JSC “REGIONALA INVESTICIJU BANKA”

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

AS Reģionālā Investīciju banka

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Report of the Management

AS „Reģionālā investīciju banka" (hereinafter – the Bank) celebrated the 10th year of its operations in 2011. The Bank describes the reporting year as a period of moderate development and cautious growth. The Bank focused on the internal processes, improvement of customer service, streamlining existing services and products and the introduction of new products.

Operating profit for the year amounted to 1.4 million LVL, however due to The Financial and Capital Market Commission's (FCMC) request to create additional provisions for impairment of loans, the reporting year's net loss accumulated to 2.7 million LVL.

Overall economical situation

In terms of GDP, the Latvian economy expanded by 5% in 2011, an acknowledgeable indicator in the light of the global economy. Particularly notable is Latvia's export income, that grew by 13.5% in 2011, significantly stimulating the growth of manufacturing industry. Also, the labor market has been recovering as indicated by the fall in unemployment level at the end of 2011 to 14.3% from 16.9% at the end of 2010. Furthermore, the finance sector in Latvia has maintained functionality and stability despite the suspension of AS „Latvijas Krājbanka" operations. Latvian government for the first time after the global financial crisis managed to successfully issue 10-year USD denominated government bonds worth 500 million USD in foreign financial markets.

The Ukraine experienced an improvement in the economic situation with GDP growing by 5.2% in 2011 – a significant increase from the 4.2% growth in 2010, signalling a recovery after the 14.8% decrease of GDP in 2009. It also should be noted that the expansion of Ukraine's economy was faster than that of the neighbouring countries - Poland and Russia. The growth of the country's economy can be explained by the increase in private consumption and savings. Positive indicators of the economy are growth in manufacturing in 2011 of 7.3% and the growth of the agricultural sector in 2011 of 17.5%. A considerable part of consumption was satisfied by a rise in imports that has set the trade deficit back to the level of 2008. The negative trade balance makes Ukrainian economy more vulnerable to fluctuations in global financial markets and can potentially impede further development due to growing external debt.

The Ukrainian banking sector operated with losses for the third consecutive year, however the total provisions made by the sector of 7.7 billion UAH had decreased by 40%, compared to 2010. Hence it is expected that the banking sector will turn profitable in the coming years. Last year, loan portfolios showed a decrease in the percentage of bad loans, falling to 4% from the 2010 year-end figure of 5.3%. As a threat to the functional financial sector in the Ukraine, the instability of local currency can be mentioned – threats of the devaluation of UAH made the money markets unstable sending short – term interest rates to soaring 30% - 32% levels. As a result of provision making and instability in the Eurozone, foreign credit institutions slowed down their expansion in the Ukrainian market, letting local capital backed banks to increase market share both in terms of number of clients and assets (the percentage of banking assets under control by foreign institutions decreased from 43% in 2010 to 37% in 2011).

The economy of Bulgaria was significantly influenced by the processes in Eurozone, which is the market for 60% of Bulgarian exports. The low growth levels of the main trading partners' economies had an adverse effect on local demand already impeded by the highest level of unemployment since 2006. Such ambiguity stimulated people with disposable income to save instead of consume. As a result of the aforementioned factors, Bulgaria's economy grew by only 1.6% in 2011.

Performance of the Bank during the reporting year

Most important financial indicators of the bank in 2011 attest to a successful reporting year. Bank's assets increased by 35.23% in 2011 and reached LVL 237.077 million. Deposit portfolio reached its historical maximum of LVL 208.476 million (a 32.24% increase compared to 2010). Loan portfolio grew by 42.61% reaching LVL 93.118 million, moreover the Bank primarily credited the retail industry. Loans to the retail industry account to a 44.1% share of the credit portfolio. The Bank's security portfolio reached LVL 9.083 million as at the year end 2011. During 2011 the turnover of the Bank's clients' securities trading reached LVL 66 million.

During the reporting year a new service was launched - trade of investment grade gold bars. The Bank actively develops this service and plans to expand the range of gold investment solutions. Clients will be offered both to purchase gold bars and to store them in the Bank. Similarly clients will be able to invest in gold without physical transitions, using the Bank's gold correspondent accounts.

Report of the Management (continued)

Performance of the Bank during the reporting year (continued)

Client base increased by 21% in the previous year, furthermore the number of money transactions increased by 14.42% reaching the Bank's record.

Last year the Bank significantly increased the volume and scale of documentary transactions. Compared to 2010 the amount of the Bank's securitized transactions grew by 20% and letters of credit transactions increased by 67%, reaching LVL 41.85 million.

During 2011 the number of payment cards increased by 33%, but the turnover of payment card transactions grew by 57% to LVL 9.5 million. 38.4% of the issued payment cards were MasterCard Business. At the end of 2011 the Bank issued the exclusive World Signia cards, that are on the peak of MasterCard payment card hierarchy. World Signia cards are exclusive payment cards, that in addition to the standard features of a credit card offer exclusive solutions for regular and irregular situations.

In 2011 changes to the Bank's shareholder structure occured. The Bank raised 925 000 LVL in capital and as at the end of 2011 the Bank's share capital is LVL 11.125 million.

To enhance the Bank's IT infrastructure, Hansa World Enterprise accounting system was introduced. Moreover several significant improvements were made to the existing accounting system and the internet bank. Improvements to the Bank's internet bank have increased its efficiency and functionality as well as allowed several operations to be carried out remotely. In order to increase the performance and security of the IT systems, heavy optimization of the IS data base was completed. In compliance with external auditors PricewaterhouseCoopers, Agile & Co and FCMC recommendations, risk minimization in the operation and management of the IS system has been performed.

In 2011 twelve employees were hired and the total number of employees at the end of the year was 118. There were also minor changes in the organizational structure of the Bank.

Future plans and perspectives

In the forthcoming year the Bank plans to continue a strategy of moderate development, gradually increasing the number of clients and deals, focusing on improving the cooperation with existing clients.

In 2012 the Bank will actively work on opening a representative office in Moscow, thus attracting clients in Russia.

In 2011 the Bank received a MasterCard Acquiring licence and in 2012 the Bank plans to start servicing companies that accept payment cards as a means of payment for goods and services, including on the internet. Moreover the Bank will keep on improving the internet bank and will introduce additions and enhancements to the internal IT system in order to provide a high level customer service.

According to European Banking Authority rules, all EU based banks, including Latvian credit institutions are required to gradually increase their capital till 2019. In accordance with FCMC rules, capital raising by Latvian credit institutions will have to occur at an elevated speed. Under such circumstances banking services will become more expensive. The Bank also expects that 2012 will bring an increase in loan interest rates.

As financial markets are not strained by liquidity problems at the moment, the Bank expects that deposit rates will not increase, as it will not be necessary for banks to raise extra resources. Most provisions for impairment of loans were made in 2011, therefore the Bank expects to return to profit by the end of 2012.

Haralds Āboliņš Chairman of the Board, President	Jurijs Rodins Chairman of the Council

Riga, 12 March 2012

THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK

As at 31 December 2011 and as at the date of signing the accounts:

The Council

		Date of appointment
Jurijs Rodins	Chairman of the Council	Re-elected – 11.04.2011
Marks Bekkers	Deputy Chairman of the Council	Re-elected – 11.04.2011
Dmitrijs Bekkers	Member of the Council	Re-elected – 11.04.2011
Vadims Morohovskis	Member of the Council	Re-elected – 11.04.2011, until 24.02.2012
Arkādijs Fjodorovs	Member of the Council	Re-elected – 11.04.2011 until 24.02.2012
Alla Vanecjancs	Member of the Council	Re-elected – 11.04.2011
Iryna Buts	Member of the Council	From 24.02.2012

The Board

Haralds Āboliņš	Chairman of the Board and President	Re-elected – 31.08.2009
Oleksandr Kuperman	Member of the Board	Re-elected – 31.08.2009
Daiga Muravska	Member of the Board	Re-elected – 31.08.2009

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Supervisory Council and the Board of Directors (hereinafter - the Management) of the Bank are responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 8 to 54 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2011 and the results of its operations and cash flows for the reporting year 2011.

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

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

Haralds Āboliņš Chairman of the Board, President	Jurijs Rodins Chairman of the Council

Riga, 12 March 2012

Auditors' report

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Reģionālā Investīciju banka

Report on the Financial Statements

We have audited the accompanying financial statements on pages 8 to 54 of AS Reģionālā Investīciju banka which comprise the statement of financial position as of 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows 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.

Auditor's 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 whether the financial statements are free from material misstatement.

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 3 to 4 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Terēze Labzova
Certified auditor in charge
Certificate No. 184

Riga, Latvia
12 March 2012

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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Statement of Comprehensive Income for the year ended 31 December 2011

	Notes	2011 LVL	2010 LVL
Interest income	5	7,743,239	8,458,494
Interest expense	5	(4,546,339)	(5,628,079)
Net interest income		**3,196,900**	**2,830,415**
Provisions for loan impairment	11	(4,089,349)	(1,858,033)
Net interest income/ (expense) after provision for loan impairment		**(892,449)**	**972,382**
Fee and commission income	6	3,304,094	2,802,937
Fee and commission expense	6	(920,045)	(778,846)
Net fee and commission income	6	**2,384,049**	**2,024,091**
Profit/ (loss) on securities trading, net		(9,027)	44,902
Profit/ (loss) from revaluation of securities at fair value through profit and loss account		(584,739)	369,350
Profit/ (loss) on derivative financial instruments revaluation		80,966	(15,946)
Profit on operation with foreign exchange, net		537,494	338,993
Profit from revaluation of foreign exchange, net		(168,224)	150,156
Other operating income		122,115	48,600
Administrative expense	7	(3,691,082)	(3,568,506)
Amortisation and depreciation charge	13, 14	(270,312)	(279,570)
Other operating expense		(62,736)	(60,964)
Profit/ (loss) before income tax		**(2,553,945)**	**23,488**
Income tax expense	8	-	-
Amount of tax paid abroad	8	(241,755)	(150,175)
Deferred income tax	8	9,386	10,011
Net loss for the year		**(2,786,314)**	**(116,676)**
Total comprehensive loss for the year attributable to the shareholders of the Bank		**(2,786,314)**	**(116,676)**

The financial statements on pages 8 to 54 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 12 March 2012

The accompanying notes on pages 12 to 54 are an integral part of these financial statements.

