BANKING / INVESTMENTS \ ADVISORY

ABLV

ABLV Bank, AS

Consolidated annual report for the year ended 31 December 2012

Together with independent auditors' report

Contents

Bank's Management Report

Dear shareholders of ABLV Bank, AS,

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

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

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

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

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

Bank

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

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

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

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

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

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

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

Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Advisory

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

During the reporting period, the customers also used other advisory services – advice on establishing holding structures, settling trusts, and assistance in choosing tax residency.
ABLV Consulting Services, AS was also operating successfully, assisting in maintaining relations with existing customers and attracting new customers at ABLV Group target markets. ABLV Group has 10 representative offices in 7 countries – in Russia, Ukraine, Belarus, Kazakhstan, Tajikistan, Azerbaijan, and Uzbekistan.

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

Luxembourg

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

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

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

Plans for 2013

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

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

For society

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

Art exhibitions supported by the bank and charitable foundation were also greatly appreciated by public. Traditionally, the largest number of visitors was attracted by dress exhibition presented by famous fashion historian Alexandre Vassiliev. The name of the exhibition brought to Riga this time was Art Nouveau Fashion. This was already fourth exhibition of Alexandre Vassiliev's dress collection in Riga supported by ABLV.

At the end of the year, in cooperation with ABLV Charitable Foundation, we arranged annual fund drive "Help children!". The funds donated under this fund drive were used to buy hearing devices for children who need them and to help children from poor families and children with special needs go to summer camps.

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

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

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

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
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 72 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 conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

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

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2013

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

EUR'000

	Notes	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Interest income	3	54,500	54,129	54,052	53,678
Interest expense	3	(21,865)	(22,308)	(21,840)	(22,148)
Net interest income		**32,635**	**31,821**	**32,212**	**31,530**
Commission and fee income	4	45,987	37,165	41,549	33,467
Commission and fee expense	4	(5,588)	(4,863)	(5,013)	(4,260)
Net commission and fee income		**40,399**	**32,302**	**36,536**	**29,207**
Net gain on transactions with financial instruments and foreign exchange	5	20,790	37,807	20,997	37,951
Other income	6	23,751	13,507	2,254	1,919
Income from dividends		10	1	1,998	1,006
Impairment allowance	7	(19,101)	(24,176)	(18,837)	(24,385)
Operating income		**98,484**	**91,262**	**75,160**	**77,228**
Administrative expense	9	(43,042)	(40,052)	(34,099)	(34,264)
Amortisation and depreciation		(2,908)	(2,635)	(2,039)	(2,157)
Other expense	6	(21,115)	(13,043)	(8,170)	(7,049)
Gain/ (loss) from sale of tangible and intangible fixed assets		33	46	26	23
Provisions		(481)	-	(481)	-
Impairment of financial instruments		(487)	(2,499)	(487)	(2,499)
Impairment of non-financial assets	8	(2,275)	(1,793)	(1,172)	505
Total operating expense		**(70,275)**	**(59,976)**	**(46,422)**	**(45,441)**
Profit before corporate income tax		**28,209**	**31,286**	**28,738**	**31,787**
Corporate income tax	10	(5,633)	(5,102)	(5,326)	(4,602)
Net profit for the year		**22,576**	**26,184**	**23,412**	**27,185**
Attributable to:					
Equity holders of the bank		22,917	26,672		
Non-controlling interests		(341)	(488)		
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		6,791	(7,109)	6,791	(7,109)
Charge to income statement as a result of sale of available-for-sale securities		(23)	(2,600)	(23)	(2,600)
Charge to income statement due to recognised impairment of available-for-sale securities		487	2,499	487	2,499
Change in deferred corporate income tax		(1,087)	1,079	(1,087)	1,079
Other comprehensive income, total		**6,168**	**(6,131)**	**6,168**	**(6,131)**
Total comprehensive income		**28,744**	**20,053**	**29,580**	**21,054**
Attributable to:					
Equity holders of the bank		29,085	20,541		
Non-controlling interests		(341)	(488)		
Earnings per share attributable to the equity holders of the bank, EUR		230.77	186.73		

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2013

The accompanying notes set out on pages 13 through 72 form an integral part of these financial statements.

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

EUR'000

Assets	Notes	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Cash and deposits with the Bank of Latvia	11	307,451	204,414	307,446	204,414
Balances due from credit institutions	12	559,053	738,301	553,020	737,719
Derivatives	20	115	11,623	115	11,623
Financial assets at fair value through profit or loss		4,742	1,071	4,742	1,071
Shares and other non-fixed income securities	14	4,742	1,071	4,742	1,071
Available-for-sale financial assets		779,388	530,740	779,388	530,740
Debt securities and other fixed income securities	13	776,191	527,521	776,191	527,521
Shares and other non-fixed income securities	14	3,197	3,219	3,197	3,219
Loans	15	711,133	667,930	716,574	669,608
Held-to-maturity investments		500,612	237,304	500,612	237,304
Debt securities and other fixed income securities	13	500,612	237,304	500,612	237,304
Investments in subsidiaries and associates	16	3,796	448	127,457	101,431
Investment properties	17	29,675	30,652	24,620	23,708
Tangible fixed assets	18	27,903	14,330	6,981	7,049
Intangible fixed assets	18	5,437	4,970	4,815	4,792
Current corporate income tax receivables		101	21	-	-
Deferred corporate income tax	10	575	4,818	105	4,779
Other assets	19	99,610	83,669	17,955	11,508
Total assets		**3,029,591**	**2,530,291**	**3,043,830**	**2,545,746**

Liabilities	Notes	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Derivatives	20	6,515	201	6,515	201
Demand deposits from credit institutions		1,376	2,531	3,423	2,531
Term deposits from credit institutions		3,173	13,043	11,959	9,532
Deposits	21	2,649,944	2,270,104	2,659,191	2,281,067
Current corporate income tax liabilities		1,811	246	1,504	-
Other liabilities		22,646	18,382	12,819	13,241
Deferred corporate income tax	10	101	265	-	-
Provisions		481	-	481	-
Issued securities	22	177,601	73,288	177,601	80,048
Subordinated deposits	23	18,372	30,822	18,372	30,822
Other liabilities		**2,882,020**	**2,408,882**	**2,891,865**	**2,417,442**
Shareholders' equity					
Paid-in share capital	24	28,087	23,477	28,087	23,477
Share premium		27,291	7,477	26,481	7,477
Reserve capital and other reserves		2,134	2,134	2,134	2,134
Fair value revaluation reserve of available-for-sale financial assets		2,639	(3,529)	2,639	(3,529)
Retained earnings brought forward		61,600	64,462	69,212	71,560
Retained earnings for the period		22,917	26,672	23,412	27,185
Attributable to the equity holders of the bank		144,668	120,693	151,966	128,304
Non-controlling interests		2,903	716	-	-
Total shareholders' equity		**147,571**	**121,409**	**151,965**	**128,304**
Total liabilities and shareholders' equity		**3,029,591**	**2,530,291**	**3,043,830**	**2,545,746**
Memorandum items					
Funds under trust management		196,129	166,311	141,815	124,490
Contingent liabilities	27	10,034	17,153	10,034	17,153
Financial commitments	27	43,079	29,795	43,079	29,795

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
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Riga, 25 February 2013

The accompanying notes set out on pages 13 through 72 form an integral part of these financial statements.

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

EUR'000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the Bank	Non-controlling interests	Total shareholders' equity
As at 1 January 2011	**23,477**	**7,477**	**2,134**	**2,602**	**64,462**	**100,152**	**970**	**101,122**
Total comprehensive income for the year 2011	-	-	-	(6,131)	26,672	20,541	(488)	20,053
Increase of non-controlling interests	-	-	-	-	-	-	233	233
As at 31 December 2011	**23,477**	**7,477**	**2,134**	**(3,529)**	**91,134**	**120,693**	**715**	**121,408**

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

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

EUR'000

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

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

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

EUR'000

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

EUR'000

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

The accompanying notes set out on pages 13 through 72 form an integral part of these financial statements.

Notes to the 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 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 consolidated financial statements of the group and the separate financial statements of the bank for the year ended 31 December 2012 were approved by the bank's board on 25 February 2013.

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 based on the accounting records made pursuant to the legislative requirements and prepared in conformity with International Financial Reporting Standards and IFRIC Interpretations as adopted by the European Union, on a going concern basis.
These financial statements are prepared on a historical cost basis, except for financial assets and liabilities (available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, and derivatives) which are reported at fair value.

During the year ended 31 December 2012, the group and the bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in *Adoption of new and/ or changed IFRSs and IFRIC interpretations in the reporting year*.

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

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

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

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

Reporting date	USD	EUR	RUB
31 December 2012	0.531	0.702804	0.0174
31 December 2011	0.544	0.702804	0.0170

b) Adoption of New and/ or Changed IFRSs and IFRIC Interpretations in the Reporting Year

In the reporting period, the group/ bank has adopted the following new and amended IFRS and IFRIC interpretations, which do not have a significant impact on the financial statements:
- amendment to IFRS 7 *Financial Instruments* - Enhanced Derecognition Disclosure Requirements,
- amendment to IAS 12 *Deferred tax* - Recovery of Underlying Assets.

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

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

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

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

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

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

IAS 27 *Separate Financial Statements* (Revised)
The Standard is effective for annual periods beginning on or after 1 January 2013. As a result of the new standards IFRS 10 and IFRS 12, this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 *Separate Financial Statements* requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The group/ bank is in the process of assessing the impact of this amendment on the financial position or performance of the group/ bank.

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

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

IFRS 7 *Financial Instruments: Disclosures* (Amended) - *Offsetting Financial Assets and Financial Liabilities*
The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The group/ bank is in the process of assessing the impact of the amendment on the financial position or performance of the group/ bank.

IFRS 9 *Financial Instruments - Classification and Measurement*
The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued will eventually replace IAS 39 and it applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on the classification and measurement of financial assets and a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. Earlier application is permitted. This standard has not yet been endorsed by the EU. The group/ bank is in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.

IFRS 10 *Consolidated Financial Statements*
The new standard is effective for annual periods beginning on or after 1 January 2014. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements as

well as SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. This standard has not yet been endorsed by the EU. The group/ bank is in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.

IFRS 11 *Joint Arrangements*
The new standard is effective for annual periods beginning on or after 1 January 2014. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Instead, jointly controlled entities that are classified as joint ventures must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognise its relative share of assets, liabilities, revenues and expenses. This standard has not yet been endorsed by the EU. The group/ bank is in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.

IFRS 12 *Disclosures of Involvement with Other Entities*
The new standard is effective for annual periods beginning on or after 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and special purpose entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The group/ bank is in the process of assessing the impact of the new standard on the financial position or performance of the group/ bank.

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

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

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*
The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. The implementation of this interpretation will not have any impact on the group's and bank's financial statements because neither the group nor the bank is engaged in mining.

