ANNUAL REPORT

2011

Baltic International Bank

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Baltic International Bank

SPEAR'S RUSSIA WEALTH MANAGEMENT AWARDS

The best bank in the Baltic States and CIS which provides Russia's customers with private banking and wealth management services

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Dear Ladies and Gentlemen,

In 2012, Baltic International Bank celebrates 19 years in business. On the one hand, we have succeeded in paving the path to stability and maturity and have become experience-rich. On the other hand, we have grown dynamically.

In Latvia, we are the only bank having initially been targeted at providing top-quality bespoke banking to our customers and their family members and having strictly followed our once-chosen philosophy. Since its formation, Baltic International Bank, like a perpetuum mobile, has been showing continuous growth while sticking to the designated area of business. This just proves once again that the bank has originally taken steps in the right direction.

And now we see that such an approach proved to be absolutely correct. Immense customer confidence, the bank-received awards and international recognition are all clear testimony to the fact.

Our success lies in our evolution and firm belief in the appropriateness of the chosen strategy. Intuition and improvisation are the main tools used to determine whether or not a certain idea is viable and whether prospects look good.

As a family-office bank, we aim to build up long-standing relationships with a specific focus placed on generation continuity. Driven by our ambitions, we grow stronger, get more stable and feel more confident.

We are happy to have attained success we and our customers can be proud of. We're also happy to know that already second-generation customers share our approach. We hope to keep moving forward together to celebrate our 20-year anniversary.

Sincerely,

Valeri Belokon
Chairperson of the Council

Ladies and gentlemen,

The Baltic International Bank is pleased to offer its operations review of 2011 for your consideration.

In the wake of the 2008 global economic crisis and the period of recovery which lasted for several years thereafter, it is interesting to look back at changes that have occurred during this time.

In Chinese, the word for "crisis" is designated with an unusual hieroglyph which contains two symbols – "problem" and "opportunity." We believe that it is specifically this duality which reflects trends in this situation – ones which many businesspeople encountered during and after the crisis. Yes, this was a matter of a substantial upheaval, but on the other hand, it allowed people to look at their businesses from another perspective.

The global economic situation very precisely pointed to the strengths and weaknesses of many companies, indeed. It is very possible that it encouraged people to look at things differently, separating the wheat from the chaff and the important from the unimportant. There were companies and areas of business which seemed to be unshakable but went under very rapidly. Those which survived experienced situations which made them much stronger. It proved that the most important aspect of this was one that had not been fully appreciated before – the sustainability of projects and ideas, along with a responsible attitude in striking a sensible balance between desires and opportunities.

Our bank, too, has learned its lessons. We can say with much certainty that we have become stronger, as well. That has happened, moreover, not just in quantitative, but also in qualitative terms, and our clients have been able to ascertain that this is true. We have every reason to be proud of our financial results, which demonstrate growth in many important positions, and the same is true when it comes to the professionalism, purposefulness and consolidation of our team. These are factors which our clients do not always see, but they are mandatory prerequisites for the company's achievements.

We would like to thank all of our clients for our successful partnership, and we will be pleased to justify and even exceed your expectations in future when it comes to a secure family bank.

Most respectfully yours,

Natalya Tkachenko
Deputy board chairperson

Key Economic Events in Latvia

Notable events that have had the most impact on Latvia's economy

Ongoing Development

Notwithstanding analyst forecasts for a 3.5 percent GDP growth, Latvia's economy took giant seven-league strides to come out of the financial crisis. 3Q GDP was 6.6 percent, and 4Q GDP was estimated at 5.7 percent, as exports contracted somewhat. However even that could not prevent the country from becoming one of the leaders in EU GDP growth. For comparison: Estonia's gross domestic product expanded 4.5 percent, Lithuania's – 4.6 percent, and the UK's – 0.8 percent in the fourth quarter of 2011.

This was largely underpinned by exports dynamics. From January through October, Latvia's export volumes grew 34.5 percent. The external trade slowed down slightly in November. However, experts do not see link between the slowdown and the problems facing the European Union, citing that a year-end economic activity typically tends to stay in lower gears.

*Key macroeconomic variables**

ECONOMIC VARIABLES	PERIOD	VALUE	YOY (COMPARED TO 2010)
GDP growth	2011 Q4	5,7%	3,6%
Annual inflation rate	December 2011	4,0 %	2,5%
Exports (mio. lats)	December 2011	498,1	438,9
Imports (mio. lats)	December 2011	646,5	637,8
Unemployment rate	December 2011	11,5%	14,3%
External sovereign debt (as a percentage of GDP)	December 2011	38,0%	38,1%

** Figures as at the end of period*

On a year-over-year basis, overall exports increased 28.1 percent. Latvia was ranked among the EU countries having reported strong export figures.

In 2011, we observed positive trends across all exported product groups. Latvia's exports of metal products, mineral products, agricultural products, chemicals, foodstuff, and timber significantly contributed to the rise in export figures and accounted for 65 percent of total exports.

Soaring activity of Latvia's businesses in external markets spurred the growth in household incomes. Other factors behind the growth include higher employment rates and wage / salary increases, albeit modest. All of the factors positively affected domestic demand.

In December 2011, total retail sales rose 7.1 percent, food sales increased 5.9 percent, and non-food sales were up 7.7 percent year-over-year, while retail fuel sales rose 13.9 percent.

Growth in private consumption, coupled with the effects of fiscal policy changes, and price rise worldwide led to inflation. In Latvia, prices rose average 4 percent year-over-year by 2011-end.

Latvia's Banking Sector

Bankruptcy of Lithuanian Snoras Group AB and its Latvia-based subsidiary Latvijas Krājbanka (Latvian Savings Bank) was one of the most notable events in 2011. Mass media interpreted that event in dramatically different ways and discussed various scenarios for how the situation might evolve, but the fact remained: in November 2011, the Financial and Capital Market Commission suspended operations of Latvijas Krājbanka, and a week later the depositors started withdrawing their money. Under the amended Deposit Guarantee Act (with effect from 2011), the coverage limit guaranteed by the deposit guarantee scheme (DGS) was raised to EUR 100 000. The scheme has proven to function properly.

3Q GDP was
6.6 percent,
and 4Q GDP was estimated at
5.7 percent,
as exports contracted somewhat.

One more bank-related event has not gone unnoticed. Latvia's government postponed the sale of a newly rebranded Citadele Bank - the bank formerly known as Parex Bank - established as a result of restructuring Parex Bank (splitting the bank's good assets from the toxic ones). The situation was linked with the overall economic situation in the country.

Laws and Taxes

The most noteworthy legislative changes are as follows. According to the amended Deposit Guarantee Act (with effect from 1 January 2011), private savings deposits are guaranteed up to EUR 100 000. Under the pre-amended Act, the statutory upper limit for reimbursement per depositor was EUR 50 000 in case of unavailability of deposits from Latvian deposit-taking institutions (bank insolvencies). In 2011, the legislative provision has proven to be substantially beneficial for depositors of the insolvent Latvijas Krājbanka.

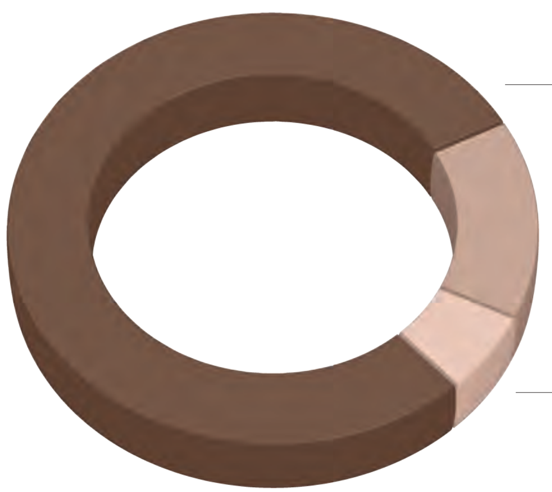
- *During the period from 1 July through 31 December 2011, as many as* ***2257 foreign nationals*** *(investors) and their family members obtained Latvia-issued residence permit (in 2011: 1956 foreign nationals).*
- *Total investments —* ***142.5 million lats*** ***(203 million euro).***

Tax law changes (with effect from 1 January 2011) were as follows: higher VAT increase (to 22 percent from 21 percent), higher property tax and lower personal income tax (down from 26 percent to 25 percent). The social insurance tax contributions increased from 35.09% instead of 33.09% from January 1, 2011.

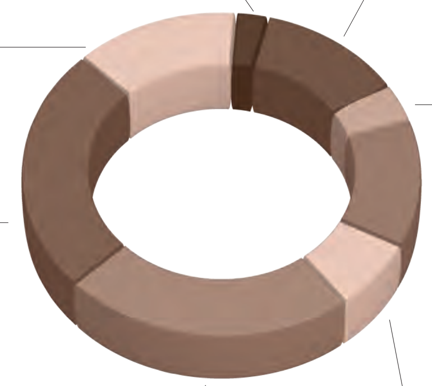
The government offered foreign investors extra incentives for obtaining Latvia-issued temporary residence permit through investment. Changes to the Immigration Act of the Republic of Latvia (with effect from 1 June 2011) mainly concern the procedure for obtaining a residence permit thorough real estate purchases and equity investments in Latvian undertakings.

At 2011-end, government-mandated asset disclosure requirement came into force. The applicable law mandates that Latvia's residents report to Latvia's National Revenue Service (Valsts ieņēmumu dienests) the ownership of the property and previously undeclared assets held (property, wealth, deposits, stocks, interests etc.) and debts owed as at 31 December 2011.

Number of foreign investors who have received residence permits in Latvia, by types of investment (% of total), 2011



Foreign direct investments in Latvia by sectors, 2011



International Investments

By the end of Q3 2011, Latvia's inflow of foreign direct investments (FDIs) totalled 9.4 billion euros (6.6 billion lats), a 1.2 billion euros up year-over-year. For comparison: in 2008 and 2009, Latvia had an accumulated FDI stock of 8.1 billion euros, in 2010 – 8.2 billion euros.

The bulk of investment went to the financial sector and real-estate sector (mainly purchase transactions rather than real-estate development) and accounted for about 50 percent of total FDIs. Investments in the processing industry and trade sector made up 12 and 13 percent, accordingly.

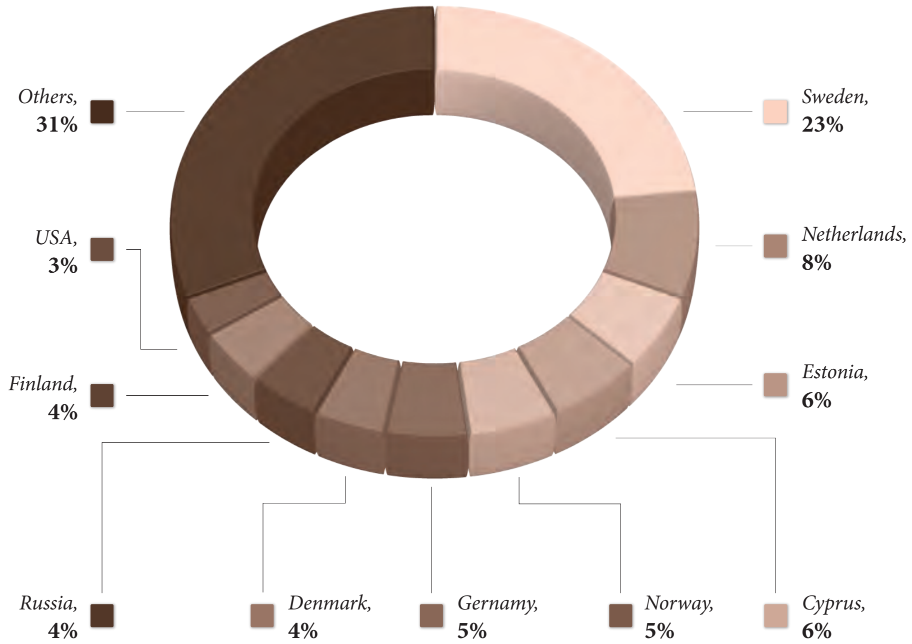
The main investors were residents of Sweden, the Netherlands, Estonia, Cyprus and Norway. According to experts, Latvia saw increased investment from Russia in 2011. Foreign investors predominantly invested in the real estate, trade and service sectors.

Changes in the Political Landscape

For the first time in the country's history, Latvia's President Valdis Zatlers exercised his constitutional right to dissolve the Saeima (the Parliament of the Republic of Latvia) in May 2011. As a result, an early parliamentary election was held in September 2011.

In July 20111, presidential election was held in Latvia. A banker-turned-politician Andris Bērziņš won the presidency.

Foreign direct investments in Latvia by countries, 2011



Another significant event that is worth mentioning here is the final review of Latvia's performance under the joint IMF/EU rescue program. This is indicative of the restoration of financial stability and improvement in the economic prospects, provided that the country will continue reasonably keep expenditure within budgetary limits and boost the country's income growth rate. Latvia was granted a loan of EUR 4.4 billion to deal with the country's financial crisis. The loan was part of a EUR 7.5 billion IMF-led aid package. From 2008 through 2011, the effect of fiscal consolidation was 17.8 percent of GDP or 2.3 billion lats.

In June 2011, Latvia returned to the international capital markets and raised US$ 500 million by successfully selling 10-year bonds at a yield of 5.491 percent and a coupon rate of 5.25 percent.

Estonia's Accession to the Eurozone

Estonia's changeover to the euro from 1 January 2011 has certainly affected the economy of the whole region. According to Estonia's statistical data, the country's accession to the eurozone aroused the heightened international investor interest. Among investors, the euro has long been associated with stability and low level of uncertainty (low risks).

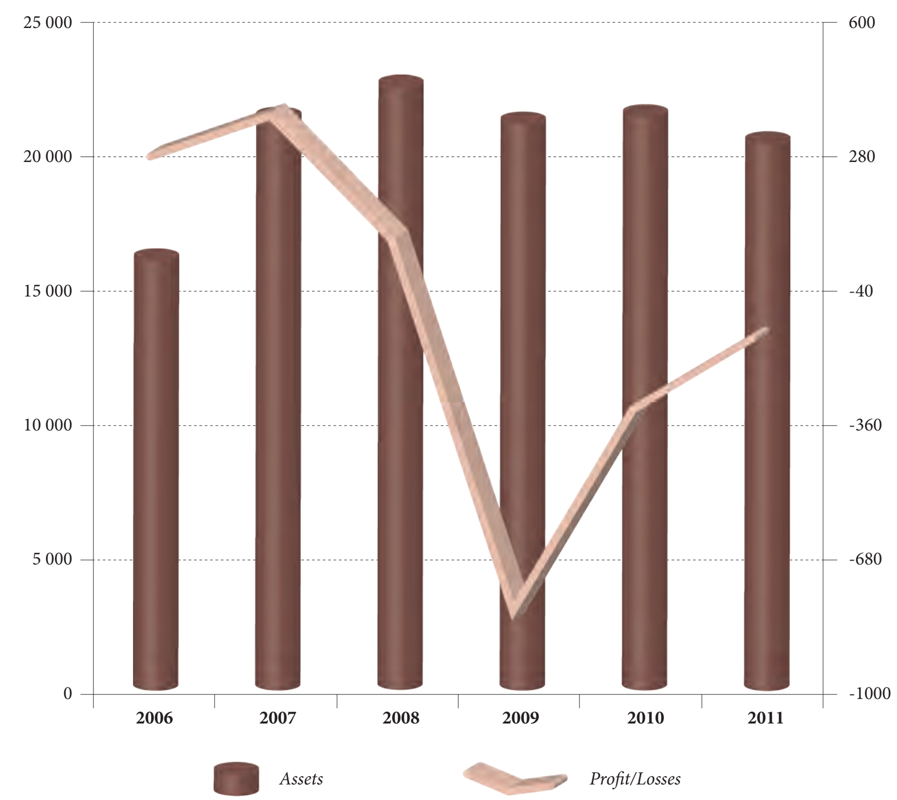
In the first half of 2011, direct investments in Estonia increased 84 percent over the same period in the previous year. Estonia's exports to the EU grew by 40 percent. Among the Member States, the lowest unemployment rate was recorded in Estonia. Latvia is planning to adopt the euro from 1 January 2014

Banking Sector on Recovery Track

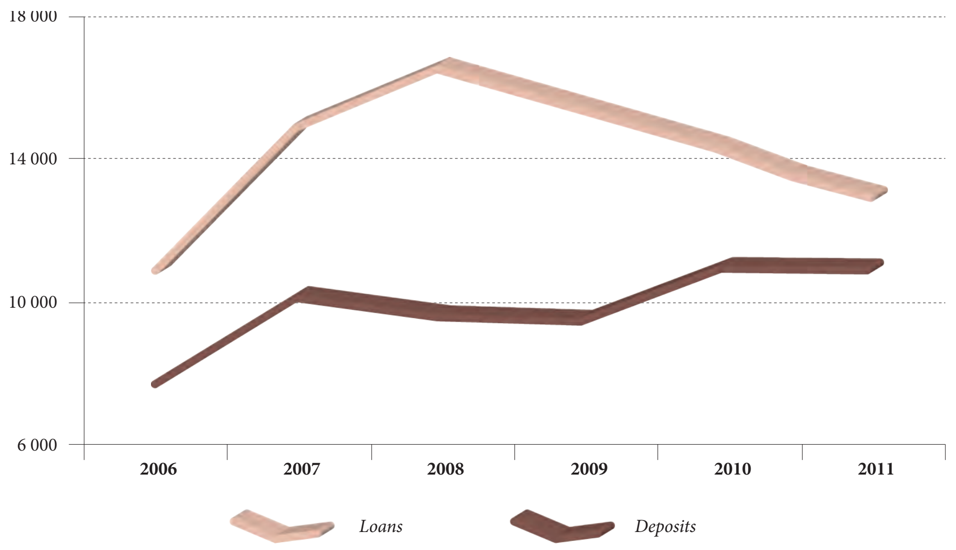
In 2011, Latvia's banking sector continued to tackle post-crisis challenges that it embarked on in 2010. According to preliminary data, 11 Latvian banks and 5 foreign bank branches (which control a 73-percent market share of total sector-wide assets) ended the year with profit. The 2011 earnings before taxes and loan loss provisions were 238 million lats, up 66 percent year-over-year.

The banks incurred sector-wide losses of 179 million lats, down at less than half of

Profits & losses and total assets of banks in Latvia, 2011



Deposits and loans in banks of Latvia, 2011



last year's figure. However, it should be mentioned that the loss-figure captures losses incurred by Latvijas Krājbanka and Parex Banka (they no longer provide financial services). In aggregate, the sector earned 97 million lats – without taking into account the two-bank loss. Setting allowances for loans granted during the real estate boom was still seen as a hindering factor.

Spurred by the overall economic growth, lending volumes rose (mainly corporate loans), while consumer loans granted to Latvian households were still significantly below pre-crisis peaks. The paid-offs (recovered loans) and debt write-offs, though, far outweighed the outstanding loans. As a result, the sector-wide loan portfolio shrank by an annualised 8.1 percent. The quality of the loan portfolio quality continued to improve. Factors that contributed to the improvement were: a reinvigorated lending environment, bad debt write-offs, improvement of corporate creditworthiness, and economic recovery.

Deposits held with Latvian banks saw a slight decline of 0.4 percent on an annualised basis. The variable also is closely associated with the bankruptcy of Latvijas Krājbanka. According to the FCMC, the sector-wide deposits grew by 6.3 percent during 4Q 2011 – without taking into account the variables of Latvijas Krājbanka and the restructured Parex Bank.

The sector maintained a high capital adequacy ratio (CAR). The CAR stood at 17.4 percent at year- end 2011 (31.12.2010: 14.9 percent). The liquidity ratio was 63.9 percent (versus 67.9 percent at year-end 2010).

