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 LVL 16.5 million.

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

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

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

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

Bank

The group’s profit in 2012 amounted to LVL 15.9 million, whereas that of ABLV Bank, AS – to LVL 16.5 million. The bank’s profit for 2012 is LVL 2.6 million less than that for 2011, because considerable part of the profit in 2011 was constituted by extraordinary income generated by sale of securities.

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

- In 2012, the bank’s operating income before allowances for credit losses amounted to LVL 66.1 million.
- During 2012, the amount of deposits with the bank has increased – by 16.6% to reach LVL 1.9 billion.
- As at 31 December 2012, the amount of the bank’s assets equalled LVL 2.1 billion; ABLV Bank, AS ranked fourth among commercial banks operating in Latvia in terms of the amount of assets.
- The bank’s loan portfolio amounted to LVL 503.6 million (as at 31 December 2011, it was equal to LVL 470.6 million). As at 31 December 2012, the loan portfolio constituted 23.5% of the bank’s total assets. The loan portfolio quality continued to improve. In 2012, allowances made for credit losses amounted to LVL 12.0 million (in 2011 – LVL 16.5 million).
- The bank’s capital and reserves amounted to LVL 106.8 million (LVL 90.2 million as at 31 December 2011).
- As at 31 December 2012, the bank’s capital adequacy ratio was 16.04%, whereas liquidity equalled 62.51%.
- ROE reached 16.64%, and ROA – 0.82%, as at the end of the year.

The bank continued investing available funds in securities. The total amount of the securities portfolio was equal to LVL 902.9 million, as at 31 December 2012. The bank’s securities portfolio is mostly composed of fixed-income debt securities. Securities having credit rating AA- and higher constitute 74.5% of the total securities portfolio. In terms of the investment amount, the securities are allocated as follows: USA – 24.0%, Russia – 15.2%, Canada – 13.8%, Germany – 12.1%, Sweden – 6.7%, Latvia – 3.1%, whereas 10.0% is constituted by securities issued by international institutions – the European Commission, ERAB, etc. In the reporting period, annual yield of the securities portfolio amounted to 2.35%.

One of the major events in 2012 was increase of the equity by issuing shares. The bank’s shareholders were paid dividends for 2011, at the same time allowing a possibility to re-invest the funds in the bank’s growth – i.e., to acquire the bank’s newly issued shares. There were 10 600 shares issued, thus increasing the bank’s equity by LVL 15.0 million. At the 2nd stage of share offer, the demand was 4.5 times higher than supply. 35 current shareholders of the bank acquired the issued shares. In March 2012, there were also employee shares issued and distributed between 21 key officers of the bank, thus establishing unified motivation system for achieving successful results. Currently, the bank’s equity is constituted by 131 600 shares, i.e., 120 600 voting shares and 11 000 employee shares without voting rights attached.

Among products and services offered by the bank, the payment card segment was especially successful. The number of issued premium credit cards increased considerably. The bank’s revenues under payment cards grew by 39.5%, reaching LVL 5.6 million.

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

Investments

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

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

As at the end of 2012, ABLV Asset Management, IPAS total assets under management amounted to LVL 38.2 million, of which LVL 35.9 million were customers’ investments in mutual funds managed by the company and LVL 2.3 million were customers’ funds invested in individual investment programmes. The said growth was also facilitated by increasing number of customers. More and more our customers wish to diversify their investment portfolios by acquiring shares of ABLV mutual funds.

In 2012, liquidation process of bankrupt company MF Global UK was performed. MF Global UK was one of the custodians of our customers’ securities and cooperation partner in securities trading. Taking care of our customers’ assets, we made a significant decision that will facilitate development of the bank’s investment business: the bank assumed the customers’– securities holders’ risks and possible losses related to their assets with MF Global UK, as well as covered administrative expenses under getting the funds and securities back from MF Global UK. The bank used its own funds to acquire securities worth LVL 7.4 million to substitute the customers’ securities held with MF Global UK. The bank’s direct expenses and allowances under assuming the customers’ risk equalled LVL 1.5 million in the reporting period. Therefore, the bank’s profit indicator for the first half of the year was decreased, but this paid off by growing customers’ loyalty and investment business development already in the second half of the year. This was also a valuable experience, which will be useful in future.

Due to this, 2012 was a record year for the bank’s subsidiary company ABLV Capital Markets, IBAS. Business of ABLV Capital Markets, IBAS has been growing rapidly, and the customers’ assets increased by 67.0%, amounting to historical maximum of LVL 425.5 million, thus allowing the company to end 2012 with profit of LVL 1.5 million.

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

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

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

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

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

The last year was also important for our real estate development and trading group. The real estate line of business was launched to ensure completion, maintenance, and sale of taken over properties that were used as collateral under loans before crisis. In 2012, the real estate line of business acquired new brand – Pillar. The number of properties sold in 2012 has doubled compared with 2011, amounting to 254 real estate units. 125 of those were apartments in existing homes, but 101 – in new projects. The total value of properties sold by Pillar in 2012 was LVL 11.0 million.

Given customers' demand, intensive work on completing apartment blocks has been performed. In 2012, there were 3 new projects completed: 33 apartments in Pine Breeze project at Lašu 1A in Jurmala, 50 apartments in Mārtiņa nams 2 project at Slokas 59A in Riga, and 47 apartments at Liesmas 4 in Riga. The total amount invested by Pillar in developing these projects reached LVL 7.5 million.

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

In total, Pillar has sold 450 properties over several years. Currently, Pillar supervises more than 1 200 properties worth about LVL 60 million, which is one of the largest real estate portfolios in Latvia.

In the last year, we sold 100% of SIA AB.LV Transform Investment capital shares for LVL 2.6 million. The main asset of the company were commercial premises in Moscow.

Advisory

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

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

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

Luxembourg

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

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

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

Plans for 2013

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

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

For society

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

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

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

Since the foundation was established, the bank has donated LVL 1.37 million to charity through the intermediary of the foundation. The funds were used to implement about 200 charitable projects.

At the end of the last year, the bank decided to acquire new office premises for ABLV Charitable Foundation for LVL 262 thousand, thus allowing the foundation to operate even more successfully.

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

Chairman of the Council
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

LVL'000

	Notes	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Interest income	3	38,303	38,042	37,988	37,725
Interest expense	3	(15,367)	(15,678)	(15,349)	(15,566)
Net interest income		**22,936**	**22,364**	**22,639**	**22,159**
Commission and fee income	4	32,320	26,120	29,201	23,521
Commission and fee expense	4	(3,927)	(3,418)	(3,523)	(2,994)
Net commission and fee income		**28,393**	**22,702**	**25,678**	**20,527**
Net gain on transactions with financial instruments and foreign exchange	5	14,611	26,571	14,757	26,672
Other income	6	16,692	9,493	1,584	1,349
Income from dividends		7	1	1,404	707
Impairment allowance	7	(13,424)	(16,991)	(13,239)	(17,138)
Operating income		**69,215**	**64,140**	**52,823**	**54,276**
Administrative expense	9	(30,250)	(28,149)	(23,965)	(24,081)
Amortisation and depreciation		(2,044)	(1,852)	(1,433)	(1,516)
Other expense	6	(14,840)	(9,167)	(5,742)	(4,954)
Gain/ (loss) from sale of tangible and intangible fixed assets		23	32	18	16
Provisions		(338)	-	(338)	-
Impairment of financial instruments		(342)	(1,756)	(342)	(1,756)
Impairment of non-financial assets	8	(1,599)	(1,260)	(824)	355
Total operating expense		**(49,390)**	**(42,152)**	**(32,626)**	**(31,936)**
Profit before corporate income tax		**19,825**	**21,988**	**20,197**	**22,340**
Corporate income tax	10	(3,959)	(3,586)	(3,743)	(3,234)
Net profit for the year		**15,866**	**18,402**	**16,454**	**19,106**
Attributable to:					
Equity holders of the bank		16,106	18,745		
Non-controlling interests		(240)	(343)		
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		4,773	(4,996)	4,773	(4,996)
Charge to income statement as a result of sale of available-for-sale securities		(16)	(1,827)	(16)	(1,827)
Charge to income statement due to recognised impairment of available-for-sale securities		342	1,756	342	1,756
Change in deferred corporate income tax		(764)	758	(764)	758
Other comprehensive income, total		**4,335**	**(4,309)**	**4,335**	**(4,309)**
Total comprehensive income		**20,201**	**14,093**	**20,789**	**14,797**
Attributable to:					
Equity holders of the bank		20,441	14,436		
Non-controlling interests		(240)	(343)		
Earnings per share attributable to the equity holders of the bank, LVL		162.19	131.24		

Chairman of the Council
Oļegs Fiļs

Chairman of the Board
Ernests Bernis

Riga, 25 February 2013

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

LVL'000

		Group	Group	Bank	Bank
Assets	Notes	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Cash and deposits with the Bank of Latvia	11	216,078	143,663	216,074	143,663
Balances due from credit institutions	12	392,905	518,881	388,665	518,472
Derivatives	20	81	8,169	81	8,169
Financial assets at fair value through profit or loss		3,333	753	3,333	753
Shares and other non-fixed income securities	14	3,333	753	3,333	753
Available-for-sale financial assets		547,757	373,006	547,757	373,006
Debt securities and other fixed income securities	13	545,510	370,744	545,510	370,744
Shares and other non-fixed income securities	14	2,247	2,262	2,247	2,262
Loans	15	499,787	469,424	503,611	470,603
Held-to-maturity investments		351,832	166,778	351,832	166,778
Debt securities and other fixed income securities	13	351,832	166,778	351,832	166,778
Investments in subsidiaries and associates	16	2,668	315	89,577	71,286
Investment properties	17	20,856	21,542	17,303	16,662
Tangible fixed assets	18	19,610	10,071	4,906	4,954
Intangible fixed assets	18	3,821	3,493	3,384	3,368
Current corporate income tax receivables		71	15	-	-
Deferred corporate income tax	10	404	3,386	74	3,359
Other assets	19	70,006	58,803	12,619	8,088
Total assets		**2,129,209**	**1,778,299**	**2,139,216**	**1,789,161**
Liabilities					
Derivatives	20	4,579	141	4,579	141
Demand deposits from credit institutions		967	1,779	2,406	1,779
Term deposits from credit institutions		2,230	9,167	8,405	6,699
Deposits	21	1,862,391	1,595,438	1,868,890	1,603,143
Current corporate income tax liabilities		1,273	173	1,057	-
Other liabilities		15,915	12,919	9,007	9,305
Deferred corporate income tax	10	71	186	-	-
Provisions		338	-	338	-
Issued securities	22	124,819	51,507	124,819	56,258
Subordinated deposits	23	12,912	21,662	12,912	21,662
Other liabilities		**2,025,495**	**1,692,972**	**2,032,413**	**1,698,987**
Shareholders' equity					
Paid-in share capital	24	19,740	16,500	19,740	16,500
Share premium		19,180	5,255	18,611	5,255
Reserve capital and other reserves		1,500	1,500	1,500	1,500
Fair value revaluation reserve of available-for-sale financial assets		1,855	(2,480)	1,855	(2,480)
Retained earnings brought forward		43,293	45,304	48,643	50,293
Retained earnings for the period		16,106	18,745	16,454	19,106
Attributable to the equity holders of the bank		101,674	84,824	106,803	90,174
Non-controlling interests		2,040	503	-	-
Total shareholders' equity		**103,714**	**85,327**	**106,803**	**90,174**
Total liabilities and shareholders' equity		**2,129,209**	**1,778,299**	**2,139,216**	**1,789,161**
Memorandum items					
Funds under trust management		137,840	116,884	99,668	87,492
Contingent liabilities	27	7,052	12,055	7,052	12,055
Financial commitments	27	30,276	20,940	30,276	20,940

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.