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

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

- IAS 16 *Property, Plant and Equipment*: Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.
- IAS 34 *Interim Financial Reporting*: Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12). The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. The assessment of whether control exists is made at "the date of initial application" rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief. This guidance has not yet been endorsed by the EU. The group/ bank is in the process of assessing the impact of the guidance on the financial position or performance of the group/ bank.

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

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

c) Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable.

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

d) Basis of Consolidation

At the year end, the bank had investments in subsidiaries in which the bank owned, directly or indirectly, more than 50% of the share capital and voting power and, therefore, obtained control of these entities. The bank is the parent of the group. These consolidated financial statements include all subsidiaries controlled by the parent. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases. The entities of the group are listed in Note 1.
Investments in subsidiaries are presented in the bank's separate financial statements in accordance with the cost method.

The bank's and its subsidiaries' financial statements are consolidated in the group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any

indication of impairment. Non-controlling interests represent the portion of profit or loss, as well as the equity in a subsidiary not attributable, directly or indirectly, to the bank. The profit or loss attributable to non-controlling interests is separately disclosed in the consolidated statement of comprehensive income. Non-controlling interests are also presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.
The bank's subsidiaries comply with the bank's policies and risk management methods.

In the consolidated financial statements, the cost of acquisition of a subsidiary acquired from a business combination is attributed to the fair values of the acquiree's identifiable assets, liabilities, and contingent liabilities at the acquisition date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the difference (discount on acquisition) is recognised directly in the statement of comprehensive income in the year of acquisition. Following initial recognition by the group, goodwill arising from the business combination is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date.

e) Recognition and Derecognition of Financial Assets and Liabilities

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

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

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

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

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

f) Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the group's and bank's financial assets and liabilities is presented in Note 29.

g) Income and Expense Recognition

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

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

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

h) Foreign Currency Translation

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

i) Taxation

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

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

j) Financial Instruments

Loans and receivables

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

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

Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment expense) as presented in Note 7. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income/ expense when the liabilities are derecognised through the amortisation process.
For the purposes of these financial statements, finance lease receivables are classified as loans.

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Derivatives

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

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

Issued debt securities

The group and the bank recognise issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are stated at fair value, including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method. When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

k) Assets Taken over for Sale

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

l) Finance Leases – Where the Bank is Lessor

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

m) Off-balance Sheet Financial Commitments and Contingent Liabilities

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

n) Provisions

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

o) Impairment of Financial Assets and Financial Commitments

The group/ bank issues loans to its customers. Non-performing debts are defined as loans and financial commitments with regard to which, based on the monitoring activities performed or other information obtained, the management of the group and the bank believe that the contractual interest and principal due might not be collected or customers might default on other contractual conditions, which might result in an outflow of resources embodying economic benefits.
According to the approved impairment assessment policy, the group and the bank determine allowance for credit losses (impairment allowance). When a loan has been classified as non-performing, an allowance for credit losses is established for that specific loan or amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the group's and bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advances collectability and collateral values. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance. The group and the bank determine individual and collective (portfolio) impairment.

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

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

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

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

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

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

p) Impairment of Non-financial Assets

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

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

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

q) Intangible Fixed Assets

Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.
The group and the bank have applied the annual rates ranging from 5% (5%) to 33% (20%) to amortise their intangible assets.

r) Tangible Fixed Assets

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

The group and the bank have applied the following depreciation rates:

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

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

s) Investment Properties

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

t) Employee Benefits

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

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

u) Cash and Cash Equivalents

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

v) Subsequent Events

Post-year-end events that provide additional information about the group's/ bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Note 3

Interest income and expense

EUR'000

Interest income	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
on loans and advances to customers	31,160	33,493	30,724	33,061
non-impaired	27,350	28,557	26,914	28,121
impaired	3,810	4,936	3,810	4,940
on held-to-maturity securities	14,266	9,191	14,266	9,191
non-impaired	14,239	9,089	14,239	9,089
impaired	27	102	27	102
on available-for-sale securities	7,234	8,209	7,234	8,209
on balances due from credit institutions and central banks	1,840	2,479	1,828	2,464
on financial assets at fair value through profit or loss	-	491	-	487
on loans and receivables	-	259	-	259
other interest income	-	7	-	7
Total interest income	**54,500**	**54,129**	**54,052**	**53,678**
Interest expense				
on the deposit guarantee fund	8,438	4,129	8,438	4,129
on deposits from non-bank customers	6,736	13,189	6,746	13,206
on debt securities issued	5,251	2,785	5,314	2,787
on subordinated deposits	1,291	2,002	1,291	2,002
on balances due to credit institutions and central banks	149	203	51	24
Total interest expense	**21,865**	**22,308**	**21,840**	**22,148**

Note 4

Commission and fee income and expense

EUR'000

Commission and fee income	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
commission on payment transfer handling on behalf of customers	23,530	20,265	23,530	20,265
commission on handling of settlement cards	7,934	5,684	7,934	5,684
service fees	5,444	4,095	5,444	4,095
commission on brokerage operations	4,467	3,334	626	517
commission on trust transactions	1,668	1,604	1,060	730
commission on documentary transactions	946	756	946	756
other commission and fee income	1,998	1,427	2,009	1,420
Total commission and fee income	**45,987**	**37,165**	**41,549**	**33,467**
Commission and fee expense				
correspondent bank service charges	3,058	2,658	3,058	2,658
commission on transactions with settlement cards	1,928	1,599	1,928	1,599
other commission and fee expense	602	606	27	3
Total commission and fee expense	**5,588**	**4,863**	**5,013**	**4,260**

Note 5

Net gains/ losses on financial assets

EUR'000

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

The group/ bank manages its exposure of currency risk by applying the limits specified in the Limits Policy. As at 31 December 2012, all the above limits were met. To hedge its exposure of currency risk, the group/ bank enters into currency forwards. Therefore, to objectively assess the revaluation result of foreign currency positions, the net gain/ (loss) from revaluation of and trading with group's/ bank's derivatives as well as revaluation of currency positions should be analysed.

Note 6

Other operating income and expense

EUR'000

Other income	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
sale of assets taken over for sale	14,533	8,941	-	75
other income from the sale of products of subsidiaries and associates	6,232	2,405	-	-
sale of subsidiaries	820	660	240	-
penalties received	770	980	774	980
real estate management and lease	363	250	31	33
sale of services to subsidiaries and associates	-	-	982	626
other operating income	1,033	271	227	205
Total other income	**23,751**	**13,507**	**2,254**	**1,919**
Other expense				
sale of assets taken over for sale	12,648	8,475	-	359
other expense related to the sale of products of associates	3,960	1,643	-	-
customer attraction	3,256	2,487	7,429	6,287
membership fees	696	438	596	403
other expense	555	-	145	-
Total other expense	**21,115**	**13,043**	**8,170**	**7,049**

Note 7

Allowances for impairment of financial assets

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

EUR'000

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

As at 31 December 2012, the allowances for credit losses formed 8.6% (11.1%) of the group's loan portfolio.

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

EUR'000

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

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

EUR'000

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

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

EUR'000

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

Note 8

Impairment of other assets

The group's and bank's management have determined the fair value of non-financial assets - the immovable properties taken over for sale - on the basis of the expected discounted future cash flow from the sale of the above properties as well as assessed other non-financial assets, including investments in subsidiaries, and established that the previously recognised impairment has changed. Based on the analysis carried out, in 2012 and 2011 the group and the bank recognised impairment of non-financial assets.

The table below presents changes in impairment for non-financial assets of the group and the bank:

EUR'000

Category	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
Non-financial assets taken over for sale	2,083	1,793	(53)	33
Prepayments for investment properties	192	-	192	-
Investments in subsidiaries	-	-	1,033	(538)
Total impairment adjustment	**2,275**	**1,793**	**1,172**	**(505)**

Note 9

Administrative expense

EUR'000

Category	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
Remuneration to personnel	22,598	23,120	18,651	20,326
Statutory social insurance contributions	5,793	5,360	4,949	4,777
Repairs and maintenance of premises	2,804	2,102	1,767	1,513
Advertising and marketing expense	2,534	1,587	2,379	1,481
IT system expense	2,484	2,409	2,430	2,359
Remuneration to the council and the board	1,828	1,651	1,236	1,208
Other personnel expense	995	677	589	511
Communication expense	741	495	579	568
Other taxes	417	398	186	178
Donations	38	34	38	34
Other administrative expense	2,809	2,220	1,293	1,310
Total administrative expense	**43,041**	**40,053**	**34,097**	**34,265**

In 2012 and 2011, the group and the bank employed an average of 575 (530) and 494 (470) persons (full-time equivalent).

The following table specifies employees of the group and the bank at the year end:

	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Management	17	15	10	10
Heads of divisions and departments	110	96	85	79
Other personnel	481	438	418	394
Total at the end of the year	**608**	**549**	**513**	**483**

Note 10

Taxation

EUR'000

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

Deferred corporate income tax calculation:

EUR'000

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

EUR'000

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

Taxes paid by the group and the bank:

EUR'000

Tax	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
Statutory social insurance contributions	7,881	6,672	6,995	6,088
Personal income tax	4,653	4,199	4,095	3,786
Real estate tax	443	327	186	176
Corporate income tax	582	249	-	-
Value added tax	635	178	287	6
Unemployment risk duty	16	1	3	1
Total	**14,210**	**11,626**	**11,566**	**10,057**

Note 11

Cash and deposits with the Bank of Latvia

EUR'000

	Group	Bank	Group/ bank
	31/12/2012	31/12/2012	31/12/2011
Cash	9,520	9,515	8,591
Deposits with the Bank of Latvia	297,931	297,931	195,823
Total cash and deposits with central banks	**307,451**	**307,446**	**143,663**

Deposits with the Bank of Latvia comprise the bank's correspondent account balance and term deposit. In accordance with the resolution of the Council of the Bank of Latvia, credit institutions have to comply with the obligatory reserve requirement. During the period of the requirement, the average monthly balance of the bank's correspondent account with the Bank of Latvia must exceed the minimum reserve requirement. The bank was in compliance with this requirement as at 31 December 2012.
As at 31 December 2012 and 2011, the bank had no balances due from central banks that would be past due.

Note 12

Balances due from credit institutions

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

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

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

EUR'000

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

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

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

EUR'000

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

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

EUR'000

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

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

EUR'000

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

Note 13

Debt securities and other fixed income securities

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

EUR'000

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

In the reporting year, the annual yield of the bank's securities portfolio was 2.4% (3.9%). Most of these assets – 93.8% (88.6%) - have been invested by the bank in investment-grade securities (see Note 32). At the end of the reporting year, the weighted average duration of the bank's securities portfolio was 2.1 (2.3).
The bank has no investments in securities issued by the central governments of the European countries that are still struggling to solve their financial and budget problems, such as Greece, Ireland, Spain and Italy, except for an insignificant investment of EUR 365.7 (271.8) thousand made in the securities of the Portuguese central government.

The maximum credit risk exposure of debt securities is equal to the carrying amount of these assets.

