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 LVL 16.5 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 LVL 15.9 million, whereas that of ABLV Bank, AS – to LVL 16.5 million. The bank’s profit for 2012 is LVL 2.6 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 LVL 66.1 million.
- During 2012, the amount of deposits with the bank has increased – by 16.6% to reach LVL 1.9 billion.
- As at 31 December 2012, the amount of the bank’s assets equalled LVL 2.1 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 LVL 503.6 million (as at 31 December 2011, it was equal to LVL 470.6 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 LVL 12.0 million (in 2011 – LVL 16.5 million).
- The bank’s capital and reserves amounted to LVL 106.8 million (LVL 90.2 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 LVL 902.9 million, 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 LVL 15.0 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 LVL 5.6 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 LVL 38.2 million, of which LVL 35.9 million were customers’ investments in mutual funds managed by the company and LVL 2.3 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 LVL 7.4 million to substitute the customers’ securities held with MF Global UK. The bank’s direct expenses and allowances under assuming the customers’ risk equalled LVL 1.5 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 LVL 425.5 million, thus allowing the company to end 2012 with profit of LVL 1.5 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 LVL 11.0 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 LVL 7.5 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 LVL 60 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 LVL 2.6 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 LVL 1.37 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 LVL 262 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*

LVL'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		38,303	38,042	37,988	37,725
Interest expense		(15,367)	(15,678)	(15,349)	(15,566)
Net interest income		**22,936**	**22,364**	**22,639**	**22,159**
Commission and fee income		32,320	26,120	29,201	23,521
Commission and fee expense		(3,927)	(3,418)	(3,523)	(2,994)
Net commission and fee income		**28,393**	**22,702**	**25,678**	**20,527**
Net gain on transactions with financial instruments and foreign exchange	3	14,611	26,571	14,757	26,672
Other income		16,692	9,493	1,584	1,349
Income from dividends		7	1	1,404	707
Impairment allowance	4	(13,424)	(16,991)	(13,239)	(17,138)
Operating income		**69,215**	**64,140**	**52,823**	**54,276**
Administrative expense		(30,250)	(28,149)	(23,965)	(24,081)
Amortisation and depreciation		(2,044)	(1,852)	(1,433)	(1,516)
Other expense		(14,840)	(9,167)	(5,742)	(4,954)
Gain/ (loss) from sale of tangible and intangible fixed assets		23	32	18	16
Provisions		(338)	-	(338)	-
Impairment of financial instruments		(342)	(1,756)	(342)	(1,756)
Impairment of non-financial assets		(1,599)	(1,260)	(824)	355
Total operating expense		**(49,390)**	**(42,152)**	**(32,626)**	**(31,936)**
Profit before corporate income tax		**19,825**	**21,988**	**20,197**	**22,340**
Corporate income tax	5	(3,959)	(3,586)	(3,743)	(3,234)
Net profit for the year		**15,866**	**18,402**	**16,454**	**19,106**
Attributable to:					
Equity holders of the bank		16,106	18,745		
Non-controlling interests		(240)	(343)		
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		4,773	(4,996)	4,773	(4,996)
Charge to income statement as a result of sale of available-for-sale securities		(16)	(1,827)	(16)	(1,827)
Charge to income statement due to recognised impairment of available-for-sale securities		342	1,756	342	1,756
Change in deferred corporate income tax		(764)	758	(764)	758
Other comprehensive income, total		**4,335**	**(4,309)**	**4,335**	**(4,309)**
Total comprehensive income		**20,201**	**14,093**	**20,789**	**14,797**
Attributable to:					
Equity holders of the bank		20,441	14,436		
Non-controlling interests		(240)	(343)		
Earnings per share attributable to the equity holders of the bank, LVL		162.19	131.24		

* - 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*

LVL'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		216,078	143,663	216,074	143,663
Balances due from credit institutions	6	392,905	518,881	388,665	518,472
Derivatives		81	8,169	81	8,169
Financial assets at fair value through profit or loss		3,333	753	3,333	753
Shares and other non-fixed income securities		3,333	753	3,333	753
Available-for-sale financial assets		547,757	373,006	547,757	373,006
Debt securities and other fixed income securities	7	545,510	370,744	545,510	370,744
Shares and other non-fixed income securities		2,247	2,262	2,247	2,262
Loans		499,787	469,424	503,611	470,603
Held-to-maturity investments		351,832	166,778	351,832	166,778
Debt securities and other fixed income securities	7	351,832	166,778	351,832	166,778
Investments in subsidiaries and associates	8	2,668	315	89,577	71,286
Investment properties		20,856	21,542	17,303	16,662
Tangible fixed assets		19,610	10,071	4,906	4,954
Intangible fixed assets		3,821	3,493	3,384	3,368
Current corporate income tax receivables		71	15	-	-
Deferred corporate income tax	5	404	3,386	74	3,359
Other assets		70,006	58,803	12,619	8,088
Total assets		**2,129,209**	**1,778,299**	**2,139,216**	**1,789,161**