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

LVL'000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the Bank	Non-controlling interests	Total shareholders' equity
As at 1 January 2011	**16,500**	**5,255**	**1,500**	**1,829**	**45,304**	**70,388**	**682**	**71,070**
Total comprehensive income for the year 2011	-	-	-	(4,309)	18,745	14,436	(343)	14,093
Increase of non-controlling interests	-	-	-	-	-	-	164	164
As at 31 December 2011	**16,500**	**5,255**	**1,500**	**(2,480)**	**64,049**	**84,824**	**503**	**85,327**
As at 1 January 2012	**16,500**	**5,255**	**1,500**	**(2,480)**	**64,049**	**84,824**	**503**	**85,327**
Total comprehensive income for the year 2012	-	-	-	4,335	16,106	20,441	(240)	20,201
Dividends paid	-	-	-	-	(19,106)	(19,106)	-	(19,106)
Issue of personnel shares	1,650	-	-	-	(1,650)	-	-	-
Issue of shares	1,590	13,356	-	-	-	14,946	-	14,946
Increase of non-controlling interests	-	569	-	-	-	569	1,777	2,346
As at 31 December 2012	**19,740**	**19,180**	**1,500**	**1,855**	**59,399**	**101,674**	**2,040**	**103,714**

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

LVL'000

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
As at 1 January 2011	**16,500**	**5,255**	**1,500**	**1,829**	**50,293**	**75,377**
Total comprehensive income for the year 2011	-	-	-	(4,309)	19,106	14,797
As at 31 December 2011	**16,500**	**5,255**	**1,500**	**(2,480)**	**69,399**	**90,174**
As at 1 January 2012	**16,500**	**5,255**	**1,500**	**(2,480)**	**69,399**	**90,174**
Total comprehensive income for the year 2012	-	-	-	4,335	16,454	20,789
Dividends paid	-	-	-	-	(19,106)	(19,106)
Issue of personnel shares	1,650	-	-	-	(1,650)	-
Issue of shares	1,590	13,356	-	-	-	14,946
As at 31 December 2012	**19,740**	**18,611**	**1,500**	**1,855**	**65,097**	**106,803**

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

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

LVL'000

Cash flow from operating activities	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Profit before corporate income tax	19,825	21,988	20,197	22,340
Amortisation and depreciation of fixed assets and investment properties	2,044	1,852	1,433	1,516
Allowance for impairment of assets	13,413	16,991	13,239	17,138
Impairment of non-financial assets	(1,599)	1,260	824	(355)
Decrease/ (increase) in financial instruments	(209)	2,002	(209)	1,954
Interest (income)	(38,303)	(38,042)	(37,988)	(37,725)
Interest expense	15,367	15,678	15,349	15,566
Other non-cash items	5,573	(4,966)	(148)	(5,130)
Net cash flow from operating activities before changes in assets and liabilities	**16,111**	**16,763**	**12,697**	**15,304**
(Increase) in balances due from credit institutions	(46,427)	(4,087)	(46,133)	(4,088)
(Increase)/ decrease in loans	(41,504)	33,772	(44,627)	31,163
(Increase)/ decrease in financial assets at fair value through profit or loss	(11,291)	18,944	(11,291)	18,992
(Increase)/ decrease in other assets	(6,874)	(13,973)	1,538	(2,376)
(Decrease)/ increase in balances due to credit institutions	(2,747)	710	7,210	1,195
Increase in deposits	288,111	354,814	286,906	351,120
Increase/ (decrease) in derivatives	12,527	(4,825)	12,527	(4,825)
Increase in other liabilities	2,860	5,973	(304)	3,871
Net cash flow from operating activities before corporate income tax	**210,766**	**408,091**	**218,523**	**410,356**
Interest received in the reporting year	32,571	32,946	32,927	33,572
Interest (paid) in the reporting year	(12,631)	(13,112)	(12,631)	(12,998)
Corporate income tax (paid)	(409)	(175)	-	-
Net cash flow from operating activities	**230,297**	**427,750**	**238,819**	**430,930**
Cash flow from investing activities				
(Purchase) of held-to-maturity investments	(246,320)	(86,627)	(246,320)	(86,627)
Redemption of held-to-maturity investments	14,635	108,387	14,635	108,387
(Purchase) of available-for-sale financial assets	(766,214)	(405,587)	(766,214)	(405,587)
Sale of available-for-sale financial assets	636,700	177,650	636,700	177,650
(Purchase) of intangible and tangible fixed assets and investment properties	(16,826)	(4,689)	(2,230)	(1,071)
Sale of intangible and tangible fixed assets	5,467	44	53	44
(Purchase) of investments in other entities	(2,353)	(315)	(23,712)	(12,247)
Decrease in investments in subsidiaries	-	-	4,863	-
Net cash flow from investing activities	**(374,911)**	**(211,137)**	**(382,225)**	**(219,451)**
Cash flow from financing activities				
Increase in subordinated loans	2,335	-	2,335	-
(Repayment) of subordinated loans	(10,880)	(2,347)	(10,880)	(2,347)
Sale of issued securities	90,350	28,293	90,350	33,044
(Repurchase) of issued securities	(18,078)	-	(22,828)	-
Dividends (paid)	(19,100)	-	(19,100)	-
Issue of shares	14,946	-	14,946	-
Net cash flow from financing activities	**59,573**	**25,946**	**54,823**	**30,697**
Net cash flow	**(85,041)**	**242,559**	**(88,583)**	**242,176**
Cash and cash equivalents at the beginning of the year	**637,416**	**391,251**	**637,007**	**391,225**
(Loss)/ gain from revaluation of foreign currency positions	(9,482)	3,606	(9,480)	3,606
Cash and cash equivalents at the end of the year	**542,893**	**637,416**	**538,944**	**637,007**

LVL'000

Cash and cash equivalents	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Cash and deposits with the Bank of Latvia	216,078	143,663	216,074	143,663
Balances due from credit institutions	329,221	501,036	325,276	500,627
Balances due to credit institutions	(2,406)	(7,283)	(2,406)	(7,283)
Total cash and cash equivalents	**542,893**	**637,416**	**538,944**	**637,007**

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 lats (LVL'000), unless otherwise stated. Information given herein in brackets represents comparative figures for the year ended 31 December 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

c) Significant estimates and assumptions

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

The significant areas of estimation and assumptions relate to depreciation rates of tangible fixed assets (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 LVL 3,2 million.
In the reporting year, an allowance of LVL 0,6 million was established for the claims against the brokerage firm MF Global. The allowance was supported by estimates based on the public information provided by the audit firm KPMG (the liquidator of MF Global) regarding the potential recoverable amount of assets.

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

LVL'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	21,900	23,539	21,593	23,235
non-impaired	19,222	20,070	18,915	19,763
impaired	2,678	3,469	2,678	3,472
on held-to-maturity securities	10,026	6,460	10,026	6,460
non-impaired	10,007	6,388	10,007	6,388
impaired	19	72	19	72
on available-for-sale securities	5,084	5,769	5,084	5,769
on balances due from credit institutions and central banks	1,293	1,742	1,285	1,732
on financial assets at fair value through profit or loss	-	345	-	342
on loans and receivables	-	182	-	182
other interest income	-	5	-	5
Total interest income	**38,303**	**38,042**	**37,988**	**37,725**
Interest expense				
on the deposit guarantee fund	5,930	2,902	5,930	2,902
on deposits from non-bank customers	4,734	9,269	4,741	9,281
on debt securities issued	3,691	1,957	3,735	1,959
on subordinated deposits	907	1,407	907	1,407
on balances due to credit institutions and central banks	105	143	36	17
Total interest expense	**15,367**	**15,678**	**15,349**	**15,566**

Note 4

Commission and fee income and expense

LVL'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	16,537	14,243	16,537	14,243
commission on handling of settlement cards	5,576	3,995	5,576	3,995
service fees	3,826	2,878	3,826	2,878
commission on brokerage operations	3,140	2,343	440	363
commission on trust transactions	1,172	1,127	745	513
commission on documentary transactions	665	531	665	531
other commission and fee income	1,404	1,003	1,412	998
Total commission and fee income	**32,320**	**26,120**	**29,201**	**23,521**
Commission and fee expense				
correspondent bank service charges	2,149	1,868	2,149	1,868
commission on transactions with settlement cards	1,355	1,124	1,355	1,124
other commission and fee expense	423	426	19	2
Total commission and fee expense	**3,927**	**3,418**	**3,523**	**2,994**

Note 5

Net gains/ losses on financial assets

LVL'000

Financial instruments at fair value through profit or loss	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Gain/(loss) from revaluation of financial instruments at fair value through profit or loss	204	(246)	193	(198)
Derivatives	19	44	19	44
Securities	185	(290)	174	(242)
(Loss) from trading with financial instruments at fair value through profit or loss	(33)	(5,400)	(33)	(5,400)
Derivatives	(45)	(5,767)	(45)	(5,767)
Securities	12	367	12	367
Net gain/ (loss) from financial instruments at fair value through profit or loss	**171**	**(5,646)**	**160**	**(5,598)**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	16	1,827	16	1,827
Net realised gain from available-for-sale financial instruments	**16**	**1,827**	**16**	**1,827**
Financial instruments at amortised cost				
Gain from sale of securities of the loans and receivables portfolio	-	2	-	2
Gain from sale of held-to-maturity securities	-	9,478	-	9,478
Net realised gain from sale of financial instruments at amortised cost	**-**	**9,480**	**-**	**9,480**
Foreign exchange				
Profit from foreign currency exchange	14,109	15,780	14,264	15,833
Gain from revaluation of foreign currency positions	315	5,130	317	5,130
Net result from foreign exchange trading and revaluation	**14,424**	**20,910**	**14,581**	**20,963**
Net gain on transactions with financial instruments and foreign exchange	**14,611**	**26,571**	**14,757**	**26,672**

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

LVL'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	10,214	6,284	-	53
other income from the sale of products of subsidiaries and associates	4,380	1,690	-	-
sale of subsidiaries	576	464	169	-
penalties received	541	689	544	689
real estate management and lease	255	176	22	23
sale of services to subsidiaries and associates	-	-	690	440
other operating income	726	190	159	144
Total other income	**16,692**	**9,493**	**1,584**	**1,349**
Other expense				
sale of assets taken over for sale	8,889	5,956	-	252
other expense related to the sale of products of associates	2,783	1,155	-	-
customer attraction	2,289	1,748	5,221	4,419
membership fees	489	308	419	283
other expense	390	-	102	-
Total other expense	**14,840**	**9,167**	**5,742**	**4,954**

