability at the end of the year	**(575) 101**	**(4,818) 265**	**(105) -**	**(4,779) -**

EUR'000

	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Deferred corporate income tax at the beginning of the year	**(4,818) 265**	**(8,162) 30**	**(4,779) -**	**(8,136) -**
Increase charged to the statement of comprehensive income	3,351	4,603	3,587	4,381
Increase/ (decrease) attributable to fair value revaluation reserve under equity	1,087	(1,079)	1,087	(1,079)
Adjustments attributable to retained earnings/ (accumulated deficit)	(359)	-	-	-
Adjustment for the previous periods	-	55	-	55
Deferred corporate income tax (asset)/ liability at the end of the year	**(575) 101**	**(4,818) 265**	**(105) -**	**(4,779) -**

Note 6

Balances due from credit institutions

As at 31 December 2012, the Bank had established correspondent relationships with 27 (27) credit institutions registered in the EU and OECD area, 6 (7) credit institutions registered in Latvia, and 16 (19) credit institutions incorporated in other countries.

As at 31 December 2012, the group's and bank's major balances due from credit institutions registered in the EU and OECD area were as follows: EUR 68.0 (59.8) million due from the Bank of Montreal, EUR 58.5 (55.4) million due from UBS AG, and EUR 53.6 (85.4) million due from Nordea Bank Finland Plc.

Balances due from credit institutions to the group by geographical area and structure as at 31 December 2012:

EUR'000

Demand deposits with credit institutions	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Correspondent account balances	980	134,275	2,436	113,140	41,741	292,572
Overnight deposits	-	-	-	-	471	471
Total demand deposits with credit institutions	**980**	**134,275**	**2,436**	**113,140**	**42,212**	**293,043**
Other balances due from credit institutions						
Security deposits	-	420	158	47,837	-	48,415
Term deposits	3,781	22,668	164,891	-	5,499	196,839
Other balances	-	-	-	-	20,756	20,756
Total other balances due from credit institutions	**3,781**	**23,088**	**165,049**	**47,837**	**26,255**	**266,010**
Total balances due from credit institutions	**4,761**	**157,363**	**167,485**	**160,977**	**68,467**	**559,053**

As at 31 December 2012 and 2011, the group's and bank's balances due from credit institutions were neither past due nor impaired. The maximum credit risk exposure of the balances due from credit institutions is equal to the carrying amount of these assets.

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

EUR'000

Demand deposits with credit institutions	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Correspondent account balances	760	261,192	4,660	231,097	50,607	548,316
Overnight deposits	-	-	-	-	-	-
Total demand deposits with credit institutions	**760**	**261,192**	**4,660**	**231,097**	**50,607**	**548,316**
Other balances due from credit institutions						
Security deposits	-	10,300	-	15,481	-	25,781
Term deposits	-	42,579	95,665	-	7,259	145,503
Other balances	-	-	-	-	18,701	18,701
Total other balances due from credit institutions	**-**	**52,879**	**95,665**	**15,481**	**25,960**	**189,985**
Total balances due from credit institutions	**760**	**314,071**	**100,325**	**246,578**	**76,567**	**738,301**

Balances due from credit institutions to the bank by geographical area and structure as at 31 December 2012:

EUR'000

Demand deposits with credit institutions	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Correspondent account balances	-	129,679	2,436	113,140	41,704	286,959
Overnight deposits	-	-	-	-	471	471
Total demand deposits with credit institutions	**-**	**129,679**	**2,436**	**113,140**	**42,175**	**287,430**
Other balances due from credit institutions						
Security deposits	-	-	158	47,837	-	47,995
Term deposits	3,781	22,668	164,891	-	5,499	196,839
Other balances	-	-	-	-	20,756	20,756
Total other balances due from credit institutions	**-**	**22,668**	**165,049**	**47,837**	**26,255**	**265,590**
Total balances due from credit institutions	**3,781**	**152,347**	**167,485**	**160,977**	**68,430**	**553,020**