Liabilities					
Derivatives		4,579	141	4,579	141
Demand deposits from credit institutions		967	1,779	2,406	1,779
Term deposits from credit institutions		2,230	9,167	8,405	6,699
Deposits	9	1,862,391	1,595,438	1,868,890	1,603,143
Current corporate income tax liabilities		1,273	173	1,057	-
Other liabilities		15,915	12,919	9,007	9,305
Deferred corporate income tax	5	71	186	-	-
Provisions		338	-	338	-
Issued securities	10	124,819	51,507	124,819	56,258
Subordinated deposits	11	12,912	21,662	12,912	21,662
Other liabilities		**2,025,495**	**1,692,972**	**2,032,413**	**1,698,987**
Shareholders' equity					
Paid-in share capital	12	19,740	16,500	19,740	16,500
Share premium		19,180	5,255	18,611	5,255
Reserve capital and other reserves		1,500	1,500	1,500	1,500
Fair value revaluation reserve of available-for-sale financial assets		1,855	(2,480)	1,855	(2,480)
Retained earnings brought forward		43,293	45,304	48,643	50,293
Retained earnings for the period		16,106	18,745	16,454	19,106
Attributable to the equity holders of the bank		101,674	84,824	106,803	90,174
Non-controlling interests		2,040	503	-	-
Total shareholders' equity		**103,714**	**85,327**	**106,803**	**90,174**
Total liabilities and shareholders' equity		**2,129,209**	**1,778,299**	**2,139,216**	**1,789,161**
Memorandum items					
Funds under trust management		137,840	116,884	99,668	87,492
Contingent liabilities		7,052	12,055	7,052	12,055
Financial commitments		30,276	20,940	30,276	20,940

* - 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

LVL'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	**16,500**	**5,255**	**1,500**	**1,829**	**45,304**	**70,388**	**682**	**71,070**
Total comprehensive income for the year 2011	-	-	-	(4,309)	18,745	14,436	(343)	14,093
Increase of non-controlling interests	-	-	-	-	-	-	164	164
As at 31 December 2011	**16,500**	**5,255**	**1,500**	**(2,480)**	**64,049**	**84,824**	**503**	**85,327**

As at 1 January 2012	**16,500**	**5,255**	**1,500**	**(2,480)**	**64,049**	**84,824**	**503**	**85,327**
Total comprehensive income for the year 2012	-	-	-	4,335	16,106	20,441	(240)	20,201
Dividends paid	-	-	-	-	(19,106)	(19,106)	-	(19,106)
Issue of personnel shares	1,650	-	-	-	(1,650)	-	-	-
Issue of shares	1,590	13,356	-	-	-	14,946	-	14,946
Increase of non-controlling interests	-	569	-	-	-	569	1,777	2,346
As at 31 December 2012	**19,740**	**19,180**	**1,500**	**1,855**	**59,399**	**101,674**	**2,040**	**103,714**

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

LVL'000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
As at 1 January 2011	**16,500**	**5,255**	**1,500**	**1,829**	**50,293**	**75,377**
Total comprehensive income for the year 2011	-	-	-	(4,309)	19,106	14,797
As at 31 December 2011	**16,500**	**5,255**	**1,500**	**(2,480)**	**69,399**	**90,174**

As at 1 January 2012	**16,500**	**5,255**	**1,500**	**(2,480)**	**69,399**	**90,174**
Total comprehensive income for the year 2012	-	-	-	4,335	16,454	20,789
Dividends paid	-	-	-	-	(19,106)	(19,106)
Issue of personnel shares	1,650	-	-	-	(1,650)	-
Issue of shares	1,590	13,356	-	-	-	14,946
As at 31 December 2012	**19,740**	**18,611**	**1,500**	**1,855**	**65,097**	**106,803**