Note 7

Allowances for impairment of financial assets

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

LVL'000

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

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:

LVL'000

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

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

LVL'000

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

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

LVL '000

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

Note 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:

LVL'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	1,464	1,260	(37)	23
Prepayments for investment properties	135	-	135	-
Investments in subsidiaries	-	-	726	(378)
Total impairment adjustment	**1,599**	**1,260**	**824**	**(355)**

Note 9

Administrative expense

LVL'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	15,882	16,249	13,108	14,285
Statutory social insurance contributions	4,071	3,767	3,478	3,357
Repairs and maintenance of premises	1,971	1,477	1,242	1,063
Advertising and marketing expense	1,781	1,115	1,672	1,041
IT system expense	1,746	1,693	1,708	1,658
Remuneration to the council and the board	1,285	1,160	869	849
Other personnel expense	699	476	414	359
Communication expense	521	348	407	399
Other taxes	293	280	131	125
Donations	27	24	27	24
Other administrative expense	1,974	1,560	909	921
Total administrative expense	**30,250**	**28,149**	**23,965**	**24,081**

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

LVL'000

	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Profit before corporate income tax	19,825	21,988	20,197	22,340
Theoretical corporate income tax	**2,974**	**3,298**	**3,030**	**3,351**
Permanent differences	879	132	518	(273)
Actual corporate income tax expense for the reporting year	**3,853**	**3,430**	**3,548**	**3,078**
Adjustments to prior-year corporate income tax	(89)	-	-	-
Adjustments to prior-year deferred tax	30	39	30	39
Tax paid abroad	165	117	165	117
Total corporate income tax expense	**3,959**	**3,586**	**3,743**	**3,234**

Deferred corporate income tax calculation:

LVL'000

	Group 31/12/2012 Amounts subject to temporary differences	Group 31/12/2011 Amounts subject to temporary differences	Bank 31/12/2012 Amounts subject to temporary differences	Bank 31/12/2011 Amounts subject to temporary differences
Accumulated excess of tax depreciation over accounting depreciation	8,592	4,943	4,328	3,604
Fair value revaluation reserve of available-for-sale financial assets	2,183	(2,917)	2,183	(2,917)
Revaluation of derivatives and securities	383	5,220	383	5,397
Revaluation of assets and accrual for vacation pay	(12,638)	(3,399)	(7,380)	(1,463)
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	-	-
Tax loss	(8,424)	(28,832)	-	(27,012)
Unrecognised tax asset	9,923	5,888	-	-
Basis for calculation of deferred corporate income tax	**(2,216)**	**(21,332)**	**(486)**	**(22,391)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/ liability at the end of the year	**(404) 71**	**(3,386) 186**	**(74) -**	**(3,359) -**

LVL'000

	Group 01/01/2012-31/12/2012	Group 01/01/2011-31/12/2011	Bank 01/01/2012-31/12/2012	Bank 01/01/2011-31/12/2011
Deferred corporate income tax at the beginning of the year	**(3,386) 186**	**(5,736) 21**	**(3,359) -**	**(5,718) -**
Increase charged to the statement of comprehensive income	2,355	3,234	2,521	3,078
Increase/ (decrease) attributable to fair value revaluation reserve under equity	764	(758)	764	(758)
Adjustments attributable to retained earnings/ (accumulated deficit)	(252)	-	-	-
Adjustment for the previous periods	-	39	-	39
Deferred corporate income tax (asset)/ liability at the end of the year	**(404) 71**	**(3,386) 186**	**(74) -**	**(3,359) -**

Taxes paid by the group and the bank:

LVL'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	5,539	4,689	4,916	4,279
Personal income tax	3,270	2,951	2,878	2,661
Real estate tax	311	230	131	124
Corporate income tax	409	175	-	-
Value added tax	446	125	202	4
Unemployment risk duty	11	1	2	1
Total	**9,986**	**8,171**	**8,129**	**7,069**

Note 11

Cash and deposits with the Bank of Latvia

	Group	Bank	Group/ bank
	31/12/2012	31/12/2012	31/12/2011
			LVL'000
Cash	6,691	6,687	6,038
Deposits with the Bank of Latvia	209,387	209,387	137,625
Total cash and deposits with central banks	**216,078**	**216,074**	**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: LVL 47.8 (42.0) million due from the Bank of Montreal, LVL 41.1 (38.9) million due from UBS AG, and LVL 37.7 (60.0) million due from Nordea Bank Finland Plc.

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

						LVL'000
Demand deposits with credit institutions	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Correspondent account balances	689	94,369	1,712	79,516	29,336	205,622
Overnight deposits	-	-	-	-	331	331
Total demand deposits with credit institutions	**689**	**94,369**	**1,712**	**79,516**	**29,667**	**205,953**
Other balances due from credit institutions						
Security deposits	-	295	111	33,620	-	34,026
Term deposits	2,657	15,931	115,886	-	3,865	138,339
Other balances	-	-	-	-	14,587	14,587
Total other balances due from credit institutions	**2,657**	**16,226**	**115,997**	**33,620**	**18,452**	**186,952**
Total balances due from credit institutions	**3,346**	**110,595**	**117,709**	**113,136**	**48,119**	**392,905**

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

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

LVL'000

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

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

LVL'000

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

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

LVL'000

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

Note 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:

LVL'000

	Group/ bank			Group/ bank		
	31/12/2012			31/12/2011		
Issuer	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
Latvia						
Central governments	-	26,860	26,860	-	5,870	5,870
Municipalities	-	186	186	-	-	-
Corporate companies	1,061	-	1,061	-	-	-
Other financial intermediaries	36	-	36	15	-	15
Credit institutions	-	-	-	-	176	176
Total	1,097	27,046	28,143	15	6,046	6,061
International organisations	62,337	27,065	89,402	71,555	26,188	97,743
EMU countries						
Central governments	11,313	15,933	27,246	16,806	12,672	29,478
Credit institutions	102,407	30,474	132,881	67,214	2,926	70,140
Corporate companies	-	1,027	1,027	-	-	-
Total	113,720	47,434	161,154	84,020	15,598	99,618
Other EU Member States						
Central governments and central banks	55,702	3,812	59,514	38,888	543	39,431
Credit institutions	12,961	23,859	36,820	25,394	175	25,569
Total	68,663	27,671	96,334	64,282	718	65,000
Other OECD countries						
Central governments	223,144	38,634	261,778	48,036	15,480	63,516
Credit institutions	41,735	19,869	61,604	23,363	2,861	26,224
Municipalities	-	22,062	22,062	-	-	-
State-owned enterprises	10,960	5,386	16,346	19,422	5,542	24,964
Other financial intermediaries	2,099	-	2,099	2,209	-	2,209
Total	277,938	85,951	363,889	93,030	23,883	116,913
Other countries						
Central governments and central banks	9,771	22,064	31,835	14,175	18,733	32,908
Municipalities	361	978	1,339	801	528	1,329
Financial auxiliary	50	-	50	91	-	91
Credit institutions	8,800	47,185	55,985	23,858	32,299	56,157
Corporate companies	2,773	66,438	69,211	18,917	42,785	61,702
Total	21,755	136,665	158,420	57,842	94,345	152,187
Net fixed income securities	**545,510**	**351,832**	**897,342**	**370,744**	**166,778**	**537,522**

In the reporting year, the annual yield of the bank's securities portfolio was 2.4% (3.9%). Most of these assets – 93.8% (88.6%) - have been invested by the bank in investment-grade securities (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 LVL 257 (191) 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:

- LVL 223 (342) thousand – debt securities issued by companies of other countries;
- LVL 505 (503) thousand – debt securities issued by credit institutions of other countries;
- LVL 2,755 (0) thousand – debt securities issued by an EMU credit institution.

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

LVL'000

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

Note 14

Shares and other non-fixed income securities

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

LVL'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	-	1,328	1,328	-	277	277
Equity shares in Latvian corporate entities	33	-	33	36	-	36
Equity shares in credit institutions registered in EMU countries	155	-	155	-	-	-
Equity shares in credit institutions registered in other OECD countries	484	-	484	-	-	-
Investments in funds registered in other OECD countries	737	-	737	-	-	-
Equity shares in corporate entities registered in other countries	424	-	424	299	-	299
Equity shares in credit institutions registered in other countries	172	-	172	141	-	141
Total shares and other non-fixed income securities at fair value through profit or loss	**2,005**	**1,328**	**3,333**	**476**	**277**	**753**
Available-for-sale						
Investments in funds registered in other countries	-	2,149	2,149	-	2,201	2,201
Equity shares in financial auxiliaries registered in EMU countries	-	98	98	-	61	61
Total shares and other non-fixed income securities included in the available-for-sale portfolio	**-**	**2,247**	**2,247**	**-**	**2,262**	**2,262**
Total shares and other non-fixed income securities	**2,005**	**3,575**	**5,580**	**476**	**2,539**	**3,015**

Note 15

Loans

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

LVL'000

Customer profile	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Private individuals	348,315	389,844	348,315	389,844
Corporate companies	165,781	115,782	169,603	117,135
Financial institutions	33,113	22,461	33,113	22,461
Total	**547,209**	**528,087**	**551,031**	**529,440**
Impairment allowance	(47,422)	(58,663)	(47,420)	(58,837)
Net loans	**499,787**	**469,424**	**503,611**	**470,603**

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

LVL'000

Geographical profile	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Latvia	439,372	467,529	443,194	468,882
EMU countries	21,465	3,410	21,465	3,410
Other EU Member States	12,831	24,296	12,831	24,296
Other OECD countries	9,134	3,994	9,134	3,994
Other countries	64,407	28,858	64,407	28,858
Total loans	**547,209**	**528,087**	**551,031**	**529,440**
Impairment allowance	(47,422)	(58,663)	(47,420)	(58,837)
Net loans	**499,787**	**469,424**	**503,611**	**470,603**

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:

LVL'000

	31/12/2012					31/12/2011				
	Mortgage	Business	Consumer	Other	**Total**	Mortgage	Business	Consumer	Other	**Total**
Not individualy impaired loans	261,235	185,999	1,189	15,099	**463,522**	288,485	106,211	820	17,691	**413,207**
including past due loans	1,004	898	-	-	**1,902**	1,185	314	-	-	**1,499**
less than 30 days	522	178	-	-	700	440	13	-	-	453
31 to 59 days	199	1	-	-	200	234	53	-	-	287
60 to 89 days	101	3	-	-	104	331	8	-	-	339
more than 90 days	182	716	-	-	898	180	240	-	-	420
Impaired loans	61,397	20,941	74	1,275	**83,687**	78,802	33,854	81	2,144	**114,881**
including past due loans	35,127	6,980	54	1,282	**43,443**	42,527	10,756	12	186	**53,481**
Impairment allowance	(37,652)	(7,129)	(54)	(2,587)	**(47,422)**	(42,957)	(14,352)	(63)	(1,292)	**(58,664)**
Total loans, net	**284,980**	**199,811**	**1,209**	**13,787**	**499,787**	**324,330**	**125,713**	**838**	**18,543**	**469,424**