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

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

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

EUR'000

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

Note 14

Shares and other non-fixed income securities

The group's and bank's investments in shares and investment funds are classified as follows:

EUR'000

	Group/ bank 31/12/2012			Group/ bank 31/12/2011		
At fair value	Listed	Non-listed	Total	Listed	Non-listed	Total
Investments in funds registered in Latvia	-	1,889	1,889	-	394	394
Equity shares in Latvian corporate entities	47	-	47	51	-	51
Equity shares in credit institutions registered in EMU countries	221	-	221	-	-	-
Equity shares in credit institutions registered in other OECD countries	689	-	689	-	-	-
Investments in funds registered in other OECD countries	1,048	-	1,048	-	-	-
Equity shares in corporate entities registered in other countries	603	-	603	425	-	425
Equity shares in credit institutions registered in other countries	245	-	245	201	-	201
Total shares and other non-fixed income securities at fair value through profit or loss	**2,853**	**1,889**	**4,742**	**677**	**394**	**1,071**
Available-for-sale						
Investments in funds registered in other countries	-	3,058	3,058	-	3,132	3,132
Equity shares in financial auxiliaries registered in EMU countries	-	139	139	-	87	87
Total shares and other non-fixed income securities included in the available-for-sale portfolio	**-**	**3,197**	**3,197**	**-**	**3,219**	**3,219**
Total shares and other non-fixed income securities	**2,853**	**5,086**	**7,939**	**677**	**3,613**	**4,290**

Note 15

Loans

The breakdown of loans issued by the group and the bank by customer profile:

EUR'000

Customer profile	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Private individuals	495,607	554,698	495,608	554,699
Corporate companies	235,885	164,743	241,323	166,668
Financial institutions	47,116	31,959	47,116	31,959
Total	778,608	751,400	784,047	753,326
Impairment allowance	(67,475)	(83,470)	(67,473)	(83,718)
Net loans	**711,133**	**667,930**	**716,574**	**669,608**

The maximum credit risk exposure of loans issued to customers is equal to the carrying amount of these assets.

EUR'000

Geographical profile	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Latvia	625,169	665,234	630,608	667,160
EMU countries	30,542	4,852	30,542	4,852
Other EU Member States	18,257	34,570	18,257	34,570
Other OECD countries	12,997	5,683	12,997	5,683
Other countries	91,643	41,061	91,643	41,061
Total loans	**778,608**	**751,400**	**784,047**	**753,326**
Impairment allowance	(67,475)	(83,470)	(67,473)	(83,718)
Net loans	**711,133**	**667,930**	**716,574**	**669,608**

The table below provides the credit quality analysis for the group, including the aging analysis of the group's past due loans that have not been impaired individually:

EUR'000

	31/12/2012					31/12/2011				
	Mortgage	Business	Consumer	Other	**Total**	Mortgage	Business	Consumer	Other	**Total**
Not individualy impaired loans	371,704	264,653	1,692	21,484	**659,533**	410,478	151,124	1,167	25,171	**587,940**
including past due loans	1,429	1,277	-	-	**2,706**	1,686	445	-	-	**2,131**
less than 30 days	743	253	-	-	996	626	18	-	-	644
31 to 59 days	283	1	-	-	284	333	75	-	-	408
60 to 89 days	144	4	-	-	148	471	11	-	-	482
more than 90 days	259	1,019	-	-	1,278	256	341	-	-	597
Impaired loans	87,360	29,796	105	1,814	**119,075**	112,125	48,170	115	3,051	**163,461**
including past due loans	49,981	9,932	77	1,824	**61,814**	60,510	15,304	17	265	**76,096**
Impairment allowance	(53,573)	(10,144)	(77)	(3,681)	**(67,475)**	(61,122)	(20,421)	(90)	(1,838)	**(83,471)**
Total loans, net	**405,491**	**284,305**	**1,720**	**19,617**	**711,133**	**461,481**	**178,873**	**1,192**	**26,384**	**667,930**

The table below provides the credit quality analysis for the bank, including the aging analysis of the bank's past due loans that have not been impaired individually:

EUR'000

	31/12/2012					31/12/2011				
	Mortgage	Business	Consumer	Other	**Total**	Mortgage	Business	Consumer	Other	**Total**
Not individualy impaired loans	371,704	270,094	1,692	21,484	**664,974**	410,477	152,556	1,167	25,171	**589,371**
including past due loans	1,429	1,277	-	-	**2,706**	1,686	445	-	-	**2,131**
less than 30 days	743	253	-	-	996	626	18	-	-	644
31 to 59 days	283	1	-	-	284	333	75	-	-	408
60 to 89 days	144	4	-	-	148	471	11	-	-	482
more than 90 days	259	1,019	-	-	1,278	256	341	-	-	597
Impaired loans	87,360	29,796	105	1,814	**119,075**	112,125	48,664	115	3,051	**163,955**
including past due loans	49,981	9,932	77	1,824	**61,814**	60,510	15,304	17	265	**76,096**
Impairment allowance	(53,573)	(10,144)	(77)	(3,681)	**(67,475)**	(61,121)	(20,669)	(90)	(1,838)	**(83,718)**
Total loans, net	**405,491**	**289,746**	**1,720**	**19,617**	**716,574**	**461,481**	**180,551**	**1,192**	**26,384**	**669,608**

As at 31 December 2012, the gross amount of loans having the maturity date for principal or interest changed was EUR 109.0 (138.6) million. These changes were made on the basis of the agreements between the group or the bank and customers amending respective loan conditions, as otherwise the loans might be past due.

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

EUR'000

	31/12/2012		31/12/2011	
Loan type	Total loans	Fair value of collateral	Total loans	Fair value of collateral
Mortgage loans	87,360	52,621	112,125	68,392
Business loans	29,796	20,048	48,664	29,798
Consumer loans	105	-	115	-
Other loans	1,814	-	3,051	-
Total impaired loans, gross	**119,075**	**72,669**	**163,955**	**98,190**

Note 16

Investments in subsidiaries

The bank has shares in the following subsidiaries:

EUR'000

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

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

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

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

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

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

Note 17

Investment properties

EUR'000

	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Investment properties	28,725	30,090	24,620	23,516
Prepayments for investment properties	950	562	-	192
Total investment properties	**29,675**	**30,652**	**24,620**	**23,708**

The movements in the group's and bank's investment properties in 2012 are as follows:

EUR'000

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
Acquisition value as at 01/01/2012	**25,962**	**4,192**	**30,154**	**23,271**	**309**	**23,580**
Additions	1,115	743	1,858	1,115	-	1,115
Disposals	-	(3,212)	(3,212)	-	-	-
Acquisition value as at 31/12/2012	**27,077**	**1,723**	**28,800**	**24,386**	**309**	**24,695**
Accumulated depreciation as at 01/01/2012	**-**	**64**	**64**	**-**	**64**	**64**
Depreciation charge	-	11	11	-	11	11
Accumulated depreciation as at 31/12/2012	**-**	**75**	**75**	**-**	**75**	**75**
Net carrying amount as at 01/01/2012	**25,962**	**4,128**	**30,090**	**23,271**	**245**	**23,516**
Net carrying amount as at 31/12/2012	**27,077**	**1,648**	**28,725**	**24,386**	**234**	**24,620**

The movements in the group's and bank's investment properties in 2011 are as follows:

EUR'000

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
Acquisition value as at 01/01/2011	**25,962**	**309**	**26,271**	**23,271**	**309**	**23,580**
Additions	-	3,883	3,883	-	-	-
Disposals	-	-	-	-	-	-
Acquisition value as at 31/12/2011	**25,962**	**4,192**	**30,154**	**23,271**	**309**	**23,580**
Accumulated depreciation as at 01/01/2011	**-**	**53**	**53**	**-**	**53**	**53**
Depreciation charge	-	11	11	-	11	11
Depreciation of disposals	-	-	-	-	-	-
Accumulated depreciation as at 31/12/2011	**-**	**64**	**64**	**-**	**64**	**64**
Net carrying amount as at 01/01/2011	**25,962**	**256**	**26,218**	**23,271**	**256**	**23,527**
Net carrying amount as at 31/12/2011	**25,962**	**4,128**	**30,090**	**23,271**	**245**	**23,516**

The market value of the group's and bank's investment properties as at 31 December 2012 were EUR 32.2 (29.9) million and EUR 27.0 (27.0) million respectively. The management of the bank and the group believe that the most credible market value of investment properties was identified based on the evaluations presented by both external real estate appraisers and bank's real estate experts. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not properly developed.

Rentals from investment properties in 2012 amounted to EUR 31.3 (34.2) thousand, whereas the related property maintenance expense was EUR 143.7 (129.5) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to EUR 119.5 (109.6) thousand.

Note 18

Intangible and tangible fixed assets

EUR'000

	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Intangible fixed assets	4,865	4,321	4,483	4,143
Goodwill	229	-	-	-
Prepayments for intangible fixed assets	343	649	332	649
Total intangible fixed assets	**5,437**	**4,970**	**4,815**	**4,792**
Land	1,244	182	182	182
Buildings and property improvements	15,533	8,247	4,486	4,716
Production equipment	5,110	3,379	-	-
Office equipment	2,632	1,595	1,754	1,507
Construction in progress	2,289	-	-	-
Vehicles	922	682	438	406
Leasehold improvements	117	202	117	202
Prepayments for tangible fixed assets	56	43	4	36
Total tangible fixed assets	**27,903**	**14,330**	**6,981**	**7,049**

The movements in the group's intangible and tangible fixed assets in 2012 are as follows:

EUR'000

	Goodwill	Intangible fixed assets	Land	Production equipment	Construction in progress	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2012	**-**	**8,977**	**182**	**5,913**	**-**	**19,314**	**986**	**1,437**	**9,705**	**46,514**
Additions	229	1,377	1,062	4	2,289	93	-	584	1,800	7,438
Disposals	-	(1,145)	-	(1)	-	(26)	(108)	(343)	(721)	(2,344)
Acquisition value as at 31/12/2012	**229**	**9,209**	**1,244**	**5,916**	**2,289**	**19,381**	**878**	**1,678**	**10,784**	**51,608**
Accumulated depreciation as at 01/01/2012	**-**	**4,656**	**-**	**374**	**-**	**3,213**	**784**	**756**	**7,941**	**17,724**
Depreciation charge	-	828	-	391	-	465	75	282	856	2,897
Depreciation of tangible assets of the subsidiaries acquired in the reporting year	-	-	-	42	-	171	-	-	55	268
Depreciation of disposals	-	(1,140)	-	(1)	-	(1)	(98)	(282)	(700)	(2,222)
Accumulated depreciation as at 31/12/2012	**-**	**4,344**	**-**	**806**	**-**	**3,848**	**761**	**756**	**8,152**	**18,667**
Net carrying amount as at 01/01/2012	**-**	**4,321**	**182**	**5,539**	**-**	**16,101**	**202**	**682**	**1,764**	**28,791**
Net carrying amount as at 31/12/2012	**229**	**4,865**	**1,244**	**5,110**	**2,289**	**15,533**	**117**	**922**	**2,632**	**32,941**

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

EUR'000

	Intangible fixed assets	Land	Production equipment	Buildings and property improvements	Leasehold improvements	Construction in progress	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2011	**8,371**	**182**	**-**	**6,923**	**970**	**3,108**	**1,355**	**9,064**	**29,973**
Additions	605	-	3,674	640	16	-	350	771	6,056
Reclassification	-	-	-	3,108	-	(3,108)	-	-	-
Disposals	-	-	-	-	-	-	(267)	(428)	(695)
Acquisition value as at 31/12/2011	**8,976**	**182**	**3,674**	**10,671**	**986**	**-**	**1,438**	**9,407**	**35,334**
Accumulated depreciation as at 01/01/2011	**3,924**	**-**	**-**	**2,136**	**700**	**-**	**720**	**7,255**	**14,735**
Depreciation charge	731	-	206	377	84	-	248	978	2,624
Depreciation of disposals	-	-	-	-	-	-	(212)	(421)	(633)
Accumulated depreciation as at 31/12/2011	**4,655**	**-**	**206**	**2,513**	**784**	**-**	**756**	**7,812**	**16,726**
Net carrying amount as at 01/01/2011	**4,448**	**182**	**-**	**4,787**	**270**	**3,108**	**635**	**1,808**	**15,238**
Net carrying amount as at 31/12/2011	**4,321**	**182**	**3,468**	**8,158**	**202**	**-**	**682**	**1,595**	**18,608**

As at 31 December 2012, the group and the bank owned intangible and tangible fixed assets having the net carrying amount of 0 and the cost value of EUR 8,140 (8,708) thousand and EUR 8,049 (8,329) thousand respectively.