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

LVL'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	19,825	21,988	20,197	22,340
Amortisation and depreciation of fixed assets and investment properties	2,044	1,852	1,433	1,516
Allowance for impairment of assets	13,413	16,991	13,239	17,138
Impairment of non-financial assets	(1,599)	1,260	824	(355)
Decrease/ (increase) in financial instruments	(209)	2,002	(209)	1,954
Interest (income)	(38,303)	(38,042)	(37,988)	(37,725)
Interest expense	15,367	15,678	15,349	15,566
Other non-cash items	5,573	(4,966)	(148)	(5,130)
Net cash flow from operating activities before changes in assets and liabilities	**16,111**	**16,763**	**12,697**	**15,304**
(Increase) in balances due from credit institutions	(46,427)	(4,087)	(46,133)	(4,088)
(Increase)/ decrease in loans	(41,504)	33,772	(44,627)	31,163
(Increase)/ decrease in financial assets at fair value through profit or loss	(11,291)	18,944	(11,291)	18,992
(Increase)/ decrease in other assets	(6,874)	(13,973)	1,538	(2,376)
(Decrease)/ increase in balances due to credit institutions	(2,747)	710	7,210	1,195
Increase in deposits	288,111	354,814	286,906	351,120
Increase/ (decrease) in derivatives	12,527	(4,825)	12,527	(4,825)
Increase in other liabilities	2,860	5,973	(304)	3,871
Net cash flow from operating activities before corporate income tax	**210,766**	**408,091**	**218,523**	**410,356**
Interest received in the reporting year	32,571	32,946	32,927	33,572
Interest (paid) in the reporting year	(12,631)	(13,112)	(12,631)	(12,998)
Corporate income tax (paid)	(409)	(175)	-	-
Net cash flow from operating activities	**230,297**	**427,750**	**238,819**	**430,930**
Cash flow from investing activities				
(Purchase) of held-to-maturity investments	(246,320)	(86,627)	(246,320)	(86,627)
Redemption of held-to-maturity investments	14,635	108,387	14,635	108,387
(Purchase) of available-for-sale financial assets	(766,214)	(405,587)	(766,214)	(405,587)
Sale of available-for-sale financial assets	636,700	177,650	636,700	177,650
(Purchase) of intangible and tangible fixed assets and investment properties	(16,826)	(4,689)	(2,230)	(1,071)
Sale of intangible and tangible fixed assets	5,467	44	53	44
(Purchase) of investments in other entities	(2,353)	(315)	(23,712)	(12,247)
Decrease in investments in subsidiaries	-	-	4,863	-
Net cash flow from investing activities	**(374,911)**	**(211,137)**	**(382,225)**	**(219,451)**
Cash flow from financing activities				
Increase in subordinated loans	2,335	-	2,335	-
(Repayment) of subordinated loans	(10,880)	(2,347)	(10,880)	(2,347)
Sale of issued securities	90,350	28,293	90,350	33,044
(Repurchase) of issued securities	(18,078)	-	(22,828)	-
Dividends (paid)	(19,100)	-	(19,100)	-
Issue of shares	14,946	-	14,946	-
Net cash flow from financing activities	**59,573**	**25,946**	**54,823**	**30,697**
Net cash flow	**(85,041)**	**242,559**	**(88,583)**	**242,176**
Cash and cash equivalents at the beginning of the year	**637,416**	**391,251**	**637,007**	**391,225**
(Loss)/ gain from revaluation of foreign currency positions	(9,482)	3,606	(9,480)	3,606
Cash and cash equivalents at the end of the year	**542,893**	**637,416**	**538,944**	**637,007**

LVL'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	216,078	143,663	216,074	143,663
Balances due from credit institutions	329,221	501,036	325,276	500,627
Balances due to credit institutions	(2,406)	(7,283)	(2,406)	(7,283)
Total cash and cash equivalents	**542,893**	**637,416**	**538,944**	**637,007**

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 lats (LVL'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 LVL 3,2 million.
In the reporting year, an allowance of LVL 0,6 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

LVL'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	204	(246)	193	(198)
Derivatives	19	44	19	44
Securities	185	(290)	174	(242)
(Loss) from trading with financial instruments at fair value through profit or loss	(33)	(5,400)	(33)	(5,400)
Derivatives	(45)	(5,767)	(45)	(5,767)
Securities	12	367	12	367
Net gain/ (loss) from financial instruments at fair value through profit or loss	**171**	**(5,646)**	**160**	**(5,598)**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	16	1,827	16	1,827
Net realised gain from available-for-sale financial instruments	**16**	**1,827**	**16**	**1,827**
Financial instruments at amortised cost				
Gain from sale of securities of the loans and receivables portfolio	-	2	-	2
Gain from sale of held-to-maturity securities	-	9,478	-	9,478
Net realised gain from sale of financial instruments at amortised cost	**-**	**9,480**	**-**	**9,480**
Foreign exchange				
Profit from foreign currency exchange	14,109	15,780	14,264	15,833
Gain from revaluation of foreign currency positions	315	5,130	317	5,130
Net result from foreign exchange trading and revaluation	**14,424**	**20,910**	**14,581**	**20,963**
Net gain on transactions with financial instruments and foreign exchange	**14,611**	**26,571**	**14,757**	**26,672**