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 :

LVL'000

	31/12/2012					31/12/2011				
	Mortgage	Business	Consumer	Other	**Total**	Mortgage	Business	Consumer	Other	**Total**
Not individualy impaired loans	261,235	189,823	1,189	15,099	**467,346**	288,485	107,217	820	17,691	**414,213**
including past due loans	1,004	898	-	-	**1,902**	1,185	314	-	-	**1,499**
less than 30 days	522	178	-	-	700	440	13	-	-	453
31 to 59 days	199	1	-	-	200	234	53	-	-	287
60 to 89 days	101	3	-	-	104	331	8	-	-	339
more than 90 days	182	716	-	-	898	180	240	-	-	420
Impaired loans	61,397	20,941	74	1,275	**83,687**	78,802	34,201	81	2,144	**115,228**
including past due loans	35,127	6,980	54	1,282	**43,443**	42,527	10,756	12	186	**53,481**
Impairment allowance	(37,652)	(7,129)	(54)	(2,587)	**(47,422)**	(42,957)	(14,526)	(63)	(1,292)	**(58,838)**
Total loans, net	**284,980**	**203,635**	**1,209**	**13,787**	**503,611**	**324,330**	**126,892**	**838**	**18,543**	**470,603**

As at 31 December 2012, the gross amount of loans having the maturity date for principal or interest changed was LVL 76.6 (97.4) 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:

LVL'000

	31/12/2012		31/12/2011	
Loan type	Total loans	Fair value of collateral	Total loans	Fair value of collateral
Mortgage loans	61,397	36,982	78,802	48,066
Business loans	20,941	14,090	34,201	20,942
Consumer loans	74	-	81	-
Other loans	1,275	-	2,144	-
Total impaired loans, gross	**83,687**	**51,072**	**115,228**	**69,008**

Note 16

Investments in subsidiaries

The bank has shares in the following subsidiaries:

LVL'000

		31/12/2012			31/12/2011		
Company	Country of incorporation	Share capital	Equity	Bank's share of total share capital, %	Share capital	Equity	Bank's share of total share capital, %
Pillar Holding Company, KS	LV	63,252	63,731	99.9997	56,224	56,745	99.9997
ABLV Bank Luxembourg, S.A.	LU	14,056	12,767	100	1,406	1,331	100
ABLV Private Equity Fund 2010, KS	LV	7,028	7,872	100	7,028	7,241	100
New Hanza City, SIA	LV	4,400	4,352	100	2,900	2,861	100
ABLV Consulting services, AS	LV	500	540	100	375	402	100
Pillar Management, SIA	LV	500	391	100	500	124	100
ABLV Asset Management, IPAS	LV	400	391	100	400	594	100
ABLV Capital Markets, IBAS	LV	400	1,886	100	400	1,602	100
ABLV Private Equity Mangement, SIA	LV	120	150	100	120	132	100
ABLV Corporate Services, SIA	LV	20	140	100	20	42	100
Pillar, SIA	LV	2	2	100	-	-	-
Elizabetes Park House, SIA	LV	-	-	-	2,500	1,677	91.6
	Total, gross	**90,678**	**92,222**		**71,873**	**72,751**	
	Impairment expense	(1,103)			(377)		
	Total, net	**89,575**			**71,496**		

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

During the reporting year, the bank increased its investment in Pillar Holding Company, KS and New Hanza City, SIA by EUR 10.0 million and LVL 1.5 million respectively. The Bank also increased the share capital of ABLV Consulting services, AS by LVL 125,0 thousand. The above capital increases were aimed at ensuring expansion of the subsidiaries' business and their successful development. In the reporting year, within the framework of the effective restructuring of the ABLV group, the subsidiary Elizabetes Park House, SIA was included in the Pillar Holding Company, KS group which is engaged in real estate takeover, management, development, preparation for sale and ultimate sale.
In October 2012, the group sold its subsidiary AB.LV Transform Investments, SIA to third parties.

In 2012, the bank established impairment indications in respect of its investments in Pillar Management, SIA and Pillar Holding Company, KS and, therefore, recognised impairment expense of LVL 123,0 thousand and LVL 603,0 thousand respectively.

In the reporting year, the investment fund ABLV Private Equity Fund 2010, KS acquired additional 20.0% shares in Orto, SIA. As a result, ABLV Private Equity Fund 2010, KS is the holder of a total of 60.0% shares in ORTO, SIA and exercises control over this entity. In the reporting year, ABLV Private Equity Fund 2010, KS established and structured a holding company Vaiņodes Agro Holding, SIA to develop agricultural production in Latvia. The investment made by Private Equity Fund 2010, KS in Vaiņodes Agro Holding, SIA totals LVL 700,0 thousand.

As at 31 December 2012, funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation amounted to LVL 38.2 (29.4) million. The value of financial instruments of the ABLV Capital Markets, IBAS customers as at 31 December 2012 was LVL 425.5 (253.7) million.

Note 17

Investment properties

LVL'000

	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Investment properties	20,188	21,147	17,303	16,527
Prepayments for investment properties	668	395	-	135
Total investment properties	**20,856**	**21,542**	**17,303**	**16,662**

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

LVL'000

	Group			Bank		
	Land	Buildings	Total, excl. prepayments	Land	Buildings	Total, excl. prepayments
Acquisition value as at 01/01/2012	**18,246**	**2,946**	**21,192**	**16,355**	**217**	**16,572**
Additions	784	522	1,306	784	-	784
Disposals	-	(2,257)	(2,257)	-	-	-
Acquisition value as at 31/12/2012	**19,030**	**1,211**	**20,241**	**17,139**	**217**	**17,356**
Accumulated depreciation as at 01/01/2012	**-**	**45**	**45**	**-**	**45**	**45**
Depreciation charge	-	8	8	-	8	8
Accumulated depreciation as at 31/12/2012	**-**	**53**	**53**	**-**	**53**	**53**
Net carrying amount as at 01/01/2012	**18,246**	**2,901**	**21,147**	**16,355**	**172**	**16,527**
Net carrying amount as at 31/12/2012	**19,030**	**1,158**	**20,188**	**17,139**	**164**	**17,303**

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

LVL'000

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

The market value of the group's and bank's investment properties as at 31 December 2012 were LVL 22.6 (21.0) million and LVL 19.0 (19.0) 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 LVL 22.0 (24.0) thousand, whereas the related property maintenance expense was LVL 101.0 (91.0) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to LVL 84.0 (77.0) thousand.

Note 18

Intangible and tangible fixed assets

LVL'000

	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Intangible fixed assets	3,419	3,037	3,151	2,912
Goodwill	161	-	-	-
Prepayments for intangible fixed assets	241	456	233	456
Total intangible fixed assets	**3,821**	**3,493**	**3,384**	**3,368**
Land	874	128	128	128
Buildings and property improvements	10,917	5,796	3,152	3,315
Production equipment	3,591	2,375	-	-
Office equipment	1,850	1,121	1,233	1,059
Construction in progress	1,609	-	-	-
Vehicles	648	479	308	285
Leasehold improvements	82	142	82	142
Prepayments for tangible fixed assets	39	30	3	25
Total tangible fixed assets	**19,610**	**10,071**	**4,906**	**4,954**

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

LVL'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	**-**	**6,309**	**128**	**4,156**	**-**	**13,574**	**693**	**1,010**	**6,821**	**32,691**
Additions	161	968	746	3	1,609	65	-	410	1,265	5,227
Disposals	-	(805)	-	(1)	-	(18)	(76)	(241)	(507)	(1,648)
Acquisition value as at 31/12/2012	**161**	**6,472**	**874**	**4,158**	**1,609**	**13,621**	**617**	**1,179**	**7,579**	**36,270**
Accumulated depreciation as at 01/01/2012	**-**	**3,272**	**-**	**263**	**-**	**2,258**	**551**	**531**	**5,581**	**12,456**
Depreciation charge	-	582	-	275	-	327	53	198	601	2,036
Depreciation of tangible assets of the subsidiaries acquired in the reporting year	-	-	-	30	-	120	-	-	39	189
Depreciation of disposals	-	(801)	-	(1)	-	(1)	(69)	(198)	(492)	(1,562)
Accumulated depreciation as at 31/12/2012	**-**	**3,053**	**-**	**567**	**-**	**2,704**	**535**	**531**	**5,729**	**13,119**
Net carrying amount as at 01/01/2012	**-**	**3,037**	**128**	**3,893**	**-**	**11,316**	**142**	**479**	**1,240**	**20,235**
Net carrying amount as at 31/12/2012	**161**	**3,419**	**874**	**3,591**	**1,609**	**10,917**	**82**	**648**	**1,850**	**23,151**

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

LVL'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	**5,884**	**129**	**-**	**4,865**	**682**	**2,184**	**952**	**6,370**	**21,066**
Additions	425	-	2,582	450	11	-	246	542	4,256
Reclassification	-	-	-	2,184	-	(2,184)	-	-	-
Disposals	-	-	-	-	-	-	(188)	(301)	(489)
Acquisition value as at 31/12/2011	**6,309**	**129**	**2,582**	**7,499**	**693**	**-**	**1,010**	**6,611**	**24,833**
Accumulated depreciation as at 01/01/2011	**2,758**	**-**	**-**	**1,501**	**492**	**-**	**506**	**5,099**	**10,356**
Depreciation charge	514	-	145	265	59	-	174	687	1,844
Depreciation of disposals	-	-	-	-	-	-	(149)	(296)	(445)
Accumulated depreciation as at 31/12/2011	**3,272**	**-**	**145**	**1,766**	**551**	**-**	**531**	**5,490**	**11,755**
Net carrying amount as at 01/01/2011	**3,126**	**129**	**-**	**3,364**	**190**	**2,184**	**446**	**1,271**	**10,710**
Net carrying amount as at 31/12/2011	**3,037**	**129**	**2,437**	**5,733**	**142**	**-**	**479**	**1,121**	**13,078**

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 LVL 5,721 (6,120) thousand and LVL 5,657 (5,854) thousand respectively.