The movements in the bank's intangible and tangible fixed assets in 2012 are as follows:

EUR'000

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2012	**8,604**	**182**	**7,139**	**986**	**1,054**	**9,192**	**27,157**
Additions	1,088	-	69	-	248	1,002	2,407
Disposals	(1,134)	-	(4)	(108)	(286)	(697)	(2,229)
Acquisition value as at 31/12/2012	**8,558**	**182**	**7,204**	**878**	**1,016**	**9,497**	**27,335**
Accumulated depreciation as at 01/01/2012	**4,461**	**-**	**2,422**	**784**	**649**	**7,685**	**16,001**
Depreciation charge	744	-	296	75	175	738	2,028
Depreciation of disposals	(1,130)	-	-	(98)	(246)	(680)	(2,154)
Accumulated depreciation as at 31/12/2012	**4,075**	**-**	**2,718**	**761**	**578**	**7,743**	**15,875**
Net carrying amount as at 01/01/2012	**4,143**	**182**	**4,716**	**202**	**406**	**1,507**	**11,156**
Net carrying amount as at 31/12/2012	**4,483**	**182**	**4,486**	**117**	**438**	**1,754**	**11,460**

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

EUR'000

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2011	**8,042**	**182**	**6,923**	**970**	**1,109**	**8,859**	**26,085**
Additions	561	-	215	16	137	753	1,682
Disposals	-	-	-	-	(192)	(420)	(612)
Acquisition value as at 31/12/2011	**8,603**	**182**	**7,138**	**986**	**1,054**	**9,192**	**27,155**
Accumulated depreciation as at 01/01/2011	**3,800**	**-**	**2,136**	**700**	**603**	**7,167**	**14,406**
Depreciation charge	660	-	286	84	182	933	2,145
Depreciation of disposals	-	-	-	-	(137)	(415)	(552)
Accumulated depreciation as at 31/12/2011	**4,460**	**-**	**2,422**	**784**	**648**	**7,685**	**15,999**
Net carrying amount as at 01/01/2011	**4,243**	**182**	**4,787**	**270**	**507**	**1,692**	**11,683**
Net carrying amount as at 31/12/2011	**4,143**	**182**	**4,716**	**202**	**406**	**1,507**	**11,156**

Information about contractual commitments on the purchase of intangible and tangible fixed assets is disclosed in Note 27.

Note 19

Other assets

EUR'000

	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Non-financial assets taken over for sale	79,745	71,097	1,217	746
Balances due from MFGlobal	11,475	-	11,475	-
Cash in transit	3,624	-	3,624	-
Receivables	2,931	1,981	1,642	1,328
Prepaid expense	1,558	976	683	477
Gold	514	494	514	494
Payments for financial instruments	20	7,393	20	7,393
Other assets	1,674	2,257	687	1,591
Total other assets	**101,541**	**84,198**	**19,862**	**12,029**
Impairment expense	(1,931)	(529)	(1,907)	(521)
Total other assets, net	**99,610**	**83,669**	**17,955**	**11,508**

Note 20

Derivatives

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

EUR'000

		Group/ bank		Group/ bank		Group/ bank
	31/12/2012	31/12/2011		31/12/2012		31/12/2011
				Fair value		Fair value
		Notional amount	Assets	Liabilities	Assets	Liabilities
Gold futures	942	911	27	-	63	-
Forwards	6,010	22,225	23	30	299	194
Swaps	210,488	162,473	65	6,485	11,261	7
Total foreign currency exchange contracts	**217,440**	**185,609**	**115**	**6,515**	**11,623**	**201**

The bank uses foreign exchange derivatives to manage its currency positions. For the most part, the bank's counterparties in foreign currency exchange transactions are credit institutions. As at 31 December 2012, more than 98.0% (97.0%) of the foreign currency exchange contracts (assets at fair value) were attributable to credit institutions. As at 31 December 2012 and 2011, no payments associated with derivatives were past due.

Note 21

Deposits

EUR'000

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

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

EUR'000

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

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

Note 22

Issued securities

Securities issued by the bank are as follows:

EUR'000

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

Note 23

Subordinated liabilities

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

The analysis of subordinated loans as at 31 December 2012:

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

The analysis of subordinated loans as at 31 December 2011:

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

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. The remaining weighted average maturity of subordinated deposits from other lenders is 4.58 (4.37) years.
Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the bank's share capital. The basic conditions of the subordinated bonds issued by the Bank are disclosed in Note 22.

Note 24

Paid-in share capital

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

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

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

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

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

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

Note 25

Dividends declared and paid

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

Note 26

Related party disclosures

Related parties of the group and the bank are defined as shareholders who have a qualifying holding in the bank, and chairman and members of the bank's council and board, head and members of the Internal Audit Department, key management personnel that are authorised to plan, manage and control bank's operations and are responsible for these functions, and spouses, parents and children of the individuals referred to previously, bank's subsidiaries and companies in which the bank has an interest as well as companies in which these individuals have a qualifying holding.

Group's transactions with related parties:

EUR'000

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

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

Bank's transactions with related parties:

EUR'000

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

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

The Latvian banking legislation requires that the total credit exposure to related parties may not exceed 15% of credit institution's equity. As at 31 December 2012, the bank was in compliance with the above statutory requirements.

Note 27

Memorandum items

EUR'000

Contingent liabilities	Group/ bank 31/12/2012	Group/ bank 31/12/2011
Outstanding guarantees	9,980	16,487
Letters of credit	54	666
Total contingent liabilities	**10,034**	**17,153**
Financial commitments		
Loan commitments	18,705	10,375
Undrawn credit facilities on settlement cards	11,742	9,705
Unutilised credit lines	12,547	9,570
Contractual commitments on purchase of non-financial assets	85	145
Total financial commitments	**43,079**	**29,795**
Total contingent liabilities and financial commitments	**53,113**	**46,948**

EUR'000

Geographical profile	Group/ bank 31/12/2012	Group/ bank 31/12/2011
Latvia	20,263	26,033
Other EU Member States	3,194	599
EMU countries	5,677	526
Other OECD countries	277	827
Other countries	23,702	18,963
Total contingent liabilities and financial commitments	**53,113**	**46,948**

As at 31 December 2012, funds under trust management by the group amounted to EUR 196.1 (166.3) million, while funds under trust management by the bank amounted to EUR 141.9 (124.5) million. The bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the bank. Meanwhile, the group's funds under trust management also include funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation.
The related credit risk and other risks remain fully with the customer, which provided these funds to the group and/or the bank.

Note 28

Segment information

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

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

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

EUR'000

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

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

EUR'000

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

Note 29

Fair value of financial instruments

Fair value of a financial instrument is the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties in an arm's length transaction. The group and the bank disclose the fair values of the financial assets and liabilities in such a manner so as to be able to compare the fair values with the carrying amounts. The group and the bank assume that the fair value of liquid financial assets and liabilities or financial assets and liabilities with a short maturity (less than three months) approximates to their carrying amount. This assumption also applies to demand deposits and savings accounts.

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

EUR'000

	31/12/2012		31/12/2011	
Financial assets	Carrying amount	Fair value	Carrying amount	Fair value
Cash and deposits with central banks	307,451	307,451	204,414	204,414
Balances due from credit institutions	559,053	559,053	738,301	738,301
Derivatives	115	115	11,623	11,623
Financial assets at fair value through profit or loss	4,742	4,742	1,071	1,071
Available-for-sale financial assets	779,388	779,388	530,740	530,740
Loans and receivables	711,133	702,513	667,930	664,946
Held-to-maturity investments	500,612	516,959	237,304	230,867
Total financial assets	**2,862,495**	**2,870,223**	**2,391,384**	**2,381,963**
Financial liabilities				
Demand deposits from credit institutions	1,376	1,376	2,531	2,531
Derivatives	6,515	6,515	201	201
Financial liabilities at amortised cost	2,849,090	2,854,824	2,387,257	2,397,199
Total financial liabilities	**2,856,981**	**2,862,716**	**2,389,989**	**2,399,931**

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

EUR'000

	31/12/2012		31/12/2011	
Financial assets	Carrying amount	Fair value	Carrying amount	Fair value
Cash and deposits with central banks	307,446	307,446	204,414	204,414
Balances due from credit institutions	553,020	553,020	737,719	737,719
Derivatives	115	115	11,623	11,623
Financial assets at fair value through profit or loss	4,742	4,742	1,071	1,071
Available-for-sale financial assets	779,388	779,388	530,740	530,740
Loans and receivables	716,574	707,954	669,608	666,625
Held-to-maturity investments	500,612	516,959	237,304	230,867
Total financial assets	**2,861,897**	**2,869,625**	**2,392,479**	**2,383,060**
Financial liabilities				
Demand deposits from credit institutions	3,423	3,423	2,531	2,531
Derivatives	6,515	6,515	201	201
Financial liabilities at amortised cost	2,867,123	2,872,858	2,401,469	2,411,411
Total financial liabilities	**2,877,061**	**2,882,797**	**2,404,201**	**2,414,142**

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

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

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

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

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

EUR'000

	31/12/2012				31/12/2011			
Financial assets	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	63	53	-	115	63	11,561	-	11,623
Financial assets at fair value through profit or loss	4,742	-	-	4,742	1,071	-	-	1,071
incl. shares and other non-fixed income securities	4,742	-	-	4,742	1,071	-	-	1,071
Available-for-sale financial assets	776,191	-	3,197	779,388	527,521	-	3,219	530,740
incl. fixed income securities	776,191	-	-	776,191	527,521	-	-	527,521
incl. shares and other non-fixed income securities	-	-	3,197	3,197	-	-	3,219	3,219
Total financial assets	**780,996**	**53**	**3,197**	**784,246**	**528,655**	**11,561**	**3,219**	**543,435**
Financial liabilities								
Derivatives	-	6,515	-	6,515	-	201	-	201
Total financial liabilities	**-**	**6,515**	**-**	**6,515**	**-**	**201**	**-**	**201**

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

In 2012 and 2011, the fair value of only one investment fund was determined by applying the terms of Level 3 of the fair value hierarchy. The analysis of the audited financial statements of the above mentioned fund did not show any impairment of the group's and bank's initial investment during the reporting year.