The aggregate assets totalled 20.93 billion lats at year- end 2011, a 4.7 percent less YOY. 12 of 30 Latvian banks increased their share capitals. Paid-in share capital of the entire banking sector grew by 4.8 percent to reach 1 977 billion lats.

2011 As Seen by Baltic International Bank

In 2011, Baltic International Bank was among 16 Latvian banks having ended the year successfully. Bank posted a net profit of 1.2 million lats. Bank's operating income increased significantly, up 26 percent. The operating-income growth was essentially the result of the rise in the net fee and commission income. The fee and commission income, in turn, got boost from customers showing a great deal of interest in diverse banking products.

In 2011, Bank's assets surged by 38 percent to reach 232.5 million lats. The growth was mainly driven by higher deposit numbers – customer deposits attained the level of 195.9 million lats. Assets managed on a discretionary basis grew by 17 percent. Overall, Bank's share capital increased by a total of 5.2 million lats – in 2011, Bank completed its share-capital increase that started in 2010. In 2011, Bank increased its paid-in capital by 3.9 million lats.

Bank's capital adequacy ratio stood at 17.89 percent.

Subordinated deposits (customer deposits specifically used for Bank's subordinated capital needs) increased significantly by 54 percent. Bank's deposit base grew 47 percent on an annualised basis – one of the best results in the sector.

In 2011, Bank continued to grow its loan portfolio and saw a 6 percent increase. Bank focused on business loans specifically aimed at funding businesses. Bank's loan-to-asset ratio (the total loans outstanding as a percentage of total assets) was nearly 26 percent, down 7 percentage points from a year earlier. Thus, Bank sticks to its conservative lending strategy.

Bank's securities portfolio accounted for 7.6 million lats in 2011 and was primarily comprised of bonds of Russian, Ukrainian and Kazakh issuers (93-percent bond portion).

Bank's liquidity ratio was 91.3 percent as at 31.12.2011 – well above the regulatory threshold of 30 percent and the sector-wide average of 63.9 percent.

Senior Management Changes

In 2011, Bank announced Board membership changes. The newly-appointed Ilze Lase took on Board-related responsibilities with effect from 29 July. Ilze Lase has been working for Bank from 2005 and headed the Legal Department over the past five years. During 2006 through 2009, she had been serving on the Credit Committee. Ilze Lase currently holds the position of the Advisory Service Director (took up the position in June 2011). In this role she primarily focuses on areas such as asset structuring & protection, and tax planning.

On 12 September 2011, Bank's newly-composed Council started its operation. The three-member Council now comprises Valeri Belokon, Albert Reznik and Vlada Belokon. Vlada Belokon has been actively engaged in the family business since 2007.

New banking products

In 2011, to better meet customer needs, Bank turned its focus on providing a variety of consulting and advisory services such as tax planning, legal advice, and all-encompassing strategies directed towards asset structuring & protection. In September, Bank established BIB Consulting, a new subsidiary headed by Bank's Board member Ilze Lase.

Because financial market instruments have become increasingly volatile, deposit products have increased in popularity. Therefore Bank has rolled out new savings products. Starting from 2011, Bank accepts deposits denominated in Euros, Pounds Sterling, U.S. Dollars, Latvian Lats, Canadian Dollars and Australian Dollars (CAD and AUD are growth-linked currencies), Swiss Francs, Japanese Yens and Russian Rubles. Upfront interest standard deposit is one more new product that has won popularity among our clients.

Amber Card was the latest new card offer from Bank, offered as a kit, together with a premium card MasterCard World Signia loaded with extra features. Amber Card is designed to enable cardholders to keep their identity confidential while making everyday payments. The cardholders have access to exquisite offerings and packages to enjoy travels and leisure.

Bank and the Community

Bank is proud of its 2011 achievements. Bank was announced as the second-time award winner in the BEST PRIVATE BANK in the CIS and Baltic States category for SPEAR'S Russia Wealth Management Awards. The high-profile award was given to best-in-class banks in recognition of their 2010-2011 outstanding performance and service excellence for High Net Worth customers.

Furthermore, Bank supported meaningful social projects. Bank sponsored the release of the book-length interview with Pope Benedict XVI Light of the World: The Pope, The Church and the Signs Of The Times. A Conversation With Peter Seewald. The Latvian-language version was published in August 2011. The Vatican highly appreciated the fact that the book has reached Latvian-language readers.

Also, Bank's founder and Board Chairperson Valeri Belokon supported the publication of „The Threefold Sun. The Meteorological Sun. The Bright Sun" („Trejādas saules. Meteoroloģiskā saule. Gaišā saule"). The book is written by Latvia's Ex-President Vaira Vike-Freiberga and dedicated specifically to Latvian folksongs based on traditional poetry called dainas.

Valeri Belokon continued to actively serve on the Board of Trustees of The Prince of Wales's Foundation for the Built Environment, an independent charity. In recognition of Mr Belokon's contribution in pursuit of the ideas of sustainable development, the charity awarded him the high honour of being declared the Honorary Member for 2011.

As part of its charitable program designed to support talented children and youngsters, Bank sponsored a 13-year-old competitive figure skater from Latvia to prepare for the 2011-2012 figure skating season.

In 2011, Bank embarked on a new project – BIB Selection List (investment events witnessed in the CIS/ Baltic region and the rankings based on the opinions from experts). The TOP List, co-compiled by Bank's and invited experts, highlights the most pivotal economic, social and legislative processes and is prepared half-yearly.

Hosted by Baltic International Bank, a London-based business forum was arranged for Bank's clients and partners from Western Europe to give them more insight into the array of financial products and services currently in high demand in the UK. The forum is planned to be held annually.

Bank's representatives were invited to speak at international-level events. In June, Bank participated in the 17th Baltic Financial Forum. In October, Bank's representatives attended the London conference aimed at fostering co-operation between Latvia's and the UK's businesses.

In 2011, Bank continued to actively promote its services and products in the internet environment. In March, Bank launched its redesigned website labelled as a virtual representative office. The website provides a detailed description of services, such as lifestyle management and family wealth management, which are still new to Latvian market. Also, the website enables you to explore our office in Riga by taking an online virtual tour. Latvia's guests and our foreign clients will be pleasantly surprised to discover the country's most picturesque places during a photo travel tour.

Bank opened its Twitter-based corporate profile in March. Now you can use Twitter (a popular micro-blogging platform) to read Bank's news.

In 2011, Bank posted a net profit of
1.2 million lats.

Bank's deposit base grew
47 percent,
on an annualised basis –
one of the best results in the sector.

To make the communication process with customers more convenient, Bank started to incorporate QR Codes (or two-dimensional codes, barcode-like) into its printed materials from 2011. In Latvia, Quick Response (QR) code is a relatively new piece of technology. QR code technology provides quick access to Bank's printed materials and publications. A QR Code can be integrated into business cards of the employees. Users with a camera phone, smartphone or tablet PC equipped with the reader application can scan the image of the QR Code to display texts etc.

As an investment-focused bank, we have supported the idea of establishing the Amber Sea Business Angels Club whose purpose is to develop promising business projects. Also, Bank has traditionally provided support to the international technology development and commercialisation project Commercialisation Reactor. Bank was among the financial supporters of a science and business forum dedicated to technological inventions and their use in potentially beneficial projects.

2012 Development Perspectives

Our future plans envisage streamlining Bank's product line, with a special emphasis on customer-favoured banking services to ensure maximum comfort for our customers.

Bank plans to enlarge its product portfolio by adding new VISA-branded payment cards such as Visa Infinite Card (the most exclusive proposition by Visa) and White Card. Positioned at the very pinnacle of Visa's card portfolio, Visa Infinite encompasses all VISA operations and provides cardholders with a wide range of additional benefits. In the Baltic States, Bank will become the first-ever bank to offer best-in-class MasterCard- and Visa-branded cards. White Card will be available to Visa Infinite cardholders as an additional card coming with enhanced benefits.

In 2012, Bank is going to roll out special offers relating to discretionary asset management. The offers will best suit the needs of our customers dealing with the continuing volatility in the financial markets.

Bank will continue to develop innovative technologies. Our clients will be offered a special-purpose application for mobile devices, an alternative to DigiPass technology used to access the internet banking system.

In 2012, Bank will launch iPhone-based online banking application to improve remote banking processes and add extra conveniences.

To keep our existing and potential clients informed of new services and the current offerings, Bank is determined to arrange certain events in the markets wherein Bank's main interest lies. In October, the second London-based forum will be held. Bank's specialists and senior management will attend the forum.

During the three summer months of 2012, Bank's summer representative office will operate in Jurmala (Latvia). The office will enable Bank to get closer to its customers – a good way to make the customers aware of banking services.

JSC "BALTIC INTERNATIONAL BANK"

GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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Dear Ladies and Gentlemen,

It is with great pleasure that we introduce the 2011 Financial Statements highlighting the financial performance of the Bank and the Group.

In 2011, JSC „Baltic International Bank" celebrated its eighteenth year in operation. The Bank remained committed and gave utmost priority to delivering a personalised, high-touch approach and providing the customers, their family members and family-led business with a superior-quality banking service as part of the wealth management offering and wealth preservation. The Bank's achievements received a professional expert appraisal. Last year, the Bank was announced as a second-time winner in the BEST PRIVATE BANK in the CIS and Baltic States category for CHIVAS SPEAR'S Russia Wealth Management Awards 2011. The high-profile award was given to best-in-class banks in recognition of their 2010-2011 outstanding performance and service excellence for High Net Worth customers.

The Bank succeeded to reach the 2011 targets across most of the financial positions. In 2011, the Bank posted a net profit for the period of 1.2 million lats (the Group: 1.5 million lats), significantly above prior-year figure. It was due to the growth of operating income that grew by 26 percent (the Group: up 25 percent). The operating-income growth was essentially the result of the rise in the net commission income - up 53 percent.

During the reporting year, the Bank attained its asset-growth target. The Bank's assets surged by 38 percent or 64.2 million lats to reach 232.5 million lats (the Group: 232.7 million lats) as at 31 December 2011. The growth was mainly driven by higher deposit numbers – customer deposits increased by 47 percent to reach 195.9 million lats. Overall, the Bank's share capital increased by a total of 5.2 million lats - in 2011, the Bank completed its share-capital increase that started in 2010. In 2011, the Bank increased its paid-in capital by 3.9 million lats.

The Bank continues to pursue its conservative and prudent approach towards allocation of customer- and shareholder-owned funds. In 2011, the Bank's loan portfolio grew modest 6 percent and reached 59.7 million lats. The Bank's securities portfolio accounted for 7.6 million lats at 31 December 2011. The portfolio shrank by 8.8 million lats (down by 55 percent) compared to 31 December 2010. The major portion of the Bank's assets is represented by placements with other credit institutions. As at 31 December 2011, placements with investment grade banks totalled 88 percent of the total placements with credit institutions.

As we've done in past years, the Bank continued to broaden its array of financial services, develop new products and improve the existing ones throughout 2011. Also, the Bank continued to develop its advisory and consulting segment. In the beginning of September, the Bank established BIB Consulting, a new subsidiary undertaking whose principal areas of expertise encompass professional legal advice, asset protection services, and advice and guidance on taxation and tax planning.

The Bank's senior management would like to extend gratitude to the customers, partners, shareholders and staff members for their confidence and fruitful co-operation in 2011.

29 March 2012

Valeri Belokon
Chairperson of the Council

Natalya Tkachenko
Deputy Chairperson
of the Board

SUPERVISORY COUNCIL (as of 31 December 2011)

Name	Position held	Appointed	Re-appointed
Valeri Belokon	Chairperson of the Council	15/09/2010	19/08/2011
Albert Reznik	Deputy Chairperson of the Council	15/09/2010	19/08/2011
	Member of the Council	09/08/2010	19/08/2011
Vlada Belokon	Member of the Council	19/08/2011	-

MANAGEMENT BOARD (as of 31 December 2011)

Name	Position held	Appointed	Re-appointed
Ilona Gulchak	Chairperson of the Board	25/01/2008	-
Natalya Tkachenko	Deputy Chairperson of the Board	26/02/2008	-
	Member of the Board	01/08/2007	01/08/2010
Alon Nodelman	Member of the Board	15/08/2003	01/08/2010
Janis Apelis	Member of the Board	15/08/2003	21/05/2010
Bogdan Andrushchenko	Member of the Board	13/09/2005	21/05/2010
Dinars Kolpakovs	Member of the Board	13/09/2005	21/05/2010
Ilze Lase	Member of the Board	29/07/2011	-

During the year ended 31 December 2011 the following changes were made in the composition of JSC "Baltic International Bank" Council and Management Board:

Supervisory Council:
According to the resolution of the General Meeting of Shareholders held on 19 July 2011, Viacheslav Kramnoy, sr. resigned from his post as Council member. Vlada Belokon was elected as a new member of the Council.

Management Board:
According to the Council's resolution of 29 July 2011, Ilze Lase was elected as a member of the Board.
There were no changes in the Supervisory Council or the Management Board of the Bank during the period from 1 January 2012 to the date of the approval of these financial statements.

Riga 29 March 2012

The management of JSC Baltic International Bank (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank. The Group consolidated and Bank separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) 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 condensed interim financial statements.

The Group consolidated and Bank separate financial statements on pages 27 to 100 are prepared in accordance with the source documents and present the financial position of the Group and Bank as at 31 December 2011 and the results of its performance and cash flows for the for the year ended 31 December 2011.

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

On behalf of the Management of the Bank and Group:

Valeri Belokon
Chairperson of the Council

Natalya Tkachenko
Deputy Chairperson
of the Board

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TO THE SHAREHOLDERS OF AS BALTIC INTERNATIONAL BANK

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS Baltic International Bank ("the Bank"), which comprise the separate statement of financial position as at 31 December 2011, the separate statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 100. We have also audited the accompanying consolidated financial statements of AS Baltic International Bank and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 100.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's and Group's preparation and fair presentation of these 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 Bank's and Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by Bank's and Group's management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

KPMG

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

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AS Baltic International Bank and its subsidiaries as at 31 December 2011, and of the consolidated financial performance and the consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Report of the Chairperson of the Supervisory Council and the Chairperson of the Management Board ("Management report"), as set out on page 22, the preparation of which is the responsibility of management, is consistent with the separate and consolidated financial statements. Our work with respect to the Management report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate and consolidated financial statements. In our opinion, the Management report is consistent with the separate and consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA

Inga Lipšāne
Sworn Auditor
Certificate No112

Riga, Latvia
29 March 2012

For the year ended 31 December 2011.

	Notes	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Interest income	6	6 515 911	6 555 425	6 081 962	6 110 540
Interest expense	7	(2 702 340)	(2 702 340)	(2 783 174)	(2 783 174)
Net interest income		**3 813 571**	**3 853 085**	**3 298 788**	**3 327 366**
Fee and commission income	8	5 211 282	5 212 906	3 407 583	3 408 691
Fee and commission expense	9	(926 091)	(926 091)	(600 078)	(600 041)
Net fee and commission income		**4 285 191**	**4 286 815**	**2 807 505**	**2 808 650**
Dividend income		6 582	6 582	2 848	2 848
Net trading (loss)/ income	10	(51 110)	(51 110)	346 851	346 851
Net foreign exchange income	10	1 747 055	1 745 619	1 302 362	1 300 498
Other operating income	11	151 615	109 052	187 754	85 708
Total operating income		**9 952 904**	**9 950 043**	**7 946 108**	**7 871 921**
Administrative expenses	12	(7 319 121)	(7 264 879)	(6 229 721)	(6 177 865)
Other operating expenses	13	(148 198)	(145 619)	(200 237)	(148 061)
Net impairment loss	14	(982 540)	(1 026 110)	(863 651)	(1 019 797)
Gain /(loss) on revaluation of investment property	27	357 304	54 047	(355 657)	(66 728)
Profit before income tax		**1 860 349**	**1 567 482**	**296 842**	**459 470**
Income tax expense	15	(342 837)	(332 052)	(78 407)	(78 407)
Profit for the period		**1 517 512**	**1 235 430**	**218 435**	**381 063**
Other comprehensive income		24 528	24 528	-	-
Total comprehensive income for the period		**1 542 040**	**1 259 958**	**218 435**	**381 063**

The accompanying notes on pages 34 to 100 are an integral part of these Group consolidated and Bank separate Financial Statements.

The Group consolidated and Bank separate Financial Statements on pages 27 to 100 have been authorised for issue by the Council and the Board on 29 March 2012, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Natalya Tkachenko
Deputy Chairperson
of the Board

As at 31 December 2011.

ASSETS

	Notes	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Cash and balances with Bank of Latvia	16	20 847 541	20 846 941	8 954 654	8 954 354
Financial assets held-for-trading		397 883	397 883	1 176 545	1 176 545
Securities held-for-trading	*18*	*375 735*	*375 735*	*612 627*	*612 627*
Derivative financial instruments	*19*	*22 148*	*22 148*	*563 918*	*563 918*
Due from credit institutions	20	123 837 360	123 837 360	67 582 987	67 582 987
Loans	21	58 102 958	59 746 916	54 963 519	56 311 866
Securities available-for-sale	22	165 579	165 579	165 579	165 579
Securities held-to-maturity	23	7 046 386	7 046 386	15 598 816	15 598 816
Investments in associates	24	429 009	429 009	429 009	429 009
Investments in subsidiaries	25	-	1 365 600	-	1 363 600
Non-current assets held for sale	26	189 757	-	-	-
Investment property	27	6 006 796	3 125 133	4 977 576	2 847 401
Property and equipment	28	9 838 406	9 837 812	10 069 508	10 069 368
Intangible assets	29	2 861 824	2 861 824	2 394 169	2 394 061
Current income tax assets		76 446	76 446	93 717	93 717
Deferred expenses and accrued income	30	873 892	873 212	774 513	618 127
Other assets	31	2 014 710	1 847 101	720 268	662 059
Total assets		**232 688 547**	**232 457 202**	**167 900 860**	**168 267 489**

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Chairperson of the Council

Natalya Tkachenko
Deputy Chairperson of the Board

As at 31 December 2011.

LIABILITIES

	Notes	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
LIABILITIES					
Derivative financial instruments	19	21 047	21 047	311 351	311 351
Due to credit institutions	32	9 237 479	9 237 479	13 510 438	13 510 438
Deposits	33	195 888 155	195 894 020	133 275 509	133 414 649
Accrued expenses, provisions and deferred income	34	647 337	646 093	517 201	510 739
Deferred tax liabilities	15	783 670	774 524	451 618	442 472
Other liabilities	35	736 376	525 955	761 787	739 201
Subordinated liabilities	36	2 342 860	2 342 860	1 520 865	1 520 865
Total liabilities		**209 656 924**	**209 441 978**	**150 348 769**	**150 449 715**
SHAREHOLDERS' EQUITY					
Share capital	37	20 772 105	20 772 105	16 834 613	16 834 613
Reserve capital	37	545 024	545 024	545 024	545 024
Property revaluation reserve	28	24 528	24 528	-	-
Retained earnings		1 689 966	1 673 567	172 454	438 137
Retained earnings/(accumulated losses) for the previous years		*172 454*	*438 137*	*(45 981)*	*57 074*
Profit for the period		*1 517 512*	*1 235 430*	*218 435*	*381 063*
Total shareholders' equity		**23 031 623**	**23 015 224**	**17 552 091**	**17 817 774**
Total liabilities and shareholders' equity		**232 688 547**	**232 457 202**	**167 900 860**	**168 267 489**
COMMITMENTS AND CONTINGENCIES					
Sureties (guarantees)	38	13 054 725	13 054 725	684 426	684 426
Commitments to customers	38	7 437 180	8 514 476	2 706 482	2 742 056
Total commitments and contingencies		**20 491 905**	**21 569 201**	**3 390 908**	**3 426 482**

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Valeri Belokon
Chairperson of the Council

Natalya Tkachenko
Deputy Chairperson of the Board

For the year ended 31 December 2011.