Statement of Financial Position as at 31 December 2011

	Notes	31.12.2011 LVL	31.12.2010 LVL
Assets			
Cash and balances with the Bank of Latvia	9	11,880,259	11,147,052
Balances due from banks	10	129,980,150	91,335,467
Loans and advances to customers	11	83,836,244	60,272,180
Financial assets at fair value through profit or loss	12	9,083,444	10,109,754
Derivative financial instruments	20	293,827	27,950
Intangible assets	13	259,546	382,887
Property and equipment	14	289,615	371,094
Other assets		1,016,784	1,180,727
Deferred expenses		71,752	110,655
Deferred tax	19	6,628	-
Corporate income tax	30	358,892	376,059
Total assets		**237,077,141**	**175,313,825**
Liabilities			
Balances due to banks	16	1,180,403	1,671,699
Due to customers	15	215,504,303	157,647,192
Derivative financial instruments	20	240,539	55,628
Other financial liabilities	17	1,624,702	1,123,138
Deferred income and accrued expenses	18	513,988	409,550
Deferred income tax liability	19	-	2,758
Subordinated loan	31	5,470,660	-
Total liabilities		**224,534,595**	**160,909,965**
Equity			
Share capital	21	11,125,000	10,200,000
Retained earnings		4,203,860	4,320,536
Comprehensive loss for the year		(2,786,314)	(116,676)
Total equity		**12,542,546**	**14,403,860**
Total liabilities and equity		**237,077,141**	**175,313,825**
Commitments and contingent liabilities			
Contingent liabilities	22	4,991,407	1,211,432
Financial commitments	22	13,402,669	18,469,844

The financial statements on pages 8 to 54 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 12 March 2012

The accompanying notes on pages 12 to 54 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2011

	Paid-in share capital	Retained earnings	Total
	LVL	LVL	LVL
Balance as at 31 December 2009	**10,200,000**	**4,320,536**	**14,520,536**
Comprehensive loss for the year	-	(116,676)	(116,676)
Balance as at 31 December 2010	**10,200,000**	**4,203,860**	**14,403,860**
Increase in paid-in share capital	925,000	-	925,000
Comprehensive loss for the year	-	(2,786,314)	(2,786,314)
Balance as at 31 December 2011	**11,125,000**	**1,417,546**	**12,542,546**

The accompanying notes on pages 12 to 54 are an integral part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2011

	Notes	2011 LVL	2010 LVL
Cash flows from operating activities			
Interest received		6,150,752	6,839,296
Interest paid		(5,093,091)	(6,137,797)
Fees and commission received		3,304,094	2,802,937
Fees and commission paid		(920,045)	(778,846)
Income / (expenditure) on securities trading		(9,027)	44,902
Income on foreign exchange		537,494	338,993
Other operating income		122,115	48,600
Personnel expenses paid		(2,327,237)	(2,159,252)
Administrative and other operating expenses paid		(1,426,581)	(1,470,217)
Income tax paid		(241,755)	(225,388)
Cash flows (used in)/ generated from operating activities before changes in operating assets and liabilities		**96,719**	**(696,772)**
Changes in operating assets and liabilities			
Net decrease of securities at fair value through profit and loss account		669,610	792,609
Net increase of balances due from banks		(1,635,391)	(2,672,657)
Net (increase) / decrease of loans and advances to customers		(24,437,854)	10,685,371
Net (increase) / decrease of other assets		202,845	(989,952)
Net increase of balances due to customers		52,730,963	41,771,578
Net increase in other liabilities		623,170	833,578
Net cash and cash equivalents generated from operating activities		**28,250,062**	**49,723,755**
Cash flows from investing activities			
Purchase of intangible assets		(17,691)	(54,484)
Purchase of fixed assets		(47,801)	(39,017)
Net cash and cash equivalents used in investing activities		**(65,492)**	**(93,501)**
Cash flows from financing activities			
Proceeds from share issue		925,000	-
Subordinated loan		5,440,000	-
Net cash and cash equivalents generated from financing activities		**6,365,000**	**-**
Effect of exchange rates on cash and cash equivalents		1,739,487	2,832,781
Net increase in cash and cash equivalents		**36,289,057**	**52,463,035**
Cash and cash equivalents at the beginning of the year	**23**	93,211,896	40,748,861
Cash and cash equivalents at the end of the year	**23**	**129,500,953**	**93,211,896**

The accompanying notes on pages 12 to 54 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS "Reģionālā Investīciju banka" (hereinafter – the Bank) provides financial services to corporate clients and individuals. The Bank established its representative office in Odessa, Ukraine in 2005 and representative office in Dnepropetrovsk, Ukraine in 2007. In the beginning of 2009 the Bank has established new representative office in Kiev, Ukraine. In October 2009 opened its first branch in Bulgarian town Varna. Furthermore, in 2010 the Bank has established its representative office in the capital of Belgium – Brussels. The Bank has no subsidiaries and branches apart from the mentioned above.

The Bank is a joint-stock company incorporated and domiciled in Riga, Republic of Latvia. It was registered within Commercial Register on 28 September 2001.

The legal and basic address of the Bank is:
J. Alunana Street 2,
LV-1010, Riga,
Latvia

These financial statements have been approved for issue by the Supervisory Council and the Board of Directors on 12 March 2012.

NOTE 2 OPERATING ENVIRONMENT OF THE BANK

Instability in the global and Latvian financial markets and economies
The global economic conditions deteriorated significantly during the second part of 2011, due to crisis in Eurozone and the temperate development of USA. The investors are worried about the central governments' ability to service loans which are quickly increasing during the crisis. Thus, the international finance markets for raising money are becoming hardly available or unavailable at all for many Eurozone member states. At the end of 2011, this left a significant effect on economic activities in general, as well as on consumers' behavior and trust. During the third quarter of 2011, many Eurozone member states already showed a negative GDP growth. Furthermore, economists have assessed that after the crisis experienced in 2009, the economy of Eurozone might repeatedly fall into recession during 2012. It needs to be pointed out that the instability in Eurozone and the temperate development of USA have influenced also the rate of increase of the economy in developing countries which have contributed significantly to the global economy improvement during post-crisis period.

Economy in Latvia has shown a 5% GDP growth which is a recognizable indicator, taking into consideration the global economy background. The income of Latvia's exports of goods is a particular success which increased by 13.5% in 2011 and gave a significant and positive contribution to the growth of manufacturing. The labor market situation has improved as well, as evidenced by 14.3% unemployment rate at the end of 2011 compared to 16.9% at the end of 2010. The finance market in Latvia has functioned successfully as well, regardless of suspension of Latvijas Krājbanka operations. In 2011, the government of Latvia, for the first time after the financial crisis, managed to attract foreign financial market resources by issuing 10-year treasury bonds denominated in 500 million USA dollars.

Impact on borrowers
Borrowers of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Impact on collateral
The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. As a result of possible recurrence of the global economy downturn, the actual realizable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, all of which have been applied consistently throughout the years 2010 and 2011, are set out below:

(a) Reporting currency

The tabular amounts in the accompanying financial statements are reported in Latvian lats (LVL), unless otherwise stated.

(b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter - IFRS) as adopted in the European Union, on a going concern basis. In preparation of the financial statements on a going concern basis the management considered the Bank's financial position, access to financial resources and analysed the impact of the recent financial crisis on the future operations of the Bank.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held at fair value through profit or loss and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The accounting policies used in the preparation of the financial statements for the year ended 31 December 2011 are consistent with those used in the annual financial statements for the year ended 31 December 2010, except as referred to in Note 3 (bb) *Adoption of New or Revised Standards and Interpretations*.

(c) Income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on trading securities.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect of origination of financial assets or funding are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other fees and commissions, including those related to trust activities, are credited and/or charged to the statement of comprehensive income as earned / incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Latvian lats' ('LVL'), which is the Bank's functional and presentation currency.

Transactions and balances
Transactions denominated in foreign currencies are recorded in lats at rates of exchange 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 the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of comprehensive income as a profit or loss from revaluation of foreign currency positions.

The principal rates of exchange (LVL to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheets were as follows:

Reporting date	USD	EUR	BGN	UAH
As at 31 December 2011	0.544	0.702804	0.359	0.0677
As at 31 December 2010	0.535	0.702804	0.359	0.0672

(e) Income taxes

Income tax is calculated in accordance with Latvian tax regulations and is based on the taxable income reported for the taxation period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is calculated based on currently enacted tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from different rates of accounting and tax amortisation and depreciation on intangible and fixed assets, as well as accruals for employee vacation expenses. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, due to and from other credit institutions with original maturity of 3 months or less.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Loans and provisions for loan impairment
Loans and advances to customers are accounted for as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

Loans and receivables are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition of financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. All loans and receivables are recognised when cash is advanced to borrowers and derecognised on repayments.

The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. If any such evidence exists, the amount of the loss for loan impairment which has been incurred is measured as the difference between the asset's carrying amount and the recoverable amount, being the present value of expected cash flows (excluding future credit losses that have not been incurred), including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. The Bank does not perform collective assessment of provisions as it can carry out assessment of each individual loan taken the number of loans issued.

The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the statement of comprehensive income. The assessment of the evidence for impairment and the determination of the amount of provision for impairment or its reversal require the application of Management's judgment and estimates. Management's judgments and estimates consider relevant factors including, but not limited to, the identification of non-performing loans and high risk loans, the Bank's past loan loss experience, known and inherent risks in the portfolio of loans, adverse situations that affects the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting loan and advance recoverability and collateral values. These judgments and estimates are reviewed periodically, and historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Management of the Bank has made their best estimates of losses, based on objective evidence of impairment and believes those estimates presented in the financial statements are reasonable in light of available information. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Credit related commitments

The Bank enters into credit related commitments, including undrawn credit lines, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after the origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required settling the commitment at the balance sheet date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets at fair value through profit or loss comprise debt securities held by the Bank for trading purposes. They are accounted for at fair value with all gains and losses from revaluation and trading reported in the statement of comprehensive income. Interest earned while holding trading securities is reported as interest income.

All regular way purchases and sales of financial assets held for trading are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(j) Sale and repurchase agreements of securities

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Bank is a transferor, assets transferred remain on the Bank's balance sheets and are subject to the Bank's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Where the Bank is a transferee, the assets are not included in the Bank's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of comprehensive income over the term of the agreement using the effective interest method.

(k) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, currency and interest rate swaps held by the Bank for trading purposes. Derivative financial instruments are recognised on trade date and categorised as financial assets at fair value through profit or loss. They are initially recognised in the balance sheet at fair value and subsequently measured at their fair value with all gains and losses from revaluation reported in the statement of comprehensive income. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative.

(l) Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate, and may require the application of management's judgment and estimates.

Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

(n) Derecognition of financial assets

The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(o) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives, not exceeding five years.

(p) Property and Equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost of the fixed assets to their residual values over their estimated useful lives, as follows:

Office equipment	10 years
Computers	3 years
Transport	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Leasehold improvements are capitalised and depreciated over their expected useful lives, or over the remaining lease contract period if shorter, on a straight-line basis.

Property and equipment are periodically reviewed for impairment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the statement of comprehensive income in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Operating lease – the Bank is a lessee
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(r) Customer accounts
Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

(s) Borrowings
Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(t) Provisions
Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The assessment of provisions requires the application of management's judgment and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

(u) Dividends
Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Latvian legislation identifies the basis of distribution as retained earnings.

(v) Employee benefits
The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. According to the rulings of the Cabinet of Ministers of the Republic of Latvia 72,84% (2010: 65.46%) of the social security contributions are used to finance state funded pension scheme.

Short-term employee benefits, including salaries and state compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

(w) Off-balance sheet instruments
In the ordinary course of business, the Bank utilises off-balance sheet financial instruments including commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The methodology for provisioning against off-balance sheet instruments is given in paragraph (t) of Note 3 above.

(x) Trust operations
Funds managed or held in custody by the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not included in the balance sheet.

Accounting for trust operations is separated from the Bank’s own accounting system thus ensuring separate accounting in a separate trust balance sheet for assets of each client, by client and by type of assets under management.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Debt securities in issue

Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

(z) Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset and net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(aa) Critical accounting estimates

Loan impairment

The Bank reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank's Management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank applies stress – tests in order to evaluate the impact of changes in one or a number of variables, which are used for determination of provisions for loan impairment losses, on the financial result. If overdue loans in loan portfolio increase by 1%, provisions for loan impairment losses would increase by LVL 92.8 thousand.

Securities valued at fair value.

The Bank used quoted market prices to value securities carried at fair value as at year end for those securities which in the management's judgement are traded at liquid markets. The management had evaluated the liquidity of the securities market and has concluded that there is a significant reduction of activities in market, however, consider the market to be active with respect to type of securities held by the Bank therefore quoted market prices available on Stock Exchange of the security issuer countries were used to determine the fair values of the securities as at year end.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Management's judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Bank from 1 January 2011. Listed below are those new or amended standards or interpretations which are relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies.

Improvements to International Financial Reporting Standards (issued in May 2010; most of the amendments are effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The amendments did not have a material effect on these financial statements.

The following new and amended IFRSs and interpretations became effective in 2011, but are not relevant for the Bank's operations and did not have an impact on these financial statements.

Amendment to IAS 24 – Related Party Disclosures.

Amendment to IAS 32 – Classification of Rights Issues.

Amendment to IFRS 1 – Limited exemption from comparative IFRS 7 disclosures for first-time adopters.
Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement.
IFRIC 19 – Extinguishing financial liabilities with equity instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Adoption of new or revised standards and interpretations (continued)

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 July 2011 or later periods and which are not relevant to the Bank or are not yet endorsed by the EU:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011).
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).

Employee benefits – Amendment to IAS 19 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).
Financial statement presentation` regarding other comprehensive income – Amendment to IAS 1 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).

IFRS 10, Consolidated financial statements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
IFRS 11, `Joint arrangements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
IFRS 12, `Disclosures of interests in other entities` (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
IFRS 13, `Fair value measurement` (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
`Separate financial statements` - IAS 27 (revised 2011) (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
`Associates and joint ventures`- IAS 28 (revised 2011) (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
IFRIC 20, 'Stripping costs in the production phase of a surface mine' (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

Unless information above is not otherwise described, there is no significant influence of new standards and interpretations on the Bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT

Risk Management

Risk management is one of the Bank's strategic tasks. Risk management strategy has been developed for the Bank's risk management, which covers management of the following risks: credit risk and residual risk, operational risk, market risk, interest rate risk, foreign currency risk, liquidity risk, concentration risk, country risk and other risks.

For the purpose of managing these risks, internal risk management policies and procedures have been developed which are approved by the Bank's Council and/or Board and implemented by the responsible units of the Bank.

The Board of the Bank is responsible for the development and effective functioning of the risk management system and ensuring the identification and management of the Bank's risks, including estimation, evaluation, oversight and preparation of risk reports through implementing the risk identification and management policy set by the Bank's Council and other documents connected with risk management.

The main unit responsible for determination, evaluation and oversight of the risks is the Risk Management Department, which is an independent unit whose functions are separated from the functions of the business units.

The risk management system is being constantly improved in accordance with the Bank's activities and external conditions influencing these activities. The regular oversight of this process is performed by the Internal Audit Department.

(a) Credit risk

Credit risk is the risk of incurring losses in the event that a borrower (debtor) or a business partner is unable to fulfil its obligations to the Bank in accordance with the provisions of the contract. Credit risk is present in the Bank's operations where the Bank makes claims against another person and which are reflected in the Bank's balance sheet and off-balance sheet items.

The Bank's principles for evaluation, oversight and acceptance of credit risk are described and approved in its Loan Policy, Business Partner Risk Policy and Investment Portfolio Policy.

The Bank divides up and oversees its credit risk by setting limits of various types and categories: acceptable risk limits for each borrower, group of related borrowers, geographical regions, business sectors, type and value of collateral, currency, term and ratings granted by international agencies. Credit risk exposures are monitored on a revolving basis through regular assessments of borrowers' ability to meet interest and principal repayments and limits are adjusted as appropriate. The Bank's exposure to credit risk is managed and minimised by obtaining collaterals and guarantees against credit exposures that are registered in the name of the Bank. The fair values of those are also reviewed on a regular basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The table below shows credit risk exposures relating to on-balance sheet assets and off-balance sheet items before collateral held or other credit enhancements:

	31.12.2011. LVL	31.12.2010. LVL
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from credit institutions	129,980,150	91,335,467
Loans to customers	83,836,244	60,272,180
Financial assets at fair value through profit or loss	9,083,444	10,109,754
Other assets	1,016,784	1,180,727
Total	**223,916,622**	**162,898,128**
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingent liabilities	4,991,407	1,211,432
Financial commitments	13,402,669	18,469,844
Total	**18,394,076**	**19,681,276**

(b) Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

The Bank manages market risks by diversification of financial instruments portfolio, limits set for different types of financial instruments and application of sensitivity tests which show the impact of particular risks on the Bank's assets and equity.

(c) Currency risk

The Bank has exposure to the effects of fluctuations in prevailing foreign currency exchange rates as a result of its financial position and cash flows. The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures. The Board has set limits on the level of exposure by currency, which is monitored on a daily basis. The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity. During the year 2011 the Bank was in compliance with those limits (see Note 25).

The Bank's foreign currency risk evaluation is based on the following main principles:
- evaluation is made of changes to the Bank's assets, liabilities and off-balance sheet items as a result of exchange rate fluctuations;
- how the Bank's revenue/costs change with exchange rate fluctuations;
- performance of currency risk stress tests.

The main elements of currency risk management:
- currency risk evaluation;
- setting of limits and restrictions;
- monitoring of adherence to internal limits;
- performance of exchange rate stress tests and analysis of obtained results;
- entering into hedging relationships if necessary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(c) Currency risk (continued)

Sensitivity Analysis

The following table shows the sensitivity of profit/loss and equity to currency exchange rate fluctuations at the end of the reporting period, with other conditions constant:

31.12.2011.	Effect on equity		Effect on profit/loss		31.12.2010.	Effect on equity		Effect on profit/loss	
	+100 bps	-100 bps	+100 bps	-100 bps		+100 bps	-100 bps	+100 bps	-100 bps
USD	-138	138	40	-40	**USD**	-223	233	28	-28
EUR	-35	35	9	-9	**EUR**	-43	43	6	-6
LVL	70	-70	1	-1	**LVL**	122	-122	-	-
Other	-	-	-	-	**Other**	-	-	-	-
Total	**-103**	**103**	**50**	**-50**	**Total**	**-144**	**144**	**34**	**-34**

The following table shows the average annual sensitivity of profit/loss and equity to currency exchange rate fluctuations during the reporting period, with other conditions constant:

31.12.2011.	Effect on equity		Effect on profit/loss		31.12.2010.	Effect on equity		Effect on profit/loss	
	+100 bps	-100 bps	+100 bps	-100 bps		+100 bps	-100 bps	+100 bps	-100 bps
Total	**-111**	**111**	**31**	**-31**	**Total**	**-56**	**56**	**25**	**-25**

(d) Interest rate risk

Interest rate risk is the sensitivity of the financial position of the Bank to a change in market interest rates. In the normal course of business, the Bank encounters interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The risk is controlled by the Bank's Asset and Liability Committee, which sets limits on the level of mismatch of interest rate reprising and evaluates interest rate risk undertaken by the Bank (see Note 27).

In order to evaluate interest rate risk, evaluation is made of the impact of interest rate changes on the Bank's economic value, including evaluation of interest rate risk from the revenue perspective and the economic value perspective. In addition, interest rate risk stress testing is performed.

The main elements of interest rate risk management:
- evaluation of interest rate risk sensitivity;
- setting of internal limits (limit of reduction in economic value and for total duration of securities portfolio);
- monitoring of adherence to internal limits;
- performance of interest rate stress tests and analysis of obtained results;
- entering into hedging relationships if necessary.

The following changes in interest rates are applied to the sensitivity analysis: all items except for deposits are subject to rate changes of +/-100 base points, while deposits are subject to rate changes of +/-50 base points.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk (continued)

The following table shows the sensitivity of profit/loss and equity to interest rate fluctuations with other conditions constant:

31.12.2011.	Effect on equity		Effect on profit/loss		31.12.2010.	Effect on equity		Effect on profit/loss	
	+100 bps	-100 bps	+100 bps	-100 bps		+100 bps	-100 bps	+100 bps	-100 bps
USD	-121	121	1 080	-1 080	**USD**	-241	241	678	-678
EUR	-190	190	195	-195	**EUR**	-64	64	154	-154
LVL	-100	100	8	-8	**LVL**	-94	94	18	-18
Other	-	-	4	-4	**Other**	1	-1	-11	11
Total	**-411**	**411**	**1 271**	**-1 271**	**Total**	**-398**	**398**	**839**	**-839**

The following table shows the average annual sensitivity of profit/loss and equity to interest rate fluctuations, with other conditions constant:

31.12.2011.	Effect on equity		Effect on profit/loss		31.12.2010.	Effect on equity		Effect on profit/loss	
	+100 bps	-100 bps	+100 bps	-100 bps		+100 bps	-100 bps	+100 bps	-100 bps
Total	**-447**	**447**	**1 017**	**-1 017**	**Total**	**-375**	**375**	**610**	**-610**

(e) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from short-term liquid investments. The relationship between the maturity of assets and liabilities, as well as off-balance sheet items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations.