Note 4

Allowances for impairment of financial assets

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

LVL'000

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Other assets	**Total**
Individual allowances	1,570	14,190	-	694	120	972	370	17,916
Portfolio allowances	41,387	163	63	597	-	-	-	42,210
Total allowances at the beginning of the year	**42,957**	**14,353**	**63**	**1,291**	**120**	**972**	**370**	**60,126**
Increase/ (decrease) in allowances for the year	12,044	(1,572)	16	1,700	(38)	18	1,256	13,424
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	(250)	(250)
(Decrease) in allowances for the year due to currency fluctuations	(7)	(17)	-	-	(2)	(4)		(30)
(Elimination) of allowances for the year due to write-offs	(17,342)	(5,635)	(25)	(404)	-	(813)	-	(24,219)
Individual allowances	966	6,719	-	385	80	173	1,376	9,699
Portfolio allowances	36,686	410	54	2,202	-	-	-	39,352
Total allowances at the end of the year	**37,652**	**7,129**	**54**	**2,587**	**80**	**173**	**1,376**	**49,051**

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

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

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

LVL'000

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Other assets	**Total**
Individual allowances	1,570	14,364	-	694	120	972	343	18,063
Portfolio allowances	41,387	163	63	597	-	-	-	42,210
Total allowances at the beginning of the year	**42,957**	**14,527**	**63**	**1,291**	**120**	**972**	**343**	**60,273**
Increase/ (decrease) in allowances for the year	12,044	(1,746)	16	1,700	(38)	18	1,245	13,239
Recovery of write-offs/ asset write-off (expense) for the year	-	-	-	-	-	-	(250)	(250)
(Decrease) in allowances for the year due to currency fluctuations	(7)	(17)	-	-	(2)	(4)		(30)
(Elimination) of allowances for the year due to write-offs	(17,342)	(5,635)	(25)	(404)	-	(813)	-	(24,219)
Individual allowances	966	6,719	-	385	80	173	1,338	9,661
Portfolio allowances	36,686	410	54	2,202	-	-	-	39,352
Total allowances at the end of the year	**37,652**	**7,129**	**54**	**2,587**	**80**	**173**	**1,338**	**49,013**

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

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

Note 5

Taxation

LVL'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	19,825	21,988	20,197	22,340
Theoretical corporate income tax	**2,974**	**3,298**	**3,030**	**3,351**
Permanent differences	879	132	518	(273)
Actual corporate income tax expense for the reporting year	**3,853**	**3,430**	**3,548**	**3,078**
Adjustments to prior-year corporate income tax	(89)	-	-	-
Adjustments to prior-year deferred tax	30	39	30	39
Tax paid abroad	165	117	165	117
Total corporate income tax expense	**3,959**	**3,586**	**3,743**	**3,234**

Deferred corporate income tax calculation:

LVL'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	8,592	4,943	4,328	3,604
Fair value revaluation reserve of available-for-sale financial assets	2,183	(2,917)	2,183	(2,917)
Revaluation of derivatives and securities	383	5,220	383	5,397
Revaluation of assets and accrual for vacation pay	(12,638)	(3,399)	(7,380)	(1,463)
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	-	-
Tax loss	(8,424)	(28,832)	-	(27,012)
Unrecognised tax asset	9,923	5,888	-	-
Basis for calculation of deferred corporate income tax	**(2,216)**	**(21,332)**	**(486)**	**(22,391)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/	**(404)**	**(3,386)**	**(74)**	**(3,359)**
liability at the end of the year	**71**	**186**	**-**	**-**

LVL'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	**(3,386)** **186**	**(5,736)** **21**	**(3,359)** **-**	**(5,718)** **-**
Increase charged to the statement of comprehensive income	2,355	3,234	2,521	3,078
Increase/ (decrease) attributable to fair value revaluation reserve under equity	764	(758)	764	(758)
Adjustments attributable to retained earnings/ (accumulated deficit)	(252)	-	-	-
Adjustment for the previous periods	-	39	-	39
Deferred corporate income tax (asset)/	**(404)**	**(3,386)**	**(74)**	**(3,359)**
liability at the end of the year	**71**	**186**	**-**	**-**

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: LVL 47.8 (42.0) million due from the Bank of Montreal, LVL 41.1 (38.9) million due from UBS AG, and LVL 37.7 (60.0) 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:

LVL'000

Demand deposits with credit institutions	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Correspondent account balances	689	94,369	1,712	79,516	29,336	205,622
Overnight deposits	-	-	-	-	331	331
Total demand deposits with credit institutions	**689**	**94,369**	**1,712**	**79,516**	**29,667**	**205,953**
Other balances due from credit institutions						
Security deposits	-	295	111	33,620	-	34,026
Term deposits	2,657	15,931	115,886	-	3,865	138,339
Other balances	-	-	-	-	14,587	14,587
Total other balances due from credit institutions	**2,657**	**16,226**	**115,997**	**33,620**	**18,452**	**186,952**
Total balances due from credit institutions	**3,346**	**110,595**	**117,709**	**113,136**	**48,119**	**392,905**

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:

LVL'000

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

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

LVL'000

Demand deposits with credit institutions	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Correspondent account balances	-	91,139	1,712	79,516	29,310	201,677
Overnight deposits	-	-	-	-	331	331
Total demand deposits with credit institutions	**-**	**91,139**	**1,712**	**79,516**	**29,641**	**202,008**
Other balances due from credit institutions						
Security deposits	-	-	111	33,620	-	33,731
Term deposits	2,657	15,931	115,886	-	3,865	138,339
Other balances	-	-	-	-	14,587	14,587
Total other balances due from credit institutions	**2,657**	**15,931**	**115,997**	**33,620**	**18,452**	**186,657**
Total balances due from credit institutions	**2,657**	**107,070**	**117,709**	**113,136**	**48,093**	**388,665**

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

LVL'000

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

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:

LVL'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	-	26,860	26,860	-	5,870	5,870
Municipalities	-	186	186	-	-	-
Corporate companies	1,061	-	1,061	-	-	-
Other financial intermediaries	36	-	36	15	-	15
Credit institutions	-	-	-	-	176	176
Total	1,097	27,046	28,143	15	6,046	6,061
International organisations	62,337	27,065	89,402	71,555	26,188	97,743
EMU countries						
Central governments	11,313	15,933	27,246	16,806	12,672	29,478
Credit institutions	102,407	30,474	132,881	67,214	2,926	70,140
Corporate companies	-	1,027	1,027	-	-	-
Total	113,720	47,434	161,154	84,020	15,598	99,618
Other EU Member States						
Central governments and central banks	55,702	3,812	59,514	38,888	543	39,431
Credit institutions	12,961	23,859	36,820	25,394	175	25,569
Total	68,663	27,671	96,334	64,282	718	65,000
Other OECD countries						
Central governments	223,144	38,634	261,778	48,036	15,480	63,516
Credit institutions	41,735	19,869	61,604	23,363	2,861	26,224
Municipalities	-	22,062	22,062	-	-	-
State-owned enterprises	10,960	5,386	16,346	19,422	5,542	24,964
Other financial intermediaries	2,099	-	2,099	2,209	-	2,209
Total	277,938	85,951	363,889	93,030	23,883	116,913
Other countries						
Central governments and central banks	9,771	22,064	31,835	14,175	18,733	32,908
Municipalities	361	978	1,339	801	528	1,329
Financial auxiliary	50	-	50	91	-	91
Credit institutions	8,800	47,185	55,985	23,858	32,299	56,157
Corporate companies	2,773	66,438	69,211	18,917	42,785	61,702
Total	21,755	136,665	158,420	57,842	94,345	152,187
Net fixed income securities	**545,510**	**351,832**	**897,342**	**370,744**	**166,778**	**537,522**

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 LVL 257 (191) 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:

- LVL 223 (342) thousand – debt securities issued by companies of other countries;
- LVL 505 (503) thousand – debt securities issued by credit institutions of other countries;
- LVL 2,755 (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:

LVL'000

Issuer	Group/ bank 31/12/2012 Available-for-sale	Group/ bank 31/12/2012 Held-to-maturity	Group/ bank 31/12/2012 Total	Group/ bank 31/12/2011 Available-for-sale	Group/ bank 31/12/2011 Held-to-maturity	Group/ bank 31/12/2011 Total
USA						
Central government	192,210	21,022	213,232	27,361	-	27,361
Other issuers	2,099	-	2,099	2,206	-	2,206
Total	**194,309**	**21,022**	**215,331**	**29,567**	**-**	**29,567**
Russia						
Central government	9,263	16,393	25,656	10,722	17,469	28,191
Other issuers	9,695	100,805	110,500	32,156	67,063	99,219
Total	**18,958**	**117,198**	**136,156**	**42,878**	**84,532**	**127,410**
Canada						
Central government	34,761	20,250	55,011	16,116	15,480	31,596
Other issuers	41,464	27,427	68,891	23,413	5,542	28,955
Total	**76,225**	**47,677**	**123,902**	**39,529**	**21,022**	**60,551**
Germany						
Central government	-	7,131	7,131	13,771	7,161	20,932
Other issuers	81,711	19,588	101,299	49,307	2,926	52,233
Total	**81,711**	**26,719**	**108,430**	**63,078**	**10,087**	**73,165**
Sweden						
Central government	38,964	-	38,964	28,456	-	28,456
Other issuers	12,961	8,214	21,175	17,029	-	17,029
Total	**51,925**	**8,214**	**60,139**	**45,485**	**-**	**45,485**
Latvia						
Central government	-	26,860	26,860	-	5,870	5,870
Other issuers	1,098	186	1,284	15	176	191
Total	**1,098**	**27,046**	**28,144**	**15**	**6,046**	**6,061**
International organisations	**62,337**	**27,063**	**89,400**	**71,555**	**26,188**	**97,743**
Other countries	**58,946**	**76,894**	**135,840**	**78,637**	**18,903**	**97,540**
Net securities portfolio	**545,509**	**351,833**	**897,342**	**370,744**	**166,778**	**537,522**

Note 8

Investments in subsidiaries

The bank has shares in the following subsidiaries:

LVL'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	63,252	63,731	99.9997	56,224	56,745	99.9997
ABLV Bank Luxembourg, S.A.	LU	14,056	12,767	100	1,406	1,331	100
ABLV Private Equity Fund 2010, KS	LV	7,028	7,872	100	7,028	7,241	100
New Hanza City, SIA	LV	4,400	4,352	100	2,900	2,861	100
ABLV Consulting services, AS	LV	500	540	100	375	402	100
Pillar Management, SIA	LV	500	391	100	500	124	100
ABLV Asset Management, IPAS	LV	400	391	100	400	594	100
ABLV Capital Markets, IBAS	LV	400	1,886	100	400	1,602	100
ABLV Private Equity Mangement, SIA	LV	120	150	100	120	132	100
ABLV Corporate Services, SIA	LV	20	140	100	20	42	100
Pillar, SIA	LV	2	2	100	-	-	-
Elizabetes Park House, SIA	LV	-	-	-	2,500	1,677	91.6
	Total, gross	**90,678**	**92,222**		**71,873**	**72,751**	
	Impairment expense	(1,103)			(377)		
	Total, net	**89,575**			**71,496**		

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 LVL 1.5 million respectively. The Bank also increased the share capital of ABLV Consulting services, AS by LVL 125,0 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 LVL 123,0 thousand and LVL 603,0 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 LVL 700,0 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 LVL 38.2 (29.4) million. The value of financial instruments of the ABLV Capital Markets, IBAS customers as at 31 December 2012 was LVL 425.5 (253.7) million.

Note 9

Deposits

LVL'000

Customer profile	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Corporate companies	1,609,345	1,410,294	1,615,844	1,418,181
Private individuals	233,101	174,165	233,101	173,983
Financial institutions	18,479	4,785	18,479	4,785
Non-profit institutions serving private individuals	1,441	1,841	1,441	1,841
Municipalities	25	22	25	22
State-owned enterprises	-	4,331	-	4,331
Total deposits	**1,862,391**	**1,595,438**	**1,868,890**	**1,603,143**

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

LVL'000

Geographical profile of customer residence	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Other countries	1,159,614	1,056,560	1,159,614	1,056,560
Other EU Member States	384,906	318,820	384,906	318,820
EMU countries	228,800	105,442	228,800	106,252
Latvia	66,313	59,567	72,812	66,462
Other OECD countries	22,758	55,049	22,758	55,049
Total deposits	**1,862,391**	**1,595,438**	**1,868,890**	**1,603,143**

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:

LVL'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	7,516	7,404	7,404
October 2008	LV0000800720	USD	200,000	100	01/10/2018	9.5	9,508	9,247	9,247
September 2010	LV0000800845	USD	200,000	100	15/09/2020	6.5	8,931	8,582	8,582
December 2011	LV0000800936	EUR	150,000	100	22/12/2021	4.8	8,729	7,659	7,659
June 2012	LV0000800977	EUR	50,000	100	25/06/2022	4.5	1,555	-	-
June 2012	LV0000800985	USD	200,000	100	27/06/2022	4.5	10,620	-	-
Subordinated bonds, total							**46,859**	**32,892**	**32,892**
Ordinary bonds									
December 2011	LV0000800910	EUR	10,000	1,000	20/12/2013	1.5+Euribor 6m	6,792	2,285	7,036
December 2011	LV0000800928	USD	30,000	1,000	21/12/2013	1.5+Libor 6m	15,813	16,330	16,330
July 2012	LV0000800969	USD	50,000	1,000	30/07/2014	1.2+Libor 6m	26,759	-	-
October 2012	LV0000801033	USD	25,000	1,000	15/10/2013	1.15	12,422	-	-
November 2012	LV0000801041	EUR	15,000	1,000	05/11/2014	1.55	8,713	-	-
November 2012	LV0000801058	USD	50,000	1,000	06/11/2014	1.45	7,461	-	-
Ordinary bonds, total							**77,960**	**18,615**	**23,366**
Issued securities, total							**124,819**	**51,507**	**56,258**

Note 11

Subordinated liabilities

As at 31 December 2012, the group's and bank's subordinated liabilities of LVL 59.8 (54.6) million comprised subordinated bonds amounting to LVL 46.9 (32.9) million and subordinated loans amounting to LVL 12.9 (21.7) 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 LVL'000	Accumulated interest LVL'000	Interest rate, %	Currency	Date of the agreement	Date of maturity
Harpic group Ltd	7,965	34	5.11	USD	14/08/2008	19/08/2018
Other lenders*						
non-residents	2,979	37	1.75 - 8.39	USD		
non-residents	1,894	3	3.15 - 3.90	EUR		
Other lenders in total	**4,873**	**40**				
Total subordinated deposits	**12,838**	**74**				

The analysis of subordinated loans as at 31 December 2011:

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

The 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 LVL 19.7 million (16.5 million). All the shares have the par value of LVL 150 (150) 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, LVL'000	Share of the bank's voting capital (%)	Share of the bank's share capital, LVL'000	Share of the bank's voting capital (%)
Group of shareholders related to Ernests Bernis				
Ernests Bernis	1,004	5.55	6,932	42.01
Nika Berne	169	0.94	154	0.94
Cassandra Holding Company, SIA	6,606	36.52	-	-
Group of shareholders related to Ernests Bernis, total	**7,779**	**43.01**	**7,086**	**42.95**
Group of shareholders related to Oļegs Fiļs				
SIA OF Holding	7,779	43.00	-	-
Oļegs Fiļs	-	-	7,086	42.95
Group of shareholders related to Oļegs Fiļs, total	**7,779**	**43.00**	**7,086**	**42.95**
Other shareholders, total	2,532	**13.99**	2,328	**14.10**
Total voting shares	**18,090**	**100.00**	**16,500**	**100.00**
Non-voting shares (personnel shares)	1,650		-	
Total share capital	**19,740**		**16,500**	

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
		LVL'000
Dividends declared	19,106	-
Dividends paid	19,100	-
		LVL
Dividends declared per share	158	-
Dividends paid per share	158	-

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:

LVL'000

				31/12/2012			31/12/2011
Assets	Shareholders	Management	Related companies	Other related individuals	Management	Related companies	Other related individuals
Loans	-	678	1,136	490	527	2,000	776
Liabilities							
Deposits	137	1,098	2,076	1,064	1,368	493	1,421
Subordinated deposits		-	-	-	-	-	-
Subordinated bonds	-	707	105	787	67	317	115
Memorandum items							
Undrawn credit facilities	-	118	60	58	316	86	-
Guarantees	-	133	-	-	134	-	-

				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	-	33	83	17	7	127	26
Commission and fee income	-	15	29	7	11	22	7
Interest expense	-	(2)	(1)	(2)	(6)	(3)	(11)

Bank's transactions with related parties:

LVL'000

					31/12/2012				31/12/2011
Assets	Shareholders	Management	Related companies	Subsidiaries	Other related individuals	Management	Related companies	Subsidiaries	Other related individuals
Loans	-	678	1,136	11,831	420	527	2,000	10,182	481
Impairment allowances	-	-	-	-	-	-	-	(174)	-
Loans, net	-	678	1,136	11,831	420	527	2,000	10,008	481
Liabilties									
Deposits	137	1,098	2,076	9,238	904	1,368	493	7,893	1,341
Subordinated deposits	-	-	-	-	-	-	-	-	-
Subordinated bonds	-	707	105	-	635	67	317	-	14
Memorandum items									
Undrawn credit facilities	-	118	60	114	56	316	86	627	-
Guarantees	-	133	-	5	-	134	-	5	-

					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	-	33	83	768	13	7	127	633	15
Commission and fee income	-	15	29	106	5	11	20	252	4
Interest expense	-	(2)	(1)	(11)	(2)	(6)	(3)	(13)	(11)
Other operating income	-	-	-	690	-	-	-	440	-
Other operating expense	-	-	-	(3,137)	-	-	-	(2,671)	-
Impairment allowances	-	-	-	174	-	-	-	(174)	-

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 15

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.