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

LVL'000

	Intangible fixed assets	Land	Buildings and property improvements	Leasehold improvements	Vehicles	Office equipment	Total, excl. prepayments
Acquisition value as at 01/01/2012	**6,047**	**128**	**5,017**	**693**	**741**	**6,460**	**19,086**
Additions	765	-	48	-	174	704	1,691
Disposals	(797)	-	(3)	(76)	(201)	(490)	(1,567)
Acquisition value as at 31/12/2012	**6,015**	**128**	**5,062**	**617**	**714**	**6,674**	**19,210**
Accumulated depreciation as at 01/01/2012	**3,135**	**-**	**1,702**	**551**	**456**	**5,401**	**11,245**
Depreciation charge	523	-	208	53	123	518	1,425
Depreciation of disposals	(794)	-	-	(69)	(173)	(478)	(1,514)
Accumulated depreciation as at 31/12/2012	**2,864**	**-**	**1,910**	**535**	**406**	**5,441**	**11,156**
Net carrying amount as at 01/01/2012	**2,912**	**128**	**3,315**	**142**	**285**	**1,059**	**7,841**
Net carrying amount as at 31/12/2012	**3,151**	**128**	**3,152**	**82**	**308**	**1,233**	**8,054**

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

LVL'000

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

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

Note 19

Other assets

LVL'000

	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Non-financial assets taken over for sale	56,045	49,967	855	524
Balances due from MFGlobal	8,065	-	8,065	-
Cash in transit	2,547	-	2,547	-
Receivables	2,060	1,392	1,154	933
Prepaid expense	1,095	686	480	335
Gold	361	347	361	347
Payments for financial instruments	14	5,196	14	5,196
Other assets	1,176	1,587	483	1,119
Total other assets	**71,363**	**59,175**	**13,959**	**8,454**
Impairment expense	(1,357)	(372)	(1,340)	(366)
Total other assets, net	**70,006**	**58,803**	**12,619**	**8,088**

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.

LVL'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	662	640	19	-	44	-
Forwards	4,224	15,620	16	21	210	136
Swaps	147,932	114,187	46	4,558	7,915	5
Total foreign currency exchange contracts	**152,818**	**130,447**	**81**	**4,579**	**8,169**	**141**

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

LVL'000

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

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

LVL'000

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

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

Note 22

Issued securities

Securities issued by the bank are as follows:

LVL'000

Date of issue	ISIN	Currency	Number	Par value	Date of maturity	Discount/ coupon rate, %	Group/ bank 31/12/2012	Group 31/12/2011	Bank 31/12/2011
Subordinated bonds									
October 2008	LV0000800712	EUR	125,000	100	01/10/2018	10.0	7,516	7,404	7,404
October 2008	LV0000800720	USD	200,000	100	01/10/2018	9.5	9,508	9,247	9,247
September 2010	LV0000800845	USD	200,000	100	15/09/2020	6.5	8,931	8,582	8,582
December 2011	LV0000800936	EUR	150,000	100	22/12/2021	4.8	8,729	7,659	7,659
June 2012	LV0000800977	EUR	50,000	100	25/06/2022	4.5	1,555	-	-
June 2012	LV0000800985	USD	200,000	100	27/06/2022	4.5	10,620	-	-
Subordinated bonds, total							**46,859**	**32,892**	**32,892**
Ordinary bonds									
December 2011	LV0000800910	EUR	10,000	1,000	20/12/2013	1.5+Euribor 6m	6,792	2,285	7,036
December 2011	LV0000800928	USD	30,000	1,000	21/12/2013	1.5+Libor 6m	15,813	16,330	16,330
July 2012	LV0000800969	USD	50,000	1,000	30/07/2014	1.2+Libor 6m	26,759	-	-
October 2012	LV0000801033	USD	25,000	1,000	15/10/2013	1.15	12,422	-	-
November 2012	LV0000801041	EUR	15,000	1,000	05/11/2014	1.55	8,713	-	-
November 2012	LV0000801058	USD	50,000	1,000	06/11/2014	1.45	7,461	-	-
Ordinary bonds, total							**77,960**	**18,615**	**23,366**
Issued securities, total							**124,819**	**51,507**	**56,258**

Note 23

Subordinated liabilities

As at 31 December 2012, the group's and bank's subordinated liabilities of LVL 59.8 (54.6) million comprised subordinated bonds amounting to LVL 46.9 (32.9) million and subordinated loans amounting to LVL 12.9 (21.7) million. Subordinated loans consist from the total amount of USD 20.7 (36.7) million and EUR 2.7 (2.4) million.

The analysis of subordinated loans as at 31 December 2012:

	Loan amount LVL'000	Accumulated interest LVL'000	Interest rate, %	Currency	Date of the agreement	Date of maturity
Harpic group Ltd	7,965	34	5.11	USD	14/08/2008	19/08/2018
Other lenders*						
non-residents	2,979	37	1.75 - 8.39	USD		
non-residents	1,894	3	3.15 - 3.90	EUR		
Other lenders in total	**4,873**	**40**				
Total subordinated deposits	**12,838**	**74**				

The analysis of subordinated loans as at 31 December 2011:

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

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. The remaining weighted average maturity of subordinated deposits from other lenders is 4.58 (4.37) years.
Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the bank's share capital. The basic conditions of the subordinated bonds issued by the Bank are disclosed in Note 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 LVL 19.7 million (16.5 million). All the shares have the par value of LVL 150 (150) each. The bank's share capital consists of 120,600 (110,000) ordinary registered voting shares and 11,000 (0) registered non-voting shares (personnel shares). As at 31 December 2012, the bank had 119 (123) voting shareholders.

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

	31/12/2012		31/12/2011	
	Share of the bank's share capital, LVL'000	Share of the bank's voting capital (%)	Share of the bank's share capital, LVL'000	Share of the bank's voting capital (%)
Group of shareholders related to Ernests Bernis				
Ernests Bernis	1,004	5.55	6,932	42.01
Nika Berne	169	0.94	154	0.94
Cassandra Holding Company, SIA	6,606	36.52	-	-
Group of shareholders related to Ernests Bernis, total	**7,779**	**43.01**	**7,086**	**42.95**
Group of shareholders related to Oļegs Fiļs				
SIA OF Holding	7,779	43.00	-	-
Oļegs Fiļs	-	-	7,086	42.95
Group of shareholders related to Oļegs Fiļs, total	**7,779**	**43.00**	**7,086**	**42.95**
Other shareholders, total	2,532	**13.99**	2,328	**14.10**
Total voting shares	**18,090**	**100.00**	**16,500**	**100.00**
Non-voting shares (personnel shares)	1,650		-	
Total share capital	**19,740**		**16,500**	

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

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

Note 25

Dividends declared and paid

	Group/ bank 01/01/2012 - 31/12/2012	Group/ bank 01/01/2011 - 31/12/2011
		LVL'000
Dividends declared	19,106	-
Dividends paid	19,100	-
		LVL
Dividends declared per share	158	-
Dividends paid per share	158	-

Note 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:

LVL'000

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

				01/01/2012 - 31/12/2012			01/01/2011 - 31/12/2011
Income/ expense	Shareholders	Management	Related companies	Other related individuals	Management	Related companies	Other related individuals
Interest income	-	33	83	17	7	127	26
Commission and fee income	-	15	29	7	11	22	7
Interest expense	-	(2)	(1)	(2)	(6)	(3)	(11)

Bank's transactions with related parties:

LVL'000

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

Income/ expense	01/01/2012 - 31/12/2012 Shareholders	01/01/2012 - 31/12/2012 Management	01/01/2012 - 31/12/2012 Related companies	01/01/2012 - 31/12/2012 Subsidiaries	01/01/2012 - 31/12/2012 Other related individuals	01/01/2011 - 31/12/2011 Management	01/01/2011 - 31/12/2011 Related companies	01/01/2011 - 31/12/2011 Subsidiaries	01/01/2011 - 31/12/2011 Other related individuals
Interest income	-	33	83	768	13	7	127	633	15
Commission and fee income	-	15	29	106	5	11	20	252	4
Interest expense	-	(2)	(1)	(11)	(2)	(6)	(3)	(13)	(11)
Other operating income	-	-	-	690	-	-	-	440	-
Other operating expense	-	-	-	(3,137)	-	-	-	(2,671)	-
Impairment allowances	-	-	-	174	-	-	-	(174)	-

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

Note 27

Memorandum items

LVL'000

Contingent liabilities	Group/ bank 31/12/2012	Group/ bank 31/12/2011
Outstanding guarantees	7,014	11,587
Letters of credit	38	468
Total contingent liabilities	**7,052**	**12,055**
Financial commitments		
Loan commitments	13,146	7,291
Undrawn credit facilities on settlement cards	8,818	6,726
Unutilised credit lines	8,252	6,821
Contractual commitments on purchase of non-financial assets	60	102
Total financial commitments	**30,276**	**20,940**
Total contingent liabilities and financial commitments	**37,328**	**32,995**

LVL'000

Geographical profile	Group/ bank 31/12/2012	Group/ bank 31/12/2011
Latvia	14,240	18,296
Other EU Member States	3,990	370
EMU countries	2,245	421
Other OECD countries	195	581
Other countries	16,658	13,327
Total contingent liabilities and financial commitments	**37,328**	**32,995**

As at 31 December 2012, funds under trust management by the group amounted to LVL 137.8 (116.9) million, while funds under trust management by the bank amounted to LVL 99.7 (87.5) 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.

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

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

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

Note 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:

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	31/12/2012		31/12/2011	
Financial assets	Carrying amount	Fair value	Carrying amount	Fair value
Cash and deposits with central banks	216,078	216,078	143,663	143,663
Balances due from credit institutions	392,905	392,905	518,881	518,881
Derivatives	81	81	8,169	8,169
Financial assets at fair value through profit or loss	3,333	3,333	753	753
Available-for-sale financial assets	547,757	547,757	373,006	373,006
Loans and receivables	499,787	493,729	469,424	467,327
Held-to-maturity investments	351,832	363,321	166,778	162,254
Total financial assets	**2,011,773**	**2,017,204**	**1,680,674**	**1,674,053**
Financial liabilities				
Demand deposits from credit institutions	967	967	1,779	1,779
Derivatives	4,579	4,579	141	141
Financial liabilities at amortised cost	2,002,352	2,006,382	1,677,774	1,684,761
Total financial liabilities	**2,007,898**	**2,011,928**	**1,679,694**	**1,686,681**

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

LVL'000

	31/12/2012		31/12/2011	
Financial assets	Carrying amount	Fair value	Carrying amount	Fair value
Cash and deposits with central banks	216,074	216,074	143,663	143,663
Balances due from credit institutions	388,665	388,665	518,472	518,472
Derivatives	81	81	8,169	8,169
Financial assets at fair value through profit or loss	3,333	3,333	753	753
Available-for-sale financial assets	547,757	547,757	373,006	373,006
Loans and receivables	503,611	497,553	470,603	468,507
Held-to-maturity investments	351,832	363,321	166,778	162,254
Total financial assets	**2,011,353**	**2,016,784**	**1,681,444**	**1,674,824**
Financial liabilities				
Demand deposits from credit institutions	2,406	2,406	1,779	1,779
Derivatives	4,579	4,579	141	141
Financial liabilities at amortised cost	2,015,026	2,019,056	1,687,762	1,694,749
Total financial liabilities	**2,022,011**	**2,026,041**	**1,689,682**	**1,696,669**

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:

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	31/12/2012				31/12/2011			
Financial assets	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivatives	44	37	-	81	44	8,125	-	8,169
Financial assets at fair value through profit or loss	3,333	-	-	3,333	753	-	-	753
incl. shares and other non-fixed income securities	3,333	-	-	3,333	753	-	-	753
Available-for-sale financial assets	545,510	-	2,247	547,757	370,744	-	2,262	373,006
incl. fixed income securities	545,510	-	-	545,510	370,744	-	-	370,744
incl. shares and other non-fixed income securities	-	-	2,247	2,247	-	-	2,262	2,262
Total financial assets	**548,887**	**37**	**2,247**	**551,171**	**371,541**	**8,125**	**2,262**	**381,928**
Financial liabilities								
Derivatives	-	4,579	-	4,579	-	141	-	141
Total financial liabilities	**-**	**4,579**	**-**	**4,579**	**-**	**141**	**-**	**141**

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.