The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types (see Note 26). An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the daily liquidity management of the Bank.

The Bank uses the following methods for evaluation of liquidity risk:
- preparation of maturity analysis (for all currencies and separately for individual currencies);
- calculation of the liquidity ratio, monitoring of adherence to liquidity ratio regulations;
- stress testing.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)
The following are the main elements of liquidity risk management:
- being in compliance with liquidity ratio regulations;
- setting of the liquidity net position limit;
- setting of restriction for attracting deposits;
- monitoring of adherence to liquidity limits;
- conducting liquidity stress tests and analysis of results obtained;
- recommendations for resolving liquidity problems.

In accordance with FCMC requirements, the Bank maintains sufficient liquid assets to meet its liabilities in the amount which is not less than 30% of the Bank's current liabilities.

(f) Capital adequacy
Capital adequacy refers to the sufficiency of the Bank's capital resources to cover risks resulting from the Bank's operating activities.

In order to calculate the capital for risks to which minimal capital requirements are set, according to the Financial and Capital Market Commission's (FCMC) regulations on preparation of report on minimal capital requirements, capital requirements are calculated using the following approaches and methods:
-the capital requirements for the credit risk are calculated using the standardised approach,
-"simple method of financial security" is used in order to decrease the credit risk,
-the capital requirements for the foreign exchange risks, capital requirements for the commodities risk, capital requirements for the position risk of debt securities and equities are calculated using the standardised approach,
-the capital requirements for the general risk of debt securities are calculated using maturity method;
-the capital requirements for the operational risk are calculated using the basic index approach.

The Bank also evaluates whether compliance with the minimal capital requirements ensures that the capital of the Bank is sufficient to cover all possible losses associated with all of the above mentioned risks.

Moreover, the Bank has developed internal documentation and regulations according to which it determines the amount of necessary capital for substantial risks to which minimal capital requirements are not set (e.g., interest rates risk, liquidity risk, country risk, and other substantial risks).

Calculated in accordance with the FCMC requirements, the Bank's capital adequacy ratio as at 31 December 2011 was 14.50%, which is above the minimum required by the FCMC since year 2007. FCMC requires Latvian banks to maintain a capital adequacy ratio of 8% of weighted assets and off-balance sheet items which are calculated in accordance with the rules set by FCMC (see also Note 24). According to the requirements of FCMC individual capital requirement was set for the Bank for 2012 at 15.6%, which will be ensured by the Bank until the term agreed with FCMC – 30.04.2012.

(g) Operational risk
Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the Bank's internal processes, human and systemic actions, or influence of external conditions. Operational risk is defined as the risk of a reduction in the Bank's revenue/ incurring of additional costs (and a resulting reduction of the equity) due to erroneous transactions with customers/business partners, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external conditions.

The Bank has established and maintains an Operational Risk Event and Loss database in which internal data on operational risk events and associated losses are collected, processed and organised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(g) Operational risk (continued)
The main elements of operational risk management are:
- operational risk monitoring;
- operational risk control and minimisation:
    - development of internal regulatory documents which prevent/reduce the likelihood of operational events;
    - segregation of duties;
    - control over internal limits;
    - adherence to the procedures in the use of IT and other Bank's resources;
    - appropriate training of employees;
    - regular review of supporting documents for transactions and account balances.

(h) Concentration risk
Transaction concentration risk is each and every risk deal or group of risk deals that could cause Bank to suffer such losses that may endanger the liquidity of the Bank or its ability to continue on a going concern. Concentration risk arises from significant risk deals with Clients or Group of inter-related Clients or risk deals with Clients with common risk factors (e.g., economy sector, geographical region, currency, instrument used for decrease of credit risk (one type of collateral or one provider of collateral, etc.).

In order to control transaction concentration risk Bank has set limits for investments into various types of assets, instruments, markets, etc. Limit is a numerical threshold applied to various types of investments serving as an instrument for limiting and controlling the risk.

Country risk is one of significant transaction concentration risks. Country risk – country partner risk – is the possibility of incurring losses if the Bank's assets are located in a country where, due to changes in its economic and political factors, the Bank may experience problems in recovering its assets within the agreed time and amount. The reasons of default by partners and issuers are primarily currency devaluation, unfavourable legislative changes, creation of new restrictions and barriers as well as other, including force majeure, factors.

In order to control concentration risks following limits were set:
- currency risk limits;
- credit rating group limits;
- financial market operations risk limits;
- limits on open currency positions and cash, limits on allowable loss on trading with foreign currencies;
- limits on allowable loss from trading with financial instruments portfolios;
- limits on high risk deals;
- limits on transactions with parent bank;
- limits on crediting programmes.

Control, analysis and review of fulfilment of these limits is performed.

International rating organisations data (including credit ratings and their dynamics), economic indicators of the country and other relevant information is used for risk analysis.

The main elements of risk control:
- setting of internal limits for regions, countries, and by transaction types in individual countries;
- monitoring of adherence to internal limits;
- analysis and monitoring of country risk;
- review of internal limits.

Asset, liability and off-balance sheet country risk applies to the country which is considered to be the primary country where the client conducts its business activities. If a loan is granted to a resident of another country using collateral which is physically located in a country other than the resident country of the legal entity, the state risk is transferred to the country where the loan collateral is actually located.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 INTEREST INCOME AND EXPENSE

	2011 LVL	2010 LVL
Interest income		
Loans and advances to legal entities	4,824,384	5,881,974
Loans and advances to private individuals	265,549	299,118
Balances due from banks	1,995,845	1,335,983
Trading securities	657,461	941,419
Total interest income	**7,743,239**	**8,458,494**
Interest expense		
Due to private individuals	(945,490)	(745,139)
Due to legal entities	(3,142,629)	(4,533,122)
Balances due to banks	(1,471)	(73,461)
Subordinated loan	(61,216)	-
Other liabilities	(395,533)	(276,357)
Total interest expense	**(4,546,339)**	**(5,628,079)**
Net interest income	**3,196,900**	**2,830,415**

NOTE 6 FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income		
Money transfers	2,388,206	2,173,762
Loan related fees	2,918	692
Accounts servicing	247,830	204,869
Letters of credit	212,453	58,940
Sale of deposit certificates	240	365
Commission income on transactions with financial instruments	75,798	81,635
Commission income on current accounts	18,764	30,847
Income from general services	43,236	42,232
Other commissions (DIGIPAS)	13,680	10,811
Interbank commission income	52,668	32,956
Commission for dealing with cards	79,665	51,023
Income from currency exchange	69,435	72,047
Other income	99,201	42,758
Total fee and commission income	**3,304,094**	**2,802,937**
Fee and commission expense		
Money transfers	(650,512)	(673,711)
Other expense	(269,533)	(105,135)
Total fee and commission expense	**(920,045)**	**(778,846)**
Net fee and commission income	**2,384,049**	**2,024,091**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 ADMINISTRATIVE EXPENSE

	2011 LVL	2010 LVL
Remuneration paid to personnel	1,652,188	1,537,322
Rent expense	291,896	360,497
Office and equipment maintenance	71,653	88,344
Remuneration paid to the members of the Council and the Board	234,293	205,015
Security services	41,488	54,472
Public utilities	35,297	40,286
State compulsory social insurance contributions	440,442	416,591
Communication expense	221,234	225,226
Consulting and professional fees	199,293	266,559
Set-up and maintenance costs of information systems	57,485	85,171
Business trips	88,953	64,169
Transportation	36,926	32,866
Sponsorship	-	12,582
Health insurance	15,946	2,873
Advertising and marketing	2,017	2,629
Penalties	10,092	727
Other administrative expense	291,879	173,177
	3,691,082	**3,568,506**

The average number of staff employed by the Bank in 2011 was 115 (2010: 105).

NOTE 8 INCOME TAX EXPENSE

Corporate income tax for the reporting year	-	-
Amount of tax paid abroad	214,755	150,175
Decrease in provisions for deferred tax liability (see Note 19)	(9,386)	(10,011)
Total corporate income tax	**232,369**	**140,164**

Corporate income tax differs from the theoretically calculated taxation at the 15% rate as stipulated by the law (see below):

Profit/ (loss) before income tax	**(2,553,945)**	**23,488**
Theoretically calculated tax at a tax rate of 15%	(383,092)	3,523
Profit/ (loss) from revaluation of securities at fair value through profit and loss account, net	89,580	(55,403)
Other expenses not deductible for tax purposes	284,126	41,869
Amount of tax paid abroad	241,755	150,175
Corporate income tax expense	**232,369**	**140,164**

Deferred income tax is calculated by using the enacted tax rate – 15%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2011. LVL	31.12.2010. LVL
Cash	1,545,714	909,256
Balances on demand with the Bank of Latvia	10,334,545	10,237,796
	11,880,259	**11,147,052**

Balances on demand with Bank of Latvia reflect the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

Demand deposits with the Bank of Latvia include mandatory reserve maintained in accordance with the Bank of Latvia regulations. These regulations specify the minimum level of the average balance to be maintained on the Bank’s correspondent account with the Bank of Latvia during each month, whilst allowing funds in the account to be used in an unrestricted manner on individual days. The minimum level of the average balance to be maintained on the Bank’s correspondent account with the Bank of Latvia during the period from 24/12/2011 till 23/01/2012 has been set in amount of 9,237,886 LVL.

The Bank was in compliance with the reserve requirement of the Bank of Latvia during the reporting period.