GROUP	Share capital LVL	Reserve capital LVL	Property revaluation reserve LVL	(Accumulated losses)/retained earnings LVL	TOTAL LVL
Balance as of 31 December 2009	**15 522 105**	**545 024**	-	**(45 981)**	**16 021 148**
Total comprehensive income					
Net profit for the period	-	-	-	218 435	218 435
Total comprehensive income	-	-	-	**218 435**	**218 435**
Transactions with owners, recorded directly in equity					
Increase in share capital	1 312 508	-	-	-	1 312 508
Total transactions with owners, recorded directly in equity	**1 312 508**	-	-	-	**1 312 508**
Balance as of 31 December 2010	**16 834 613**	**545 024**	-	**172 454**	**17 552 091**
Total comprehensive income					
Net profit for the period	-	-	-	1 517 512	1 517 512
Property revaluation	-	-	24 528	-	24 528
Total comprehensive income	-	-	**24 528**	**1 517 512**	**1 542 040**
Transactions with owners, recorded directly in equity					
Increase in share capital (Note 37)	3 937 492	-	-	-	3 937 492
Total transactions with owners, recorded directly in equity	**3 937 492**	-	-	-	**3 937 492**
Balance as of 31 December 2011	**20 772 105**	**545 024**	**24 528**	**1 689 966**	**23 031 623**

The accompanying notes on pages 34 to 100 are an integral part of these Group consolidated and Bank separate Financial Statements.

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Natalya Tkachenko
Deputy Chairperson of the Board

For the year ended 31 December 2011.

BANK	Share capital LVL	Reserve capital LVL	Property revaluation reserve LVL	Retained earnings LVL	TOTAL LVL
Balance as of 31 December 2009	**15 522 105**	**545 024**	-	**57 074**	**16 124 203**
Total comprehensive income					
Net profit for the period	-	-	-	381 063	381 063
Total comprehensive income	-	-	-	**381 063**	**381 063**
Transactions with owners, recorded directly in equity					
Increase in share capital	1 312 508	-	-	-	1 312 508
Total transactions with owners, recorded directly in equity	**1 312 508**	-	-	-	**1 312 508**
Balance as of 31 December 2010	**16 834 613**	**545 024**	-	**438 137**	**17 817 774**
Total comprehensive income					
Net profit for the period	-	-	-	1 235 430	1 235 430
Property revaluation	-	-	24 528	-	24 528
Total comprehensive income	-	-	**24 528**	**1 235 430**	**1 259 958**
Transactions with owners, recorded directly in equity					
Increase in share capital (Note 37)	3 937 492	-	-	-	3 937 492
Total transactions with owners, recorded directly in equity	**3 937 492**	-	-	-	**3 937 492**
Balance as of 31 December 2011	**20 772 105**	**545 024**	**24 528**	**1 673 567**	**23 015 224**

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Natalya Tkachenko
Deputy Chairperson of the Board

For the year ended 31 December 2011.

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Cash flow from operating activities				
Profit before income tax	1 860 349	1 567 482	296 842	459 470
Amortisation and depreciation	701 665	701 458	713 305	712 209
Increase in impairment allowance	982 540	1 026 110	863 651	1 019 797
Unrealised (profit)/loss on revaluation of investment property	(357 304)	(54 047)	355 657	66 728
Gain on disposal of property and equipment	-	-	(14 012)	(14 053)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**3 187 250**	**3 241 003**	**2 215 443**	**2 244 151**
Increase in loans	(4 454 281)	(4 670 462)	(18 981 729)	(19 107 859)
Increase in due from credit institutions	(888 411)	(888 411)	(570 555)	(570 555)
Decrease/(increase) in financial assets held-for-trading	778 662	778 662	(380 788)	(380 788)
(Increase)/decrease in deferred expenses and accrued income	(93 774)	(249 480)	255 188	411 574
(Increase)/decrease in other assets	(1 287 467)	(1 167 282)	167 623	195 063
(Decrease)/increase in due to credit institutions	(1 787 436)	(1 787 436)	5 590 846	5 590 846
Increase/(decrease) in deposits	62 612 646	62 479 371	(32 179 874)	(32 040 850)
(Decrease)/increase in derivative liabilities	(290 304)	(290 304)	185 941	185 941
Increase/(decrease) in accrued expenses, provisions and deferred income	130 136	135 354	(8 635)	(13 787)
(Decrease)/increase in other liabilities	(25 411)	(213 246)	33 173	18 875
Increase/(decrease) in cash and cash equivalents resulting from operating activities	**57 881 610**	**57 367 769**	**(43 673 367)**	**(43 467 389)**
Corporate income tax paid	-	-	(78 407)	(78 407)
Increase/(decrease) in cash and cash equivalents from operating activities	**57 881 610**	**57 367 769**	**(43 751 774)**	**(43 545 796)**

The accompanying notes on pages 34 to 100 are an integral part of these Group consolidated and Bank separate Financial Statements.

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Valeri Belokon
Chairperson of the Council

Natalya Tkachenko
Deputy Chairperson
of the Board

For the year ended 31 December 2011.

	Notes	GROUP	BANK	GROUP	BANK
		31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Cash flow from investing activities					
Acquisition of property and equipment, intangible assets and investment property		(1 259 665)	(933 881)	(786 941)	(874 193)
Proceeds from sale of property and equipment and investment property		83	83	217 965	98 937
Acquisition of non-current assets held for sale		(189 757)	-	-	-
Acquisition of shares in undertakings		-	(2 000)	(2)	-
Purchase available-for-sale securities		-	-	(24 576)	(24 576)
Proceeds available-for-sale securities		-	-	59 285	59 285
Purchase of securities held-to-maturity		(998 000)	(998 000)	(14 521 804)	(14 521 804)
Redemption of held-to-maturity investments		9 550 430	9 550 430	10 224 827	10 224 827
Increase/(decrease) in cash and cash equivalents as a result of investing activities		**7 103 091**	**7 616 632**	**(4 831 246)**	**(5 037 524)**
Cash flow from financing activities					
Issuance of shares		3 937 492	3 937 492	1 312 508	1 312 508
Subordinated liabilities		821 995	821 995	1 500 430	1 500 430
Increase in cash and cash equivalents as a result of financing activities		**4 759 487**	**4 759 487**	**2 812 938**	**2 812 938**
Increase/(decrease) in cash and cash equivalents		**69 744 188**	**69 743 888**	**(45 770 082)**	**(45 770 382)**
Cash and cash equivalents at the beginning of the period	17	67 799 790	67 799 490	113 569 872	113 569 872
Cash and cash equivalents at the end of the period	17	**137 543 978**	**137 543 378**	**67 799 790**	**67 799 490**

The accompanying notes on pages 34 to 100 are an integral part of these Group consolidated and Bank separate Financial Statements.

The Group consolidated and Bank separate Financial Statements on pages 27 to 100 have been authorised for issue by the Council and the Board on 29 March 2012, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Natalya Tkachenko
Deputy Chairperson
of the Board

1. GENERAL INFORMATION

These Group consolidated and Bank separate financial statements comprise the financial statements of JSC „Baltic International Bank" (the Bank) and its subsidiaries (hereinafter together referred to as the "Group"). The subsidiaries are as follows: real estate company "BIB Real Estate" LLC (acquired on 11 June 2009) that in turn owns several subsidiaries, and „BIB Consulting" LLC (registered on 9 September 2011) to provide legal advice, asset protection services and advice and guidance on taxation and tax planning.

JSC "Baltic International Bank" is a joint stock company registered in the Republic of Latvia. The registered office address is: Kalēju iela 43, Riga, LV-1050, Latvia. On 8 April 1993, the Bank of Latvia approved JSC "Baltic International Bank" as a credit institution and issued Banking Licence No. 103. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC").

Established to cater to the needs of both individuals and corporate customers, JSC "Baltic International Bank" (hereinafter referred to as the Bank) provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank's own trading purposes.

2. BASIS OF PREPARATION

Statement of Compliance

The Group consolidated and Bank separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the requirements of the Latvian Financial and Capital Market Commission in force as at the reporting date. The local accounting legislation requires to prepare the Group consolidated and Bank separate financial statements in accordance with IFRS as adopted by the European Union.

The Group consolidated and Bank separate financial statements were authorised for issue by the Management Board on 29 March 2012. The financial statements may be amended by the shareholders and re-issue of the statements may be required.

The Group consolidated and Bank separate financial statements for the years ended 31 December 2011 and 31 December 2010 are available at the Bank's web site (www.bib.eu).

Functional and Presentation Currency

The Group consolidated and Bank separate financial statements are presented in Latvian lats, unless indicated otherwise. The functional currency of the Group and Bank is the Latvian lat.

Basis of measurement

The Group consolidated and Bank separate financial statements are prepared on the historical cost basis except for the following:

- financial instruments held-for-trading are stated at fair value;
- non-hedging derivative instruments are stated at fair value;
- available-for-sale assets are stated at fair value, except for those whose fair value cannot be determined reliably;
- investment property is measured at fair value.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key sources of estimation uncertainty are as follows: allowances for credit losses, valuation and impairment of financial instruments, valuation of investment property, recognition of deferred tax asset.

Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Allowances for credit losses

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Risk Management Department.

Impairment of other financial instruments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. Due to downturns on financial and capital markets, the market price is not always a reliable source for impairment indication. The Bank uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument.

Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to profit or loss. When measuring the fair value of the investment property, the management relies on external valuations and assesses the reliability of such valuation in light of the current market situation.

Recognition of deferred tax asset

A deferred tax asset from carry forward of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Management has to make judgements about amounts of taxable profits in the future that will be available for asset utilization.

Fair value of assets and liabilities at acquisition

The fair value of assets acquired in a business combination is based on the discounted estimated cash flows from individual assets and/or external valuations.

3. SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

Except as described below, the accounting policies applied by the Group and the Bank in these Group consolidated and Bank separate financial statements are the same as those applied by the Group and the Bank in its Group consolidated and Bank separate financial statements as at and for the year ended 31 December 2010.

New standards and interpretations

New and amended standards and interpretations that become mandatory in the next accounting period but are unlikely to impact the Group and Bank:

• An amendment to standard IFRS 7 Disclosures related to the transfers of financial assets is effective for annual periods beginning after 1 July 2011; this amendment have no significant impact on the financial statements of the Group and Bank.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group and Bank or having no impact on the Group and Bank financial statements:

• Revised IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011). The amendment exempts a government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 is not expected to result in new relations requiring disclosure in the Group's and Bank's financial statements.

• Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 currently are not relevant to the Group's and Bank's financial statements as the Group and Bank do not have any defined benefit plans with minimum funding requirements.

• IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Group and Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation has no impact on the Group's and Bank's financial statements for the year ending 31 December 2011.

• Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 currently are not relevant to the Group's and Bank's financial statements as the Group and Bank have not issued such instruments at any time in the past.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Bank's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency (Latvian lats) at the Bank of Latvia's official exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats according to the Bank of Latvia's official exchange rate prevailing at the end of the period. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of comprehensive income, except for differences arising on the retranslation of available-forsale equity instruments, which are recognised in other comprehensive income.

Currency		31.12.2011	31.12.2010
1 BYR	=	LVL 0.0000649	LVL 0.0001780
1 EUR	=	LVL 0.7028040	LVL 0.7028040
1 GBP	=	LVL 0.8400000	LVL 0.8240000
1 RUB	=	LVL 0.0170000	LVL 0.0176000
1 USD	=	LVL 0.5440000	LVL 0.5350000

Income and expense recognition

With the exception of financial assets held-for-trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the profit or loss using the effective interest rate method. Interest income on financial assets held-for-trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

The effective interest rate 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.

The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided/received.

Dividend income is recognised in the profit or loss on the date that the dividend is declared.

Financial instruments

Financial instruments acquired by the Bank are categorised into portfolios in accordance with the Bank's intent at the time of the acquisition of the securities and pursuant to the Bank's investment strategy. The Bank developed a security investment strategy and, reflecting the intent of the acquisition, allocated securities to "Securities held-to-maturity", "Financial assets at fair value through profit or loss" and "Securities available-for-sale".

All financial instruments held by the Bank are recognised at trade date and are initially measured at fair value plus for instruments not at fair value through profit or loss any directly attributable transaction cost. Loans, held-to-maturity investments, balances due from banks, deposits and balances due to banks are measured at amortised cost.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include those that are classified as held-for-trading (including derivative financial instruments) and those that are originally designated in this category.

Held-for-trading instruments are securities and shares that the Bank principally holds for the purpose of reselling and generating a profit from short-term fluctuations in the prices of the instruments. Securities held-for-trading are subsequently re-measured to fair value based on market prices. Realised and unrealised gains or losses are recorded as net trading income or net trading loss, respectively.

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are subsequently recognised in the statement of financial position at their fair value. Attributable transaction costs are recognised in the profit or loss when incurred. Fair value is obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss.

The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract and the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

Securities available-for-sale

Securities available-for-sale are acquired to be held for an indefinite period of time. Securities, whose quoted market value is not determined in an active market and whose fair value cannot be reliably measured, are carried at acquisition cost. All other securities available-for-sale are carried at fair value. Gains or losses resulting from the change in fair value of available-for-sale securities, except for impairment losses, are recognised in other comprehensive income until the financial asset is derecognised; thereafter, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Securities available-for-sale are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Securities held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Securities held-to-maturity include government securities and corporate bonds which after initial recognition at fair value plus transaction costs that are directly attributable to its acquisition, are recognised at amortised cost and are securities with respect to which the Bank has a positive intent and ability to hold to maturity. Securities held-to-maturity are accounted for using a trade date basis for purchases. Subsequently the effective interest rate method is applied for amortising discounts over the term to maturity.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that the Bank upon initial recognition designates as at the fair value through profit or loss or as available-forsale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

After initial recognition at fair value plus transaction costs that are directly attributable to its acquisition, loans are measured at amortised cost using the effective interest rate method.

When a loan is considered to be uncollectible it is written off against the related allowance for credit losses; subsequent recoveries are credited to the impairment loss expense in the profit or loss.

Impairment

Financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower or issuer, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on loans and receivables from customers and held-to-maturity investment securities.

Loans and receivables are stated in the statement of financial position at amortised cost, less any allowances for credit losses. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are reflected in the profit or loss.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised as other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in income statement. Changes in impairment allowances attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised as other comprehensive income.

Non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Due to credit institutions

Due to credit institutions comprise all liabilities resulting form transactions with domestic and foreign credit institutions as well as liabilities to the Bank of Latvia and other central banks, including vostro balances due to credit institutions, due to credit institutions for outstanding foreign exchange deals and interbank loans.

Due to credit institutions are initially measured at fair value and subsequently are carried at amortised cost using the effective interest rate method.

Deposits

Deposits are liabilities carried at amortised cost and include current accounts and deposits from customers and deposits and balances from credit institutions.

Fair value measurement of financial assets and financial liabilities

A number of the Bank's accounting policies and disclosures require the determination of fair value for 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 on the measurement date. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans to customers

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rates used to discount estimated cash flows are based on the prevailing moneymarket interest rates curve plus an adequate credit spread.

Assumed collateral

As part of the normal course of business the Group and the Bank occasionally take possession of property that originally was pledged as security for a loan. When the Group or the Bank acquires (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Group or the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed, those properties are classified as investment property. Other types of collateral are classified as other assets.

Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For a non-material amount of non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible; such items are carried at cost less impairment.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount" approved for the respective year by the shareholders' meeting, that represents the price for new share allocation and participants' quit price.

Derivative financial instruments

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into lats, applying the exchange rate set by Bank of Latvia. EURIBOR and LIBOR interest rates are used as benchmark for risk-free interest rate for discounting purposes.

Due to credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in the active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Offsetting

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

Intangible assets

The Bank's intangible assets comprise licences, which allow the Bank to carry on banking business, and computer software. The intangible assets are accounted for at their historical cost less amortisation and impairment, if any. The intangible asset's amortisation term of two to twenty years is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, the Bank amortises the intangible asset over a period of 5 years. The Bank applies the straight-line method of amortisation of intangible assets.

Property and equipment

Property and equipment, exept for motor vehicles, are recorded in the Group consolidated and Bank separate financial statements at their historical cost less accumulated depreciation and impairment, if any.

Depreciation periods for individual categories of assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other tangible fixed assets	10 years
Computers	5 years

Land and assets under construction are not depreciated. Costs relating to the maintenance and repair of the Bank's property and equipment are included in the profit or loss when they arise. Whenever a complete repair and renovation prolong the asset's useful life (change the value of the asset), then the repair and renovation expenditure amount is added to the fixed asset's carrying amount.

Depreciation methods, useful lives and residual values are reviewed annually.

Items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, except for motor vehicles which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

Motor vehicles are subject to revaluation on a regular basis, at least every 5 years. The frequency of revaluation depends upon the extent of the estimated movements in the fair values of the vehicles being revalued. A revaluation increase on a vehicle is recognised in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement.

A revaluation decrease on a vehicle is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Fair value of vehicles is determined using the comparative method, which is based on recent market transactions with comparable vehicles. For valuation of selected vehicles, for which there are no observable data on recent market transactions, management relies on external valuations based on comparative valuation method and assesses the reliability of such valuation in light of the current market situation.

Change in accounting policy

In September 2011 the Group and Bank changed their accounting policy with respect to the subsequent measurement of motor vehicles, a class of property and equipment from the cost model to the revaluation model. The Group and Bank believe that subsequent measurement using the revaluation model provides more relevant information about the financial performance of these assets and their use by the Group and Bank.

As a result of the change in accounting policy a revaluation result was recognised in other comprehensive income.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Some investment property has been acquired through the enforcement of security over loans and advances.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclasiffication becomes its deemed cost for subsequent accounting.

Investment property is initially recognised in the statement of financial position at its acquisition cost. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Fair market value for land plots, buildings and other real property items is determined on the basis of annual property appraisals from certified appraisers. Gain or loss from the change in the value is recorded in the profit or loss and reported under the item "Gain or loss on revaluation of investment property".

Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets or components of a disposal group are remeasured in accordance with Group's and Bank's accounting policies. Thereafter generally the assets, or disposal group, are measured at lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's and Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in statement of comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised and depreciated, and any equity-accounted investee is no longer equity accounted.

Associates

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds the Bank's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

Repo operations (repos)

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprises cash and deposits with the Bank of Latvia and other credit institutions with an original maturity of less than 3 months, less balances due to the Bank of Latvia and credit institutions with an original maturity of less than 3 months.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised as other comprehensive income.

Corporate income tax in the Republic of Latvia is a direct tax based on the taxable profit reported for the taxation period at the rate of 15%. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax recognised is based on the expected manner of realisation as settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. The principal temporary differences arise from the differing rates and methods used for accounting and tax depreciation on property and equipment, intangible assets, accruals and investment property. Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or past tax losses available for carry forward can be utilised.

Provisions

A provision is recognised in the statement of financial position when the Group or Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Short-term employee benefits

Short-term employee benefits like salaries, social benefit payments, bonuses and vacation pay are measured on an undiscounted basis and are expensed as the related service is provided in accordance with accrual principle.

A provision is recognised for the amount expected to be paid under short-term cash bonus of profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The provision for employee holiday pay is calculated for each Group and Bank employee based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months, to which the relevant social security expense is added.

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

Dividends

The Bank receives dividends income from the investments which are recognised when the right to receive payment is established.

Proposed dividends payable are recognised in the financial statements only when approved by shareholders.

4. RISK MANAGEMENT

All aspects of the Group's and Bank's risk management objectives and policies are consistent with that disclosed in the Group consolidated and Bank separate financial statements as at and for the year ended 31 December 2010.