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

EUR'000

Demand deposits with credit institutions	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Correspondent account balances	711	261,084	4,660	231,097	50,576	548,128
Overnight deposits	-	-	-	-	-	-
Total demand deposits with credit institutions	**711**	**261,084**	**4,660**	**231,097**	**50,576**	**548,128**
Other balances due from credit institutions						
Security deposits	-	9,906	-	15,481	-	25,387
Term deposits	-	42,579	95,665	-	7,259	145,503
Other balances	-	-	-	-	18,701	18,701
Total other balances due from credit institutions	**-**	**52,485**	**95,665**	**15,481**	**25,960**	**189,591**
Total balances due from credit institutions	**711**	**313,569**	**100,325**	**246,578**	**76,536**	**737,719**

Note 7

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:

EUR'000

	Group/ bank 31/12/2012			Group/ bank 31/12/2011		
Issuer	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
Latvia						
Central governments	-	38,218	38,218	-	8,352	8,352
Municipalities	-	265	265	-	-	-
Corporate companies	1,510	-	1,510	-	-	-
Other financial intermediaries	51	-	51	21	-	21
Credit institutions	-	-	-	-	250	250
Total	1,561	38,483	40,044	21	8,602	8,623
International organisations	88,698	38,510	127,208	101,814	37,262	139,076
EMU countries						
Central governments	16,097	22,671	38,768	23,913	18,031	41,944
Credit institutions	145,712	43,361	189,073	95,637	4,163	99,800
Corporate companies	-	1,461	1,461	-	-	-
Total	161,809	67,493	229,302	119,550	22,194	141,744
Other EU Member States						
Central governments and central banks	79,257	5,424	84,681	55,333	773	56,106
Credit institutions	18,442	33,948	52,390	36,132	249	36,381
Total	97,699	39,372	137,071	91,465	1,022	92,487
Other OECD countries						
Central governments	317,505	54,971	372,476	68,349	22,026	90,375
Credit institutions	59,384	28,271	87,655	33,243	4,071	37,314
Municipalities	-	31,391	31,391	-	-	-
State-owned enterprises	15,595	7,664	23,259	27,635	7,886	35,521
Other financial intermediaries	2,987	-	2,987	3,143	-	3,143
Total	395,471	122,297	517,768	132,370	33,983	166,353
Other countries						
Central governments and central banks	13,903	31,394	45,297	20,169	26,655	46,824
Municipalities	514	1,392	1,906	1,140	751	1,891
Financial auxiliary	71	-	71	129	-	129
Credit institutions	12,521	67,138	79,659	33,947	45,957	79,904
Corporate companies	3,944	94,533	98,477	26,916	60,878	87,794
Total	30,953	194,457	225,410	82,301	134,241	216,542
Net fixed income securities	**776,191**	**500,612**	**1,276,803**	**527,521**	**237,304**	**764,825**

In the reporting year, the annual yield of the bank's securities portfolio was 2.4% (3.9%). Most of these assets – 93.8% (88.6%) - have been invested by the bank in investment-grade securities. At the end of the reporting year, the weighted average duration of the bank's securities portfolio was 2.1 (2.3).
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 EUR 365.7 (271.8) thousand made in the securities of the Portuguese central government.

As at 31 December 2012, all the available-for-sale securities were listed. Meanwhile, the following held-to-maturity securities were not listed on stock exchanges:

- EUR 317 (487) thousand – debt securities issued by companies of other countries;
- EUR 719 (716) thousand – debt securities issued by credit institutions of other countries;
- EUR 3,920 (0) thousand – debt securities issued by an EMU credit institution.