Note 30

Capital management and capital adequacy

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

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

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

As at 31 December 2012, the bank's capital adequacy ratio in accordance with the FCMC requirements was 16.04% (15.47%), while the group's capital adequacy ratio was 14.58% (13.59%). The minimum capital requirement defined for the bank is 12.40% (12.30%), and the bank complies with this requirement.

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

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

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

EUR'000

Tier 1	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
paid-in share capital	28,087	23,477	28,087	23,477
share premium	27,291	7,477	26,481	7,477
reserve capital	2,134	2,134	2,134	2,134
retained earnings	61,600	64,462	69,213	71,560
intangible fixed assets	(5,437)	(4,970)	(4,815)	(4,792)
non-controlling interests	2,903	716	-	-
current year's profit/ (loss)	22,917	26,672	23,412	27,185
negative fair value revaluation reserve of available-for-sale financial assets	-	(3,529)	-	(3,529)
decrease in Tier 1 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS (50%)	(20)	(267)	(20)	(267)
Total Tier 1	**139,475**	**116,172**	**144,492**	**123,245**
Tier 2				
fair value revaluation reserve of available-for-sale financial assets (45%)	1,188	-	1,188	-
decrease in Tier 2 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS (50%)	(20)	(267)	(20)	(267)
subordinated capital (based on the remaining maturity, with the adjustment rate of 40%-100%)	69,748	58,131	72,113	61,758
Total Tier 2	**70,916**	**57,864**	**73,281**	**61,491**
Total equity	**210,391**	**174,036**	**217,773**	**184,736**
Capital charge for credit risk on banking book	93,406	84,220	95,048	83,964
Total capital charge for market risks on trading book	10,051	7,375	3,234	1,329
incl. capital charge for foreign currency risk	8,052	6,686	1,235	640
incl. capital charge for position risk	1,955	367	1,955	367
incl. capital charge for counterparty risk	44	322	44	322
Capital charge for operational risk	11,951	10,878	10,336	10,239
Total capital charge	**115,408**	**102,473**	**108,618**	**95,532**
Capital adequacy ratio (%)	**14.58**	**13.59**	**16.04**	**15.47**

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

EUR'000

Exposure category	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Central governments or central banks	3,941	2,941	3,941	2,941
Regional or local governments	798	171	798	171
International development banks	225	198	225	198
Institutions	19,259	19,158	19,162	18,862
Commercial companies	27,528	27,331	37,879	27,393
Low risk portfolio	17,050	17,952	17,049	17,952
Secured by real estate	320	683	320	683
Past due exposures	4,354	4,522	4,354	4,522
High risk exposures	367	376	367	376
Other items	19,564	10,888	10,953	10,866
Total capital charge for credit risk	**93,406**	**84,220**	**95,048**	**83,964**

Note 31

Risk management

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

In the ordinary course of business, the group and the bank are exposed to various risks, the most significant of them being credit risk, liquidity risk and market risk (including interest rate risk, currency risk), as well as operational risk.
Risk management stands for identification, assessment and control of potential risks.
The risk management process includes the following:

- identification, assessment and measurement of the significant risks;
- setting restrictions and limits defining the maximum permissible exposure;

- regular monitoring of the compliance with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the group and the bank;
- regular revision and enhancement of the policies and instructions following the market changes.

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

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

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

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

Note 32

Credit risk

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

Credit risk management framework

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

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

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

The bank analyses the quality of its loan portfolio on a regular basis. The age of past due loans is used as one of the quality criteria. Loans that are more than 90 days overdue are considered past due. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc. Collateral is appraised by an independent appraiser accepted by the group and the bank. The bank may adjust (reduce) the value defined by the independent appraiser if, in the bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the bank considers such reduced value. As collateral, the bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as the aggregation of property, etc. Based on the collateral type and liquidity, the group and the bank apply the maximum acceptable proportion of the loan to be issued.

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

Financial assets of the group by risk rating as at 31 December 2012:

EUR'000

	31/12/2012					31/12/2011				
Financial assets	Higher rating	Lower rating	**Gross financial assets**	Impairment allowance	**Net financial assets**	Higher rating	Lower rating	**Gross financial assets**	Impairment allowance	**Net financial assets**
Cash and deposits with central banks	307,451	-	**307,451**	-	**307,451**	204,414	-	**204,414**	-	**204,414**
Balances due from credit institutions	526,225	32,828	**559,053**	-	**559,053**	700,716	37,585	**738,301**	-	**738,301**
Derivatives	115	-	**115**	-	**115**	11,623	-	**11,623**	-	**11,623**
Financial assets at fair value through profit or loss	-	4,742	**4,742**	-	**4,742**	-	1,071	**1,071**	-	**1,071**
Available-for-sale financial assets	769,018	10,484	**779,502**	(114)	**779,388**	481,964	48,947	**530,911**	(171)	**530,740**
Held-to-maturity investments	429,128	71,730	**500,858**	(246)	**500,612**	195,377	43,310	**238,687**	(1,383)	**237,304**
Loans to customers	669,730	108,878	**778,608**	(67,475)	**711,133**	594,767	156,634	**751,401**	(83,471)	**667,930**
Mortgage loans	368,114	90,950	459,064	(53,573)	405,491	392,891	129,712	522,603	(61,122)	461,481
Business loans	277,800	16,649	294,449	(10,144)	284,305	174,751	24,543	199,294	(20,421)	178,873
Consumer loans	1,729	68	1,797	(77)	1,720	1,192	90	1,282	(90)	1,192
Other loans	22,087	1,211	23,298	(3,681)	19,617	25,933	2,289	28,222	(1,838)	26,384
Total financial assets	**2,701,667**	**228,662**	**2,930,329**	**(67,835)**	**2,862,494**	**2,188,861**	**287,547**	**2,476,408**	**(85,025)**	**2,391,383**

Financial assets of the bank by risk rating:

EUR'000

Financial assets	31/12/2012 Higher rating	Lower rating	Gross financial assets	Impairment allowance	Net financial assets	31/12/2011 Higher rating	Lower rating	Gross financial assets	Impairment allowance	Net financial assets
Cash and deposits with central banks	307,446	-	**307,446**	-	**307,446**	204,414	-	**204,414**	-	**204,414**
Balances due from credit institutions	520,228	32,792	**553,020**	-	**553,020**	700,134	37,585	**737,719**	-	**737,719**
Derivatives	115	-	**115**	-	**115**	11,623	-	**11,623**	-	**11,623**
Financial assets at fair value through profit or loss	-	4,742	**4,742**	-	**4,742**	-	1,071	**1,071**	-	**1,071**
Available-for-sale financial assets	769,018	10,484	**779,502**	(114)	**779,388**	481,964	48,947	**530,911**	(171)	**530,740**
Held-to-maturity investments	429,128	71,730	**500,858**	(246)	**500,612**	195,377	43,310	**238,687**	(1,383)	**237,304**
Loans to customers	675,171	108,878	**784,049**	(67,475)	**716,574**	596,692	156,634	**753,326**	(83,718)	**669,608**
Mortgage loans	368,114	90,950	459,064	(53,573)	405,491	392,890	129,712	522,602	(61,121)	461,481
Business loans	283,241	16,649	299,890	(10,144)	289,746	176,677	24,543	201,220	(20,669)	180,551
Consumer loans	1,729	68	1,797	(77)	1,720	1,192	90	1,282	(90)	1,192
Other loans	22,087	1,211	23,298	(3,681)	19,617	25,933	2,289	28,222	(1,838)	26,384
Total financial assets	**2,701,106**	**228,626**	**2,929,732**	**(67,835)**	**2,861,897**	**2,190,204**	**287,547**	**2,477,751**	**(85,272)**	**2,392,479**

The maximum exposure of the group's and bank's assets and memorandum items is shown in the credit risk concentration analysis. Regular stress tests of the bank's loan and securities portfolio as well as balances due from credit institutions are performed to assess the credit risk exposure and identify potential critical situations. The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date.
As at 31 December 2012, the amount of those properties which had been taken over during the loan restructuring process carried out by the group/ bank with the purpose of selling those properties to recover the debts was EUR 79.7 (71.0) million.

Credit risk concentration

To mitigate concentration risk, the group and the bank apply diversification and a system of limits. The group and the bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits. The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the group and the bank treat as high the credit exposure exceeding 10% of equity.
For the purposes of the credit risk concentration analysis, the issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

Concentration of balances due from credit institutions by geographical area

number

	Group	Group	Bank	Bank
Balances over EUR 35.6 million	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Other EU Member States	3	1	3	1
EMU countries	1	3	1	3
Other OECD countries	2	3	2	3
Balances below EUR 35.6 million				
Other EU Member States	10	10	10	10
EMU countries	10	10	9	9
Other countries	14	20	14	20
Other OECD countries	9	6	9	6
Latvia	2	2	2	2
Total				
Other EU Member States	13	11	13	11
EMU countries	11	13	10	12
Other countries	14	20	14	20
Other OECD countries	11	9	11	9
Latvia	3	2	2	2

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

The group's and bank's securities portfolios by credit rating classes:

EUR'000

	Group/ bank				Group/ bank			
	31/12/2012				31/12/2011			
Credit ratings	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity
AAA to AA-	-	737,560	-	219,844	-	437,145	3,140	90,959
A+ to A-	-	-	4,580	38,739	-	-	-	-
BBB+ to BBB-	-	-	26,880	170,545	-	-	41,679	104,419
BB+ to BB-	-	-	2,763	46,330	-	-	24,654	25,854
B+ to B-	-	-	2,876	25,154	-	-	18,833	15,630
Below B-	-	-	909	-	-	-	835	192
No rating	-	-	623	-	-	-	1,235	250
Shares and investments in funds	4,742	-	3,197	-	1,071	-	3,219	-
Securities portfolio, net	**4,742**	**737,560**	**41,828**	**500,612**	**1,071**	**437,145**	**93,595**	**237,304**

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

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

EUR'000

	Group		Group		Bank		Bank	
	31/12/2012		31/12/2011		31/12/2012		31/12/2011	
Industry profile*	Maximum exposure	Minimum exposure	Maximum exposure	Minimum exposure	Maximum exposure	Minimum exposure	Maximum exposure	Minimum exposure
Private individuals (mortgage loans)	419,879	103,976	472,202	126,944	419,879	103,976	472,202	126,944
Real estate management	92,902	5,925	47,330	6,007	92,902	5,925	47,330	6,007
Other service industries	73,345	49,540	41,573	12,022	82,905	49,540	38,803	12,022
Trade	45,741	21,621	31,675	7,205	45,741	21,621	32,207	7,205
Financial intermediaries	13,600	13,600	20,932	20,932	13,600	13,600	20,932	20,932
Private individuals (other loans)	13,248	3,563	10,107	3,702	13,248	3,563	10,107	3,702
Agriculture and forestry	8,849	94	1,278	-	12,193	94	1,278	-
Manufacturing	7,890	367	6,669	-	7,890	367	6,669	-
Transport and logistics	4,989	511	6,577	-	4,989	511	6,577	-
Construction	2,325	63	4,091	-	2,325	63	4,091	-
Other industries	28,365	10,075	25,496	27,383	20,902	10,075	29,412	25,387
Total loans, net	**711,133**	**209,335**	**667,930**	**204,195**	**716,574**	**209,335**	**669,608**	**202,199**

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

Ten major exposures as at 31 December 2012 amounted to 16.8% (12.6%) of the total group's and bank's net loan portfolio.