The Bank's activities expose it to a variety of financial and non-financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and these risks are an inevitable consequence of being in business. The Bank's strategic aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The risk management system, being an integral part of internal control system of the Bank, is based on the principal requirements of effective supervision of banks by Financial and the Capital Market Commission and the Basel Committee on Banking Supervision.

The most important types of risk are reputational risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management in the Bank is centralised and is carried out by the Management Board under policies approved by Supervisory Council. Risk management polices are subject to yearly review. There are three committees in the Bank responsible for risk management - the Credit Committee, the Resources Supervision Committee and Customer Due Diligence Committee. In addition, internal audit is responsible for the independent review of risk management and control environment.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Bank's risk management policies are designed to identify, analyse and measure significant risks, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date management information system. As of 31 December 2011 and 31 December 2010, the Bank has implemented the EU Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and the EU Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions relating to the improvement of the internal control system and risk management, as well as implemented Basel II Accord requirements introduced by the Basel Committee on Banking Supervision.

Reputational risk

Banks are inherently at risk for potential money laundering and the financing of terrorism, and this factor poses a serious threat to corporate reputation, unless banks ensure an adequate level of due diligence to be able to identify, monitor and avoid reputational risk. The Bank therefore develops and consequently implements its internal policies and procedures in order to comply with the guidelines and requirements outlined in international and domestic regulatory documents:

1. Valid laws and legislative decrees of the Republic of Latvia;
2. Guidelines and recommended standards adopted by the Financial and Capital Market Commission and the Association of Latvian Commercial Banks;
3. Global Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) policies and regulations;
4. International best practices.

The Bank's AML/CFT and Know Your Customer (KYC) policies and procedures provide guidelines for:

1. Performing customer due diligence (CDD) through identification and verification processes;
2. On-going supervision and monitoring of customer's business activities;
3. Carrying out customer's business process analysis (BPA);
4. Identifying suspicious and unusual financial transactions;
filing suspicious activity reports (SARs) to investigative, law enforcement and judicial authorities;
5. Retaining of the information concerning Bank's customers and their business and financial activity;
6. Employee training sessions.

Credit risk

The Bank takes on exposures to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation. Credit risk is the most significant risk for the Bank's business and therefore exposures to credit risk are subject to careful management.

Sources of credit risk

Credit risk of the Bank arises principally from the placements with credit institutions as well as from lending and investment activities and transactions in derivative financial instruments. There is also credit risk in financial instruments such as letters of credit, guarantees and payment cards' overdraft commitments. There is a delivery risk in relation to foreign exchange transactions.

For the Bank as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with principal correspondents to provide necessary customers' payments, which sometimes causes significant concentrations with particular counterparties.

Management and control of credit exposures

The Bank manages, limits and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to geographical and industry segments. Such limits are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to credit risk are managed through regular analysis of the ability of the existing and potential borrowers and counterparties to meet interest and principal repayment obligations and by changing lending limits where appropriate. The financial analysis, the analysis of external ratings and analysis of business environment of borrowers and counterparties is taken into consideration for such decision-making.

The Bank uses different credit risk management techniques for credit institutions and non-banks, but techniques are applied consistently to all financial instruments used, including sureties and commitments exposures with particular counterparty or group of related counterparties, as well as delivery risk in relation to foreign exchange transactions.

Limits on exposures to credit institutions are set by Resources Supervision Committee and approved by the Management Board. Limits on exposures to non-banks are considered by Credit Committee and approved by the Management Board or Supervisory Council according to the approval authorities.

Exposures to related groups of counterparties and counterparties related to the Bank are also subject to regulatory requirements.

According to regulations, any credit risk exposure to a non-related counterparty may not exceed 25% of the Bank's equity. Regulation states though that some exposures, such as due from credit institutions with maturity up to 1 year, are not considered to be credit risk exposures for regulatory requirements noted above.

According to regulations the total credit risk exposures to parties related to Bank shall not exceed 15% of the Bank's equity.

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation techniques. The most traditional of these is taking security for funds disbursements, which is common practice. The Bank implements guidelines on the criteria for specific classes of collateral taken.

The amount of collateral required may vary depending on the type of exposure but usually it is set at least to cover principal amount of the outstanding debt.

The Bank's exposures to credit institutions are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Note 50.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity risk management process

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank's liquidity policy is reviewed and approved by the Management Board. The policy states that the Bank is obliged to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 30% of the Bank's total current liabilities.

The Bank calculates the mandatory liquidity ratio on a daily basis in accordance with the requirements of the Financial and Capital Market Commission. The Bank was in compliance with the ratio during the twelvemonth period ended 31 December 2011.

The Bank's liquidity ratio as at 31 December 2011 was 91.33%, compared to 83.62% as at 31 December 2010.

The liquidity management policy of the Bank requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring statement of financial position liquidity ratios against regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Daily projections are based on assets and liabilities contractual maturities monitoring and analysis of information concerning customers' incoming and outgoing payments. Monthly projections are based on assets and liabilities term structure analysis.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Treasury Committee and implemented by the Treasury Department.

Quantitative disclosures
Further quantitative disclosures in respect of liquidity risk are presented in Note 44 and 45.

Currency (foreign exchange) risk

Foreign exchange risk relates to the effects of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 46 and Note 47.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 31 December 2010 and a simplified scenario of a 10% drop in the value of the Latvian lats versus other currencies is shown in Note 47.

Foreign exchange risk management process
Foreign exchange risk relates to the effects of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows.

Limits on open foreign currency positions in a single currency and aggregate open foreign currency position are set for both overnight and intra-day positions, which are monitored daily.

The Credit Institution Law states that the open position in each separate currency must not exceed 10% of the Bank's equity and the aggregate open position in all foreign currencies must not exceed 20% of the Bank's equity.

Quantitative disclosures
Further quantitative disclosures in respect of foreign exchange risk are presented in Note 46 and Note 47.

Interest rate risk

Interest rate risk represents the risk that there may be changes in the future cash flows connected with financial instruments (cash flow interest rate risk) or fair value of financial instruments (fair value interest rate risk) resulting from changes in the interest rates on the market. The period when interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk.

Sources of interest rate risk

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Bank is exposed to the cash flow interest rate risk which represents the effect of changes in the interest rates on the Bank's net interest margin and the amount of net interest income due to an inadequate term structure of interest rate sensitive assets and liabilities. The Bank is not exposed to significant interest rate risk of the fair value of financial instruments.

Interest risk management process

Interest rate risk management policy states the management principles, methodology and types of interest rate risk management.

Quantitative disclosures

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of held-for-trading and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2011 and 31 December 2010 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is shown in Note 48.

Market risk

The Bank focuses a lot of attention on the monitoring and analysis of market risk. The Bank has adopted its Trading Portfolio Policy designed to define the structure of the Bank's trading portfolio and to set out the maximum effective open position transacted with an individual issuer and the limits by the maturity profile of the securities. The Resources Supervision Committee is charged with the responsibility of implementing the Trading Portfolio Policy. The Internal Audit Department is charged with a continuing control function.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2011 and 31 December 2010 and a simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2011 LVL	Equity 31.12.2011 LVL	Net income 31.12.2010 LVL	Equity 31.12.2010 LVL
5% increase in securities prices	18 787	0.09%	30 631	0.19%
5% decrease in securities prices	(18 787)	-0.09%	(30 631)	-0.19%

The sensitivity analyses of the Group's and the Bank's net income for the year and equity to changes in securities prices do not vary significantly.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events - various types of human (staff members) or technical (software and hardware failures) errors, contingencies, fire and other factors of this sort. To prevent losses caused by operational risk, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to ensure the implementation of the regulatory requirements set forth in the aforesaid internal guidance documents.

5. CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2011, this minimum level is 8% (2010: 8%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2011 and 31 December 2010.

The Bank's risk based capital adequacy ratio, as at 31 December 2011, was 17.89% (31 December 2010: 14.88%). However, according to the specific requirement of the FCMC, the Bank should maintain a capital adequacy ratio above minimum level – 15.2% for the period starting from 30 September 2011 till 30 September 2012. As at 31 December 2011, the Bank and the Group were in compliance with the requirements of the FCMC for capital adequacy and minimum equity, as well as satisfied the higher ratio as requested by the FCMC.

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- to comply with the capital regulatory requirements;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders;
- to maintain the strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community directives, as implemented by the Financial and Capital Market Commission. The required information is filed with the Financial and Capital Market Commission on a monthly basis.

The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for the application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., the Bank's capital ratio against the risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items. The sum of notional risk weighted assets and memorandum items is determined as the sum of capital requirements of market risks, multiplied by 12.5.

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy basically agree with the recommendations under the Basle Capital Accord and amendments thereto. According to the Basle Capital Accord, the capital adequacy ratio should be at least 8%.

Quantitative disclosures

Further quantitative disclosures in respect of capital management are presented in Note 43.

6. INTEREST INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Loans	5 360 079	5 399 593	4 065 090	4 093 668
Loans,	*5 335 601*	*5 375 115*	*4 039 171*	*4 067 749*
including incomes for which impairment allowance was made	*86 722*	*86 722*	*258 502*	*258 502*
Payment cards	*24 478*	*24 478*	*25 919*	*25 919*
Securities held-to-maturity	860 474	860 474	1 459 329	1 459 329
Due from credit institutions	276 356	276 356	408 482	408 482
Due from Bank of Latvia	19 002	19 002	44 991	44 991
Securities held-for-trading	-	-	104 070	104 070
	6 515 911	**6 555 425**	**6 081 962**	**6 110 540**

7. INTEREST EXPENSE

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Liabilities at amortised cost	2 405 579	2 405 579	2 480 545	2 480 545
Deposits	*1 508 649*	*1 508 649*	*2 249 500*	*2 249 500*
Due to credit institutions	*783 892*	*783 892*	*212 983*	*212 983*
Subordinated liabilities	*113 038*	*113 038*	*18 062*	*18 062*
Other interest expense	296 761	296 761	302 629	302 629
	2 702 340	**2 702 340**	**2 783 174**	**2 783 174**

8. FEE AND COMMISSION INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Servicing of transactions	2 067 688	2 069 306	1 956 343	1 957 451
Forex transactions	1 470 265	1 470 265	506 150	506 150
Securities accounts administration charges	696 208	696 208	226 093	226 093
Trust operations	373 116	373 116	308 762	308 762
Payment cards	236 831	236 831	188 899	188 899
Fees and commissions from banks	170 236	170 236	149 105	149 105
Letters of credit	98 652	98 652	34 303	34 303
Transactions in precious metals	44 278	44 278	3 658	3 658
Cash operations	12 221	12 227	11 195	11 195
Guarantees	-	-	2 419	2 419
Other	41 787	41 787	20 656	20 656
	5 211 282	**5 212 906**	**3 407 583**	**3 408 691**

9. FEE AND COMMISSION EXPENSE

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Services of correspondent banks	310 889	310 889	315 900	315 900
Payment cards	244 073	244 073	213 574	213 574
Securities-based transactions	198 970	198 970	38 932	38 932
Foreign exchange operations	129 264	129 264	8 204	8 204
Services of agents and brokers	40 763	40 763	7 670	7 670
Other	2 132	2 132	15 798	15 761
	926 091	**926 091**	**600 078**	**600 041**

10. NET TRADING INCOME

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Loss on foreign exchange operations	(41 130)	(42 566)	(1 297 135)	(1 297 135)
Gain on revaluation of positions in foreign currency	1 788 185	1 788 185	2 599 497	2 597 633
	1 747 055	**1 745 619**	**1 302 362**	**1 300 498**
Gain on trading in financial instruments	29 792	29 792	186 589	186 589
(Loss)/gain on revaluation of financial instruments	(80 902)	(80 902)	160 262	160 262
	(51 110)	**(51 110)**	**346 851**	**346 851**
	1 695 945	**1 694 509**	**1 649 213**	**1 647 349**

11. OTHER OPERATING INCOME

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Professional services	69 796	51 508	10 222	10 222
Rent of premises	31 191	29 504	117 218	15 172
Intermediary services	11 819	10 177	17 716	17 716
Profit from transactions in precious metals	8 540	8 540	15 869	15 869
Gain on sale of property and equipment and investment property	83	83	14 102	14 102
Other	30 186	9 240	12 627	12 627
	151 615	**109 052**	**187 754**	**85 708**

12. ADMINISTRATIVE EXPENSES

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Staff salaries	2 877 766	2 861 593	2 677 539	2 666 810
Amortisation and depreciation (Notes 28, 29)	701 665	701 458	713 305	712 209
Social insurance payments	663 207	659 311	612 942	610 357
Representation expenses	484 173	484 173	347 500	347 500
Professional services	384 768	372 161	270 184	253 967
Lease, renovation and maintenance of property and equipment	280 823	278 063	210 496	206 144
Charity and sponsorship	217 558	217 558	3 962	3 962
Non-deductible input VAT	214 274	214 274	127 078	127 078
Business trips	165 304	165 304	139 607	139 607
Communication	127 466	127 057	128 593	128 293
Event organisation	96 377	96 377	83 064	83 064
Advertising and publicity	92 440	92 440	71 239	71 239
Stationary goods and household equipment	71 394	71 394	64 560	64 560
Motor vehicles	63 965	61 209	49 478	48 388
Real estate tax	43 258	37 677	32 334	30 853
Security	36 341	36 341	21 434	21 434
Taxes paid overseas	21 524	21 524	61 774	61 774
Insurance	9 542	9 090	10 453	9 831
Others taxes	1 592	1 569	13 113	-
Other	765 684	756 306	591 066	590 795
	7 319 121	**7 264 879**	**6 229 721**	**6 177 865**

13. OTHER OPERATING EXPENSES

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Association membership fees	122 577	122 577	120 550	120 550
Services of agents and brokers	10 566	10 566	744	744
Penalties paid to FCMC	18	18	26 767	26 767
Other	15 037	12 458	52 176	-
	148 198	**145 619**	**200 237**	**148 061**

14. ANALYSIS OF CHANGES IN IMPAIRMENT LOSS ALLOWANCE FOR ASSET EXPOSURES

GROUP

	Allowances for claims on the credit institutions LVL	Allowances for securities available-for-sale LVL	Allowances for loans LVL	Allowances for accrued income LVL	Allowances for other assets LVL	Total LVL
Allowances as of 31 December 2009	-	-	**857 145**	-	**74 340**	**931 485**
Increase in allowances	21	24 576	1 227 475	35 421	47 400	1 334 893
Reversal of allowances	-	-	(466 069)	-	(5 173)	(471 242)
Net impairment loss for the period	**21**	**24 576**	**761 406**	**35 421**	**42 227**	**863 651**
Amounts written-off	-	-	(3 073)	-	-	(3 073)
Difference due to fluctuations in foreign currency exchange rates	-	2 448	11 868	1 335	2 957	18 608
Allowances as of 31 December 2010	**21**	**27 024**	**1 627 346**	**36 756**	**119 524**	**1 810 671**
Increase in allowances	-	-	1 185 795	5 110	20 173	1 211 078
Reversal of allowances	-	-	(217 638)	(10 900)	-	(228 538)
Net impairment loss for the period	-	-	**968 157**	**(5 790)**	**20 173**	**982 540**
Amounts written-off	-	-	(55 305)	-	-	(55 305)
Difference due to fluctuations in foreign currency exchange rates	(1)	672	48 310	(451)	679	49 209
Allowances as of 31 December 2011	**20**	**27 696**	**2 588 508**	**30 515**	**140 376**	**2 787 115**

BANK						
	Allowances for claims on the credit institutions LVL	Allowances for securities available-for-sale LVL	Allowances for loans LVL	Allowances for accrued income LVL	Allowances for other assets LVL	Total LVL
Allowances as of 31 December 2009	**-**	**-**	**1 056 663**	**-**	**74 340**	**1 131 003**
Increase in allowances	21	24 576	1 227 475	35 421	47 400	1 334 893
Reversal of allowances	-	-	(309 923)	-	(5 173)	(315 096)
Net impairment loss for the period	**21**	**24 576**	**917 552**	**35 421**	**42 227**	**1 019 797**
Amounts written-off	-	-	(3 073)	-	-	(3 073)
Difference due to fluctuations in foreign currency exchange rates	-	2 448	11 868	1 335	2 957	18 608
Allowances as of 31 December 2010	**21**	**27 024**	**1 983 010**	**36 756**	**119 524**	**2 166 335**
Increase in allowances	-	-	1 229 365	5 110	20 173	1 254 648
Reversal of allowances	-	-	(217 638)	(10 900)	-	(228 538)
Net impairment loss for the period	**-**	**-**	**1 011 727**	**(5 790)**	**20 173**	**1 026 110**
Amounts written-off	-	-	(55 305)	-	-	(55 305)
Difference due to fluctuations in foreign currency exchange rates	(1)	672	48 310	(451)	679	49 209
Allowances as of 31 December 2011	**20**	**27 696**	**2 987 742**	**30 515**	**140 376**	**3 186 349**

15. CORPORATE INCOME TAX

(a) Income tax charge

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Prior year tax adjustment for income tax paid abroad	-	-	20 875	20 875
Deferred income tax expense	342 837	332 052	57 532	57 532
	342 837	**332 052**	**78 407**	**78 407**

The Group's and the Bank's applicable tax rate is 15% (2010: 15%).

(b) Reconciliation between tax expense and accounting profit

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Profit before income tax	1 860 349	1 567 482	296 842	459 470
Theoretically calculated tax at tax rate of 15%	279 052	235 122	44 526	68 921
Non-deductible expenses/(non-taxable income)	53 000	96 930	13 006	(11 389)
Change in unrecognized deferred tax assets	10 785	-	-	-
Prior year tax adjustment for income tax paid abroad	-	-	20 875	20 875
Income tax expense	**342 837**	**332 052**	**78 407**	**78 407**

(c) Deferred taxes

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

GROUP						
	Assets 31.12.2011 LVL	Assets 31.12.2010 LVL	Liabilities 31.12.2011 LVL	Liabilities 31.12.2010 LVL	Deferred tax assets/ (liabilities) 31.12.2011 LVL	Deferred tax assets/ (liabilities) 31.12.2010 LVL
Financial instruments at fair value through profit or loss	52 002	36 526	-	-	52 002	36 526
Available-for-sale assets	-	-	(1 109)	-	(1 109)	-
Property and equipment	-	10 785	(806 012)	(731 879)	(806 012)	(721 094)
Investment property	-	-	(67 165)	(59 058)	(67 165)	(59 058)
Other assets	-	-	(5 710)	(2 555)	(5 710)	(2 555)
Other liabilities	23 810	25 377	-	-	23 810	25 377
Tax loss carry-forwards	20 514	279 971	-	-	20 514	279 971
	96 326	**352 659**	**(879 996)**	**(793 492)**	**(783 670)**	**(440 833)**
Unrecognised deferred tax assets	-	(10 785)	-	-	-	(10 785)
Recognised net deferred tax assets/(liabilities)	**96 326**	**341 874**	**(879 996)**	**(793 492)**	**(783 670)**	**(451 618)**

	Assets 31.12.2011 LVL	Assets 31.12.2010 LVL	Liabilities 31.12.2011 LVL	Liabilities 31.12.2010 LVL	Deferred tax assets/ (liabilities) 31.12.2011 LVL	BANK Deferred tax assets/ (liabilities) 31.12.2010 LVL
Financial instruments at fair value through profit or loss	52 002	36 526	-	-	52 002	36 526
Available-for-sale assets	-	-	(1 109)	-	(1 109)	-
Property and equipment	-	-	(806 012)	(731 879)	(806 012)	(731 879)
Investment property	-	-	(58 019)	(49 912)	(58 019)	(49 912)
Other assets	-	-	(5 710)	(2 555)	(5 710)	(2 555)
Other liabilities	23 810	25 377	-	-	23 810	25 377
Tax loss carry-forwards	20 514	279 971	-	-	20 514	279 971
Recognised net deferred tax assets/(liabilities)	**96 326**	**341 874**	**(870 850)**	**(784 346)**	**(774 524)**	**(442 472)**

(d) Movement in temporary differences

	Carrying amount 31.12.2010 LVL	Recognised in income statement 2011 LVL	GROUP Carrying amount 31.12.2011 LVL
Financial instruments at fair value through profit or loss	36 526	15 476	52 002
Available-for-sale assets	-	(1 109)	(1 109)
Property and equipment	(731 879)	(74 133)	(806 012)
Investment property	(59 058)	(8 107)	(67 165)
Other assets	(2 555)	(3 155)	(5 710)
Other liabilities	25 377	(1 567)	23 810
Tax loss carry-forwards	279 971	(259 457)	20 514
Unrecognised deferred tax assets	10 785	(10 785)	-
	(440 833)	**(342 837)**	**(783 670)**

	Carrying amount 31.12.2010 LVL	Recognised in income statement 2011 LVL	BANK Carrying amount 31.12.2011 LVL
Financial instruments at fair value through profit or loss	36 526	15 476	52 002
Available-for-sale assets	-	(1 109)	(1 109)
Property and equipment	(731 879)	(74 133)	(806 012)
Investment property	(49 912)	(8 107)	(58 019)
Other assets	(2 555)	(3 155)	(5 710)
Other liabilities	25 377	(1 567)	23 810
Tax loss carry-forwards	279 971	(259 457)	20 514
	(442 472)	**(332 052)**	**(774 524)**

16. CASH AND BALANCES WITH BANK OF LATVIA

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Cash	1 358 032	1 357 432	1 900 740	1 900 440
Balance with the Bank of Latvia	19 488 987	19 488 987	7 053 577	7 053 577
Accrued income on balance with Bank of Latvia	522	522	337	337
	20 847 541	**20 846 941**	**8 954 654**	**8 954 354**

The Bank is required to ensure that the monthly average balance (in lats) with the Bank of Latvia exceeds the statutory reserve requirement ratio for commercial banks. As at the reporting date the Bank has complied with the reserve requirements of the Bank of Latvia.