Most significant investments of the group and the bank in debt securities are as follows:

EUR'000

Issuer	Group/ bank 31/12/2012			Group/ bank 31/12/2011		
	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
USA						
Central government	273,490	29,912	303,402	38,931	-	38,931
Other issuers	2,987	-	2,987	3,139	-	3,139
Total	**276,477**	**29,912**	**306,389**	**42,070**	**-**	**42,070**
Russia						
Central government	13,180	23,325	36,505	15,256	24,856	40,112
Other issuers	13,795	143,433	157,228	45,754	95,422	141,176
Total	**26,975**	**166,758**	**193,733**	**61,010**	**120,278**	**181,288**
Canada						
Central government	49,460	28,813	78,273	22,931	22,026	44,957
Other issuers	58,998	39,025	98,023	33,314	7,886	41,200
Total	**108,458**	**67,838**	**176,296**	**56,245**	**29,912**	**86,157**
Germany						
Central government	-	10,146	10,146	19,594	10,189	29,783
Other issuers	116,264	27,871	144,135	70,158	4,163	74,321
Total	**116,264**	**38,017**	**154,281**	**89,752**	**14,352**	**104,104**
Sweden						
Central government	55,441	-	55,441	40,489	-	40,489
Other issuers	18,442	11,687	30,129	24,230	-	24,230
Total	**73,883**	**11,687**	**85,570**	**64,719**	**-**	**64,719**
Latvia						
Central government	-	38,218	38,218	-	8,352	8,352
Other issuers	1,562	265	1,827	21	250	271
Total	**1,562**	**38,483**	**40,045**	**21**	**8,602**	**8,623**
International organisations	**88,698**	**38,507**	**127,205**	**101,814**	**37,262**	**139,076**
Other countries	**83,873**	**109,411**	**193,284**	**111,890**	**26,897**	**138,787**
Net securities portfolio	**776,190**	**500,613**	**1,276,803**	**527,521**	**237,304**	**764,825**

Note 7

Investments in subsidiaries

The bank has shares in the following subsidiaries:

EUR'000

Company	Country of incorporation	31/12/2012 Share capital	31/12/2012 Equity	31/12/2012 Bank's share of total share capital, %	31/12/2011 Share capital	31/12/2011 Equity	31/12/2011 Bank's share of total share capital, %
Pillar Holding Company, KS	LV	90,000	90,681	99.9997	80,000	80,741	99.9997
ABLV Bank Luxembourg, S.A.	LU	20,000	18,166	100	2,001	1,894	100
ABLV Private Equity Fund 2010, KS	LV	10,000	11,201	100	10,000	10,303	100
New Hanza City, SIA	LV	6,261	6,192	100	4,126	4,071	100
ABLV Consulting services, AS	LV	711	768	100	534	572	100
Pillar Management, SIA	LV	711	556	100	711	176	100
ABLV Asset Management, IPAS	LV	569	556	100	569	845	100
ABLV Capital Markets, IBAS	LV	569	2,684	100	569	2,279	100
ABLV Private Equity Mangement, SIA	LV	171	213	100	171	188	100
ABLV Corporate Services, SIA	LV	28	199	100	28	60	100
Pillar, SIA	LV	3	3	100	-	-	-
Elizabetes Park House, SIA	LV	-	-	100	3,557	2,386	91.6
Total, gross		**129,023**	**131,219**		**102,266**	**103,515**	
Impairment expense		(1,569)			(536)		
Total, net		**127,454**			**101,730**		

During the reporting year, the bank increased the share capital of its subsidiary ABLV Bank Luxembourg, S.A. by EUR 18.0 million. In October 2012, ABLV Bank Luxembourg, S.A obtained a banking licence. The bank established its subsidiary bank in Luxembourg to develop the existing customer base and strengthen their loyalty, supplying a wider range of investment and fiduciary services as well as acquire new customers.

During the reporting year, the bank increased its investment in Pillar Holding Company, KS and New Hanza City, SIA by EUR 10.0 million and EUR 2.1 million respectively. The Bank also increased the share capital of ABLV Consulting services, AS by EUR 177.9 thousand. The above capital increases were aimed at ensuring expansion of the subsidiaries' business and their successful development. In the reporting year, within the framework of the effective restructuring of the ABLV group, the subsidiary Elizabetes Park House, SIA was included in the Pillar Holding Company, KS group which is engaged in real estate takeover, management, development, preparation for sale and ultimate sale.
In October 2012, the group sold its subsidiary AB.LV Transform Investments, SIA to third parties.