NOTE 10 BALANCES DUE FROM BANKS

	31.12.2011. LVL	31.12.2010. LVL
Due from Republic of Latvia credit institutions	12,662,630	28,227,634
Due from non-OECD credit institutions	45,874,599	14,788,976
Due from OECD credit institutions	71,442,921	48,318,857
	129,980,150	**91,335,467**

The following table discloses balances due from banks between demand and term deposits:

On demand	93,536,781	46,821,032
Balances with maturity of three months or less	25,264,316	36,915,510
Other balances due from banks	11,179,053	7,598,925
	129,980,150	**91,335,467**

The following table discloses balances due from banks according to their ratings as at 31 December 2011 and 31 December 2010:

	31.12.2011.		**31.12.2010.**	
Rating	**Due from banks LVL**	**%**	**Due from banks LVL**	**%**
From Aaa to Aa3	33,157,185	25.51%	17,322,809	18.97%
From A1 to A3	37,788,132	29.07%	43,314,645	47.42%
From Baa1 to Baa3	233,002	0.18%	14,560,942	15.94%
From Ba1 to Ba3	790,718	0.61%	43,811	0.05%
From B1 to B3	41,001,066	31.54%	13,922,832	15.24%
	112,970,103	**86.91%**	**89,165,039**	**97.62%**
Without rating	17,010,047	13.09%	2,170,428	2.38%
	129,980,150	**100.00%**	**91,335,467**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by client type and by products

	31.12.2011. LVL	31.12.2010. LVL
Loans to legal entities	87,864,729	60,539,166
Loans to private individuals, except for mortgages	2,339,560	1,740,672
Loans to private individuals – private enterprises	39,872	61,295
Mortgages	2,873,873	2,953,469
Less: provisions for loan impairment	(9,281,790)	(5,022,422)
Total loans and advances to customers	**83,836,244**	**60,272,180**

The following table discloses changes in provisions for loan impairment during 2011:

	Loans to legal entities	Loans to private individuals, except for mortgages	Mortgages	Total
Provisions for loan impairment as at 1 January 2011	**4,724,489**	**220,287**	**77,646**	**5,022,422**
Increase in provisions for loan impairment for the year	3,706,085	110,475	272,789	4,089,349
Impact of foreign currency revaluation	170,019	-	-	170,019
Provisions for loan impairment as at 31 December 2011	**8,600,593**	**330,762**	**350,435**	**9,281,790**

The following table discloses changes in provisions for loan impairment during 2010:

	Loans to legal entities	Loans to private individuals, except for mortgages	Mortgages	Total
Provisions for loan impairment as at 1 January 2010	**2,936,320**	**144,395**	**45,984**	**3,126,699**
Increase in provisions for loan impairment for the year	1,750,479	75,892	31,662	1,858,033
Impact of foreign currency revaluation	37,690	-	-	37,690
Provisions for loan impairment as at 31 December 2010	**4,724,489**	**220,287**	**77,646**	**5,022,422**

The concentration of risks in the credit portfolio based on the economical industries is as follows:

	2011		2010	
	LVL	**%**	**LVL**	**%**
Trade and commercial activities	40,198,822	43.17%	20,424,422	31.28%
Private individuals	5,213,433	5.60%	4,694,142	7.19%
Agriculture and food industry	4,800,559	5.16%	3,057,796	4.68%
Construction and operations with real estate	18,457,822	19.82%	12,320,510	18.87%
Transport and communication	6,859,560	7.37%	9,262,404	14.19%
Industry	3,910,509	4.20%	38,315	0.06%
Tourism and hotel services, restaurant business	3,717,004	3.99%	3,200,188	4.9%
Financial services	6,112,989	6.56%	3,979,812	6.10%
Other	3,847,335	4.13%	8,317,013	12.74%
Loans and advances to customers (before provisions for impairment)	**93,118,033**	**100.00%**	**65,294,602**	**100.00%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

As at 31 December 2011, the total amount of loans issued to 10 largest clients was LVL 30,486,320 (2010: 20,921,831 LVL), which comprises 32.74% of the total credit portfolio (2010: 32.04%). As at 31 December 2011, there were loans and advances to clients secured by deposits LVL 7,693,750.

The following table shows the information about collateral as at 31 December 2011:

	Loans to legal entities	Loans to private individuals, except for mortgages	Loans to private individuals – private enterprises	Mortgages	Total
Unsecured	1,566,126	171,385	-	211,335	1,948,846
Collateralised by:					
- residential real estate	4,297,095	240,533	-	691,888	5,229,516
- other real estate	42,310,765	1,366,381	-	1,900,370	45,577,516
- tradable securities	3,164,863	-	39,872	-	3,204,735
- cash deposits	8,071,355	561,261	-	70,280	8,702,896
- other assets	28,454,524	-	-	-	28,454,524
Total loans and advances to customers	**87,864,728**	**2,339,560**	**39,872**	**2,873,873**	**93,118,033**

The following table shows the information about collateral as at 31 December 2010:

	Loans to legal entities	Loans to private individuals, except for mortgages	Loans to private individuals – private enterprises	Mortgages	Total
Unsecured	829,000	171,288	-	100,758	1,101,046
Collateralised by:					
- residential real estate	4,663,583	245,765	-	769,734	5,679,082
- other real estate	43,914,838	1,293,650	-	2,012,696	47,221,184
- tradable securities	3,090,998	-	61,295	-	3,152,293
- cash deposits	1,388,517	29,970	-	70,280	1,488,767
- other assets	6,652,230	-	-	-	6,652,230
Total loans and advances to customers	**60,539,166**	**1,740,673**	**61,295**	**2,953,468**	**65,294,602**

Bank analyses credits and advances also based on the size of the borrower – legal person:

Big size entities – if borrower is not medium size, small size or micro entity.
Medium size entities – if borrower is an entity with annual average number of employees below 250 and turnover less than 50 million EUR in lat equivalent and/ or total assets are not in excess of 43 million EUR in lat equivalent.
Small size entities – if borrower is an entity with annual average number of employees below 50 and turnover and/ or total assets are not in excess of 10 million EUR in lat equivalent.
Micro entities – if borrower is an entity with annual average number of employees below 10 and turnover and/ or total assets are not in excess of 2 million EUR in lat equivalent.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The following table shows the loans outstanding as at 31 December 2011 by credit quality:

	Loans to legal entities	**Loans to private individuals, except for mortgages**	**Loans to private individuals – private enterprises**	**Mortgages**	**Total**
Neither past due nor impaired					
- Loans to big size entities	4,005,574	-	-	-	**4,005,574**
- Loans to medium size entities	4,967,761	-	-	-	**4,967,761**
- Loans to small size entities	54,199,718	-	-	-	**54,199,718**
- Loans to private individuals	-	748,279	39,872	873,946	**1,662,097**
Total neither past due nor impaired	**63,173,053**	**748,279**	**39,872**	**873,946**	**64,835,150**
Past due but not impaired					
- past due 30 days	5,209,337	10,146	-	232,115	5,451,598
- past due from 30 to 90 days	1,234,075	4,169	-	921,143	2,159,387
- past due over 360 days	236	-	-	-	236
Total past due, but not impaired	**6,443,648**	**14,315**	**-**	**1,153,258**	**7,611,221**
Individually impaired loans (total amount)					
- not past due	6,608,916	18,258	-	6,603	6,633,777
- past due up to 30 days	133,432	-	-	-	133,432
- past due 30 – 90 days	180,243	890,721	-	-	1,070,964
- past due 91 – 180 days	1,104,682	-	-	707,297	1,811,979
- past due 181 – 360 days	3,807,436	632,622	-	-	4,440,058
- past due over 360 days	6,413,318	35,365	-	132,770	6,581,453
Total individually impaired loans (total amount)	**18,248,027**	**1,576,966**	**-**	**846,670**	**20,671,663**
Less: provisions for loan impairment	**(8,600,593)**	**(330,762)**	**-**	**(350,435)**	**(9,281,790)**
Total loans and advances to customers	**79,264,135**	**2,008,798**	**39,872**	**2,523,439**	**83,836,244**

Loans past due, but not impaired include all amounts due from borrowers. Amount actually overdue as at 31 December 2011 were 380,316 LVL.

Loans past due and individually impaired include all amounts due from borrowers. Amount actually overdue as at 31 December 2011 was 9,849,348 LVL.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The following table shows the loans outstanding as at 31 December 2010 by credit quality:

	Loans to legal entities	**Loans to private individuals, except for mortgages**	**Loans to private individuals – private enterprises**	**Mortgages**	**Total**
Neither past due nor impaired					
- Loans to big size entities	2,296,829	-	-	-	2,296,829
- Loans to medium size entities	2,229,892	-	-	-	2,229,892
- Loans to small size entities	36,124,725	-	61,295	-	36,186,020
- Loans to private individuals	-	163,785	-	2,459,469	2,623,254
Total neither past due nor impaired	**40,651,446**	**163,785**	**61,295**	**2,459,469**	**43,335,995**
Past due but not impaired					
- past due 30 days	4,286,375	-	-	-	4,286,375
- past due 30 days to 90 days	2,358,653	-	-	-	2,358,653
- past due over 360 days	401	-	-	-	401
Total past due, but not impaired	**6,645,429**	**-**	**-**	**-**	**6,645,429**
Individually impaired loans (total amount)					
- not past due	4,763,335	1,151,306	-	-	5,914,641
- past due up to 30 days	33,841	387,785	-	-	421,626
- past due 30 – 90 days	-	-	-	138,813	138,813
- past due 91 – 180 days	1,300,925	15,221	-	325,781	1,641,927
- past due 181 – 360 days	1,613,908	7,418	-	-	1,621,326
- past due over 360 days	5,530,282	15,157	-	29,406	5,574,845
Total individually impaired loans (total amount)	**13,242,291**	**1,576,887**	**-**	**494,000**	**15,313,178**
Less: provisions for loan impairment	**(4,724,490)**	**(220,286)**	**-**	**(77,646)**	**(5,022,422)**
Total loans and advances to customers	**55,814,676**	**1,520,386**	**61,295**	**2,875,823**	**60,272,180**

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2011 was as follows:

	Loans to legal entities	**Loans to private individuals, except for mortgages**	**Mortgages**
Fair value of collateral – loans past due but not impaired			
- other real estate	7,343,962	69,000	1,912,528
- due to customers	2,652,299	-	-
- other assets	4,213,745	-	-
Fair value of collateral – individually impaired loans			
- residential real estate	3,268,091	638,849	-
- other real estate	16,716,707	1,803,000	565,054
- due to customers	409,088	-	70,280
- other assets	10,678,993	320,100	-
Total	**45,282,885**	**2,830,949**	**2,547,862**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

	Loans to legal entities	**Loans to private individuals, except for mortgages**	**Mortgages**
Fair value of collateral – loans past due but not impaired			
- residential real estate	261,846	-	-
- other real estate	9,450,781	-	-
- other assets	4,586,018	-	-
Fair value of collateral – individually impaired loans			
- residential real estate	1,785,333	651,549	241,000
- other real estate	21,258,068	1,803,000	565,000
- other assets	6,324,749	320,100	-
Total	**43,666,795**	**2,774,649**	**806,000**

The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The balance sheet value of each category of loans and advances to clients approximates its fair value as at 31 December 2010 and 2011.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The financial effect of collateral is presented by disclosing separately impact (i) on assets with collateral being equal or in excess of the book value of assets ("Assets with collateral value exceeding the loan balance"), and (ii) on assets with collateral being less than the book value of assets ("Assets with insufficient collateral").