LVL'000

Assets	Group 31/12/2012 Banking	Group 31/12/2012 Investments	Group 31/12/2012 Advisory	Group 31/12/2011 Banking	Group 31/12/2011 Investments	Group 31/12/2011 Advisory	Bank 31/12/2012 Banking	Bank 31/12/2011 Banking
Cash and deposits with the Bank of Latvia	216,074	4	-	143,663	-	-	216,074	143,663
Balances due from credit institutions	392,189	689	27	518,823	35	23	388,665	518,472
Securities and derivatives	903,256	-	-	549,798	-	-	903,256	549,798
Loans	539,202	8,007	-	519,239	8,849	-	551,033	529,441
Investments in subsidiaries and associates	-	2,668	-	-	315	-	89,577	71,286
Tangible and intangible fixed assets, investment properties	26,322	17,730	235	25,171	9,815	120	25,593	24,984
Other assets	14,439	57,229	189	11,580	50,851	143	14,031	11,790
Total assets per internal reporting	**2,091,482**	**86,327**	**451**	**1,768,274**	**69,865**	**286**	**2,188,229**	**1,849,434**
Impairment allowance*	49,013	38	-	60,126	-	-	49,013	60,273
Total assets per IFRS	**2,042,469**	**86,289**	**451**	**1,708,148**	**69,865**	**286**	**2,139,216**	**1,789,161**
Liabilities								
Balances due to credit institutions	2,198	999	-	8,478	2,468	-	10,811	8,478
Derivatives	4,579	-	-	141	-	-	4,579	141
Deposits and issued securities	1,997,612	2,510	-	1,668,425	182	-	2,006,621	1,681,063
Impairment allowances and other provisions	49,351	38	-	60,098	-	-	49,351	60,272
Other liabilities	9,670	7,159	430	8,490	4,133	296	10,064	9,305
Total liabilities per internal reporting	**2,063,410**	**10,706**	**430**	**1,745,632**	**6,783**	**296**	**2,081,426**	**1,759,259**
Total liabilities and shareholders' equity	**2,170,470**	**7,233**	**557**	**1,836,304**	**1,774**	**347**	**2,188,229**	**1,849,434**
Impairment allowance*	49,013	38	-	60,126	-	-	49,013	60,273
Total liabilities per IFRS	**2,121,457**	**7,195**	**557**	**1,776,178**	**1,774**	**347**	**2,139,216**	**1,789,161**

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

LVL'000

Profit/ loss	Group 01/01/2012 - 31/12/2012 Banking	Group 01/01/2012 - 31/12/2012 Investments	Group 01/01/2012 - 31/12/2012 Advisory	Group 01/01/2011 - 31/12/2011 Banking	Group 01/01/2011 - 31/12/2011 Investments	Group 01/01/2011 - 31/12/2011 Advisory	Bank 01/01/2012 - 31/12/2012 Banking	Bank 01/01/2011 - 31/12/2011 Banking
Net interest income	21,868	1,068	-	21,550	814	-	22,639	22,159
Net commission and fee income	28,393	-	-	22,688	-	14	25,678	20,527
Net result of transactions with financial instruments and foreign exchange	14,600	36	(25)	26,690	(99)	(20)	14,757	26,672
Net other income/ expense	(1,715)	2,994	573	(1,442)	1,448	320	(4,158)	(3,605)
Income from dividends	7	-	-	1	-	-	1,404	707
Administrative expense and depreciation	(27,556)	(1,682)	(3,033)	(26,773)	(953)	(2,243)	(25,380)	(25,581)
Impairment allowances and provisions	(13,751)	(11)	-	(16,965)	(26)	-	(13,577)	(17,138)
Impairment of financial instruments	(342)	-	-	(1,756)	-	-	(342)	(1,756)
Impairment of non-financial assets	(98)	(1,501)	-	(23)	(1,237)	-	(824)	355
Corporate income tax	(3,988)	71	(42)	(3,328)	(252)	(6)	(3,743)	(3,234)
Net profit/ (loss) for the year	**17,418**	**975**	**(2,527)**	**20,642**	**(305)**	**(1,935)**	**16,454**	**19,106**

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 11.5 million lats.