In 2012, the bank established impairment indications in respect of its investments in Pillar Management, SIA and Pillar Holding Company, KS and, therefore, recognised impairment expense of EUR 175.0 thousand and EUR 858.0 thousand respectively.

In the reporting year, the investment fund ABLV Private Equity Fund 2010, KS acquired additional 20.0% shares in Orto, SIA. As a result, ABLV Private Equity Fund 2010, KS is the holder of a total of 60.0% shares in ORTO, SIA and exercises control over this entity. In the reporting year, ABLV Private Equity Fund 2010, KS established and structured a holding company Vaiņodes Agro Holding, SIA to develop agricultural production in Latvia. The investment made by Private Equity Fund 2010, KS in Vaiņodes Agro Holding, SIA totals EUR 996.0 thousand.

As at 31 December 2012, funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation amounted to EUR 54.4 (41.8) million. The value of financial instruments of the ABLV Capital Markets, IBAS customers as at 31 December 2012 was EUR 605.4 (361.0) million.

Note 9

Deposits

EUR'000

Customer profile	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Corporate companies	2,289,892	2,006,669	2,299,139	2,017,890
Private individuals	331,673	247,814	331,673	247,556
Financial institutions	26,293	6,808	26,293	6,808
Non-profit institutions serving private individuals	2,050	2,620	2,050	2,620
Municipalities	36	31	36	31
State-owned enterprises	-	6,162	-	6,162
Total deposits	**2,649,944**	**2,270,104**	**2,659,191**	**2,281,067**

The group's/ bank's top 20 customers in terms of the deposit amount account for 17.3% (17.5%) of the total deposits.

EUR'000

Geographical profile of customer residence	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Other countries	1,649,982	1,503,350	1,649,982	1,503,349
Other EU Member States	547,672	453,640	547,672	453,640
EMU countries	325,553	150,030	325,553	151,183
Latvia	94,355	84,756	103,602	94,567
Other OECD countries	32,382	78,328	32,382	78,328
Total deposits	**2,649,944**	**2,270,104**	**2,659,191**	**2,281,067**

Of the total deposits placed with the group and the bank, 88.0% (85.8%) are from customers whose beneficiaries are CIS residents.

Note 10

Issued securities

Securities issued by the bank are as follows:

EUR'000

Date of issue	ISIN	Currency	Number	Par value	Date of maturity	Discount/ coupon rate, %	Group/ bank 31/12/2012	Group 31/12/2011	Bank 31/12/2011
Subordinated bonds									
October 2008	LV0000800712	EUR	125,000	100	01/10/2018	10.0	10,694	10,535	10,535
October 2008	LV0000800720	USD	200,000	100	01/10/2018	9.5	13,529	13,157	13,157
September 2010	LV0000800845	USD	200,000	100	15/09/2020	6.5	12,708	12,211	12,211
December 2011	LV0000800936	EUR	150,000	100	22/12/2021	4.8	12,420	10,898	10,898
June 2012	LV0000800977	EUR	50,000	100	25/06/2022	4.5	2,213	-	-
June 2012	LV0000800985	USD	200,000	100	27/06/2022	4.5	15,111	-	-
Subordinated bonds, total							**66,675**	**46,801**	**46,801**
Ordinary bonds									
December 2011	LV0000800910	EUR	10,000	1,000	20/12/2013	1.5+Euribor 6m	9,664	3,251	10,011
December 2011	LV0000800928	USD	30,000	1,000	21/12/2013	1.5+Libor 6m	22,500	23,236	23,236
July 2012	LV0000800969	USD	50,000	1,000	30/07/2014	1.2+Libor 6m	38,074	-	-
October 2012	LV0000801033	USD	25,000	1,000	15/10/2013	1.15	17,675	-	-
November 2012	LV0000801041	EUR	15,000	1,000	05/11/2014	1.55	12,397	-	-
November 2012	LV0000801058	USD	50,000	1,000	06/11/2014	1.45	10,616	-	-
Ordinary bonds, total							**110,926**	**26,487**	**33,247**
Issued securities, total							**177,601**	**73,288**	**80,048**

Note 11

Subordinated liabilities

As at 31 December 2012, the group's and bank's subordinated liabilities of EUR 85.1 (77.7) million comprised subordinated bonds amounting to EUR 66.7 (46.8) million and subordinated loans amounting to EUR 18.4 (30.9) million. Subordinated loans consist from the total amount of USD 20.7 (36.7) million and EUR 2.7 (2.4) million.