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Tier 1	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
paid-in share capital	19,740	16,500	19,740	16,500
share premium	19,180	5,255	18,611	5,255
reserve capital	1,500	1,500	1,500	1,500
retained earnings	43,293	45,304	48,643	50,293
intangible fixed assets	(3,821)	(3,493)	(3,384)	(3,368)
non-controlling interests	2,040	503	-	-
current year's profit/ (loss)	16,106	18,745	16,454	19,106
negative fair value revaluation reserve of available-for-sale financial assets	-	(2,480)	-	(2,480)
decrease in Tier 1 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS (50%)	(14)	(188)	(14)	(188)
Total Tier 1	**98,024**	**81,646**	**101,550**	**86,618**
Tier 2				
fair value revaluation reserve of available-for-sale financial assets (45%)	835	-	835	-
decrease in Tier 2 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS (50%)	(14)	(188)	(14)	(188)
subordinated capital (based on the remaining maturity, with the adjustment rate of 40%-100%)	49,019	40,855	50,681	43,404
Total Tier 2	**49,840**	**40,667**	**51,502**	**43,216**
Total equity	**147,864**	**122,313**	**153,052**	**129,834**
Capital charge for credit risk on banking book	65,646	59,190	66,800	59,010
Total capital charge for market risks on trading book	7,064	5,183	2,273	934
incl. capital charge for foreign currency risk	5,659	4,699	868	450
incl. capital charge for position risk	1,374	258	1,374	258
incl. capital charge for counterparty risk	31	226	31	226
Capital charge for operational risk	8,399	7,645	7,264	7,196
Total capital charge	**81,109**	**72,018**	**76,337**	**67,140**
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:

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Exposure category	Group 31/12/2012	Group 31/12/2011	Bank 31/12/2012	Bank 31/12/2011
Central governments or central banks	2,770	2,067	2,770	2,067
Regional or local governments	561	120	561	120
International development banks	158	139	158	139
Institutions	13,535	13,464	13,467	13,256
Commercial companies	19,347	19,209	26,621	19,252
Low risk portfolio	11,982	12,617	11,982	12,617
Secured by real estate	225	480	225	480
Past due exposures	3,060	3,178	3,060	3,178
High risk exposures	258	264	258	264
Other items	13,750	7,652	7,698	7,637
Total capital charge for credit risk	**65,646**	**59,190**	**66,800**	**59,010**

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:

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	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	216,078	-	**216,078**	-	**216,078**	143,663	-	**143,663**	-	**143,663**
Balances due from credit institutions	369,833	23,072	**392,905**	-	**392,905**	492,466	26,415	**518,881**	-	**518,881**
Derivatives	81	-	**81**	-	**81**	8,169	-	**8,169**	-	**8,169**
Financial assets at fair value through profit or loss	-	3,333	**3,333**	-	**3,333**	-	753	**753**	-	**753**
Available-for-sale financial assets	540,469	7,368	**547,837**	(80)	**547,757**	338,726	34,400	**373,126**	(120)	**373,006**
Held-to-maturity investments	301,593	50,412	**352,005**	(173)	**351,832**	137,312	30,438	**167,750**	(972)	**166,778**
Loans to customers	470,689	76,520	**547,209**	(47,422)	**499,787**	418,005	110,083	**528,088**	(58,664)	**469,424**
Mortgage loans	258,712	63,920	322,632	(37,652)	284,980	276,125	91,162	367,287	(42,957)	324,330
Business loans	195,239	11,701	206,940	(7,129)	199,811	122,816	17,249	140,065	(14,352)	125,713
Consumer loans	1,215	48	1,263	(54)	1,209	838	63	901	(63)	838
Other loans	15,523	851	16,374	(2,587)	13,787	18,226	1,609	19,835	(1,292)	18,543
Total financial assets	**1,898,743**	**160,705**	**2,059,448**	**(47,675)**	**2,011,773**	**1,538,341**	**202,089**	**1,740,430**	**(59,756)**	**1,680,674**

Financial assets of the bank by risk rating:

LVL'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	216,074	-	**216,074**	-	**216,074**	143,663	-	**143,663**	-	**143,663**
Balances due from credit institutions	365,619	23,046	**388,665**	-	**388,665**	492,057	26,415	**518,472**	-	**518,472**
Derivatives	81	-	**81**	-	**81**	8,169	-	**8,169**	-	**8,169**
Financial assets at fair value through profit or loss	-	3,333	**3,333**	-	**3,333**	-	753	**753**	-	**753**
Available-for-sale financial assets	540,469	7,368	**547,837**	(80)	**547,757**	338,726	34,400	**373,126**	(120)	**373,006**
Held-to-maturity investments	301,593	50,412	**352,005**	(173)	**351,832**	137,312	30,438	**167,750**	(972)	**166,778**
Loans to customers	474,513	76,520	**551,033**	(47,422)	**503,611**	419,358	110,083	**529,441**	(58,838)	**470,603**
Mortgage loans	258,712	63,920	322,632	(37,652)	284,980	276,125	91,162	367,287	(42,957)	324,330
Business loans	199,063	11,701	210,764	(7,129)	203,635	124,169	17,249	141,418	(14,526)	126,892
Consumer loans	1,215	48	1,263	(54)	1,209	838	63	901	(63)	838
Other loans	15,523	851	16,374	(2,587)	13,787	18,226	1,609	19,835	(1,292)	18,543
Total financial assets	**1,898,349**	**160,679**	**2,059,028**	**(47,675)**	**2,011,353**	**1,539,285**	**202,089**	**1,741,374**	**(59,930)**	**1,681,444**

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 LVL 56.0 (49.9) 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 LVL 25,000,000	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 LVL 25,000,000				
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:

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	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-	-	518,360	-	154,507	-	307,227	2,207	63,926
A+ to A-	-	-	3,219	27,226	-	-	-	-
BBB+ to BBB-	-	-	18,891	119,860	-	-	29,292	73,386
BB+ to BB-	-	-	1,942	32,561	-	-	17,327	18,170
B+ to B-	-	-	2,021	17,678	-	-	13,236	10,985
Below B-	-	-	639	-	-	-	587	135
No rating	-	-	438	-	-	-	868	176
Shares and investments in funds	3,333	-	2,247	-	753	-	2,262	-
Securities portfolio, net	**3,333**	**518,360**	**29,397**	**351,832**	**753**	**307,227**	**65,779**	**166,778**

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:

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	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)	295,093	73,075	331,866	89,217	295,093	73,075	331,866	89,217
Real estate management	65,292	4,164	33,264	4,222	65,292	4,164	33,264	4,222
Other service industries	51,547	34,817	29,218	8,449	58,266	34,817	27,271	8,449
Trade	32,147	15,195	22,261	5,064	32,147	15,195	22,635	5,064
Financial intermediaries	9,558	9,558	14,711	14,711	9,558	9,558	14,711	14,711
Private individuals (other loans)	9,311	2,504	7,103	2,602	9,311	2,504	7,103	2,602
Agriculture and forestry	6,219	66	898	-	8,569	66	898	-
Manufacturing	5,545	258	4,687	-	5,545	258	4,687	-
Transport and logistics	3,506	359	4,622	395	3,506	359	4,622	395
Construction	1,634	44	2,875	49	1,634	44	2,875	49
Other industries	19,935	7,081	17,919	19,245	14,690	7,081	20,671	17,842
Total loans, net	**499,787**	**147,121**	**469,424**	**143,954**	**503,611**	**147,121**	**470,603**	**142,551**

* 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:

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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	-	216,078	-	-	216,078	-	-	-	-	-	216,078
Balances due from credit institutions	-	293,617	62,606	2,656	358,879	-	-	-	-	34,026	392,905
Derivatives	-	-	44	37	81	-	-	-	-	-	81
Financial assets at fair value through profit or loss	-	-	2,553	780	3,333	-	-	-		-	3,333
Available-for-sale financial assets	-	81	529,681	7,776	537,538	-	-	2,247	2,247	7,972	547,757
Loans and receivables	20,092	60,428	4,863	70,685	156,068	161,834	177,703	-	339,537	4,182	499,787
Held-to-maturity investments	48	153	497	11,877	12,575	244,579	87,547	-	332,126	7,131	351,832
Other assets	7,029	83,479	381	118	91,007	74	-	26,355	26,429	-	117,436
Total assets	**27,169**	**653,836**	**600,625**	**93,929**	**1,375,559**	**406,487**	**265,250**	**28,602**	**700,339**	**53,311**	**2,129,209**
Liabilities											
Derivatives	-	-	496	4,083	4,579	-	-	-	-	-	4,579
Financial liabilities at amortised cost	-	1,702,940	39,342	153,228	1,895,510	97,877	9,932	-	107,809	-	2,003,319
Other liabilities	-	16,164	-	1,433	17,597	-	-	-	-	-	17,597
Total liabilities	**-**	**1,719,104**	**39,838**	**158,744**	**1,917,686**	**97,877**	**9,932**	**-**	**107,809**	**-**	**2,025,495**
Shareholders' equity	-	-	-	-	-	-	-	-	103,714	-	103,714
Total liabilities and shareholders' equity	-	**1,719,104**	**39,838**	**158,744**	**1,917,686**	**97,877**	**9,932**	**-**	**211,523**	**-**	**2,129,209**
Total memorandum items	-	21,921	-	3,176	25,097	7,731	4,500	-	12,231	-	37,328
Net liquidity position	x	(1,087,189)	560,787	(67,991)	(594,393)	300,879	250,818	28,602	580,299	x	x
Total liquidity position	x	(1,087,189)	(526,402)	(594,393)	x	(293,514)	(42,696)	(14,094)	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:

LVL '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	-	143,663	-	-	143,663	-	-	-	-	-	143,663
Balances due from credit institutions	-	398,780	102,259	11	501,050	-	-	-	-	17,831	518,881
Derivatives	-	-	4,154	4,015	8,169	-	-	-	-	-	8,169
Financial assets at fair value through profit or loss	347	-	-	406	753	-	-	-	-	-	753
Available-for-sale financial assets	-	149	353,700	16,895	370,744	-	-	2,262	2,262	-	373,006
Loans and receivables	26,595	25,009	5,613	77,823	135,040	116,644	203,761	7	320,412	13,972	469,424
Held-to-maturity investments	-	99	213	1,888	2,200	87,756	69,661	-	157,417	7,161	166,778
Other assets	-	7,315	121	3,528	10,964	-	-	86,661	86,661	-	97,625
Total assets	**26,942**	**575,015**	**466,060**	**104,566**	**1,172,583**	**204,400**	**273,422**	**88,930**	**566,752**	**38,964**	**1,778,299**
Liabilities											
Derivatives	-	-	62	79	141	-	-	-	-	-	141
Financial liabilities at amortised cost	-	1,163,653	165,157	265,465	1,594,275	13,526	71,752	-	85,278	-	1,679,553
Other liabilities	-	13,131	29	239	13,399	3	-	-	3	-	13,402
Total liabilities	**-**	**1,176,784**	**165,248**	**265,783**	**1,607,815**	**13,529**	**71,752**	**-**	**85,281**	**-**	**1,693,096**
Shareholders' equity	-	-	-	-	-	-	-	85,203	85,203	-	85,203
Total liabilities and shareholders' equity	-	**1,176,784**	**165,248**	**265,783**	**1,607,815**	**13,529**	**71,752**	**85,203**	**170,484**	**-**	**1,778,299**
Total memorandum items	-	19,228	421	3,981	23,630	6,804	2,169	392	9,365	-	32,995
Net liquidity position	x	(620,997)	300,391	(165,198)	(485,804)	184,067	199,501	3,727	387,295	x	x
Total liquidity position	x	(620,997)	(320,606)	(485,804)	x	(301,737)	(102,236)	(98,509)	x	x	x

The distribution of the 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:

LVL'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	-	216,074	-	-	216,074	-	-	-	-	-	216,074
Balances due from credit institutions	-	289,672	62,606	2,656	354,934	-	-	-	-	33,731	388,665
Derivatives	-	-	44	37	81	-	-	-	-	-	81
Financial assets at fair value through profit or loss	-	-	2,553	780	3,333	-	-	-	-	-	3,333
Available-for-sale financial assets	-	81	529,681	7,776	537,538	-	-	2,247	2,247	7,972	547,757
Loans and receivables	20,092	60,428	4,863	70,685	156,068	165,658	177,703	-	343,361	4,182	503,611
Held-to-maturity investments	48	153	497	11,877	12,575	244,579	87,547	-	332,126	7,131	351,832
Other assets	7,029	4,268	381	118	11,796	74	-	115,993	116,067	-	127,863
Total assets	**27,169**	**570,676**	**600,625**	**93,929**	**1,292,399**	**410,311**	**265,250**	**118,240**	**793,801**	**53,016**	**2,139,216**
Liabilities											
Derivatives	-	-	496	4,083	4,579	-	-	-	-	-	4,579
Financial liabilities at amortised cost	-	1,709,266	39,483	160,874	1,909,623	97,877	9,932	-	107,809	-	2,017,432
Other liabilities	-	10,064	-	338	10,402	-	-	-	-	-	10,402
Total liabilities	**-**	**1,719,330**	**39,979**	**165,295**	**1,924,604**	**97,877**	**9,932**	**-**	**107,809**	**-**	**2,032,413**
Shareholders' equity	-	-	-	-	-	-	-	106,803	106,803	-	106,803
Total liabilities and shareholders' equity	-	**1,719,330**	**39,979**	**165,295**	**1,924,604**	**97,877**	**9,932**	**106,803**	**214,612**	**-**	**2,139,216**
Total memorandum items	-	21,921	-	3,176	25,097	7,731	4,500	-	12,231	-	37,328
Net liquidity position	x	(1,170,575)	560,646	(74,542)	(684,471)	304,703	250,818	11,437	566,958	x	x
Total liquidity position	x	(1,170,575)	(609,929)	(684,471)	x	(379,768)	(128,950)	(117,513)	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:

LVL '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	-	143,663	-	-	143,663	-	-	-	-	-	143,663
Balances due from credit institutions	-	398,371	102,259	11	500,641	-	-	-	-	17,831	518,472
Derivatives	-	-	4,154	4,015	8,169	-	-	-	-	-	8,169
Financial assets at fair value through profit or loss	347	-	-	406	753	-	-	-	-	-	753
Available-for-sale financial assets	-	149	353,700	16,895	370,744	-	-	2,262	2,262	-	373,006
Loans and receivables	26,595	25,009	5,613	80,565	137,782	115,081	203,761	7	318,849	13,972	470,603
Held-to-maturity investments	-	99	213	1,888	2,200	87,756	69,661	-	157,417	7,161	166,778
Other assets	-	7,302	121	3,528	10,951	-	-	96,766	96,766	-	107,717
Total assets	**26,942**	**574,593**	**466,060**	**107,308**	**1,174,903**	**202,837**	**273,422**	**99,035**	**575,294**	**38,964**	**1,789,161**
Liabilities											
Derivatives	-	-	62	79	141	-	-	-	-	-	141
Financial liabilities at amortised cost	-	1,173,641	165,157	265,465	1,604,263	13,526	71,752	-	85,278	-	1,689,541
Other liabilities	-	9,034	29	239	9,302	3	-	-	3	-	9,305
Total liabilities	**-**	**1,182,675**	**165,248**	**265,783**	**1,613,706**	**13,529**	**71,752**	**-**	**85,281**	**-**	**1,698,987**
Shareholders' equity	-	-	-	-	-	-	-	90,174	90,174	-	90,174
Total liabilities and shareholders' equity	-	**1,182,675**	**165,248**	**265,783**	**1,613,706**	**13,529**	**71,752**	**90,174**	**175,455**	**-**	**1,789,161**
Total memorandum items	-	19,228	421	3,981	23,630	6,804	2,169	392	9,365	-	32,995
Net liquidity position	x	(627,310)	300,391	(162,456)	(489,375)	182,504	199,501	8,861	390,866	x	x
Total liquidity position	x	(627,310)	(326,919)	(489,375)	x	(306,871)	(107,370)	(98,509)	x	x	x

The 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:

LVL'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	967	-	-	967	-	-	-	967
Financial liabilities at fair value through profit or loss	-	497	4,082	4,579	-	-	-	4,579
Financial liabilities at amortised cost	1,700,510	82,482	152,340	1,935,332	8,944	57,432	66,376	2,001,708
Total financial liabilities	**1,701,477**	**82,979**	**156,422**	**1,940,878**	**8,944**	**57,432**	**66,376**	**2,007,254**
Memorandum items	21,921	-	3,176	25,097	7,731	4,500	12,231	37,328
Total financial liabilities and memorandum items	**1,723,398**	**82,979**	**159,598**	**1,965,975**	**16,675**	**61,932**	**78,607**	**2,044,582**

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:

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

The table below analyses financial liabilities and memorandum items of the 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:

LVL'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	2,406	-	-	2,406	-	-	-	2,406
Financial liabilities at fair value through profit or loss	-	497	4,082	4,579	-	-	-	4,579
Financial liabilities at amortised cost	1,709,131	47,563	152,115	1,908,809	51,874	58,432	110,306	2,019,115
Total financial liabilities	**1,711,537**	**48,060**	**156,197**	**1,915,794**	**51,874**	**58,432**	**110,306**	**2,026,100**
Memorandum items	21,921	-	3,176	25,097	7,731	4,500	12,231	37,328
Total financial liabilities and memorandum items	**1,733,458**	**48,060**	**159,373**	**1,940,891**	**59,605**	**62,932**	**122,537**	**2,063,428**

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:

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

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:

LVL'000

Assets	LVL	USD	EUR	RUB	Other currencies	Total
Cash and deposits with central banks	85,090	2,140	128,761	-	87	216,078
Balances due from credit institutions	689	324,326	18,355	16,190	33,345	392,905
Derivatives	81	-	-	-	-	81
Financial assets at fair value through profit or loss	33	1,396	309	1,595	-	3,333
Available-for-sale financial assets	-	534,970	1,298	6,953	4,536	547,757
Loans and receivables	6,764	102,102	381,010	1,474	8,437	499,787
Held-to-maturity investments	-	329,105	10,940	9,131	2,656	351,832
Other assets	105,830	3,233	1,388	2	6,983	117,436
Total assets	**198,487**	**1,297,272**	**542,061**	**35,345**	**56,044**	**2,129,209**
Liabilities						
Derivatives	4,579	-	-	-	-	4,579
Financial liabilities at amortised cost	16,931	1,421,778	470,970	39,414	54,226	2,003,319
Other liabilities	13,958	2,771	509	292	67	17,597
Total liabilities	**35,468**	**1,424,549**	**471,479**	**39,706**	**54,293**	**2,025,495**
Shareholders' equity	103,714	-	-	-	-	103,714
Total liabilities and shareholders' equity	**139,182**	**1,424,549**	**471,479**	**39,706**	**54,293**	**2,129,209**
Net long/ (short) balance sheet position	**59,305**	**(127,277)**	**70,582**	**(4,361)**	**1,751**	**x**
Derivatives, notional amount	-	133,216	(142,545)	4,783	495	x
Net open (short)/ long currency position	**59,305**	**5,939**	**(71,963)**	**422**	**2,246**	**x**

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

LVL '000

Assets	LVL	USD	EUR	RUB	Other currencies	Total
Cash and deposits with central banks	77,501	2,015	64,073	-	74	143,663
Balances due from credit institutions	500	447,838	26,009	26,998	17,536	518,881
Derivatives	8,169	-	-	-	-	8,169
Financial assets at fair value through profit or loss	37	437	277	2		753
Available-for-sale financial assets	-	359,209	179	6,519	7,099	373,006
Loans and receivables	996	56,832	406,487	828	4,281	469,424
Held-to-maturity investments	-	147,540	7,512	9,057	2,669	166,778
Other assets	89,447	4,221	3,249	348	360	97,625
Total assets	**176,650**	**1,018,092**	**507,786**	**43,752**	**32,019**	**1,778,299**
Liabilities						
Derivatives	141	-	-	-	-	141
Financial liabilities at amortised cost	21,230	1,107,845	475,998	43,569	30,911	1,679,553
Other liabilities	7,546	2,437	2,778	368	273	13,402
Total liabilities	**28,917**	**1,110,282**	**478,776**	**43,937**	**31,184**	**1,693,096**
Shareholders' equity	85,203	-	-	-	-	85,203
Total liabilities and shareholders' equity	**114,120**	**1,110,282**	**478,776**	**43,937**	**31,184**	**1,778,299**
Net long/ (short) balance sheet position	**62,530**	**(92,190)**	**29,010**	**(185)**	**835**	**x**
Derivatives, notional amount	(794)	94,167	(86,748)	555	114	x
Net open (short)/ long currency position	**61,736**	**1,977**	**(57,738)**	**370**	**949**	**x**