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

Note 33

Financial risks

Liquidity risk

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

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

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

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

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

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

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

As at 31 December 2012, the bank’s liquidity ratio was 62.51% (73.26%). The FCMC stipulates that the bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the bank’s total current liabilities.

Contingency liquidity risk

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

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

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

The distribution of the group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2012:

EUR'000

Assets	Overdue	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1-5 years	More than 5 years	Undated	More than 1 year, total	Pledged assets	**Total**
Cash and deposits with central banks	-	307,451	-	-	307,451	-	-	-	-	-	307,451
Balances due from credit institutions	-	417,779	89,080	3,779	510,638	-	-	-	-	48,415	559,053
Derivatives	-	-	62	53	115	-	-	-	-	-	115
Financial assets at fair value through profit or loss	-	-	3,632	1,110	4,742	-	-	-		-	4,742
Available-for-sale financial assets	-	115	753,669	11,064	764,848	-	-	3,197	3,197	11,343	779,388
Loans and receivables	28,588	85,981	6,919	100,576	222,064	230,269	252,850	-	483,119	5,950	711,133
Held-to-maturity investments	68	218	707	16,899	17,892	348,006	124,568	-	472,574	10,146	500,612
Other assets	10,001	118,781	542	168	129,492	105	-	37,500	37,605	-	167,097
Total assets	**38,657**	**930,325**	**854,611**	**133,649**	**1,957,242**	**578,380**	**377,418**	**40,697**	**996,495**	**75,854**	**3,029,591**
Liabilities											
Derivatives	-	-	706	5,809	6,515	-	-	-	-	-	6,515
Financial liabilities at amortised cost	-	2,423,065	55,979	218,024	2,697,068	139,266	14,132	-	153,398	-	2,850,466
Other liabilities	-	23,000	-	2,039	25,039	-	-	-	-	-	25,039
Total liabilities	**-**	**2,446,065**	**56,685**	**225,872**	**2,728,622**	**139,266**	**14,132**	**-**	**153,398**	**-**	**2,882,020**
Shareholders' equity	-	-	-	-	-	-	-	-	147,571	-	147,571
Total liabilities and shareholders' equity	-	**2,446,065**	**56,685**	**225,872**	**2,728,622**	**139,266**	**14,132**	**-**	**300,969**	**-**	**3,029,591**
Total memorandum items	-	31,191	-	4,519	35,710	11,000	6,403	-	17,403	-	53,113
Net liquidity position	x	(1,546,931)	797,926	(96,742)	(845,747)	428,114	356,883	40,697	825,694	x	x
Total liquidity position	x	(1,546,931)	(749,005)	(845,747)	x	(417,633)	(60,750)	(20,053)	x	x	x

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

EUR'000

Assets	Overdue	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1-5 years	More than 5 years	Undated	More than 1 year, total	Pledged assets	Total
Cash and deposits with central banks	-	204,414	-	-	204,414	-	-	-	-	-	204,414
Balances due from credit institutions	-	567,413	145,501	16	712,930	-	-	-	-	25,371	738,301
Derivatives	-	-	5,910	5,713	11,623	-	-	-	-	-	11,623
Financial assets at fair value through profit or loss	494	-	-	577	1,071	-	-	-	-	-	1,071
Available-for-sale financial assets	-	212	503,270	24,039	527,521	-	-	3,219	3,219	-	530,740
Loans and receivables	37,841	35,585	7,987	110,732	192,145	165,969	289,929	7	455,905	19,880	667,930
Held-to-maturity investments	-	141	303	2,686	3,130	124,866	99,119	-	223,985	10,189	237,304
Other assets	-	10,408	172	5,020	15,600	-	-	123,308	123,308	-	138,908
Total assets	**38,335**	**818,173**	**663,143**	**148,783**	**1,668,434**	**290,835**	**389,048**	**126,534**	**806,417**	**55,440**	**2,530,291**
Liabilities											
Derivatives	-	-	88	113	201	-	-	-	-	-	201
Financial liabilities at amortised cost	-	1,655,729	234,997	377,722	2,268,448	19,246	102,094	-	121,340	-	2,389,788
Other liabilities	-	18,508	41	340	18,889	4	-	-	4	-	18,893
Total liabilities	**-**	**1,674,237**	**235,126**	**378,175**	**2,287,538**	**19,250**	**102,094**	**-**	**121,344**	**-**	**2,408,882**
Shareholders' equity	-	-	-	-	-	-	-	121,409	121,409	-	121,409
Total liabilities and shareholders' equity	-	**1,674,237**	**235,126**	**378,175**	**2,287,538**	**19,250**	**102,094**	**121,409**	**242,753**	**-**	**2,530,291**
Total memorandum items	-	27,360	599	5,664	33,623	9,681	3,086	558	13,325	-	46,948
Net liquidity position	x	(883,424)	427,418	(235,056)	(691,062)	261,904	283,868	5,125	550,897	x	x
Total liquidity position	x	(883,424)	(456,006)	(691,062)	x	(429,158)	(145,290)	(140,165)	x	x	x

The distribution of the bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2012:

EUR'000

Assets	Overdue	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1-5 years	More than 5 years	Undated	More than 1 year, total	Pledged assets	**Total**
Cash and deposits with central banks	-	307,446	-	-	307,446	-	-	-	-	-	307,446
Balances due from credit institutions	-	412,166	89,080	3,779	505,025	-	-	-	-	47,995	553,020
Derivatives	-	-	62	53	115	-	-	-	-	-	115
Financial assets at fair value through profit or loss	-	-	3,632	1,110	4,742	-	-	-		-	4,742
Available-for-sale financial assets	-	115	753,669	11,064	764,848	-	-	3,197	3,197	11,343	779,388
Loans and receivables	28,588	85,981	6,919	100,576	222,064	235,710	252,850	-	488,560	5,950	716,574
Held-to-maturity investments	68	218	707	16,899	17,892	348,006	124,568	-	472,574	10,146	500,612
Other assets	10,001	6,073	542	168	16,784	105	-	165,044	165,149	-	181,933
Total assets	**38,657**	**811,999**	**854,611**	**133,649**	**1,838,916**	**583,821**	**377,418**	**168,241**	**1,129,480**	**75,434**	**3,043,830**
Liabilities											
Derivatives	-	-	706	5,809	6,515	-	-	-	-	-	6,515
Financial liabilities at amortised cost	-	2,432,066	56,179	228,903	2,717,148	139,266	14,132	-	153,398	-	2,870,546
Other liabilities	-	14,322	-	481	14,803	-	-	-	-	-	14,803
Total liabilities	**-**	**2,446,388**	**56,885**	**235,193**	**2,738,466**	**139,266**	**14,132**	**-**	**153,398**	**-**	**2,891,864**
Shareholders' equity	-	-	-	-	-	-	-	-	151,966	-	151,966
Total liabilities and shareholders' equity	-	**2,446,388**	**56,885**	**235,193**	**2,738,466**	**139,266**	**14,132**	**-**	**305,364**	**-**	**3,043,830**
Total memorandum items	-	31,191	-	4,519	35,710	11,000	6,403	-	17,403	-	53,113
Net liquidity position	x	(1,665,580)	797,726	(106,063)	(973,917)	433,555	356,883	168,241	958,679	x	x
Total liquidity position	x	(1,665,580)	(867,854)	(973,917)	x	(540,362)	(183,479)	(15,238)	x	x	x

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

EUR'000

Assets	Overdue	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1-5 years	More than 5 years	Undated	More than 1 year, total	Pledged	**Total**
Cash and deposits with central banks	-	204,414	-	-	204,414	-	-	-	-	-	204,414
Balances due from credit institutions	-	566,831	145,501	16	712,348	-	-	-	-	25,371	737,719
Derivatives	-	-	5,910	5,713	11,623	-	-	-	-	-	11,623
Financial assets at fair value through profit or loss	494	-	-	577	1,071	-	-	-	-	-	1,071
Available-for-sale financial assets	-	212	503,270	24,039	527,521	-	-	3,219	3,219	-	530,740
Loans and receivables	37,841	35,585	7,987	114,634	196,047	163,746	289,925	10	453,681	19,880	669,608
Held-to-maturity investments	-	141	303	2,686	3,130	124,866	99,119	-	223,985	10,189	237,304
Other assets	-	10,390	172	5,020	15,582	-	-	137,685	137,685	-	153,267
Total assets	**38,335**	**817,573**	**663,143**	**152,685**	**1,671,736**	**288,612**	**389,044**	**140,914**	**818,570**	**55,440**	**2,545,746**
Liabilities											
Derivatives	-	-	88	113	201	-	-	-	-	-	201
Financial liabilities at amortised cost	-	1,669,941	234,997	377,722	2,282,660	19,246	102,094	-	121,340	-	2,404,000
Other liabilities	-	12,856	41	340	13,237	4	-	-	4	-	13,241
Total liabilities	**-**	**1,682,797**	**235,126**	**378,175**	**2,296,098**	**19,250**	**102,094**	**-**	**121,344**	**-**	**2,417,442**
Shareholders' equity	-	-	-	-	-	-	-	128,304	128,304	-	128,304
Total liabilities and shareholders' equity	**-**	**1,682,797**	**235,126**	**378,175**	**2,296,098**	**19,250**	**102,094**	**128,304**	**249,648**	**-**	**2,545,746**
Total memorandum items	-	27,359	599	5,665	33,623	9,681	3,086	558	13,325	-	46,948
Net liquidity position	x	(892,583)	427,418	(231,155)	(696,320)	259,681	283,864	12,610	556,155	x	x
Total liquidity position	x	(892,583)	(465,165)	(696,320)	x	(436,639)	(152,775)	(140,165)	x	x	x

The group and the bank have prepared these consolidated financial statements on a going concern basis notwithstanding the fact that they have a significant negative liquidity gap in the "on demand" maturity range of assets and liabilities. The group's and bank's management closely monitor and manage the group's and bank's liquidity position on a daily basis in accordance with the liquidity risk management framework.