The impact of collateral at 31 December 2011:

	Assets with collateral value exceeding the loan balance		**Assets with insufficient collateral**	
	Net book value of asset LVL	**Fair value of collateral LVL**	**Net book value of asset LVL**	**Fair value of collateral LVL**
Loans to legal entities	84,713,097	188,699,630	3,151,632	1,585,505
Loans to individuals, excluding mortgage loans	2,168,175	3,619,647	171,385	-
Loans to individuals - private enterprises	39,872	111,864	-	-
Mortgage loans	2,027,203	4,954,493	846,669	635,335
Total	**88,948,347**	**197,385,634**	**4,169,686**	**2,220,840**

The impact of collateral at 31 December 2010:

	Assets with collateral value exceeding the loan balance		**Assets with insufficient collateral**	
	Net book value of asset LVL	**Fair value of collateral LVL**	**Net book value of asset LVL**	**Fair value of collateral LVL**
Loans to legal entities	58,882,321	157,479,068	1,656,845	827,845
Loans to individuals, excluding mortgage loans	1,556,685	2,848,487	183,988	12,700
Loans to individuals - private enterprises	61,295	110,014	-	-
Mortgage loans	2,217,376	4,895,028	736,093	635,335
Total	**62,717,677**	**165,332,597**	**2,576,926**	**1,475,880**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31.12.2011. LVL	31.12.2010. LVL
Latvian government securities	6,546,415	5,898,243
Non-OECD state government debt securities	-	2,187,407
Non-OECD region corporate debt securities	2,531,386	1,496,234
Latvian corporate debt securities	-	509,005
Unquoted securities	4,864	14,129
Quoted securities	779	4,736
	9,083,444	**10,109,754**

Analysis of securities by category as at 31 December 2011 and 31 December 2010 is presented below:

Category 1 – includes securities with directly available market prices (regulated market) and having high liquidity allowing for quick sale for the balance sheet value.
Category 2 – includes securities which are publicly traded but having no quoting prices for at least one year or no transactions made. Fair value of these securities is calculated applying comparative methods.
Category 3 – securities which do not classify as either Category 1 or Category 2. For these securities fair value is calculated used various analytical methods which are based on analysis of similar securities and interpolation of their prices, as well as other factors.

	31.12.2011. LVL	31.12.2010. LVL
Category 1	9,083,444	10,109,754
	9,083,444	**10,109,754**

Financial assets at fair value through profit or loss are accounted at fair value that also reflects impairment loss related to credit risk. As the financial assets are accounted at fair value based on the market prices, the Bank does not analyse and follow any impairment indicators.

The following table discloses debt securities by issuers' ratings as at 31 December 2011 and 31 December 2010:

	31.12.2011.		**31.12.2010.**	
Rating	**Securities**		**Securities**	
	LVL	**%**	**LVL**	**%**
From A1 to A3	-	0.00%	-	0.00%
From Baa1 to Baa3	-	0.00%	5,898,243	58.34%
From Ba1 to Ba3	6,546,415	72.07%	509,005	5.04%
From B1 to B3	2,194,159	24.16%	3,052,146	30.19%
Under B3	324,758	3.58%	650,360	6.43%
	9,065,332	**99.81%**	**10,109,754**	**100%**
Without rating	18,112	0.19%	-	0.00%
	9,083,444	**100%**	**10,109,754**	**100%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 INTANGIBLE ASSETS

The following changes in the Bank's intangible assets took place during 2011 and 2010.

	Software 2011 LVL	Software 2010 LVL
Cost		
As at the beginning of the year	**833,229**	**778,745**
Additions	38,854	28,925
Reclassified (to)/ from equipment	(21,163)	4,396
Advance payments	-	21,163
As at end of the year	**850,920**	**833,229**
Amortisation		
Accumulated amortisation at the beginning of the year	**450,342**	**317,005**
Charge for the year	141,032	133,337
Accumulated amortisation at the end of the year	**591,374**	**450,342**
Net book value at the beginning of the year	**382,887**	**461,740**
Net book value at the end of the year	**259,546**	**382,887**

NOTE 14 PROPERTY AND EQUIPMENT

The following changes in the Bank's property and equipment took place during the year ended 31 December 2011:

	Transport LVL	Computers LVL	Office equipment LVL	Leasehold improvements LVL	Total LVL
Cost					
31.12.2010.	**16,750**	**456,390**	**397,298**	**70,932**	**941,370**
Disposals	-	(14,341)	(165)	-	(14,506)
Reclassified from intangible assets	-	21,163	-	-	21,163
Additions	-	22,676	3,962	-	26,638
31.12.2011.	**16,750**	**485,888**	**401,095**	**70,932**	**974,665**
Depreciation					
31.12.2010.	**12,004**	**374,680**	**174,994**	**8,598**	**570,276**
On disposals	-	(14,341)	(165)	-	(14,506)
Charge for 2011	3,350	62,578	59,053	4,299	129,280
31.12.2011.	**15,354**	**422,917**	**233,882**	**12,897**	**685,050**
Net book value 31.12.2010.	**4,746**	**81,710**	**222,304**	**62,334**	**371,094**
Net book value 31.12.2011.	**1,396**	**62,971**	**167,213**	**58,035**	**289,615**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 PROPERTY AND EQUIPMENT (continued)

The following changes in the Bank's property and equipment took place during the year ended 31 December 2010:

	Transport	Computers	Office equipment	Leasehold improvements	Total
	LVL	LVL	LVL	LVL	LVL
Cost					
31.12.2009.	**16,750**	**423,323**	**391,877**	**70,932**	**902,882**
Disposals	-	-	(529)	-	(529)
Additions	-	37,463	5,950	-	43,413
Reclassified to intangible assets	-	(4,396)	-	-	(4,396)
31.12.2010.	**16,750**	**456,390**	**397,298**	**70,932**	**941,370**
Depreciation					
31.12.2009.	**8,654**	**294,877**	**116,742**	**4,299**	**424,572**
On disposals	-	-	(529)	-	(529)
Charge for 2010	3,350	79,803	58,781	4,299	146,233
31.12.2010.	**12,004**	**374,680**	**174,994**	**8,598**	**570,276**
Net book value 31.12.2009.	**8,096**	**128,446**	**275,135**	**66,633**	**478,310**
Net book value 31.12.2010.	**4,746**	**81,710**	**222,304**	**62,334**	**371,094**

NOTE 15 DUE TO CUSTOMERS

(a) Analysis of groups by customers

	31.12.2011. LVL	31.12.2010. LVL
Legal entities		
- current/ settlement accounts	169,674,255	120,931,910
- term deposits	18,958,655	17,952,436
Private individuals		
- current/ settlement accounts	7,204,876	4,626,591
- term deposits	19,666,517	14,136,255
Total customer accounts:	**215,504,303**	**157,647,192**
Sector profile:		
Private companies	184,545,862	133,815,420
Private individuals	26,871,393	18,762,847
Financial institutions	3,973,085	4,860,099
Non-profit institutions	97,136	205,117
Central government	16,827	3,709
Total customer accounts:	**215,504,303**	**157,647,192**

(b) Analysis by place of residence

Residents	20,725,059	21,679,848
Non-residents	194,779,244	135,967,344
Total customer accounts:	**215,504,303**	**157,647,192**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 15 DUE TO CUSTOMERS (continued)

During the year ended 31 December 2011 average interest rate on term deposits due to customers was 4.67 % (20010: 8.18%) and average interest rate on demand deposits was 0.07% to 1.61% (2010: from 0.05% to 2.55%). All deposits have fixed interest rates.

Economic sector concentration within customer accounts is as follows:

	2011		2010	
	LVL	%	LVL	%
Manufacturing	10,224,981	4.74	2,769,090	1.76
Building and real estate	7,476,243	3.47	3,662,871	2.32
Trade and commercial activities	90,629,730	42.05	59,606,161	37.81
Financial and insurance services	30,216,472	14.02	36,665,013	23.26
Transport and communications	42,308,122	19.63	26,470,033	16.79
Agriculture and food industries	427,079	0.20	821,888	0.52
Private individuals	26,871,393	12.47	18,762,847	11.90
Other	7,350,283	3.42	8,889,289	5.64
Total customer accounts	**215,504,303**	**100.0**	**157,647,192**	**100.00**

NOTE 16 BALANCES DUE TO BANKS

	31.12.2011. LVL	31.12.2010. LVL
Term deposit of bank AB „Pivdenny”	3,440	3,440
Other interbank borrowings	1,176,963	1,668,259
	1,180,403	**1,671,699**

NOTE 17 OTHER FINANCIAL LIABILITIES

Liabilities in clearance	1,490,360	1,043,976
Settlements on behalf of a closed bank	11,656	11,656
VAT settlements	1,894	4,983
Other creditors	120,792	62,523
	1,624,702	**1,123,138**

NOTE 18 DEFERRED INCOME AND ACCRUED EXPENSES

Accrued annual leave expenses	206,544	198,490
Accrual for guarantee fund and FCMC financing	101,771	79,639
State social security contributions to be paid	46,733	41,144
Accrued commission expenses	36,241	2,520
Other accrued expenses	122,699	87,757
	513,988	**409,550**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 19 DEFERRED INCOME TAX

The gross movement on the deferred income tax account is as follows:

	2011 LVL	2010 LVL
Deferred income tax liability at the beginning of the reporting year	2,758	12,769
Deferred income tax liability decrease during the reporting year (see Note 8)	(9,386)	(10,011)
Deferred tax (asset) / liability at the end of the reporting year	**(6,628)**	**2,758**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred income tax has been calculated from the following temporary differences between assets and liabilities values for financial reporting and tax purposes:

	31.12.2011. LVL	31.12.2010. LVL
Deferred income tax liability:		
Temporary difference on fixed assets depreciation	24,353	31,123
Deferred income tax assets:		
Temporary difference on accruals for unused annual leave	(30,981)	(28,365)
Deferred tax (asset) / liability	**(6,628)**	**2,758**

NOTE 20 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative financial instruments: currency forwards – agreements on currency acquisition in future, currency swaps – agreements on exchange one set of each cash flow for another.