The analysis of subordinated loans as at 31 December 2012:

	Loan amount EUR'000	Accumulated interest EUR'000	Interest rate, %	Currency	Date of the agreement	Date of maturity
Harpic group Ltd	11,333	48	5.11	USD	14/08/2008	19/08/2018
Other lenders*						
non-residents	4,239	53	1.75 - 8.39	USD		
non-residents	2,695	4	3.15 - 3.90	EUR		
Other lenders in total	**6,934**	**57**				
Total subordinated deposits	**18,267**	**105**				

The analysis of subordinated loans as at 31 December 2011:

	Loan amount EUR'000	Accumulated interest EUR'000	Interest rate, %	Currency	Date of the agreement	Date of maturity
Harpic group Ltd	11,611	50	5.13	USD	14.08.2008	19.08.2018
Other lenders*						
non-residents	16,726	34	1.99 - 8.39	USD		
non-residents	2,395	6	3.46 - 3.90	EUR		
Other lenders in total	**19,121**	**40**				
Total subordinated deposits	**30,732**	**90**				

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 4.58 (4.37) years.
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 basic conditions of the subordinated bonds issued by the Bank are disclosed in Note 10.

Note 12

Paid-in share capital

In the reporting year, the bank issued 10,600 voting shares in addition to the existing 110,000 voting shares. The issue of the bank's share capital was intended to ensure steady development of the group/ bank in the future. Most of the newly issued shares have been acquired by the existing shareholders of the bank - Cassandra Holding Company, SIA and SIA OF Holding.

As at 31 December 2012 the paid-in share capital of the bank amounted to EUR 28.0 million (23.5 million). All the shares have the par value of EUR 213.43 (213.43) each. The bank's share capital consists of 120,600 (110,000) ordinary registered voting shares and 11,000 (0) registered non-voting shares (personnel shares). As at 31 December 2012, the bank had 119 (123) voting shareholders.

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

	31/12/2012		31/12/2011	
	Share of the bank's share capital, EUR'000	Share of the bank's voting capital (%)	Share of the bank's share capital, EUR'000	Share of the bank's voting capital (%)
Group of shareholders related to Ernests Bernis				
Ernests Bernis	1,429	5.55	9,863	42.01
Nika Berne	240	0.94	219	0.94
Cassandra Holding Company, SIA	9,399	36.52	-	-
Group of shareholders related to Ernests Bernis, total	11,069	**43.01**	10,082	**42.95**
Group of shareholders related to Oļegs Fiļs				
SIA OF Holding	11,069	43.00	-	-
Oļegs Fiļs	-	-	10,082	42.95
Group of shareholders related to Oļegs Fiļs, total	11,069	**43.00**	10,082	**42.95**
Other shareholders, total	3,602	**13.99**	3,313	**14.10**
Total voting shares	**25,740**	**100.00**	**23,477**	**100.00**
Non-voting shares (personnel shares)	2,347		-	
Total share capital	**28,087**		**23,477**	

The registered non-voting shares (personnel shares) were for the first time issued in 2012.

		31/12/2012
	Amount of employees	Personnel shares
Chairman of the Council and Council members	3	-
Chairman of the Board	1	-
Board members	6	5,850
Heads and deputy heads of divisions	15	5,150
Non-voting shares (personnel shares), total		**11,000**

Note 13

Dividends declared and paid

	Group/ bank 01/01/2012 - 31/12/2012	Group/ bank 01/01/2011 - 31/12/2011
		EUR'000
Dividends declared	27,185	-
Dividends paid	27,177	-
		EUR
Dividends declared per share	225	-
Dividends paid per share	225	-

Note 14

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.