17. CASH AND CASH EQUIVALENTS

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Cash	1 358 032	1 357 432	1 900 740	1 900 440
Balance with the Bank of Latvia	19 488 987	19 488 987	7 053 577	7 053 577
	20 847 019	**20 846 419**	**8 954 317**	**8 954 017**
Due from other credit institutions with up to 3 months original maturity	119 653 552	119 653 552	64 287 590	64 287 590
Due to other credit institutions with up to 3 months original maturity	(2 956 573)	(2 956 573)	(5 442 096)	(5 442 096)
	137 543 998	**137 543 398**	**67 799 811**	**67 799 511**
Allowances (Note 14)	(20)	(20)	(21)	(21)
	137 543 978	**137 543 378**	**67 799 790**	**67 799 490**

18. SECURITIES-HELD-FOR TRADING

	GROUP AND BANK 31.12.2011 LVL	31.12.2010 LVL
Shares and other variable income securities (Moody's ratings)		
Shares and other variable income securities rated A	*11 021*	*428*
Shares and other variable income securities rated Baa	*254 493*	*430 333*
Shares and other variable income securities rated Ba	*75 714*	*107 013*
Shares and other variable income securities rated B	*5 413*	*10 775*
Non-rated shares and other variable income securities	*29 094*	*64 078*
	375 735	**612 627**

The table below shows the securities recorded by issuer profile:

	GROUP AND BANK	
	31.12.2011 LVL	31.12.2010 LVL
Shares of credit institutions	150 026	308 173
State-owned companies enterprises	119 567	125 597
Shares of private enterprises	93 303	157 799
Shares of financial institutions	10 162	21 058
Investment certificates	2 677	-
	375 735	**612 627**

The table below shows the geographical concentration of securities:

	GROUP AND BANK	
	31.12.2011 LVL	31.12.2010 LVL
Shares of entities registered in the Republic of Latvia	7 952	33 112
Shares of entities registered in other EU countries	11 021	12 337
Shares of entities registered in OECD countries	10 343	21 486
Shares of entities registered in CIS countries	343 741	545 692
Shares of entities registered in other countries	2 678	-
	375 735	**612 627**

As of 31 December 2011 and 31 December 2010, the Bank did not possess any debt securities serving as collateral for repo loans.

Reclassification out of held-for-trading financial instruments

During 2011 and 2010, the Bank did not reclassify any held-for-trading financial instruments.

Pursuant to the amendments to IAS 39 and IFRS 7, the Bank reclassified certain trading assets to held-tomaturity financial instruments during 2008.

The table below sets out the amounts that would have been recognised in the periods following reclassification if the reclassifications had not been made:

	GROUP AND BANK	
	31.12.2011 Profit LVL	31.12.2010 Profit LVL
Period after reclassification		
Net profit on financial instruments reclassified to held-to-maturity financial instruments	6 276	27 673
	6 276	**27 673**

19. DERIVATIVE CONTRACTS

The table below summarises the contractual amounts of the Group's and the Bank's forward foreign exchange contracts outstanding at 31 December 2011 and 31 December 2010. The foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the profit or loss.

	GROUP AND BANK			
	31.12.2011 Assets LVL	31.12.2011 Liabilities LVL	31.12.2010 Assets LVL	31.12.2010 Liabilities LVL
Notional amount				
Foreign currency exchange SWAP transactions	9 155 252	9 136 407	54 015 654	53 609 768
Foreign currency FORWARD contracts	11 029 622	11 050 661	73 831 844	73 984 222
FUTURES contracts	85 234	-	-	25 247
	20 270 108	**20 187 068**	**127 847 498**	**127 619 237**
Fair value				
Foreign currency exchange SWAP transactions	18 845	-	408 768	2 882
Foreign currency FORWARD contracts	8	21 047	155 150	307 528
FUTURES contracts	3 295	-	-	941
	22 148	**21 047**	**563 918**	**311 351**

The table below shows the concentration of foreign currency exchange SWAP transactions by counterparty domiciles:

	GROUP AND BANK			
	31.12.2011 Assets LVL	31.12.2011 Liabilities LVL	31.12.2010 Assets LVL	31.12.2010 Liabilities LVL
Notional amount				
Foreign currency exchange SWAP transactions with Latvian banks	-	-	7 018 522	7 009 377
Foreign currency exchange SWAP transactions with other countries banks	9 155 252	9 136 407	39 921 266	39 567 817
Foreign currency exchange SWAP transactions with other customers	-	-	7 075 866	7 032 574
	9 155 252	**9 136 407**	**54 015 654**	**53 609 768**

The table below shows the concentration of foreign exchange FORWARD transactions by counterparty domiciles:

	GROUP AND BANK			
	31.12.2011 Assets LVL	31.12.2011 Liabilities LVL	31.12.2010 Assets LVL	31.12.2010 Liabilities LVL
Notional amount				
Foreign currency exchange FORWARD transactions with other countries banks	35 107	35 140	18 068 007	17 971 342
Foreign currency exchange FORWARD transactions with other customers	10 994 515	11 015 521	55 763 837	56 012 880
	11 029 622	**11 050 661**	**73 831 844**	**73 984 222**

The table below summarises, by major currency, the contracted average exchange rates applied to the Bank's forward exchange contracts unsettled at 31 December 2011:

EUR/LVL	0.6980
EUR/USD	1.2915

20. DUE FROM CREDIT INSTITUTIONS

	GROUP AND BANK	
	31.12.2011 LVL	31.12.2010 LVL
Repayable on demand	108 659 872	58 976 348
Other deposits	15 177 508	8 606 660
	123 837 380	**67 583 008**
Allowances (Note 14)	(20)	(21)
	123 837 360	**67 582 987**

The table below shows the geographical concentration of dues from credit institutions:

	GROUP AND BANK	
	31.12.2011 LVL	31.12.2010 LVL
Due from credit institutions incorporated in the Republic of Latvia	1 730 374	1 944 033
Due from credit institutions incorporated in other EU countries	86 896 927	57 201 401
Due from credit institutions incorporated in other OECD countries	26 838 050	1 325 782
Due from credit institutions incorporated in other countries	8 372 029	7 111 792
	123 837 380	**67 583 008**
Allowances (Note 14)	(20)	(21)
	123 837 360	**67 582 987**

Concentration of placements with banks and other financial institutions

As at 31 December 2011 and 31 December 2010, the Group and the Bank had three banks and financial institutions, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2011 and 31 December 2010 were LVL 102 750 321 and LVL 54 163 616, respectively.

21. LOANS

(a) Loans by type

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Commercial loans	26 647 810	26 769 765	19 619 255	19 619 255
Mortgage loans	17 813 105	19 699 023	19 566 639	21 259 178
Industrial loans	5 811 130	5 811 130	8 681 993	8 681 993
Trade finance	5 757 091	5 757 091	411 446	411 446
Overdrafts	2 776 638	2 811 957	2 347 521	2 358 993
Consumer loans	378 112	378 112	399 142	399 142
Payment cards	121 574	121 574	86 658	86 658
Other	486 614	486 614	4 545 293	4 545 293
	59 792 074	**61 835 266**	**55 657 947**	**57 361 958**
Reverse repos	899 392	899 392	932 918	932 918
	60 691 466	**62 734 658**	**56 590 865**	**58 294 876**
Allowances (Note 14)	(2 588 508)	(2 987 742)	(1 627 346)	(1 983 010)
	58 102 958	**59 746 916**	**54 963 519**	**56 311 866**

(b) Loan profile by geographic location

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Residents of the Republic of Latvia	20 917 340	22 960 532	20 618 710	22 322 721
Residents of other EU countries	22 508 924	22 508 924	19 807 504	19 807 504
Residents of other OECD countries	5 420 203	5 420 203	5 825 054	5 825 054
Residents of CIS countries	2 959 574	2 959 574	3 546 798	3 546 798
Residents of other countries	8 885 425	8 885 425	6 792 799	6 792 799
	60 691 466	**62 734 658**	**56 590 865**	**58 294 876**
Allowances (Note 14)	(2 588 508)	(2 987 742)	(1 627 346)	(1 983 010)
	58 102 958	**59 746 916**	**54 963 519**	**56 311 866**

(c) Loans by customer profile

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Loans to corporate clients	47 016 702	49 059 894	44 193 741	45 897 752
Loans to financial institutions	5 448 571	5 448 571	2 966 963	2 966 963
Loans to individuals	7 087 878	7 087 878	8 415 180	8 415 180
Loans to senior management and staff members of the Bank	1 138 315	1 138 315	1 014 981	1 014 981
	60 691 466	**62 734 658**	**56 590 865**	**58 294 876**
Allowances (Note 14)	(2 588 508)	(2 987 742)	(1 627 346)	(1 983 010)
	58 102 958	**59 746 916**	**54 963 519**	**56 311 866**

(d) Industry analysis of the loan portfolio

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Trade	17 267 196	17 267 196	11 155 928	11 155 928
Real estate	14 996 381	17 039 573	14 389 946	16 093 957
Finance	8 746 824	8 746 824	7 709 745	7 709 745
Manufacturing	2 499 240	2 499 240	2 123 213	2 123 213
Information and communication services	2 376 089	2 376 089	3 142 477	3 142 477
Agriculture, forestry and timber	2 662	2 662	2 701	2 701
Energy	70	70	-	-
Mining/metallurgy	-	-	241 801	241 801
Other services	6 565 552	6 565 552	8 037 207	8 037 207
Other	11 259	11 259	357 685	357 685
Loans to individuals	8 226 193	8 226 193	9 430 162	9 430 162
	60 691 466	**62 734 658**	**56 590 865**	**58 294 876**
Allowances (Note 14)	(2 588 508)	(2 987 742)	(1 627 346)	(1 983 010)
	58 102 958	**59 746 916**	**54 963 519**	**56 311 866**

(e) Breakdown of loans by groups of delayed payments and non-delinquent loans

The following table provides information on the credit quality of the loan portfolio:

			GROUP
	Gross loans 31.12.2011 LVL	Allowances 31.12.2011 LVL	Net loans 31.12.2011 LVL
Non-delinquent loans	46 030 437	(898 507)	45 131 930
Up to 1 month (inclusive)	4 772 887	(85 015)	4 687 872
1 to 3 months	399 659	(86)	399 573
3 to 6 months	57 138	(40 835)	16 303
More than 6 months	9 431 345	(1 564 065)	7 867 280
	60 691 466	**(2 588 508)**	**58 102 958**

			BANK
	Gross loans 31.12.2011 LVL	Allowances 31.12.2011 LVL	Net loans 31.12.2011 LVL
Non-delinquent loans	48 073 629	(1 297 741)	46 775 888
Up to 1 month (inclusive)	4 772 887	(85 015)	4 687 872
1 to 3 months	399 659	(86)	399 573
3 to 6 months	57 138	(40 835)	16 303
More than 6 months	9 431 345	(1 564 065)	7 867 280
	62 734 658	**(2 987 742)**	**59 746 916**

			GROUP
	Gross loans 31.12.2010 LVL	Allowances 31.12.2010 LVL	Net loans 31.12.2010 LVL
Non-delinquent loans	43 714 336	(546 218)	43 168 118
Up to 1 month (inclusive)	1 270 182	(7 319)	1 262 863
1 to 3 months	5 605 855	(166 579)	5 439 276
3 to 6 months	3 757 395	(61 539)	3 695 856
More than 6 months	2 243 097	(845 691)	1 397 406
	56 590 865	**(1 627 346)**	**54 963 519**

			BANK
	Gross loans 31.12.2010 LVL	Allowances 31.12.2010 LVL	Net loans 31.12.2010 LVL
Non-delinquent loans	44 912 557	(799 746)	44 112 811
Up to 1 month (inclusive)	1 775 972	(109 455)	1 666 517
1 to 3 months	5 605 855	(166 579)	5 439 276
3 to 6 months	3 757 395	(61 539)	3 695 856
More than 6 months	2 243 097	(845 691)	1 397 406
	58 294 876	**(1 983 010)**	**56 311 866**

Movements in the loan impairment allowance for the years ended 31 December 2011 and 31 December 2010 are disclosed in Note 14.

(f) Restructured loans

During the year ended 31 December 2011, the Bank restructured loans by changing the terms of the loan agreement as follows:

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Extension of the loan maturity date	2 948 680	2 948 680	9 994 658	10 507 270
Interest capitalised	-	-	2 536 896	2 536 896
Principal grace	-	-	321 518	321 518
Interest rate change	-	-	113 577	113 577
Other changes	107 923	107 923	2 060 462	2 566 252
	3 056 603	**3 056 603**	**15 027 111**	**16 045 513**

(g) Analysis of collateral

The following table provides the analysis by collateral type of the loan portfolio:

		GROUP		BANK
	Net loans 31.12.2011 LVL	% of loan portfolio 31.12.2011 %	Net loans 31.12.2011 LVL	% of loan portfolio 31.12.2011 %
Real estate	32 543 890	56.00%	34 152 529	57.16%
Deposits	11 330 047	19.50%	11 330 047	18.96%
Traded securities	1 111 575	1.90%	1 111 575	1.86%
Commercial pledge	512 081	0.90%	512 081	0.86%
Motor vehicles	63 114	0.10%	63 114	0.11%
Other collateral	5 323 990	9.20%	5 323 990	8.91%
No collateral	7 218 261	12.40%	7 253 580	12.14%
	58 102 958	**100%**	**59 746 916**	**100%**

		GROUP		BANK
	Net loans 31.12.2010 LVL	% of loan portfolio 31.12.2010 %	Net loans 31.12.2010 LVL	% of loan portfolio 31.12.2010 %
Real estate	33 397 545	60.77%	34 625 429	61.49%
Deposits	14 425 810	26.25%	14 425 810	25.62%
Traded securities	1 057 439	1.92%	1 057 439	1.88%
Commercial pledge	932 918	1.70%	932 918	1.66%
Motor vehicles	125 639	0.23%	125 639	0.21%
Other collateral	209 932	0.37%	209 932	0.37%
No collateral	4 814 236	8.76%	4 934 699	8.77%
	54 963 519	**100%**	**56 311 866**	**100%**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Motor vehicles loans are secured by underlying vehicle. Payment cards overdrafts are secured by deposits and guarantees. Consumer loans are secured by other types of collateral.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

During the year ended 31 December 2011, the Bank and Group obtained ownership a group of buildings, as well as the Group acquired land plots by repossessing collateral accepted as security for commercial loans. During the year ended 31 December 2010, the Bank repossessed the premises - collateral accepted as security for a commercial loan issued by the Bank.

During the year ended 31 December 2011, the Group and Bank have obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans.

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Premises	223 685	223 685	211 184	211 184
Land plots	123 000	-	1 089 985	-
	346 685	**223 685**	**1 301 169**	**211 184**

(h) Significant credit exposures

As at 31 December 2011 and 31 December 2010 the Bank had no borrowers, including related parties whose outstanding loan balances would exceed 10% of loans to customers.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity. The Bank was in compliance with this requirement during the years ended 31 December 2011 and 31 December 2010.

22. SECURITIES AVAILABLE-FOR-SALE

	GROUP AND BANK	
	31.12.2011 LVL	31.12.2010 LVL
Debt securities of credit institutions domiciled in Iceland	27 696	27 024
Shares and other variable income securities	165 579	165 579
JSC "Capital"	*127 111*	*127 111*
S.W.I.F.T. SCRL	*38 468*	*38 468*
	193 275	**192 603**
Allowances (Note 14)	(27 696)	(27 024)
	165 579	**165 579**

Investment JSC "Capital" is measured at cost less impairment as the Bank believes there is no readily available active market to detemine the fair value.

The fair value of S.W.I.F.T. SCRL is reported according to a certain withdrawal price as of 31 December 2011 and 31 December 2010.

23. SECURITIES HELD-TO-MATURITY

	GROUP AND BANK	
	31.12.2011 LVL	31.12.2010 LVL
Government treasury bills	-	1 367 340
Bonds and other fixed-income securities	7 046 386	14 231 476
	7 046 386	**15 598 816**

The following table shows the distribution of securities held-to-maturity by issuer profile:

	GROUP AND BANK	
	31.12.2011 LVL	31.12.2010 LVL
Debt securities of credit institutions (Moody's ratings)	3 081 092	6 201 471
Debt securities of credit institutions rated Baa	*56 246*	*712 551*
Debt securities of credit institutions rated Ba	*1 646 137*	*3 459 202*
Debt securities of credit institutions rated B	*1 378 709*	*2 029 718*
Debt securities of private enterprises (Moody's ratings)	2 238 463	5 249 169
Debt securities of private enterprises rated Baa	-	*1 613 683*
Debt securities of private enterprises rated Ba	*1 415 290*	*2 210 085*
Debt securities of private enterprises rated B	*823 173*	*1 102 391*
Debt securities of private enterprises rated Caa	-	*323 010*
Public non-financial Corporations (Moody's ratings)	1 726 831	2 780 836
Public non-financial Corporations rated Baa	*1 726 831*	*2 780 836*
Debt securities of central governments (Moody's ratings)	-	1 367 340
Debt securities of central governments rated B	-	*1 367 340*
	7 046 386	**15 598 816**

24. INVESTMENTS IN ASSOCIATES

				GROUP AND BANK	
	Ownership %	Country of incorporation	Purpose	31.12.2011 LVL	31.12.2010 LVL
LLC "Komunikācijas un projekti"	25	Latvia	Investments	429 009	429 009
				429 009	**429 009**

As at 31 December 2011, SIA "Komunikacijas un projekti" assets amounted to LVL 21 960, liabilities amounted to LVL 33 643, and losses for 2011 comprised LVL 6 181. The management assessed future cash flows to be generated by the associate and as a result of this assessment concluded that there is no need for a goodwill impairment allowance identified.