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

In estimating the amount of expected financial liabilities, the group and the bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2012 and 2011 which is expected in the future but has not been assessed at the reporting date.

The table below analyses financial liabilities and memorandum items of the group and interest which is payable in the future but has not been assessed as at 31 December 2012 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

EUR'000

Financial liabilities	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1 - 5 years	More than 5 years	More than 1 year, total	Total
Demand deposits from credit institutions	1,376	-	-	1,376	-	-	-	1,376
Financial liabilities at fair value through profit or loss	-	707	5,808	6,515	-	-	-	6,515
Financial liabilities at amortised cost	2,419,608	117,361	216,760	2,753,729	12,726	81,718	94,444	2,848,173
Total financial liabilities	**2,420,984**	**118,068**	**222,568**	**2,761,620**	**12,726**	**81,718**	**94,444**	**2,856,064**
Memorandum items	31,191	-	4,519	35,710	11,000	6,403	17,403	53,113
Total financial liabilities and memorandum items	**2,452,175**	**118,068**	**227,087**	**2,797,330**	**23,726**	**88,121**	**111,847**	**2,909,177**

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

EUR '000

Financial liabilities	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1 - 5 years	More than 5 years	More than 1 year, total	Total
Demand deposits from credit institutions	2,531	-	-	2,531	-	-	-	2,531
Financial liabilities at fair value through profit or loss	-	88	113	201	-	-	-	201
Financial liabilities at amortised cost	1,653,293	235,887	386,234	2,275,414	47,211	121,722	168,933	2,444,347
Total financial liabilities	**1,655,824**	**235,975**	**386,347**	**2,278,146**	**47,211**	**121,722**	**168,933**	**2,447,079**
Memorandum items	27,359	599	5,664	33,622	9,681	3,644	13,325	46,947
Total financial liabilities and memorandum items	**1,683,183**	**236,574**	**392,011**	**2,311,768**	**56,892**	**125,366**	**182,258**	**2,494,026**

The table below analyses financial liabilities and memorandum items of the bank and interest which is payable in the future but has not been assessed as at 31 December 2012 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

EUR'000

Financial liabilities	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1 - 5 years	More than 5 years	More than 1 year, total	Total
Demand deposits from credit institutions	3,423	-	-	3,423	-	-	-	3,423
Financial liabilities at fair value through profit or loss	-	707	5,808	6,515	-	-	-	6,515
Financial liabilities at amortised cost	2,431,874	67,676	216,440	2,715,990	73,810	83,141	156,951	2,872,941
Total financial liabilities	**2,435,297**	**68,383**	**222,248**	**2,725,928**	**73,810**	**83,141**	**156,951**	**2,882,879**
Memorandum items	31,191	-	4,519	35,710	11,000	6,403	17,403	53,113
Total financial liabilities and memorandum items	**2,466,488**	**68,383**	**226,767**	**2,761,638**	**84,810**	**89,544**	**174,354**	**2,935,992**

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

EUR '000

Financial liabilities	On demand	Up to 1 month	1-12 months	Up to 1 year, total	1 - 5 years	More than 5 years	More than 1 year, total	Total
Demand deposits from credit institutions	2,531	-	-	2,531	-	-	-	2,531
Financial liabilities at fair value through profit or loss	-	88	113	201	-	-	-	201
Financial liabilities at amortised cost	1,667,505	235,887	386,234	2,289,626	47,211	121,722	168,933	2,458,559
Total financial liabilities	**1,670,036**	**235,975**	**386,347**	**2,292,358**	**47,211**	**121,722**	**168,933**	**2,461,291**
Memorandum items	27,359	599	5,664	33,622	9,681	3,644	13,325	46,947
Total financial liabilities and memorandum items	**1,697,395**	**236,574**	**392,011**	**2,325,980**	**56,892**	**125,366**	**182,258**	**2,508,238**

Market risks

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

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

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

Currency risk

The group and the bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives.
The bank has major open positions in EUR (euro) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the bank's open position in EUR is minimal. As a result, any fluctuations of the EUR exchange rate that may be caused by the financial difficulties faced by Greece or other EMU countries will not affect the bank's financial performance. The bank's open currency position in USD is also rather small as it is hedged by using currency forwards/ futures. As at 31 December 2012, the bank's open currency position in USD was 3.8% (1.5%) of bank's equity and, therefore, the effect of changes in the USD exchange rate is insignificant, and the bank does not conduct a more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy. As at 31 December 2012, all the above limits were met.
The bank's Limits Policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

The group’s currency position as at 31 December 2012:

EUR'000

Assets	LVL	USD	EUR	RUB	Other currencies	Total
Cash and deposits with central banks	121,072	3,045	183,210	-	124	307,451
Balances due from credit institutions	980	461,474	26,117	23,036	47,446	559,053
Derivatives	115	-	-	-	-	115
Financial assets at fair value through profit or loss	47	1,986	440	2,269	-	4,742
Available-for-sale financial assets	-	761,194	1,847	9,893	6,454	779,388
Loans and receivables	9,624	145,278	542,129	2,097	12,005	711,133
Held-to-maturity investments	-	468,275	15,566	12,992	3,779	500,612
Other assets	150,583	4,600	1,975	3	9,936	167,097
Total assets	**282,421**	**1,845,852**	**771,284**	**50,290**	**79,744**	**3,029,591**
Liabilities						
Derivatives	6,515	-	-	-	-	6,515
Financial liabilities at amortised cost	24,091	2,023,007	670,130	56,081	77,157	2,850,466
Other liabilities	19,862	3,943	724	415	95	25,039
Total liabilities	**50,468**	**2,026,950**	**670,854**	**56,496**	**77,252**	**2,882,020**
Shareholders' equity	147,571	-	-	-	-	147,571
Total liabilities and shareholders' equity	**198,039**	**2,026,950**	**670,854**	**56,496**	**77,252**	**3,029,591**
Net long/ (short) balance sheet position	**84,382**	**(181,098)**	**100,430**	**(6,206)**	**2,492**	**x**
Derivatives, notional amount	-	189,549	(202,823)	6,806	704	x
Net open (short)/ long currency position	**84,382**	**8,451**	**(102,393)**	**600**	**3,196**	**x**

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

EUR '000

Assets	LVL	USD	EUR	RUB	Other currencies	Total
Cash and deposits with central banks	110,274	2,867	91,168	-	105	204,414
Balances due from credit institutions	711	637,217	37,007	38,415	24,951	738,301
Derivatives	11,623	-	-	-	-	11,623
Financial assets at fair value through profit or loss	53	621	394	3	-	1,071
Available-for-sale financial assets	-	511,108	255	9,276	10,101	530,740
Loans and receivables	1,417	80,865	578,379	1,178	6,091	667,930
Held-to-maturity investments	-	209,930	10,689	12,887	3,798	237,304
Other assets	127,272	6,006	4,623	495	512	138,908
Total assets	**251,350**	**1,448,614**	**722,515**	**62,254**	**45,558**	**2,530,291**
Liabilities						
Derivatives	201	-	-	-	-	201
Financial liabilities at amortised cost	30,208	1,576,321	677,284	61,993	43,982	2,389,788
Other liabilities	10,560	3,468	3,953	524	388	18,893
Total liabilities	**40,969**	**1,579,789**	**681,237**	**62,517**	**44,370**	**2,408,882**
Shareholders' equity	121,409	-	-	-	-	121,409
Total liabilities and shareholders' equity	**162,378**	**1,579,789**	**681,237**	**62,517**	**44,370**	**2,530,291**
Net long/ (short) balance sheet position	**88,972**	**(131,175)**	**41,278**	**(263)**	**1,188**	**x**
Derivatives, notional amount	(1,130)	133,988	(123,431)	790	162	x
Net open (short)/ long currency position	**87,842**	**2,813**	**(82,153)**	**527**	**1,350**	**x**

The bank's currency position as at 31 December 2012:

EUR'000

Assets	LVL	USD	EUR	RUB	Other currencies	**Total**
Cash and deposits with central banks	121,066	3,045	183,211	-	124	307,446
Balances due from credit institutions	-	461,474	21,094	23,016	47,436	553,020
Derivatives	115	-	-	-	-	115
Financial assets at fair value through profit or loss	47	1,986	440	2,269	-	4,742
Available-for-sale financial assets	-	761,194	1,847	9,893	6,454	779,388
Loans and receivables	1,678	145,278	555,516	2,097	12,005	716,574
Held-to-maturity investments	-	468,275	15,566	12,992	3,779	500,612
Other assets	47,800	4,523	119,876	3	9,731	181,933
Total assets	**170,706**	**1,845,775**	**897,550**	**50,270**	**79,529**	**3,043,830**
Liabilities						
Derivatives	6,515	-	-	-	-	6,515
Financial liabilities at amortised cost	23,677	2,023,124	690,507	56,081	77,157	2,870,546
Other liabilities	9,971	3,874	457	411	90	14,803
Total liabilities	**40,163**	**2,026,998**	**690,964**	**56,492**	**77,247**	**2,891,864**
Shareholders' equity	151,966	-	-	-	-	151,966
Total liabilities and shareholders' equity	**192,129**	**2,026,998**	**690,964**	**56,492**	**77,247**	**3,043,830**
Net long/ (short) balance sheet position	**(21,423)**	**(181,223)**	**206,586**	**(6,222)**	**2,282**	**x**
Derivatives, notional amount	-	189,549	(202,823)	6,806	704	x
Net open (short)/ long currency position	**(21,423)**	**8,326**	**3,763**	**584**	**2,986**	**x**
Percentage of shareholders' equity (%)	**(9.8)**	**3.8**	**1.7**	**0.3**	**1.4**	**x**

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

EUR '000

Assets	LVL	USD	EUR	RUB	Other currencies	**Total**
Cash and deposits with central banks	110,274	2,867	91,168	-	105	204,414
Balances due from credit institutions	711	637,212	36,451	38,399	24,946	737,719
Derivatives	11,623	-	-	-	-	11,623
Financial assets at fair value through profit or loss	53	621	394	3	-	1,071
Available-for-sale financial assets	-	511,108	255	9,276	10,101	530,740
Loans and receivables	1,504	80,865	579,970	1,178	6,091	669,608
Held-to-maturity investments	-	209,930	10,689	12,887	3,798	237,304
Other assets	51,272	5,936	95,068	494	497	153,267
Total assets	**175,437**	**1,448,539**	**813,995**	**62,237**	**45,538**	**2,545,746**
Liabilities						
Derivatives	201	-	-	-	-	201
Financial liabilities at amortised cost	35,205	1,576,362	686,455	61,996	43,982	2,404,000
Other liabilities	7,932	3,468	931	524	386	13,241
Total liabilities	**43,338**	**1,579,830**	**687,386**	**62,520**	**44,368**	**2,417,442**
Shareholders' equity	128,304	-	-	-	-	128,304
Total liabilities and shareholders' equity	**171,642**	**1,579,830**	**687,386**	**62,520**	**44,368**	**2,545,746**
Net long/ (short) balance sheet position	**3,795**	**(131,291)**	**126,609**	**(283)**	**1,170**	**x**
Derivatives, notional amount	(1,130)	133,988	(123,431)	790	162	x
Net open (short)/ long currency position	**2,665**	**2,697**	**3,178**	**507**	**1,332**	**x**
Percentage of shareholders' equity (%)	**1.4**	**1.5**	**1.7**	**0.3**	**0.7**	**x**

The Law on Credit Institutions requires that bank's open positions in each foreign currency may not exceed 10% of equity and that the total bank's foreign currency open position may not exceed 20% of equity.
As at 31 December 2012, the bank was in compliance with the above requirements of the Law on Credit Institutions.