Group's transactions with related parties:

EUR'000

	31/12/2012				31/12/2011		
Assets	Shareholders	Management	Related companies	Other related individuals	Management	Related companies	Other related individuals
Loans	-	965	1,616	697	750	2,846	1,104
Liabilities							
Deposits	195	1,562	2,954	1,514	1,946	701	2,022
Subordinated deposits	-	-	-	-	-	-	-
Subordinated bonds	-	1,006	149	1,120	95	451	164
Memorandum items							
Undrawn credit facilities	-	168	85	83	450	122	-
Guarantees	-	189	-	-	191	-	-

	01/01/2012 - 31/12/2012				01/01/2011 - 31/12/2011		
Income/ expense	Shareholders	Management	Related companies	Other related individuals	Management	Related companies	Other related individuals
Interest income	-	47	118	24	10	181	37
Commission and fee income	-	21	41	10	16	31	10
Interest expense	-	(3)	(1)	(3)	(9)	(4)	(16)

Bank's transactions with related parties:

EUR'000

	31/12/2012					31/12/2011			
Assets	Shareholders	Management	Related companies	Subsidiaries	Other related individuals	Management	Related companies	Subsidiaries	Other related individuals
Loans	-	965	1,616	16,834	598	750	2,846	14,488	684
Impairment allowances	-	-	-	-	-	-	-	(248)	-
Loans, net	-	965	1,616	16,834	598	750	2,846	14,240	684
Liabilties									
Deposits	195	1,562	2,954	13,144	1,286	1,946	701	11,231	1,908
Subordinated deposits	-	-	-	-	-	-	-	-	-
Subordinated bonds	-	1,006	149	-	904	95	451	-	20
Memorandum items									
Undrawn credit facilities	-	168	85	162	80	450	122	892	-
Guarantees	-	189	-	7	-	191	-	7	-

	01/01/2012 - 31/12/2012					01/01/2011 - 31/12/2011			
Income/ expense	Shareholders	Management	Related companies	Subsidiaries	Other related individuals	Management	Related companies	Subsidiaries	Other related individuals
Interest income	-	47	118	1,093	18	10	181	901	21
Commission and fee income	-	21	41	151	7	16	28	359	6
Interest expense	-	(3)	(1)	(16)	(3)	(9)	(4)	(18)	(16)
Other operating income	-	-	-	982	-	-	-	626	-
Other operating expense	-	-	-	(4,464)	-	-	-	(3,800)	-
Impairment allowances	-	-	-	248	-	-	-	(248)	-

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 2012, the bank was in compliance with the above statutory requirements.

Note 28

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 advisory. 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 Bank Luxembourg, S.A;
- Advisory: ABLV Consulting Services, AS, ABLV Corporate Services, SIA, and ABLV Corporate Services, LTD;
- Investments: Pillar Holding Company, KS, Pillar, SIA, Pillar Management,SIA, Pillar 2, SIA, Pillar 3, SIA, Pillar 4, SIA, Pillar 6, SIA, Pillar 7, SIA, Pina Breeze, SIA, Pillar 9, SIA Pillar 10, SIA, Pillar 11, SIA, Pillar 12, SIA, Pillar 13, SIA, Lielezeres Apartment House, SIA, Pillar 17, SIA, Pillar 18, SIA, Elizabetes Park House, SIA, New Hanza City, SIA, ABLV Private Equity Management, SIA, ABLV Private Equity Fund 2010, KS, Vaiņode Agro Holding, SIA, Vaiņodes Agro, SIA, Vaiņeode bekons, SIA, Gas Stream, SIA, Bio Future, SIA, Ortopēdijas, sporta traumatoloģijas un mugurkaula ķirurģijas klīnika ORTO, SIA, and Orto māja, SIA.