25. ACQUISITION OF SUBSIDIARY

Bank continues to develop its advisory and consulting segment. On 9 September 2011, the Bank has established BIB Consulting, a new subsidiary undertaking whose principal areas of expertise encompass professional legal advice, asset protection services, taxation and tax planning issues.

At BIB Consulting, the entire advisory package has been specifically designed to meet the diverse interests of our customers and embraces various aspects affecting the safety of family wealth, such as protection of the assets against the inherent risks, assistance in asset structuring, and expert guidance for effective tax planning. In addition, the firm provides a broad range of transaction-related legal advice; delivers assistance with legal paperwork, Latvia-issued and EU residence permits, completion of income tax returns; covers issues related to inheritance & wealth transfer (that is getting more important as your wealth grows) and renders other relevant services.

NAME	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITIES	OWNERSHIP	
			31.12.2011 %	31.12.2010 %
"BIB Real Estate" LLC	Latvia	Real estate	100	100
"Gaujas Īpašumi" LLC	Latvia	Real estate	100	100
"Global Investments" LLC	Latvia	Real estate	100	100
"SD Investment Corporation" LLC	Latvia	Real estate	100	100
„BIB Consulting" LLC	Latvia	Legal advice, asset protection services and advice and guidance on taxation and tax planning	100	-

26. NON-CURRENT ASSETS HELD FOR SALE

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Real estate held for sale	189 757	-	-	-
	189 757	-	-	-

27. INVESTMENT PROPERTY

For investment property, the Bank applies a fair-value-based accounting model. The fair value of the investment property item (as assessed or disclosed in the financial statements) is based on the appraisal from an independent appraiser who holds a recognised and relevant professional qualification and has recent experience in appraising similar property.

	GROUP LVL	BANK LVL
As of 31 December 2009	**2 702 945**	**2 702 945**
Additions	1 301 169	211 184
Revaluation	(355 657)	(66 728)
Sale	(119 028)	-
Reclassification	1 448 147	-
As of 31 December 2010	**4 977 576**	**2 847 401**
Additions	671 916	223 685
Revaluation	357 304	54 047
As of 31 December 2011	**6 006 796**	**3 125 133**

	GROUP LVL	BANK LVL
Amounts recognised in the profit or loss (apart from revaluation result):		
Rental income earned on investment property	32 189	29 504
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has earned a rental income during the reporting year	(7 799)	(7 326)
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has not earned a rental income during the reporting year	(12 186)	(4 770)

28. PROPERTY AND EQUIPMENT

GROUP

	Buildings and land (own use) LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	Total LVL
Acquisition cost					
As of 31 December 2009	**9 035 144**	**240 919**	**2 215 967**	**66 425**	**11 558 455**
Additions	7 464	36 918	291 566	35 124	**371 072**
Acquisition of subsidiary	-	-	41	-	**41**
Disposals	-	(18 580)	(218 899)	-	**(237 479)**
As of 31 December 2010	**9 042 608**	**259 257**	**2 288 675**	**101 549**	**11 692 089**
Additions	-	-	262 906	32 224	**295 130**
Revaluation	-	24 528	-	-	**24 528**
Disposals	-	(95 095)	(261 711)	-	**(356 806)**
Reclassification to other assets	-	-	-	(20 662)	**(20 662)**
As of 31 December 2011	**9 042 608**	**188 690**	**2 289 870**	**113 111**	**11 634 279**
Depreciation					
As of 31 December 2009	**(298 506)**	**(130 541)**	**(788 388)**	**-**	**(1 217 435)**
Depreciation	(158 575)	(46 737)	(352 392)	-	**(557 704)**
Disposals	-	18 580	133 978	-	**152 558**
As of 31 December 2010	**(457 081)**	**(158 698)**	**(1 006 802)**	**-**	**(1 622 581)**
Depreciation	(158 685)	(41 985)	(329 346)	-	**(530 016)**
Disposals	-	95 095	261 629	-	**356 724**
As of 31 December 2011	**(615 766)**	**(105 588)**	**(1 074 519)**	**-**	**(1 795 873)**
Net book value					
As of 31 December 2009	**8 736 638**	**110 378**	**1 427 579**	**66 425**	**10 341 020**
As of 31 December 2010	**8 585 527**	**100 559**	**1 281 873**	**101 549**	**10 069 508**
As of 31 December 2011	**8 426 842**	**83 102**	**1 215 351**	**113 111**	**9 838 406**

BANK

	Buildings and land (own use) LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	Total LVL
Acquisition cost					
As of 31 December 2009	**9 035 144**	**240 919**	**2 214 233**	**66 425**	**11 556 721**
Additions	7 464	36 918	291 566	35 124	**371 072**
Disposals	-	(18 580)	(218 899)	-	**(237 479)**
As of 31 December 2010	**9 042 608**	**259 257**	**2 286 900**	**101 549**	**11 690 314**
Additions	-	-	262 353	32 224	**294 577**
Revaluation	-	24 528	-	-	**24 528**
Disposals	-	(95 095)	(261 711)	-	**(356 806)**
Reclassification to other assets	-	-	-	(20 662)	**(20 662)**
As of 31 December 2011	**9 042 608**	**188 690**	**2 287 542**	**113 111**	**11 631 951**
Depreciation					
As of 31 December 2009	**(298 506)**	**(130 541)**	**(787 592)**	**-**	**(1 216 639)**
Depreciation	(158 575)	(46 737)	(351 553)	-	**(556 865)**
Disposals	-	18 580	133 978	-	**152 558**
As of 31 December 2010	**(457 081)**	**(158 698)**	**(1 005 167)**	**-**	**(1 620 946)**
Depreciation	(158 685)	(41 985)	(329 247)	-	**(529 917)**
Disposals	-	95 095	261 629	-	**356 724**
As of 31 December 2011	**(615 766)**	**(105 588)**	**(1 072 785)**	**-**	**(1 794 139)**
Net book value					
As of 31 December 2009	**8 736 638**	**110 378**	**1 426 641**	**66 425**	**10 340 082**
As of 31 December 2010	**8 585 527**	**100 559**	**1 281 733**	**101 549**	**10 069 368**
As of 31 December 2011	**8 426 842**	**83 102**	**1 214 757**	**113 111**	**9 837 812**

29. INTANGIBLE ASSETS

	GROUP	BANK
	Software LVL	Software LVL
Acquisition cost		
As of 31 December 2009	**2 157 001**	**2 156 623**
Additions	503 121	503 121
Acquisition of subsidiary	117	-
Disposals	(9 511)	(9 480)
As of 31 December 2010	**2 650 728**	**2 650 264**
Additions	639 304	639 304
Disposals	(66 397)	(66 397)
As of 31 December 2011	**3 223 635**	**3 223 171**
Amortisation		
As of 31 December 2009	**(110 438)**	**(110 339)**
Amortisation	(155 601)	(155 344)
Disposals	9 480	9 480
As of 31 December 2010	**(256 559)**	**(256 203)**
Amortisation	(171 649)	(171 541)
Disposals	66 397	66 397
As of 31 December 2011	**(361 811)**	**(361 347)**
Net book value		
As of 31 December 2009	**2 046 563**	**2 046 284**
As of 31 December 2010	**2 394 169**	**2 394 061**
As of 31 December 2011	**2 861 824**	**2 861 824**

30. DEFERRED EXPENSES AND ACCRUED INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Deferred expenses	442 104	441 424	614 312	457 926
Other accrued interest and other income	462 303	462 303	196 957	196 957
	904 407	**903 727**	**811 269**	**654 883**
Allowances (Note 14)	(30 515)	(30 515)	(36 756)	(36 756)
	873 892	**873 212**	**774 513**	**618 127**

31. OTHER ASSETS

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Money in transit (replenishment of a correspondent account)	1 091 671	1 091 671	13 717	13 717
Unsettled spot forex transactions	367 880	367 880	375 847	375 847
Accounts receivable	310 891	227 157	155 465	183 014
Precious metals	141 012	141 012	53 301	53 301
VAT pre-tax payment	100 819	24 894	36 223	-
Prepayments	91 612	84 358	130 713	92 203
Other prepaid taxes	36 476	36 476	60 732	49 707
Funds placed in guarantee funds	7 919	7 919	7 801	7 801
Others	6 806	6 110	5 993	5 993
	2 155 086	**1 987 477**	**839 792**	**781 583**
Allowances (Note 14)	(140 376)	(140 376)	(119 524)	(119 524)
	2 014 710	**1 847 101**	**720 268**	**662 059**

32. DUE TO CREDIT INSTITUTIONS

	GROUP AND BANK	GROUP AND BANK
	31.12.2011 LVL	31.12.2010 LVL
Repayable on demand	988 721	8 815 807
Term balances	8 248 758	4 694 631
	9 237 479	**13 510 438**

The table below shows geographical concentration:

	GROUP AND BANK	GROUP AND BANK
	31.12.2011 LVL	31.12.2010 LVL
Credit institutions incorporated in the Republic of Latvia	458 371	1 167 889
Credit institutions incorporated in other EU countries	765	-
Credit institutions incorporated in other non-OECD countries	8 778 343	12 342 549
	9 237 479	**13 510 438**

As at 31 December 2011 due to credit institutions incorporated in non-OECD countries include deposits totalling LVL 8 111 651 which serve as collateral to secure loans issued. As at 31 December 2010 due to credit institutions incorporated in non-OECD countries include deposits totalling LVL 12 122 920 which serve as collateral to secure loans.

Concentration of due to credit institutions

As at 31 December 2011 and 31 December 2010, the Bank had three banks and financial institutions, whose balances exceeded 10% of total placements by banks and other financial institutions. The gross values of these balances as of 31 December 2011 and 31 December 2010 were LVL 8 247 339 and LVL 12 128 875, respectively.

33. DEPOSITS

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Repayable on demand				
Corporate customers	117 702 232	117 708 097	57 651 108	57 790 248
Municipalities	3 620 425	3 620 425	16 505 172	16 505 172
Financial institutions	960 841	960 841	440 853	440 853
State-owned companies	400 464	400 464	134 831	134 831
Public organisations	66 708	66 708	39 108	39 108
Central governments	19	19	4 821	4 821
Individuals	12 540 451	12 540 451	9 444 510	9 444 510
	135 291 140	**135 297 005**	**84 220 403**	**84 359 543**
Term deposits				
Corporate customers	30 232 939	30 232 939	35 740 107	35 740 107
Individuals	19 271 015	19 271 015	13 314 999	13 314 999
Financial institutions	243 047	243 047	-	-
Municipalities	10 850 014	10 850 014	-	-
	60 597 015	**60 597 015**	**49 055 106**	**49 055 106**
Total deposits	**195 888 155**	**195 894 020**	**133 275 509**	**133 414 649**

The Bank pays interest on current accounts, provided that the accounts maintain the pre-determined minimum balance.

Blocked accounts

As at 31 December 2011, the Bank maintained customer deposit balances of LVL 25 907 023 (as at 31 December 2010: LVL 4 649 503) which were blocked by the Bank as collateral for loans and commitments and sureties granted by the Bank.

Concentrations of current accounts and customer deposits

As of 31 December 2011, the Bank had no clients whose account balance exceeded 10% of the total of all customer account balances. As at 31 December 2010, the Bank had one client whose account balance exceeded 10% of the total of all customer account balances. As at 31 December 2010, these balances totalled LVL 16 503 307.

34. ACCRUED EXPENSES, PROVISIONS AND DEFERRED INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Provision for unused vacation	158 733	158 733	169 183	169 183
Accruals for other payments	163 611	162 367	140 187	133 725
Accrued interest payable to the Deposit Guarantee Scheme (DGS)	88 823	88 823	61 230	61 230
Other accrued expense	166 829	166 829	120 402	120 402
Deferred income	69 341	69 341	26 199	26 199
	647 337	**646 093**	**517 201**	**510 739**

35. OTHER LIABILITIES

	GROUP	BANK	GROUP	BANK
	31.12.2011 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2010 LVL
Unsettled spot forex transactions	256 462	256 462	416 856	416 856
Money in transit	147 883	147 883	178 642	178 642
Other accounts payable	332 031	121 610	166 289	143 703
	736 376	**525 955**	**761 787**	**739 201**

36. SUBORDINATED LIABILITIES

Subordinated deposits have a fixed term of five years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims.

As at 31 December 2011, the Bank had no customers whose subordinated deposit exceeded 10% of total volume of subordinated deposits.

	GROUP AND BANK	GROUP AND BANK
	31.12.2011 LVL	31.12.2010 LVL
Residents of the Republic of Latvia		
Corporate customers	*13 399*	*13 405*
Individuals	*465 429*	*464 936*
Residents of other countries		
Individuals	*1 864 032*	*1 042 524*
	2 342 860	**1 520 865**

37. SHAREHOLDERS' EQUITY

On 31 August 2010, the Shareholders' Meeting of JSC „Baltic International Bank" has approved the decision to increase the share capital by LVL 5 250 000 through issuing 1 050 000 registered and dematerialised ordinary shares (with each share having a face value of LVL 5) and to pay the share capital amount in full till 30 August 2011. The subscribed shares of LVL 5 250 000 were fully paid up by 30 August 2011. The Bank's share capital totals LVL 20 772 105 and is divided into 4 154 421 ordinary shares carrying identical voting rights as at 31 December 2011 (2010: 16 834 613 and 4 154 421, respectively).

All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Each share has a par value of LVL 5 (five lats). Of the Bank's 93 shareholders, 28 are legal entities and 65 are individuals.

Reserve capital in the amount of LVL 545 thousand (31 December 2010: LVL 545) is formed from the contributions made by the Bank's shareholders. The Bank's General Meeting of Shareholders makes the decision concerning further usage of reserve capital. Reserve capital can be used to:

- cover losses;
- increase the share capital;
- pay dividends.

	Quantity	Amount LVL
Registered share capital 31 December 2009	**3 104 421**	**15 522 105**
Increase of registered share capital	1 050 000	5 250 000
Total registered share capital 31 December 2010	**4 154 421**	**20 772 105**
Unpaid share capital as at 31 December 2010	-	(3 937 492)
Total paid-in share capital 31 December 2010	**4 154 421**	**16 834 613**
Increase of paid-in share capital	-	3 937 492
Total paid-in share capital 31 December 2011	**4 154 421**	**20 772 105**

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

	31.12.2010	31.12.2010
Valeri Belokon	69.89%	69.89%
Vilori Belokon	30.01%	30.01%

38. SURETIES AND COMMITMENTS

Sureties and guarantees, which represent irrevocable assurances and promise that the Bank will make payments to the beneficiary (third party) in the event that the obligor (customer) fails to honor his/her obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit and liabilities for credit cards represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

	GROUP 31.12.2011 LVL	BANK 31.12.2011 LVL	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL
Sureties and guarantees	**13 054 725**	**13 054 725**	**684 426**	**684 426**
Commitments to customers	**7 437 180**	**8 514 476**	**2 706 482**	**2 742 056**
Commitments to extend credit	4 795 519	5 872 815	1 784 196	1 819 769
Unused creditcard limits	579 104	579 104	585 699	585 699
Other	2 062 557	2 062 557	336 587	336 588
	20 491 905	**21 569 201**	**3 390 908**	**3 426 482**

39. TRUST AGREEMENTS

The Bank enters into trust agreements with individuals and legal entities, residents and non-residents of the Republic of Latvia. The Bank accepts no risk for its trust operations; all risks are retained by its clients. As of 31 December 2011, assets administered by the Bank totaled LVL 50 784 150. As of 31 December 2010, the Bank's administered assets stood at LVL 43 377 029.

40. LITIGATION

In the ordinary course of business, the Group and the Bank are exposed to litigation risks. The management believes that the ultimate loss, if any, arising in connection with such litigation or complaints will not have a materially adverse effect on the Bank's financial position or results of future operations. No provisions were recognized as at 31 December 2011 and 2010.

41. INFORMATION ON BANK'S STAFF AND REMUNERATION OF THE MANAGEMENT

In 2011, the Bank's average staff count increased to 224 (2010: 213). Remuneration to the Bank's Supervisory Council and Management Board members amounted to:

	31.12.2011 LVL	31.12.2010 LVL
Council members	129 163	129 116
Board members	243 002	277 903
	372 165	**407 019**

Based on the FCMC's Regulations No.61 „Regulations Governing the Disclosure of Information and Transparency of Institutions", the Bank publishes the information related to its remuneration policy, as formulated in accordance with the requirements outlined in Commission's Regulations No. 171 "Regulations Setting Forth the Basic Principles of the Remuneration Policy" (in effect as of 21 December 2009) and the established practices.

Within the framework of the Remuneration Policy, the Bank allocates the decision-making responsibility as follows:

THE BANK'S COUNCIL IS RESPONSIBLE FOR:

- determining and approving the basic principles of the Remuneration Policy;
- supervising the Policy (Policy formulation, implementation and adherence to);
- approving the Bank's internal framework that regulates remuneration-related issues;
- determining the remuneration for the employees whose activities influence the Bank's risk profile (hereinafter referred to as risk-takers);
- revising the basic principles of the remuneration policy (on a regular basis, but no less than once a year) in order to align the remuneration structure to (i) the Bank's current activities and development strategy and (ii) altering external factors;
- setting forth the procedure for verifying whether the Bank's remuneration policy is implemented in strict conformity with the approved Remuneration Policy.

THE BANK'S BOARD IS RESPONSIBLE FOR:

- ensuring that the remuneration policy and policy-relevant internal documents are formulated and complied with;
- informing the risk-takers of the indicators and methods used in evaluating their performance results and determining the variable pay component.

To ensure compliance with the remuneration policy and policy-relevant internal regulatory documents, the Board may involve the employees performing internal control functions, HR Division's staff, and the Bank's shareholders (if necessary).

THE HR DIVISION IS RESPONSIBLE FOR:

- formulating and preparing the internal regulatory documents (requiring the approval by the Council and /or Board) related to the remuneration policy, including coordinating the preparation of the documents having a material impact on the Bank's risk profile and the quality of risk management (to this end, the HR Division may involve the employees performing internal control functions, and other competent employees who possess the required skills and knowledge and are authorised to perform the functions and to obtain all relevant information);
- coordinating the supervision over the application of the remuneration policy and evaluating the overall effectiveness of the policy;
- implementing remuneration instruments and maintaining long-term employee motivation plans;
- conducting employee performance evaluation (with respect to the Bank's risk-takers) on a regular basis, but no less than once a year;
- aggregating the Risk Controlling Department-provided information and non-financial data;
- preparing a proposal concerning the size of a variable remuneration component to be awarded/paid to the risk-takers.

THE PROPOSAL IS SUBMITTED TO THE BANK'S:

- Board - for giving its recommendations to the Council;
- Council - for final approval.

THE RISK CONTROLLING DEPARTMENT IS RESPONSIBLE FOR:

- furnishing the HR Division with the Report analysing the possible impact of a variable remuneration component - to be paid in the future - on the Bank's risk profile, based on financial results attained by the risk-takers (the Risk Control Director submits the report on the evaluation results to the HR Division);
- evaluating the impact exerted by variable remuneration components already paid/awarded to the risktakers (including risks and the structure of the variable components) on the Bank's risk profile and submitting the evaluation results to the Bank's Council (the Risk Control Director submits the report on the evaluation results to the Bank's Council).

THE COMPLIANCE DEPARTMENT IS RESPONSIBLE FOR:

- verifying whether the remuneration structure is compliant with the regulatory requirements and the Bank's internal regulatory framework. The Compliance Director submits the non-compliance report (once any noncompliance is identified).