Interest rate risk

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

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

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

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:

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

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

The bank regularly conducts interest rate sensitivity analyses, applying the gap technique. Based on the results of this analysis, the bank's management assesses whether interest rate stress tests need to be performed and, if necessary, suggests stress testing scenarios for potential adverse changes in interest rates. These stress tests are aimed at assessing the effect of adverse changes in interest rates on the bank's income and economic value in the event of a tough market situation.

The following table presents the group's and bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2012 and 2011:

EUR'000

		Group/ bank		Group/ bank	
		01/01/2012 - 31/12/2012		01/01/2011 - 31/12/2011	
		+100bps	-100bps	+100bps	-100bps
Total for all currencies	Effect of changes on equity	(8,503)	8,503	(2,197)	2,197
	Effect of changes on profit	1,592	(1,592)	(841)	841
USD	Effect of changes on equity	(7,810)	7,810	(2,197)	2,197
	Effect of changes on profit	1,524	(1,524)	(1,458)	1,458
EUR	Effect of changes on equity	(693)	693	-	-
	Effect of changes on profit	122	(122)	842	(842)
LVL	Effect of changes on equity	-	-	-	-
	Effect of changes on profit	(54)	54	(225)	225

The distribution of the group's assets and liabilities into maturity bands as at 31 December 2012, based on interest rate changes:

EUR'000

Assets	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Cash and deposits with central banks	-	-	-	-	-	-	307,451	307,451
Balances due from credit institutions	219,896	3,778	-	-	-	-	335,379	559,053
Derivatives	-	-	-	-	-	-	115	115
Financial assets at fair value through profit or loss	-	-	-	-	-	-	4,742	4,742
Available-for-sale financial assets	41,410	151,312	121,088	173,364	278,665	5,080	8,469	779,388
Loans and receivables	271,162	151,623	199,556	43,362	2,715	1,471	41,244	711,133
Held-to-maturity investments	1,133	20,324	7,032	8,934	344,442	113,598	5,149	500,612
Other assets	-	-	-	-	-	-	167,097	167,097
Total assets	**533,601**	**327,037**	**327,676**	**225,660**	**625,822**	**120,149**	**869,646**	**3,029,591**
Liabilities								
Derivatives	-	-	-	-	-	-	6,515	6,515
Financial liabilities at amortised cost	249,055	337,480	368,645	372,583	455,347	14,051	1,053,305	2,850,466
Other liabilities	-	-	-	-	-	-	25,039	25,039
Total liabilities	**249,055**	**337,480**	**368,645**	**372,583**	**455,347**	**14,051**	**1,084,859**	**2,882,020**
Shareholders' equity	-	-	-	-	-	-	147,571	147,571
Total liabilities and shareholders' equity	**249,055**	**337,480**	**368,645**	**372,583**	**455,347**	**14,051**	**1,232,430**	**3,029,591**
Futures, sold	(637)	(5,714)	-	-	-	-	-	(6,351)
Interest rate repricing maturity gaps	283,909	(16,157)	(40,969)	(146,923)	170,475	106,098	(362,784)	x
Effect on net interest income for the year	**2,720.79**	**(134.64)**	**(256.06)**	**(367.31)**	x	x	**1,962.79**	x

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

EUR '000

Assets	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Cash and deposits with central banks	-	-	-	-	-	-	204,414	204,414
Balances due from credit institutions	165,302	9,676	-	60	-	-	563,263	738,301
Derivatives	-	-	-	-	-	-	11,623	11,623
Financial assets at fair value through profit or loss	-	-	-	-	-	-	1,071	1,071
Available-for-sale financial assets	27,685	36,329	39,062	114,554	298,681	5,452	8,977	530,740
Loans and receivables	254,872	142,734	179,048	21,988	13,812	1,319	54,157	667,930
Held-to-maturity investments	1,423	5,292	18,147	322	125,918	83,503	2,699	237,304
Other assets	-	-	-	-	-	-	138,908	138,908
Total assets	**449,282**	**194,031**	**236,257**	**136,924**	**438,411**	**90,274**	**985,112**	**2,530,291**
Liabilities								
Derivatives	-	-	-	-	-	-	201	201
Financial liabilities at amortised cost	387,912	299,522	250,987	295,384	328,335	66,938	760,710	2,389,788
Other liabilities	-	-	-	-	-	-	18,893	18,893
Total liabilities	**387,912**	**299,522**	**250,987**	**295,384**	**328,335**	**66,938**	**779,804**	**2,408,882**
Shareholders' equity	-	-	-	-	-	-	121,409	121,409
Total liabilities and shareholders' equity	**387,912**	**299,522**	**250,987**	**295,384**	**328,335**	**66,938**	**901,213**	**2,530,291**
Futures, sold	7,496	3,826	1	-	-	-	-	11,323
Interest rate repricing maturity gaps	68,866	(101,665)	(14,730)	(158,460)	110,076	23,336	83,899	x
Effect on net interest income for the year	**659.97**	**(847.21)**	**(92.06)**	**(396.15)**	x	x	**(675.46)**	x

The distribution of the bank's assets and liabilities into maturity bands as at 31 December 2012, based on interest rate changes:

EUR'000

Assets	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Cash and deposits with central banks	-	-	-	-	-	-	307,446	307,446
Balances due from credit institutions	214,282	3,778	-	-	-	-	334,960	553,020
Derivatives	-	-	-	-	-	-	115	115
Financial assets at fair value through profit or loss	-	-	-	-	-	-	4,742	4,742
Available-for-sale financial assets	41,410	151,312	121,088	173,364	278,665	5,080	8,469	779,388
Loans and receivables	271,162	151,623	204,997	43,362	2,715	1,471	41,244	716,574
Held-to-maturity investments	1,133	20,324	7,032	8,934	344,442	113,598	5,149	500,612
Other assets	-	-	-	-	-	-	181,933	181,933
Total assets	**527,987**	**327,037**	**333,117**	**225,660**	**625,822**	**120,149**	**884,058**	**3,043,830**
Liabilities								
Derivatives	-	-	-	-	-	-	6,515	6,515
Financial liabilities at amortised cost	249,256	337,480	378,645	372,583	455,347	14,051	1,063,184	2,870,546
Other liabilities	-	-	-	-	-	-	14,803	14,803
Total liabilities	**249,256**	**337,480**	**378,645**	**372,583**	**455,347**	**14,051**	**1,084,502**	**2,891,864**
Shareholders' equity	-	-	-	-	-	-	151,966	151,966
Total liabilities and shareholders' equity	**249,256**	**337,480**	**378,645**	**372,583**	**455,347**	**14,051**	**1,236,468**	**3,043,830**
Futures, sold	(637)	(5,714)	-	-	-	-	-	(6,351)
Interest rate repricing maturity gaps	278,094	(16,157)	(45,528)	(146,923)	170,475	106,098	(352,410)	x
Effect on net interest income for the year	**2,665.07**	**(134.64)**	**(284.55)**	**(367.31)**	x	x	**1,878.57**	x

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

EUR'000

Assets	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Cash and deposits with central banks	-	-	-	-	-	-	204,414	204,414
Balances due from credit institutions	165,302	9,676	-	60	-	-	562,681	737,719
Derivatives	-	-	-	-	-	-	11,623	11,623
Financial assets at fair value through profit or loss	-	-	-	-	-	-	1,071	1,071
Available-for-sale financial assets	27,685	36,329	39,062	114,554	298,681	5,452	8,977	530,740
Loans and receivables	254,872	142,734	182,950	21,988	11,575	1,319	54,170	669,608
Held-to-maturity investments	1,423	5,292	18,147	322	125,918	83,503	2,699	237,304
Other assets	-	-	-	-	-	-	153,267	153,267
Total assets	**449,282**	**194,031**	**240,159**	**136,924**	**436,174**	**90,274**	**998,902**	**2,545,746**
Liabilities								
Derivatives	-	-	-	-	-	-	201	201
Financial liabilities at amortised cost	387,134	306,366	255,664	304,156	341,338	66,938	742,404	2,404,000
Other liabilities	-	-	-	-	-	-	13,241	13,241
Total liabilities	**387,134**	**306,366**	**255,664**	**304,156**	**341,338**	**66,938**	**755,846**	**2,417,442**
Shareholders' equity	-	-	-	-	-	-	128,304	128,304
Total liabilities and shareholders' equity	**387,134**	**306,366**	**255,664**	**304,156**	**341,338**	**66,938**	**884,150**	**2,545,746**
Futures, sold	7,496	3,826	1	-	-	-	-	11,323
Interest rate repricing maturity gaps	69,644	(108,509)	(15,505)	(167,232)	94,836	23,336	114,752	x
Effect on net interest income for the year	**667.42**	**(904.24)**	**(96.91)**	**(418.08)**	x	x	**(751.81)**	x

Note 34

Non-financial risks

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

Operational risk

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

Operational risk is inherent in all products, activities, processes, and systems of the group and the bank.

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

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

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

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

To manage the group's and bank's exposure to operational risk, an operational risk event database has been established. The key objectives of the database are as follows:

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

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

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

During the reporting year, 1,031 (1,162) events were registered in the database, of which only 73 (75) events were those which resulted in actual losses amounting to EUR 64,5 (152,0) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the group's and bank's employees in the operational risk management and to the effectiveness of the control environment.

Money laundering and terrorism financing risk

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

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

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

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

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

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

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

Reputational risk

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

Information system risk

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

Note 35

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 36

Events after reporting date

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

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

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INDEPENDENT AUDITORS' REPORT

To the shareholders of ABLV Bank AS

Report on the financial statements

We have audited the accompanying consolidated financial statements of ABLV Bank AS and its subsidiaries (the "Group") and the accompanying financial statements of ABLV Bank AS (the "Bank"), set out on pages 9 through 72 of the accompanying 2012 Consolidated Annual Report, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2012 (set out on pages 3 through 6 of the accompanying 2012 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2012.

We have assured ourselves that the Bank has prepared the corporate management report for the year 2012 and verified information presented in the report according to the requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic
Licence No. 17

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

Armands Podoļskis
Latvian Certified Auditor
Certificate No 191

Riga,
25 February 2013