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

EUR'000

	Group			Group			Bank	Bank
	31/12/2012			31/12/2011			31/12/2012	31/12/2011
Assets	Banking	Investments	Advisory	Banking	Investments	Advisory	Banking	Banking
Cash and deposits with the Bank of Latvia	307,446	6	-	204,414	-	-	307,446	204,414
Balances due from credit institutions	558,035	980	38	738,219	50	33	553,020	737,719
Securities and derivatives	1,285,218	-	-	782,292	-	-	1,285,218	782,292
Loans	767,215	11,393	-	738,811	12,591	-	784,049	753,327
Investments in subsidiaries and associates	-	3,796	-	-	448	-	127,457	101,431
Tangible and intangible fixed assets, investment properties	37,453	25,228	334	35,815	13,965	171	36,416	35,549
Other assets	20,545	81,430	269	16,477	72,354	203	19,964	16,776
Total assets per internal reporting	**2,975,911**	**122,832**	**642**	**2,516,027**	**99,409**	**407**	**3,113,569**	**2,631,508**
Impairment allowance*	69,739	54	-	85,552	-	-	69,739	85,761
Total assets per IFRS	**2,906,172**	**122,778**	**642**	**2,430,476**	**99,409**	**407**	**3,043,830**	**2,545,747**
Liabilities								
Balances due to credit institutions	3,127	1,421	-	12,063	3,512	-	15,383	12,063
Derivatives	6,515	-	-	201	-	-	6,515	201
Deposits and issued securities	2,842,346	3,571	-	2,373,955	259	-	2,855,164	2,391,937
Impairment allowances and other provisions	70,220	54	-	85,512	-	-	70,220	85,759
Other liabilities	13,759	10,186	612	12,080	5,881	421	14,320	13,240
Total liabilities per internal reporting	**2,935,968**	**15,233**	**612**	**2,483,811**	**9,651**	**421**	**2,961,602**	**2,503,200**
Total liabilities and shareholders' equity	**3,088,301**	**10,292**	**793**	**2,612,825**	**2,524**	**494**	**3,113,569**	**2,631,508**
Impairment allowance*	69,739	54	-	85,552	-	-	69,739	85,761
Total liabilities per IFRS	**3,018,561**	**10,238**	**793**	**2,527,274**	**2,524**	**494**	**3,043,830**	**2,545,747**

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

EUR'000

	Group			Group			Bank	Bank
	01/01/2012 - 31/12/2012			01/01/2011 - 31/12/2011			01/01/2012 - 31/12/2012	01/01/2011 - 31/12/2011
Profit/ loss	Banking	Investments	Advisory	Banking	Investments	Advisory	Banking	Banking
Net interest income	31,115	1,520	-	30,663	1,158	-	32,212	31,530
Net commission and fee income	40,399	-	-	32,282	-	20	36,537	29,207
Net result of transactions with financial instruments and foreign exchange	20,774	51	(36)	37,976	(141)	(28)	20,997	37,951
Net other income/ expense	(2,439)	4,260	815	(2,052)	2,060	455	(5,916)	(5,130)
Income from dividends	10	-	-	1	-	-	1,998	1,006
Administrative expense and depreciation	(39,209)	(2,392)	(4,316)	(38,096)	(1,355)	(3,192)	(36,112)	(36,398)
Impairment allowances and provisions	(19,566)	(16)	-	(24,139)	(37)	-	(19,318)	(24,385)
Impairment of financial instruments	(487)	-	-	(2,499)	-	-	(487)	(2,499)
Impairment of non-financial assets	(139)	(2,136)	-	(33)	(1,760)	-	(1,172)	505
Corporate income tax	(5,674)	101	(60)	(4,735)	(359)	(9)	(5,326)	(4,602)
Net profit/ (loss) for the year	**24,784**	**1,388**	**(3,596)**	**29,370**	**(433)**	**(2,753)**	**23,412**	**27,185**

Note 16

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 2012 will not result in material losses for the bank and/ or the group.

Note 17

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 below mentioned.

At February of 2013 the board of the bank decide to recommend to the shareholders` general meeting to initiate two new issues of shares, both as personnel shares and as ordinary shares, in order to increase the bank's capital by EUR 16.4 million.