The Bank's credit risk represents the potential cost to replace the forward contracts if counterparties fail to perform their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Bank's exposure to credit risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Bank's notional amounts and fair values of derivative instruments held for trading are set out in the following table:

	31.12.2011.			31.12.2010.		
	Contract / notional amount	Fair value		Contract / notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	14,617,929	251,231	(232,258)	2,174,483	24,101	(51,593)
Currency forwards	6,985,160	42,596	(8,281)	2,548,380	3,849	(4,035)
Total		**293,827**	**(240,539)**		**27,950**	**(55,628)**

The table below allocates the Bank's derivative instruments future cash flows as at 31 December 2011:

	Up to 1 month	1 to 3 months	Over 3 months	Total
	LVL	LVL	LVL	LVL
Derivatives settled on a gross basis				
Foreign exchange derivatives:				
- inflow	20,939,046	801,394	-	21,740,440
- outflow	(20,903,627)	(784,215)	-	(21,687,842)

The table below allocates the Bank's derivative instruments future cash flows as at 31 December 2010:

	Up to 1 month	1 to 3 months	Over 3 months	Total
	LVL	LVL	LVL	LVL
Derivatives settled on a gross basis				
Foreign exchange derivatives:				
- inflow	3,040,367	-	-	3,040,367
- outflow	(3,068,098)	-	-	(3,068,098)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 21 SHARE CAPITAL

Issued and fully paid share capital as at 31 December 2011 was LVL 11,125,000 (2010: LVL 10,200,000).

On 7 February 2011 Shareholders meeting decided to increase Bank's share capital by LVL 650,000 by issuing 650,000 shares with a nominal value of LVL 1. Selling price - LVL 1 per share. Current shareholders did not exercise their rights to purchase these shares. Shares were purchased by third parties: Irina Veseluha - 25,000 shares, payment made on 13 May 2011; Vitālijs Medvedcuks - 200,000 shares, payment made on 25 May 2011; Oleksandrs Tambovcevs - 200,000 shares, payment made on 25 May 2011. No applications were received to remaining shares, therefore, on 6 June 2011 Shareholders meeting confirmed to increase share capital by actual paid-in share capital (LVL 425,000). The Company Register accepted the decision about increase of share capital on 7 June 2011.

On 22 July 2011 Shareholders meeting decided to increase Bank's share capital by LVL 500,000 by issuing 500,000 shares with a nominal value of LVL 1. Selling price - LVL 1 per share. Current shareholders did not exercise their rights to purchase these shares. Shares were purchased by a company Aztin Corporation. Payment was made on 9 September 2011. The Company Register accepted the decision about increase of share capital on 13 September 2011.

As at 31 December 2011 the share capital consists of 11,125,000 ordinary shares with the nominal value of LVL 1 per share of which 11,125,000 were shares with voting rights with a total nominal value of LVL 11,125,000.

As at 31 December 2011 and 31 December 2010 the Bank's shareholders were as follows:

	31.12.2011.		**31.12.2010.**	
	Paid-in share capital LVL	**% of total paid-in capital %**	**Paid-in share capital LVL**	**% of total paid-in capital %**
AB „Pivdenny”	9,299,670	83.59	9,299,670	91.18
Fortum Trade Services LTD	900,000	8.09	900,000	8.82
Aztin corporation	500,000	4.50	-	-
Vitālijs Medvedčuks	200,000	1.80	-	-
Oleksandrs Tambovcevs	200,000	1.80	-	-
Irina Veseluha	25,000	0.22	-	-
Haralds Āboliņš	110	-	110	-
Oleksandrs Kupermans	110	-	110	-
Daiga Muravska	110	-	110	-
	11,125,000	**100.00**	**10,200,000**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities

The following table discloses contingent liabilities:

	31.12.2011. LVL	31.12.2010. LVL
Guarantee	-	208,593
Warranties	4,991,407	1,002,839
	4,991,407	**1,211,432**

The Bank has issued warranties in the amount of LVL 4,991,407. These warranties are secured by deposits placed with the Bank or money resources in the security accounts.

Financial commitments

The following table discloses the contractual amounts of the Bank's commitments to extend credit.

	31.12.2011. LVL	31.12.2010. LVL
Letters of credit	1,006,997	767,917
Commitments for trade cheques	381,619	457,169
Loans	12,014,053	17,244,758
	13,402,669	**18,469,844**

From which Bank's commitments relating to lending were as follows:

Loan commitments	11,396,580	14,579,921
Undrawn credit lines	617,473	2,664,837
Total lending commitments	**12,014,053**	**17,244,758**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The lending commitments are denominated in the following currencies:

	31.12.2011. LVL	31.12.2010. LVL
USD	7,598,789	13,229,496
EUR	2,556,241	3,240,871
Other currencies	1,859,023	774,391
Total	**12,014,053**	**17,244,758**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitment under operating lease agreement

The Bank has entered into an operating lease agreement for its office premises. The lease agreement expires in June 2025. The non-cancellable lease liabilities payable within a year are LVL 308,344.

Where the Bank is the lessee, the future lease payments under concluded operating lease agreements are as follows:

	31.12.2011. LVL	31.12.2010. LVL
Up to 1 year	308,344	307,268
1 to 5 years	1,792,170	1,709,138
Over 5 years	3,093,146	3,478,205
Total	**5,193,660**	**5,494,611**

Assets pledged and restricted

As at year 2011 and 2010 the Bank had the following assets pledged:

	2011		2010	
	Assets pledged	Related liabilities	Assets pledged	Related liabilities
Loans and advances to customers	2,720,000	-	-	-
Total	**2,720,000**	**-**	**-**	**-**

NOTE 23 CASH AND CASH EQUIVALENTS

	31.12.2011. LVL	31.12.2010. LVL
Cash and balances on demand with the Bank of Latvia	11,880,259	11,147,052
Due from banks with original maturity of 3 months or less	118,801,097	83,736,543
Due to banks	(1,180,403)	(1,671,699)
Total	**129,500,953**	**93,211,896**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 24 CAPITAL ADEQUACY

The Bank's calculation of the capital adequacy ratio according to the Finance and Capital Market Commission Guidelines as at 31 December 2011 has been set in the table below:

Description	**31.12.2011. LVL**
Tier 1	
- paid-in share capital	11,125,000
- audited retained earnings	4,203,860
- loss for the year	(2,786,314)
- intangible assets	(259,546)
Total Tier 1	**12,283,000**
Tier 2	
- subordinated capital	5,440,000
Total Tier 2	**5,440,000**
Capital base	**17,723,000**
Total capital requirements for credit and counterparty credit risks	**8,534,212**
- standardised approach (SA)	8,534,212
Total capital requirement for position and foreign exchange risks	**365,449**
Total capital requirements for operational risk	**879,109**
Basic index approach	879,109
Surplus of own funds	**7,944,230**
Total capital requirement	**9,778,770**
Capital adequacy ratio (%) *([Capital base]: [Capital requirement] x 8%)*	**14.50%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 25 CURRENCY ANALYSIS

The following table provides the analysis of the Bank's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2011 by currency profile:

	USD LVL	EUR LVL	LVL LVL	Other LVL	Total LVL
Assets					
Cash and deposits with the Bank of Latvia	133,290	399,432	10,442,164	905,373	11,880,259
Balances due from banks	109,225,685	18,704,746	28,663	2,021,056	129,980,150
Loans and advances to customers	53,864,266	24,338,378	5,597,200	36,400	83,836,244
Financial assets at fair value through profit or loss	2,537,029	364,867	6,475,375	-	9,377,271
Intangible assets	-	-	259,546	-	259,546
Property and equipment	-	-	289,615	-	289,615
Other assets	685,743	160,698	595,208	12,407	1,454,056
Total assets	**166,446,013**	**43,968,121**	**23,687,771**	**2,975,236**	**237,077,141**
Liabilities and equity					
Balances due to banks	126,825	420,938	632,640	-	1,180,403
Due to customers	170,530,858	40,084,184	3,403,948	1,485,349	215,504,303
Other liabilities	612,364	1,068,884	423,410	34,032	2,138,690
Derivative financial instruments	-	-	240,539	-	240,539
Subordinated loan	5,470,660	-	-	-	5,470,660
Equity	-	-	12,542,546	-	12,542,546
Total liabilities and equity	**176,740,707**	**41,573,970**	**17,243,083**	**1,519,381**	**237,077,141**
Net long / (short) position on balance sheet	**(10,294,694)**	**2,394,151**	**6,444,688**	**1,455,855**	**-**
Off-balance sheet claims arising from foreign exchange					
Balances due from foreign exchange	14,693,603	4,814,207	2,232,630	-	21,740,440
Liabilities from foreign exchange	(4,396,434)	(7,152,429)	(9,500,000)	(638,979)	(21,687,842)
Net long / (short) position on foreign exchange	**10,297,169**	**(2,338,222)**	**(7,267,370)**	**(638,979)**	**52,598**
Net long / (short) position	**2,475**	**55,929**	**(822,682)**	**816,876**	**52,598**
As at 31 December 2010					
Total assets	**120,572,202**	**34,489,451**	**18,913,671**	**1,338,501**	**175,313,825**
Total liabilities and shareholders' equity	**119,843,150**	**34,193,361**	**19,936,898**	**1,340,416**	**175,313,825**
Net long / (short) position on balance sheet	**729,052**	**296,090**	**(1,023,227)**	**(1,915)**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 26 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2011 based on the time remaining from the balance sheet date to the contractual maturity dates:

	Overdue	**Within 1 month**	**1 – 3 months**	**3 – 6 months**	**6 –12 months**	**1–5 years**	**Over 5 years and undated**	**Total**
	LVL	**LVL**	**LVL**	**LVL**	**LVL**	**LVL**	**LVL**	**LVL**
Assets								
Cash and balances with the Bank of Latvia	-	11,880,259	-	-	-	-	-	**11,880,259**
Balances due from banks	-	116,081,097	3,808,000	8,204,081	1,886,972	-	-	**129,980,150**
Loans and advances to customers	2,968,717	5,526,378	2,951,648	9,411,683	29,211,275	33,383,749	382,794	**83,836,244**
Financial assets at fair value through profit or loss	-	9,077,801	-	-	-	-	5,643	**9,083,444**
Intangible assets	-	-	-	-	-	259,546	-	**259,546**
Property and equipment	-	-	-	-	-	-	289,615	**289,615**
Derivative financial instruments	-	275,760	18,067	-	-	-	-	**293,827**
Next period expenses	-	-	-	-	71,752	-	-	**71,752**
Deferred expenses	-	6,628	-	-	-	-	-	**6,628**
Income tax	-	-	358,892	-	-	-	-	**358,892**
Other assets	-	1,016,784	-	-	-	-	-	**1,016,784**
Total assets	**2,968,717**	**143,864,707**	**7,136,607**	**17,615,764**	**31,169,999**	**33,643,295**	**678,052**	**237,077,141**
Liabilities and equity								
Balances due to banks	-	1,180,403	-	-	-	-	-	**1,180,403**
Due to customers	-	163,607,975	14,790,082	10,327,046	12,595,975	14,183,225	-	**215,504,303**
Derivative financial instruments	-	240,539		-	-	-	-	**240,539**
Deferred income and accrued expenses	-	-	-	-	513,988	-	-	**513,988**
Other liabilities	-	1,624,702	-	-	-	-	-	**1,624,702**
Subordinated loan	-	-	-	-	-	-	5,470,660	**5,470,660**
Equity	-	-	-	-	-	-	12,542,546	**12,542,546**
Total liabilities and equity	**-**	**166,653,619**	**14,790,082**	**10,327,046**	**13,109,963**	**14,183,225**	**18,013,206**	**237,077,141**
Net liquidity	*2,968,717*	*(22,788,912)*	*(7,653,475)*	*7,288,718*	*18,060,036*	*19,460,070*	*(17,335,154)*	-
As at 31 December 2010								
Total assets	**4,798,857**	**113,096,642**	**4,560,808**	**11,670,420**	**14,981,483**	**23,780,222**	**2,425,393**	**175,313,825**
Total liabilities and equity	**-**	**130,230,462**	**2,283,317**	**10,669,162**	**11,228,657**	**6,498,367**	**14,403,860**	**175,313,825**
Net liquidity	*4,798,857*	*(17,133,820)*	*2,277,491*	*1,001,258*	*3,752,826*	*17,281,855*	*(11,978,467)*	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 26 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE (continued)

The table below allocates the Bank's financial liabilities on undiscounted cash flow bases as at 31 December 2011:

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Balances due to banks	-	1,180,403	-	-	-	-	-	1,180,403
Due to customers	-	163,757,736	14,962,673	10,587,739	13,261,199	15,331,078	-	217,900,425
Other liabilities	-	1,865,241	-	513,988	-	-	-	2,379,229
Subordinated loan	-	13,600	27,200	179,520	220,320	1,806,080	6,175,291	8,422,011
Total liabilities	**-**	**166,816,980**	**14,989,873**	**10,767,259**	**13,995,507**	**17,137,158**	**6,175,291**	**229,882,068**

The table below allocates the Bank's financial liabilities on undiscounted cash flow bases as at 31 December 2010:

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Balances due to banks	-	1,671,699	-	-	-	-	-	1,671,699
Due to customers	-	127,424,663	2,433,272	10,836,815	11,209,070	7,220,217	-	159,124,037
Other liabilities	-	1,178,766	-	-	412,308	-	-	1,591,074
Total liabilities	**-**	**130,275,128**	**2,433,272**	**10,836,815**	**11,621,378**	**7,220,217**	**-**	**162,386,810**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2011 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates:

	Within 1 month	1–3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Positions which are not sensitive to the interest rate risk	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Cash and balances with the Bank of Latvia	-	-	-	-	-	-	11,879,746	**11,879,746**
Balances due from banks	116,588,828	-	38,984	-	-	-	12,093,533	**128,721,345**
Loans and advances to customers	8,508,252	7,748,463	11,830,021	26,866,012	28,573,786	144,964	-	**83,671,498**
Financial assets at fair value through profit or loss	1,199,856	3,343,438	-	1,075,959	2,851,450	607,098	5,643	**9,083,444**
Intangible assets	-	-	-	-	-	-	259,546	**259,546**
Property and equipment	-	-	-	-	-	-	289,615	**289,615**
Deferred tax expenses	-	-	-	-	-	-	6,628	**6,628**
Other assets	-	-	-	-	-	-	3,165,319	**3,165,319**
Total assets	**126,296,936**	**11,091,901**	**11,869,005**	**27,941,971**	**31,425,236**	**752,062**	**27,700,030**	**237,077,141**
Liabilities								
Balances due to banks	-	-	-	-	-	-	3,440	**3,440**
Due to customers	40,924,946	6,390,172	3,844,760	10,720,847	14,179,693	-	138,927,793	**214,988,211**
Other liabilities	-	-	-	-	-	-	4,102,944	**4,102,944**
Subordinated loan	-	-	-	-	-	5,440,000	-	**5,440,000**
Total liabilities	**40,924,946**	**6,390,172**	**3,844,760**	**10,720,847**	**14,179,693**	**5,440,000**	**143,034,177**	**224,534,595**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	12,542,546	**12,542,546**
Total liabilities and equity	**40,924,946**	**6,390,172**	**3,844,760**	**10,720,847**	**14,179,693**	**5,440,000**	**155,576,723**	**237,077,141**
On balance sheet interest sensitivity analysis	*85,371,990*	*4,701,729*	*8,024,245*	*17,221,124*	*17,245,543*	*(4,687,938)*	*(127,876,693)*	*-*
As at 31 December 2010 Total assets	**89,895,219**	**10,878,169**	**9,235,471**	**16,298,702**	**22,822,018**	**440,560**	**25,743,686**	**175,313,825**
Total liabilities and equity	**48,281,766**	**2,207,503**	**4,250,252**	**9,839,332**	**6,461,980**	**-**	**104,272,992**	**175,313,825**
On balance sheet interest sensitivity analysis	*41,613,453*	*8,670,666*	*4,985,219*	*6,459,370*	*16,360,038*	*440,560*	*(78,529,306)*	*-*

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Council and the Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The balances in respect of operations with related parties are as follows as at 31 December 2011:

	Enterprises under the control of beneficiaries	Other related parties
Undrawn credit lines	**54**	**13,893**

Total amounts of loan commitments issued to and repaid by related parties during 2011 are as follows:

	Shareholders with significant control	Enterprises under the control of beneficiaries	Other related parties
Issued to related parties	3,509,395,404	1,768,350	57,179
Repaid by related parties	3,497,324,441	-	54,412

Operations with the related parties were as follows as at December 2011:

	Shareholders with significant control	Enterprises under the control of beneficiaries	Other related parties
Total loans and advances (interest rate on agreement: 6-24%)	25,524,325	1,888,582	23,855
Correspondent account	3,972,875	-	-
Due to customers (interest rate: 2.0 – 8.5%)	3,292,515	2,311,145	1,752,068
Vostro account	3,440	-	-

Income and expense from operations with related parties during 2011 were as follows:

	Shareholders with significant control	Enterprises under the control of beneficiaries	Other related parties
Interest income	1,745,802	21,318	989
Interest expenses	27,876	117,640	94,148
Fee and commission income	-	211	1,066
Fee and commission expense	6,204	-	-
Administrative and other operating expenses	15,920	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 RELATED PARTY TRANSACTIONS (continued)

The balances in respect of operations with related parties are as follows as at 31 December 2010:

	Enterprises under the control of beneficiaries	**Other related parties**
Undrawn credit lines	**54**	**16,614**

Total amounts of loan commitments issued to and repaid by related parties during 2010 are as follows:

	Shareholders with significant control	**Enterprises under the control of beneficiaries**	**Other related parties**
Issued to related parties	1,000,982,272	-	70,535
Repaid by related parties	1,007,098,776	-	66,642

Operations with the related parties were as follows as at December 2010:

	Shareholders with significant control	**Enterprises under the control of beneficiaries**	**Other related parties**
Total loans and advances (interest rate on agreement: 6-24%)	11,395,064	-	21,089
Correspondent account	1,973,176	-	-
Due to customers (interest rate: 4.5 – 7.5%)	-	811,996	317,194
Vostro account	3,440	-	-

Income and expense from operations with related parties during 2010 were as follows:

	Shareholders with significant control	**Enterprises under the control of beneficiaries**	**Other related parties**
Interest income	1,296,772	38,290	1,354
Interest expenses	-	1,222	9,175
Fee and commission income	-	5,437	1,021
Fee and commission expense	8,457	-	-
Profit from revaluation of financial instruments with revaluation through profit and loss	(6,341)	-	-
Administrative and other operating expenses	12,800	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 RELATED PARTY TRANSACTIONS (continued)

Remuneration to key management personnel is disclosed below:

	2011 LVL	2010 LVL
Short-term benefits:		
- Salaries	230,357	198,411
Pension benefits:		
- Expenses to the State Pension Insurance	55,493	47,342
Total	**285,850**	**245,753**

NOTE 29 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In respect of financial assets and liabilities held in the balance sheet at carrying values other than fair value, in the opinion of Management the fair value of those financial assets and liabilities differ from their carrying values, as follows:

	2011		2010	
	Book value LVL	**Fair value LVL**	**Book value LVL**	**Fair value LVL**
Assets				
Loans to customers	**83,836,244**	**91,937,705**	**60,272,180**	**65,098,611**

Interest rates used to determine fair value are equal with the interest rates set in the loan agreements where variable part of the interest rate is calculated based on the interbank market (EURIBOR, LIBOR, etc.) rates implicit at the year end.

NOTE 30 TAXES

	Balance 31.12.2010. LVL	Calculated in 2011 LVL	Paid in 2011 LVL	Balance 31.12.2011. LVL
Corporate income tax*	(376,059)	287,923	270,756	(358,892)
State compulsory social insurance contributions	41,144	562,699	577,110	46,733
Personal income tax	(1,384)	460,795	461,224	(1,813)
Value added tax	4,983	1,981	5,070	1,894
(Overpaid)	**(377,443)**			**(360,705)**
Liabilities	**46,127**			**48,627**

* CIT calculated and paid includes the amount of tax withheld abroad – LVL 241,756.

The tax authorities have the right to inspect the tax computations for the last three taxation years. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 31 SUBORDINATED LOAN

On 23 August 2011 Bank signed an agreement with Venture Resource Investments LTD receiving subordinated loan in amount of USD 2,000,000 maturing in 2017. At 31 December 2011 interest rate for subordinated loan was 8%.

On 22 November 2011 Bank signed an agreement with Pivdenny Bank receiving subordinated loan in amount of USD 6,000,000 maturing in 2018. At 31 December 2011 interest rate for subordinated loan was 8.5%.

On 9 December 2011 Bank signed an agreement with Aleksejs Fedorichevs receiving subordinated loan in amount of USD 2,000,000 maturing in 2018. At 31 December 2011 interest rate for subordinated loan was 7%.

As at 31 December 2011 subordinated loans amounted to total of LVL 5,470,660.

NOTE 32 SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2011.