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

LVL'000

Assets	LVL	USD	EUR	RUB	Other currencies	**Total**
Cash and deposits with central banks	85,086	2,140	128,761	-	87	216,074
Balances due from credit institutions	-	324,326	14,825	16,176	33,338	388,665
Derivatives	81	-	-	-	-	81
Financial assets at fair value through profit or loss	33	1,396	309	1,595	-	3,333
Available-for-sale financial assets	-	534,970	1,298	6,953	4,536	547,757
Loans and receivables	1,179	102,102	390,419	1,474	8,437	503,611
Held-to-maturity investments	-	329,105	10,940	9,131	2,656	351,832
Other assets	33,594	3,179	84,249	2	6,839	127,863
Total assets	**119,973**	**1,297,218**	**630,801**	**35,331**	**55,893**	**2,139,216**
Liabilities						
Derivatives	4,579	-	-	-	-	4,579
Financial liabilities at amortised cost	16,640	1,421,861	485,291	39,414	54,226	2,017,432
Other liabilities	7,006	2,723	321	289	63	10,402
Total liabilities	**28,225**	**1,424,584**	**485,612**	**39,703**	**54,289**	**2,032,413**
Shareholders' equity	106,803	-	-	-	-	106,803
Total liabilities and shareholders' equity	**135,028**	**1,424,584**	**485,612**	**39,703**	**54,289**	**2,139,216**
Net long/ (short) balance sheet position	**(15,055)**	**(127,366)**	**145,189**	**(4,372)**	**1,604**	**x**
Derivatives, notional amount	-	133,216	(142,545)	4,783	495	x
Net open (short)/ long currency position	**(15,055)**	**5,850**	**2,644**	**411**	**2,099**	**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:

LVL '000

Assets	LVL	USD	EUR	RUB	Other currencies	**Total**
Cash and deposits with central banks	77,501	2,015	64,073	-	74	143,663
Balances due from credit institutions	500	447,835	25,618	26,987	17,532	518,472
Derivatives	8,169					8,169
Financial assets at fair value through profit or loss	37	437	277	2	-	753
Available-for-sale financial assets	-	359,209	179	6,519	7,099	373,006
Loans and receivables	1,057	56,832	407,605	828	4,281	470,603
Held-to-maturity investments	-	147,540	7,512	9,057	2,669	166,778
Other assets	36,035	4,172	66,814	347	349	107,717
Total assets	**123,299**	**1,018,040**	**572,078**	**43,740**	**32,004**	**1,789,161**
Liabilities						
Derivatives	141	-	-	-	-	141
Financial liabilities at amortised cost	24,742	1,107,874	482,443	43,571	30,911	1,689,541
Other liabilities	5,575	2,437	654	368	271	9,305
Total liabilities	**30,458**	**1,110,311**	**483,097**	**43,939**	**31,182**	**1,698,987**
Shareholders' equity	90,174	-	-	-	-	90,174
Total liabilities and shareholders' equity	**120,632**	**1,110,311**	**483,097**	**43,939**	**31,182**	**1,789,161**
Net long/ (short) balance sheet position	**2,667**	**(92,271)**	**88,981**	**(199)**	**822**	**x**
Derivatives, notional amount	(794)	94,167	(86,748)	555	114	x
Net open (short)/ long currency position	**1,873**	**1,896**	**2,233**	**356**	**936**	**x**
Percentage of shareholders' equity (%)	**1.4**	**1.5**	**1.7**	**0.3**	**0.7**	**x**

The 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:

LVL'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	(5,976)	5,976	(1,544)	1,544
	Effect of changes on profit	1,119	(1,119)	(591)	591
USD	Effect of changes on equity	(5,489)	5,489	(1,544)	1,544
	Effect of changes on profit	1,071	(1,071)	(1,025)	1,025
EUR	Effect of changes on equity	(487)	487	-	-
	Effect of changes on profit	86	(86)	592	(592)
LVL	Effect of changes on equity	-	-	-	-
	Effect of changes on profit	(38)	38	(158)	158

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

LVL'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	-	-	-	-	-	-	216,078	216,078
Balances due from credit institutions	154,544	2,655	-	-	-	-	235,706	392,905
Derivatives	-	-	-	-	-	-	81	81
Financial assets at fair value through profit or loss	-	-	-	-	-	-	3,333	3,333
Available-for-sale financial assets	29,103	106,343	85,101	121,841	195,847	3,570	5,952	547,757
Loans and receivables	190,574	106,561	140,249	30,475	1,908	1,034	28,986	499,787
Held-to-maturity investments	796	14,284	4,942	6,279	242,075	79,837	3,619	351,832
Other assets	-	-	-	-	-	-	117,436	117,436
Total assets	**375,017**	**229,843**	**230,292**	**158,595**	**439,830**	**84,441**	**611,191**	**2,129,209**
Liabilities								
Derivatives	-	-	-	-	-	-	4,579	4,579
Financial liabilities at amortised cost	175,037	237,182	259,085	261,853	320,020	9,875	740,267	2,003,319
Other liabilities	-	-	-	-	-	-	17,597	17,597
Total liabilities	**175,037**	**237,182**	**259,085**	**261,853**	**320,020**	**9,875**	**762,443**	**2,025,495**
Shareholders' equity	-	-	-	-	-	-	103,714	103,714
Total liabilities and shareholders' equity	**175,037**	**237,182**	**259,085**	**261,853**	**320,020**	**9,875**	**866,157**	**2,129,209**
Futures, sold	(448)	(4,016)	-	-	-	-	-	(4,464)
Interest rate repricing maturity gaps	199,532	(11,355)	(28,793)	(103,258)	119,810	74,566	(254,966)	x
Effect on net interest income for the year	**1,912.18**	**(94.63)**	**(179.96)**	**(258.15)**	x	x	**1,379.46**	x

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

LVL '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	-	-	-	-	-	-	143,663	143,663
Balances due from credit institutions	116,175	6,800	-	42	-	-	395,864	518,881
Derivatives	-	-	-	-	-	-	8,169	8,169
Financial assets at fair value through profit or loss	-	-	-	-	-	-	753	753
Available-for-sale financial assets	19,457	25,532	27,453	80,509	209,914	3,832	6,309	373,006
Loans and receivables	179,125	100,314	125,836	15,453	9,707	927	38,062	469,424
Held-to-maturity investments	1,000	3,719	12,754	226	88,496	58,686	1,897	166,778
Other assets	-	-	-	-	-	-	97,625	97,625
Total assets	**315,757**	**136,365**	**166,043**	**96,230**	**308,117**	**63,445**	**692,342**	**1,778,299**
Liabilities								
Derivatives	-	-	-	-	-	-	141	141
Financial liabilities at amortised cost	272,626	210,505	176,395	207,597	230,755	47,044	534,631	1,679,553
Other liabilities	-	-	-	-	-	-	13,402	13,402
Total liabilities	**272,626**	**210,505**	**176,395**	**207,597**	**230,755**	**47,044**	**548,174**	**1,693,096**
Shareholders' equity	-	-	-	-	-	-	85,203	85,203
Total liabilities and shareholders' equity	**272,626**	**210,505**	**176,395**	**207,597**	**230,755**	**47,044**	**633,377**	**1,778,299**
Futures, sold	5,268	2,689	1	-	-	-	-	7,958
Interest rate repricing maturity gaps	48,399	(71,451)	(10,352)	(111,367)	77,362	16,401	58,965	x
Effect on net interest income for the year	**463.82**	**(595.43)**	**(64.70)**	**(278.42)**	x	x	**(474.72)**	x

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

LVL'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	-	-	-	-	-	-	216,074	216,074
Balances due from credit institutions	150,598	2,655	-	-	-	-	235,412	388,665
Derivatives	-	-	-	-	-	-	81	81
Financial assets at fair value through profit or loss	-	-	-	-	-	-	3,333	3,333
Available-for-sale financial assets	29,103	106,343	85,101	121,841	195,847	3,570	5,952	547,757
Loans and receivables	190,574	106,561	144,073	30,475	1,908	1,034	28,986	503,611
Held-to-maturity investments	796	14,284	4,942	6,279	242,075	79,837	3,619	351,832
Other assets	-	-	-	-	-	-	127,863	127,863
Total assets	**371,071**	**229,843**	**234,116**	**158,595**	**439,830**	**84,441**	**621,320**	**2,139,216**
Liabilities								
Derivatives	-	-	-	-	-	-	4,579	4,579
Financial liabilities at amortised cost	175,178	237,182	266,113	261,853	320,020	9,875	747,211	2,017,432
Other liabilities	-	-	-	-	-	-	10,402	10,402
Total liabilities	**175,178**	**237,182**	**266,113**	**261,853**	**320,020**	**9,875**	**762,192**	**2,032,413**
Shareholders' equity	-	-	-	-	-	-	106,803	106,803
Total liabilities and shareholders' equity	**175,178**	**237,182**	**266,113**	**261,853**	**320,020**	**9,875**	**868,995**	**2,139,216**
Futures, sold	(448)	(4,016)	-	-	-	-	-	(4,464)
Interest rate repricing maturity gaps	195,445	(11,355)	(31,997)	(103,258)	119,810	74,566	(247,675)	x
Effect on net interest income for the year	**1,873.01**	**(94.63)**	**(199.98)**	**(258.15)**	x	x	**1,320.26**	x

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

LVL '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	-	-	-	-	-	-	143,663	143,663
Balances due from credit institutions	116,175	6,800	-	42	-	-	395,455	518,472
Derivatives	-	-	-	-	-	-	8,169	8,169
Financial assets at fair value through profit or loss	-	-	-	-	-	-	753	753
Available-for-sale financial assets	19,457	25,532	27,453	80,509	209,914	3,832	6,309	373,006
Loans and receivables	179,125	100,314	128,578	15,453	8,135	927	38,071	470,603
Held-to-maturity investments	1,000	3,719	12,754	226	88,496	58,686	1,897	166,778
Other assets	-	-	-	-	-	-	107,717	107,717
Total assets	**315,757**	**136,365**	**168,785**	**96,230**	**306,545**	**63,445**	**702,034**	**1,789,161**
Liabilities								
Derivatives	-	-	-	-	-	-	141	141
Financial liabilities at amortised cost	272,079	215,315	179,682	213,762	239,894	47,044	521,765	1,689,541
Other liabilities	-	-	-	-	-	-	9,305	9,305
Total liabilities	**272,079**	**215,315**	**179,682**	**213,762**	**239,894**	**47,044**	**531,211**	**1,698,987**
Shareholders' equity	-	-	-	-	-	-	90,174	90,174
Total liabilities and shareholders' equity	**272,079**	**215,315**	**179,682**	**213,762**	**239,894**	**47,044**	**621,385**	**1,789,161**
Futures, sold	5,268	2,689	1	-	-	-	-	7,958
Interest rate repricing maturity gaps	48,946	(76,261)	(10,897)	(117,532)	66,651	16,401	80,649	x
Effect on net interest income for the year	**469.07**	**(635.51)**	**(68.11)**	**(293.83)**	x	x	**(528.38)**	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 LVL 45,3 (106,8) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the group's and bank's employees in the operational risk management and to the effectiveness of the control environment.

Money laundering and terrorism financing risk

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

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

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

The 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 11.5 million lats.

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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

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