THE NON-COMPLIANCE REPORT IS SUBMITTED TO:

- the Board - for giving the Council the Board's recommendations regarding the corrective action;
- the Council - for approving the corrective action (if necessary).

The Internal Audit Function is responsible for periodic policy-relevant checks (formulation, implementation and evaluation of the results). The Chief Audit Executive (the Head of the Internal Audit Function) reports audit findings to the Bank's Council.

The Bank does not establish the Remuneration Committee, taking into account the Bank's size and the specificity of the decision-making process.

The link between remuneration and performance (the pay-to-performance relationship) is ensured by the following elements of the remuneration system: extra payments and financial rewards / bonuses which are performance-linked (linked to the Bank's financial performance indicators, financial and non-financial performance indicators in the Bank's functional areas/ units, and financial and non-financial performance indicators of individual employees).

The Bank determines the basis for the payment by reference to the following performance results (financial and non-financial indicators) including the indicators whereby the employees acquire the irrevocable right to receive any element of variable pay and other benefits:

- Bank's profit figure - financial indicator;
- Achievement of functional unit's income plan (target income) - financial indicator;
- Implementation of functional unit's performance (action) plan - non-financial indicator;
- Achievement of individual income plan (target income) - financial indicator;
- Individual employee performance and professional development (results of interviews conducted on a yearly basis) - non-financial indicator;
- Acknowledgements and disciplinary penalties - non-financial indicator;
- Quality of the work on the project - non-financial indicator;
- Outstanding employee performance and special achievements - non-financial indicator;
- Quality of initiative projects - non-financial indicator.

The Bank divides variable remuneration into three broad categories (insignificant portion, significant portion and very substantial portion). Variable remuneration is subject to deferral arrangements as set out below.

An insignificant portion of variable remuneration may be paid out to the Bank's risk-takers right away and in full.

The Bank uses a two-stage payment model to pay out a significant portion of variable remuneration to the Bank's risk-takers:

- 60 percent variable pay can be paid out right away;
- 40 percent variable pay is deferred for the period which is calculated according to the approach described in the remuneration administration procedure - however, for a minimum of 3 years.

The Bank uses a two-stage payment model to pay out a very substantial portion of variable remuneration to the Bank's risk-takers:

- 40 percent variable pay can be paid out right away;
- 60 percent variable pay is deferred for the period which is calculated according to the approach described in the remuneration administration procedure - however, for a minimum of 3 years.

The deferred variable component is assessed and subsequently paid out upon the expiry of the deferral period. Prior to vesting, the deferred variable component is recalculated (reduced partially or completely). The variable component is recalculated through ex-post risk adjustments, taking into account the risks which (i) were not captured by the initial calculation and first came to light during the above mentioned deferral period and (ii) are not related to the performance results tied to the performance award, i.e. the deferred portion of the variable pay.

Breakdown of risk-takers by lines of business (functional areas)	Remuneration package (TOTAL: variable and fixed components)
	LVL
Internal Control Functions	114 685
Customers and partners related functions	111 004
Bank's assets management	122 131
Accounting and legal functions	101 706

Remuneration disclosed above is reflected in the profit or loss for the period.

Group of risk-takers	Fixed remuneration component	Variable remuneration component	Variable component consists of elements, such as cash, shares, options	Deferred portion of the unpaid variable component	Deferred portion of the variable component awarded in 2011	*Installation allowance (gross) paid in 2011	**Severance pay paid in 2011
	LVL	LVL					
Board (7)	182 528	60 474	Cash only	-	-	-	-
Others (7)	169 824	36 700	Cash only	-	-	-	-

** Installation allowance is a one-time payment made to new recruited staff.*
*** Severance pay is a one-time payment made to a terminated employee.*

42. RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders who have significant influence over the Group and the Bank, companies in which they have a controlling interest, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies, and for the Bank its subsidiaries.

All related party transactions are at arm's length.

The outstanding balances as of 31 December 2011 and related income statement amounts of transactions for the year ended 31 December 2011 with other related parties are as follows:

As of 31 December 2011

						GROUP AND BANK
	Subsidiary LVL	Associate LVL	Shareholders, Members of the Supervisory Council and Management LVL	Other senior executives LVL	Other LVL	Total LVL
Due from credit institutions						
At the beginning of the period	-	-	-	-	43	***43***
Due from credit institutions	-	-	-	-	*43*	***43***
At the end of the period	-	-	-	-	43	**43**
Due from credit institutions	-	-	-	-	*43*	***43***
Loans						
At the beginning of the period	1 326 927	5 296	463 157	-	377 631	**2 173 011**
Gross Loans	*1 682 592*	*5 296*	*463 157*	-	*377 631*	***2 528 676***
Allowances	*(355 665)*	-	-	-	-	***(355 665)***
Issued during the period	786 467	16 794	425 676	590	21 357	**1 250 884**
Repaid during the period	(425 866)	(5 860)	(420 354)	(590)	(40 384)	**(893 054)**
Difference due to fluctuations in foreign currency exchange rates	-	-	85	-	8	**93**
Net impairment difference	(43 569)	-	-	-	-	**(43 569)**
At the end of the period	1 643 959	16 230	468 564	-	358 612	**2 487 365**
Gross Loans	*2 043 193*	*16 230*	*468 564*	-	*358 612*	***2 886 599***
Allowances	*(399 234)*	-	-	-	-	***(399 234)***
Interest income	39 514	726	16 886	-	26 604	**83 730**
Other assets						
At the beginning of the period	37 474	-	-	-	-	**37 474**
Other assets	*37 474*	-	-	-	-	***37 474***
At the end of the period	37 474	-	-	-	-	**37 474**
Other assets	*37 474*	-	-	-	-	***37 474***
Sureties (guarantees)						
At the beginning of the period	-	-	-	-	10 591	**10 591**
Sureties (guarantees)	-	-	-	-	*10 591*	***10 591***
At the end of the period	-	-	-	-	10 591	**10 591**
Sureties (guarantees)	-	-	-	-	*10 591*	***10 591***
Due to credit institutions						
At the beginning of the period	-	-	-	-	152 630	**152 630**
Increase in balances during the period	-	-	-	-	739	**739**
Decline in balances during the period	-	-	-	-	(1)	**(1)**
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	710	**710**
At the end of the period	-	-	-	-	154 078	**154 078**
Interest expense	-	-	-	-	1	**1**
Deposits						
At the beginning of the period	138 779	-	1 648 013	104 435	8 863 125	**10 754 352**
Increase in balances during the period	596 259	16 675	9 811 222	554 929	41 786 799	**52 765 884**
Decline in balances during the period	(729 173)	(16 675)	(10 937 995)	(565 253)	(49 507 646)	**(61 756 742)**
Difference due to fluctuations in foreign currency exchange rates	-	-	359	-	51 153	**51 512**
At the end of the period	5 865	-	521 599	94 111	1 193 431	**1 815 006**
Interest expense	-	-	25 510	6 381	38 333	**70 224**
Subordinated liabilities						
At the beginning of the period	-	-	7 028	-	13 142	**20 170**
Increase in balances during the period	-	-	562	-	1 051	**1 613**
Decline in balances during the period	-	-	(562)	-	(1 051)	**(1 613)**
At the end of the period	-	-	7 028	-	13 142	**20 170**
Interest expense	-	-	562	-	1 051	**1 613**

As of 31 December 2010

GROUP AND BANK	Subsidiary LVL	Associate LVL	Shareholders, Members of the Supervisory Council and Management LVL	Other senior executives LVL	Other LVL	Total LVL
Due from credit institutions						
At the beginning of the period	-	-	-	-	36	***36***
Due from credit institutions	-	-	-	-	*36*	***36***
Issued during the period	-	-	-	-	75 716	**75 716**
Repaid during the period	-	-	-	-	(75 693)	**(75 693)**
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	(16)	**(16)**
At the end of the period	-	-	-	-	43	**43**
Due from credit institutions	-	-	-	-	*43*	***43***
Loans						
At the beginning of the period	306 964	-	422 541	-	384 980	**1 114 485**
Gross Loans	*512 541*	-	*422 541*	-	*384 980*	***1 320 062***
Allowances	*(205 577)*	-	-	-	-	***(205 577)***
Issued during the period	1 179 122	5 296	203 972	-	97 956	**1 486 346**
Repaid during the period	(153 437)	-	(164 913)	-	(105 492)	**(423 842)**
Difference due to fluctuations in foreign currency exchange rates	7 861	-	1 557	-	187	**9 605**
Net impairment difference	(13 583)	-	-	-	-	**(13 583)**
At the end of the period	1 326 927	5 296	463 157	-	377 631	**2 173 011**
Gross Loans	*1 682 592*	*5 296*	*463 157*	-	*377 631*	***2 528 676***
Allowances	*(355 665)*	-	-	-	-	***(355 665)***
Interest income	28 578	459	22 825	-	27 675	**79 537**
Other assets						
At the beginning of the period	37 474	-	-	-	-	**37 474**
Other assets	*37 474*	-	-	-	-	***37 474***
At the end of the period	37 474	-	-	-	-	**37 474**
Other assets	*37 474*	-	-	-	-	***37 474***
Sureties (guarantees)						
At the beginning of the period	-	-	-	-	10 591	**10 591**
Sureties (guarantees)	-	-	-	-	*10 591*	***10 591***
At the end of the period	-	-	-	-	10 591	**10 591**
Sureties (guarantees)	-	-	-	-	*10 591*	***10 591***
Due to credit institutions						
At the beginning of the period	-	-	-	-	145 847	**145 847**
Increase in balances during the period	-	-	-	-	2 469	**2 469**
Decline in balances during the period	-	-	-	-	1 138	**1 138**
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	3 176	**3 176**
At the end of the period	-	-	-	-	152 630	**152 630**
Interest expense	-	-	-	-	102	**102**
Deposits						
At the beginning of the period	116	-	367 297	93 023	1 004 674	**1 465 110**
Increase in balances during the period	714 221	-	2 276 478	59 975	124 619 451	**127 670 125**
Decline in balances during the period	(575 558)	-	(999 490)	(48 575)	(117 161 169)	**(118 784 792)**
Difference due to fluctuations in foreign currency exchange rates	-	-	3 728	12	400 169	**403 909**
At the end of the period	138 779	-	1 648 013	104 435	8 863 125	**10 754 352**
Interest expense	-	-	26 860	4 615	384 978	**416 453**
Subordinated liabilities						
At the beginning of the period	-	-	7 028	-	13 142	**20 170**
Increase in balances during the period	-	-	562	-	1 052	**1 614**
Decline in balances during the period	-	-	(562)	-	(1 052)	**(1 614)**
At the end of the period	-	-	7 028	-	13 142	**20 170**
Interest expense	-	-	562	-	1 052	**1 614**

43. CAPITAL ADEQUACY CALCULATION

The Financial and Capital Market Commission sets forth capital requirements for the Bank as a whole and supervises the adherence to the requirements.

The Bank's capital adequacy ratio reflects the capital level required for hedging against credit risk and market risk which the Bank's assets and sureties and commitments are exposed to. Therefore, to comply with the Financial and Capital Market Commission's regulatory requirements, the capital adequacy ratio may not be less than 8 percent.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the New Basel Capital Accord, commonly known as Basel II.

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2011:

	GROUP LVL	BANK LVL
Total equity capital		
Paid-in share capital	20 772 105	20 772 105
Reserve capital and other reserves	545 024	545 024
Retained earnings	172 454	438 137
Profit for the current year	1 517 512	1 235 430
Intangible assets	(2 861 824)	(2 861 824)
Specific decline in Tier 1 capital, as stipulated by the applicable law	(14 489)	(14 489)
Less revaluation of investment property	(620 484)	(387 193)
Tier 1 Core Capital	**19 510 298**	**19 727 190**
Subordinated liabilities	1 557 236	1 557 236
Specific decline in Tier 2 capital, as stipulated by the applicable law	(14 489)	(14 489)
Tier 2 Supplementary Capital	**1 542 747**	**1 542 747**
TOTAL CAPITAL	**21 053 045**	**21 269 937**
Capital charge for credit risk inherent in the Bank's book, including the breakdown of exposures by categories:	8 260 776	8 285 409
Public entities	*2 467 839*	*2 467 839*
Commercial companies	*2 689 242*	*2 863 851*
Overdue (delinquent) exposures	*939 621*	*939 621*
High-risk exposures	*42 168*	*42 168*
Other items	*2 121 906*	*1 971 930*
The total capital charge for market risks	167 942	167 942
Capital charge for operational risk	1 061 500	1 058 050
Total capital charge	**9 490 218**	**9 511 401**
CAPITAL ADEQUACY RATIOS		
31 December 2011	**17.75%**	**17.89%**
CAPITAL ADEQUACY RATIOS		
31 December 2010	**14.69%**	**14.88%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for sureties and commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank. The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2011 and 31 December 2010.

44. TERM STRUCTURE OF ASSETS AND LIABILITIES

The following tables are based on regulatory instructions of the Financial and Capital Market Commission and show the term structure of financial assets and liabilities. This term structure will not necessarily coincide with discounted cash flows.

As of 31 December 2011

GROUP

ASSETS	Demand LVL	Less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 to 5 years LVL	5 years and more LVL	No maturity date LVL	TOTAL LVL
Cash and balances with Bank of Latvia	20 847 019	522	-	-	-	-	-	-	**20 847 541**
Due from credit institutions	108 659 872	6 584 045	-	2 668 367	843 365	669 835	-	4 411 876	**123 837 360**
Financial assets held-for-trading	358 110	18 853	3 295	-	-	-	17 625	-	**397 883**
Securities held-for-trading	*358 110*	-	-	-	-	-	*17 625*	-	***375 735***
Derivative financial instruments	-	*18 853*	3 295	-	-	-	-	-	***22 148***
Securities available-for-sale	-	-	-	-	-	-	165 579	-	**165 579**
Securities held-to-maturity	272 000	94 398	222	861 436	656 957	5 161 373	-	-	**7 046 386**
Loans	11 630 581	4 949 570	6 300 900	2 845 755	17 630 580	14 713 521	32 051	-	**58 102 958**
Non-financial assets	37 260	493 391	107 016	51 170	692 143	70 579	-	20 839 281	**22 290 840**
Total assets	**141 804 842**	**12 140 779**	**6 411 433**	**6 426 728**	**19 823 045**	**20 615 308**	**215 255**	**25 251 157**	**232 688 547**
LIABILITIES									
Due to credit institutions	988 721	136 451	1 968 507	-	-	6 143 800	-	-	**9 237 479**
Deposits	132 518 244	11 212 079	4 201 803	15 332 996	19 824 347	8 345 847	40 964	4 411 875	**195 888 155**
Derivative financial instruments	-	21 047	-	-	-	-	-	-	**21 047**
Subordinated liabilities	-	302	10 323	8 283	108	2 323 844	-	-	**2 342 860**
Non-financial liabilities	1 772 732	307 477	1 856	2 745	49 526	23 901	-	9 146	**2 167 383**
Shareholders' equity	-	-	-	-	-	-	-	23 031 623	**23 031 623**
Total liabilities and shareholders' equity	**135 279 697**	**11 677 356**	**6 182 489**	**15 344 024**	**19 873 981**	**16 837 392**	**40 964**	**27 452 644**	**232 688 547**
Sureties and commitments*	7 402 762	-	-	-	-	-	-	-	**7 402 762**
Maturity gap	**(877 617)**	**463 423**	**228 944**	**(8 917 296)**	**(50 936)**	**3 777 916**	**174 291**	**x**	**x**

** Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 11 595 588.*
The value of the gold totals LVL 1 493 555.

As of 31 December 2010

Assets	72 576 966	15 897 807	9 158 416	10 177 346	11 964 536	29 318 607	659 279	18 147 903	**167 900 860**
Liabilities	85 933 177	15 155 758	14 474 977	10 258 783	12 058 954	12 417 691	35 213	17 566 307	**167 900 860**
Sureties and commitments*	2 473 987	-	-	-	-	-	-	-	**2 473 987**
Maturity gap	**(15 830 198)**	**742 049**	**(5 316 561)**	**(81 437)**	**(94 418)**	**16 900 916**	**624 066**	**x**	**x**

** Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 795 939.*
The value of the gold totals LVL 120 982.

As of 31 December 2011

BANK

ASSETS	Demand LVL	Less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 to 5 years LVL	5 years and more LVL	No maturity date LVL	TOTAL LVL
Cash and balances with Bank of Latvia	20 846 419	522	-	-	-	-	-	-	**20 846 941**
Due from credit institutions	108 659 872	6 584 045	-	2 668 367	843 365	669 835	-	4 411 876	**123 837 360**
Financial assets held-for-trading	358 110	18 853	3 295	-	-	-	17 625	-	**397 883**
Securities held-for-trading	*358 110*	-	-	-	-	-	*17 625*	-	***375 735***
Derivative financial instruments	-	*18 853*	3 295	-	-	-	-	-	***22 148***
Securities available-for-sale	-	-	-	-	-	-	165 579	-	**165 579**
Securities held-to-maturity	272 000	94 398	222	861 436	656 957	5 161 373	-	-	**7 046 386**
Loans	11 630 581	5 492 584	6 300 900	2 845 755	18 731 524	14 713 521	32 051	-	**59 746 916**
Non-financial assets	11 199	493 391	107 016	19 085	727 267	1 237	-	19 056 942	**20 416 137**
Total assets	**141 778 181**	**12 683 793**	**6 411 433**	**6 394 643**	**20 959 113**	**20 545 966**	**215 255**	**23 468 818**	**232 457 202**
LIABILITIES									
Due to credit institutions	988 721	136 451	1 968 507	-	-	6 143 800	-	-	**9 237 479**
Deposits	132 524 109	11 212 079	4 201 803	15 332 996	19 824 347	8 345 847	40 964	4 411 875	**195 894 020**
Derivative financial instruments	-	21 047	-	-	-	-	-	-	**21 047**
Subordinated liabilities	-	302	10 323	8 283	108	2 323 844	-	-	**2 342 860**
Non-financial liabilities	1 570 998	306 233	1 856	2 242	41 342	23 901	-	-	**1 946 572**
Shareholders' equity	-	-	-	-	-	-	-	23 015 224	**23 015 224**
Total liabilities and shareholders' equity	**135 083 828**	**11 676 112**	**6 182 489**	**15 343 521**	**19 865 797**	**16 837 392**	**40 964**	**27 427 099**	**232 457 202**
Sureties and commitments*	8 480 058	-	-	-	-	-	-	-	**8 480 058**
Maturity gap	**(1 785 705)**	**1 007 681**	**228 944**	**(8 948 878)**	**1 093 316**	**3 708 574**	**174 291**	**x**	**x**

** Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 11 595 588.*
The value of the gold totals LVL 1 493 555.

As of 31 December 2010

Assets	72 548 908	16 425 919	9 158 416	10 168 140	12 773 300	29 162 221	659 279	17 371 306	**168 267 489**
Liabilities	86 063 361	15 154 366	14 474 977	10 253 337	12 050 770	12 417 691	35 213	17 817 774	**168 267 489**
Sureties and commitments*	2 509 561	-	-	-	-	-	-	-	**2 509 561**
Maturity gap	**(16 024 014)**	**1 271 553**	**(5 316 561)**	**(85 197)**	**722 530**	**16 744 530**	**624 066**	**x**	**x**

** Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 795 939.*
The value of the gold totals LVL 120 982.

45. CONTRACTUAL CASH FLOW

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows:

As of 31 December 2011

	Demand and less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	More than 1 year LVL	Total gross amount outflow/ (inflow) LVL	Carrying amount LVL
Non-derivative liabilities							
Deposits and balances due to financial institutions	1 125 260	1 988 841	-	-	6 143 800	9 257 901	**9 237 479**
Current accounts and deposits due to customers	148 155 950	4 220 864	15 498 879	20 208 229	8 962 170	197 046 092	**195 894 020**
Other borrowed funds	302	10 323	8 283	108	2 951 959	2 970 975	**2 342 860**
Derivative liabilities							
- Inflow	(11 026 146)	-	-	-	-	(11 026 146)	-
- Outflow	11 047 193	-	-	-	-	11 047 193	**21 047**
Total	**149 302 559**	**6 220 028**	**15 507 162**	**20 208 337**	**18 057 929**	**209 296 015**	**207 495 406**
Credit related commitments	21 569 201	-	-	-	-	-	-

As of 31 December 2010

	Demand and less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	More than 1 year LVL	Total gross amount outflow/ (inflow) LVL	Carrying amount LVL
Non-derivative liabilities							
Deposits and balances due to financial institutions	790 807	4 833 824	32 402	615	8 025 000	13 682 648	**13 510 438**
Current accounts and deposits due to customers	98 487 270	9 846 824	10 347 595	12 428 865	3 099 973	134 210 527	**133 414 649**
Other borrowed funds	263	9 813	4 801	84	1 511 444	1 526 405	**1 520 865**
Derivative liabilities							
- Inflow	(52 981 707)	-	-	-	-	(52 981 707)	-
- Outflow	53 292 117	-	-	-	-	53 292 117	**311 351**
Total	**99 588 750**	**14 690 461**	**10 384 798**	**12 429 564**	**12 636 417**	**149 729 990**	**148 757 303**
Credit related commitments	3 426 482	-	-	-	-	-	-

The analyses of contractual undiscounted cash flows on the Group's and the Bank's financial liabilties do not vary significantly.

46. ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE

As of 31 December 2011

							GROUP
ASSETS	**LVL**	**EUR**	**USD**	**RUB**	**GBP**	**Other currencies**	**TOTAL LVL**
Cash and balances with Bank of Latvia	17 625 680	2 755 559	430 819	-	9 674	25 809	**20 847 541**
Due from credit institutions	9 729	21 412 522	73 908 037	953 496	26 607 361	946 215	**123 837 360**
Financial assets held-for-trading	30 100	-	367 783	-	-	-	**397 883**
Securities held-for-trading	*7 952*	-	*367 783*	-	-	-	***375 735***
Derivative financial instruments	*22 148*	-	-	-	-	-	***22 148***
Securities available-for-sale	127 111	38 468	-	-	-	-	**165 579**
Securities held to maturity	-	-	7 046 386	-	-	-	**7 046 386**
Loans	294 939	22 796 797	34 373 382	612 142	25 642	56	**58 102 958**
Non-financial assets	19 659 930	794 389	1 665 399	16 675	12 237	142 210	**22 290 840**
Total assets	**37 747 489**	**47 797 735**	**117 791 806**	**1 582 313**	**26 654 914**	**1 114 290**	**232 688 547**
LIABILITIES							
Due to credit institutions	736	2 170 254	6 136 038	927 981	1 705	765	**9 237 479**
Deposits	12 591 436	54 969 122	110 720 897	625 603	13 356 059	3 625 038	**195 888 155**
Derivative financial instruments	21 047	-	-	-	-	-	**21 047**
Subordinated liabilities	-	1 509 299	833 561	-	-	-	**2 342 860**
Non-financial liabilities	1 860 919	53 923	189 932	20 397	41 397	815	**2 167 383**
Shareholders' equity	23 031 623	-	-	-	-	-	**23 031 623**
Total liabilities and shareholders' equity	**37 505 761**	**58 702 598**	**117 880 428**	**1 573 981**	**13 399 161**	**3 626 618**	**232 688 547**
GROSS POSITION	**241 728**	**(10 904 863)**	**(88 622)**	**8 332**	**13 255 753**	**(2 512 328)**	
Unsettled spot forex contracts	(147 500)	12 377 885	(1 385 891)	-	(13 359 108)	2 626 032	
Forward contracts	254 770	(1 895 409)	1 638 445	-	-	-	
NET POSITION	**348 998**	**(422 387)**	**163 932**	**8 332**	**(103 355)**	**113 704**	
Ratio to the shareholders' equity (%)*		-2.01%	0.78%	0.04%	-0.49%		

** Equity (net worth) totalling LVL 21 053 045 as of 31 December 2011 (as of 31 December 2010: 15 673 406).*

As of 31 December 2010

Assets	27 116 976	73 529 257	64 385 136	1 241 688	895 856	731 947	**167 900 860**
Liabilities	31 416 610	47 719 095	77 389 293	1 247 054	8 934 222	1 194 586	**167 900 860**
Gross position	**(4 299 634)**	**25 810 162**	**(13 004 157)**	**(5 366)**	**(8 038 366)**	**(462 639)**	
Net position	**1 319 151**	**(1 609 647)**	**302 501**	**(5 366)**	**(4 061)**	**209 921**	

As of 31 December 2011

BANK							
ASSETS	LVL	EUR	USD	RUB	GBP	Other currencies	TOTAL LVL
Cash and balances with Bank of Latvia	17 625 080	2 755 559	430 819	-	9 674	25 809	**20 846 941**
Due from credit institutions	9 729	21 412 522	73 908 037	953 496	26 607 361	946 215	**123 837 360**
Financial assets held-for-trading	30 100	-	367 783	-	-	-	**397 883**
Securities held-for-trading	*7 952*	-	*367 783*	-	-	-	***375 735***
Derivative financial instruments	*22 148*	-	-	-	-	-	***22 148***
Securities available-for-sale	127 111	38 468	-	-	-	-	**165 579**
Securities held to maturity	-	-	7 046 386	-	-	-	**7 046 386**
Loans	330 258	24 405 437	34 373 382	612 142	25 642	55	**59 746 916**
Non-financial assets	17 974 984	604 632	1 665 399	16 675	12 237	142 210	**20 416 137**
Total assets	**36 097 262**	**49 216 618**	**117 791 806**	**1 582 313**	**26 654 914**	**1 114 289**	**232 457 202**
LIABILITIES							
Due to credit institutions	736	2 170 254	6 136 038	927 981	1 705	765	**9 237 479**
Deposits	12 591 769	54 974 648	110 720 897	625 603	13 356 059	3 625 044	**195 894 020**
Derivative financial instruments	21 047	-	-	-	-	-	**21 047**
Subordinated liabilities	-	1 509 299	833 561	-	-	-	**2 342 860**
Non-financial liabilities	1 640 108	53 923	189 932	20 397	41 397	815	**1 946 572**
Shareholders' equity	23 015 224	-	-	-	-	-	**23 015 224**
Total liabilities and shareholders' equity	**37 268 884**	**58 708 124**	**117 880 428**	**1 573 981**	**13 399 161**	**3 626 624**	**232 457 202**
GROSS POSITION	**(1 171 622)**	**(9 491 506)**	**(88 622)**	**8 332**	**13 255 753**	**(2 512 335)**	
Unsettled spot forex contracts	(147 500)	12 377 885	(1 385 891)	-	(13 359 108)	2 626 032	
Forward contracts	254 770	(1 895 409)	1 638 445	-	-	-	
NET POSITION	**(1 064 352)**	**990 970**	**163 932**	**8 332**	**(103 355)**	**113 697**	
Ratio to the shareholders' equity (%)*		4.66%	0.77%	0.04%	-0.49%		

** Equity (net worth) totalling LVL 21 269 936 as of 31 December 2011 (as of 31 December 2010: 15 939 197).*

As of 31 December 2010

Assets	26 146 729	74 866 133	64 385 136	1 241 688	895 856	731 947	**168 267 489**
Liabilities	31 644 516	47 857 818	77 389 293	1 247 054	8 934 222	1 194 586	**168 267 489**
Gross position	**(5 497 787)**	**27 008 315**	**(13 004 157)**	**(5 366)**	**(8 038 366)**	**(462 639)**	
Net position	**120 998**	**(411 494)**	**302 501**	**(5 366)**	**(4 061)**	**209 921**	

47. SENSITIVITIES ANALYSIS

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 1.13% of the Group's equity as of 31 December 2011 (as of 31 December 2010: 7.06%).

Figures show that a 10 percent strengthening of the Latvian Lats against other currencies may have the following impact on the Group's profit (in LVL):

	31.12.2011 EUR	31.12.2011 USD	31.12.2011 GBP	31.12.2010 EUR	31.12.2010 USD	31.12.2010 GBP
Rate valid	0.702804	0.544	0.840	0.702804	0.535	0.824
Foreign currency position (in LVL)	(422 387)	163 932	(103 355)	(1 609 647)	302 501	(5 366)
Profit/(loss) (in LVL)	29 685	(8 852)	8 682	113 126	(16 335)	440

The sum of overall foreign exchange exposure and the net position in gold stood at 5.51% of the Bank's equity as of 31 December 2011 (as of 31 December 2010: 0.58%).

Figures show that a 10 percent strengthening of the Latvian Lats against other currencies may have the following impact on the Bank's profit (in LVL):

	31.12.2011 EUR	31.12.2011 USD	31.12.2011 GBP	31.12.2010 EUR	31.12.2010 USD	31.12.2010 GBP
Rate valid	0.702804	0.544	0.840	0.702804	0.535	0.824
Foreign currency position (in LVL)	990 970	163 932	(103 355)	(411 494)	302 501	(5 366)
Profit/(loss) (in LVL)	(69 645)	(8 852)	8 682	28 920	(16 335)	440

48. REPRICING MATURITIES OF ASSETS AND LIABILITIES

Interest rate risk

The following table shows the earlier of the interest rate contracted re-pricing dates or contractual maturity of financial assets and liabilities.

As of 31 December 2011

GROUP							
ASSETS	**Up to 1 month (inclusive) LVL**	**1 to 3 months LVL**	**3 to 6 months LVL**	**6 to 12 months LVL**	**One year and more LVL**	**Non interest bearing LVL**	**TOTAL LVL**
Cash and balances with Bank of Latvia	17 193 683	-	-	-	-	3 653 858	**20 847 541**
Due from credit institutions	115 104 941	-	2 665 600	843 365	669 835	4 553 619	**123 837 360**
Financial assets held-for-trading	-	-	-	-	-	397 883	**397 883**
Securities held-for-trading	-	-	-	-	-	*375 735*	***375 735***
Derivative financial instruments	-	-	-	-	-	*22 148*	***22 148***
Securities available-for-sale	-	-	-	-	-	165 579	**165 579**
Securities held-to-maturity	-	-	816 192	656 957	5 161 372	411 865	**7 046 386**
Loans	5 003 654	6 292 225	3 357 823	15 467 368	14 333 151	13 648 737	**58 102 958**
Non-financial assets	-	-	-	-	-	22 290 840	**22 290 840**
Total assets	**137 302 278**	**6 292 225**	**6 839 615**	**16 967 690**	**20 164 358**	**45 122 381**	**232 688 547**
LIABILITIES							
Due to credit institutions	136 000	1 967 851	-	-	6 143 800	989 828	**9 237 479**
Deposits	118 973 736	4 196 660	15 308 818	19 819 092	8 310 595	29 279 254	**195 888 155**
Derivative financial instruments	-	-	-	-	-	21 047	**21 047**
Subordinated liabilities	-	-	-	-	2 323 844	19 016	**2 342 860**
Non-financial liabilities	-	-	-	-	-	2 167 383	**2 167 383**
Shareholders' equity	-	-	-	-	-	23 031 623	**23 031 623**
Total liabilities and shareholders' equity	**119 109 736**	**6 164 511**	**15 308 818**	**19 819 092**	**16 778 239**	**55 508 151**	**232 688 547**
Net position sensitive to interest rate risk	**18 192 542**	**127 714**	**(8 469 203)**	**(2 851 402)**	**3 386 119**	**(10 385 770)**	
Effect on annual net interest income	**174 345**	**1 064**	**(52 933)**	**(7 129)**	**-**	**-**	**115 347**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Group's annual net interest income to the amount of 115 347 LVL (as of 31 December 2010:3 775 латов).

As of 31 December 2010

Assets	79 113 517	8 949 527	10 032 664	11 493 171	29 030 045	29 281 936	**167 900 860**
Liabilities	73 692 393	14 435 125	10 209 589	12 036 309	12 431 542	45 095 902	**167 900 860**
Net position sensitive to interest rate risk	**5 421 124**	(5 485 598)	**(176 925)**	**(543 138)**	**16 598 503**	**(15 813 966)**	

As of 31 December 2011

BANK							
ASSETS	**Up to 1 month (inclusive) LVL**	**1 to 3 months LVL**	**3 to 6 months LVL**	**6 to 12 months LVL**	**One year and more LVL**	**Non interest bearing LVL**	**TOTAL LVL**
Cash and balances with Bank of Latvia	17 193 683	-	-	-	-	3 653 258	**20 846 941**
Due from credit institutions	115 104 941	-	2 665 600	843 365	669 835	4 553 619	**123 837 360**
Financial assets held-for-trading	-	-	-	-	-	397 883	**397 883**
Securities held-for-trading	-	-	-	-	-	*375 735*	***375 735***
Derivative financial instruments	-	-	-	-	-	*22 148*	***22 148***
Securities available-for-sale	-	-	-	-	-	165 579	**165 579**
Securities held-to-maturity	-	-	816 192	656 957	5 161 372	411 865	**7 046 386**
Loans	5 546 148	6 292 225	3 357 823	16 568 311	14 333 151	13 649 258	**59 746 916**
Non-financial assets	-	-	-	-	-	20 416 137	**20 416 137**
Total assets	**137 844 772**	**6 292 225**	**6 839 615**	**18 068 633**	**20 164 358**	**43 247 599**	**232 457 202**
LIABILITIES							
Due to credit institutions	136 000	1 967 851	-	-	6 143 800	989 828	**9 237 479**
Deposits	118 973 736	4 196 660	15 308 818	19 819 092	8 310 595	29 285 119	**195 894 020**
Derivative financial instruments	-	-	-	-	-	21 047	**21 047**
Subordinated liabilities	-	-	-	-	2 323 844	19 016	**2 342 860**
Non-financial liabilities	-	-	-	-	-	1 946 572	**1 946 572**
Shareholders' equity	-	-	-	-	-	23 015 224	**23 015 224**
Total liabilities and shareholders' equity	**119 109 736**	**6 164 511**	**15 308 818**	**19 819 092**	**16 778 239**	**55 276 806**	**232 457 202**
Net position sensitive to interest rate risk	**18 735 036**	**127 714**	**(8 469 203)**	**(1 750 459)**	**3 386 119**	**(12 029 207)**	
Effect on annual net interest income	**179 544**	**1 064**	**(52 933)**	**(4 376)**	**-**	**-**	**123 299**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's annual net interest income to the amount of 123 299 LVL (as of 31 December 2010: LVL 9 626).

As of 31 December 2010

Assets	79 652 154	8 949 527	10 032 664	12 301 934	29 030 045	28 301 165	**168 267 489**
Liabilities	73 831 533	14 435 125	10 209 589	12 036 309	12 431 542	45 323 391	**168 267 489**
Net position sensitive to interest rate risk	**5 820 621**	(5 485 598)	**(176 925)**	**265 625**	**16 598 503**	**(17 022 226)**	

49. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

As of 31 December 2011

						GROUP
ASSETS	**Latvia LVL**	**Other EU Member States LVL**	**Other OECD countries LVL**	**CIS countries LVL**	**Others LVL**	**TOTAL LVL**
Cash and balances with Bank of Latvia	20 847 541	-	-	-	-	**20 847 541**
Due from credit institutions	1 730 374	86 896 927	26 838 050	8 372 009	-	**123 837 360**
Financial assets held-for-trading	7 952	14 316	10 351	362 586	2 678	**397 883**
Securities held-for-trading	*7 952*	*11 021*	*10 343*	*343 741*	*2 678*	***375 735***
Derivative financial instruments	*-*	*3 295*	*8*	*18 845*	*-*	***22 148***
Securities available-for-sale	127 111	38 468	-	-	-	**165 579**
Securities held-to-maturity	-	-	-	7 046 386	-	**7 046 386**
Loans	18 984 335	22 058 153	5 215 573	2 958 711	8 886 186	**58 102 958**
Non-financial assets	20 092 688	1 928 193	24 187	25 921	219 851	**22 290 840**
Total assets	**61 790 001**	**110 936 057**	**32 088 161**	**18 765 613**	**9 108 715**	**232 688 547**
LIABILITIES						
Due to credit institutions	458 371	765	-	8 725 014	53 329	**9 237 479**
Deposits	29 803 768	43 117 118	20 761 486	14 481 366	87 724 417	**195 888 155**
Derivative financial instruments	-	-	-	33	21 014	**21 047**
Subordinated liabilities	1 874 746	-	-	468 114	-	**2 342 860**
Non-financial liabilities	2 018 254	99 884	9 091	33 723	6 431	**2 167 383**
Shareholders' equity	23 029 568	300	25	1 635	95	**23 031 623**
Total liabilities and shareholders' equity	**57 184 707**	**43 218 067**	**20 770 602**	**23 709 885**	**87 805 286**	**232 688 547**
Sureties (guarantees)	11 011 461	2 043 264	-	-	-	**13 054 725**
Commitments to customers	834 966	2 885 255	106 194	110 879	3 499 886	**7 437 180**
Total commitments and contingencies	**11 846 427**	**4 928 519**	**106 194**	**110 879**	**3 499 886**	**20 491 905**

As of 31 December 2010

Total assets	48 877 135	89 987 865	7 289 819	14 735 941	7 010 100	**167 900 860**
Total liabilities and shareholders' equity	58 289 628	12 758 204	42 866 430	20 357 372	33 629 226	**167 900 860**
Sureties and commitments *	989 502	1 078 593	336 888	117 550	868 375	**3 390 908**

The table above represents geographical breakdown by the direct counterparty's registration country. This does not necessarily reflect the country of domicile of the ultimate counterparty.

As of 31 December 2011

						BANK
ASSETS	**Latvia LVL**	**Other EU Member States LVL**	**Other OECD countries LVL**	**CIS countries LVL**	**Others LVL**	**TOTAL LVL**
Cash and balances with Bank of Latvia	20 846 941	-	-	-	-	**20 846 941**
Due from credit institutions	1 730 374	86 896 927	26 838 050	8 372 009	-	**123 837 360**
Financial assets held-for-trading	7 952	14 316	10 351	362 586	2 678	**397 883**
Securities held-for-trading	*7 952*	*11 021*	*10 343*	*343 741*	*2 678*	***375 735***
Derivative financial instruments	*-*	*3 295*	*8*	*18 845*	*-*	***22 148***
Securities available-for-sale	127 111	38 468	-	-	-	**165 579**
Securities held-to-maturity	-	-	-	7 046 386	-	**7 046 386**
Loans	20 628 293	22 058 153	5 215 573	2 958 711	8 886 186	**59 746 916**
Non-financial assets	18 217 985	1 928 193	24 187	25 921	219 851	**20 416 137**
Total assets	**61 558 656**	**110 936 057**	**32 088 161**	**18 765 613**	**9 108 715**	**232 457 202**
LIABILITIES						
Due to credit institutions	458 371	765	-	8 725 014	53 329	**9 237 479**
Deposits	29 809 633	43 117 118	20 761 486	14 481 366	87 724 417	**195 894 020**
Derivative financial instruments	-	-	-	33	21 014	**21 047**
Subordinated liabilities	1 874 746	-	-	468 114	-	**2 342 860**
Non-financial liabilities	1 797 443	99 884	9 091	33 723	6 431	**1 946 572**
Shareholders' equity	23 013 169	300	25	1 635	95	**23 015 224**
Total liabilities and shareholders' equity	**56 953 362**	**43 218 067**	**20 770 602**	**23 709 885**	**87 805 286**	**232 457 202**
Sureties (guarantees)	11 011 461	2 043 264	-	-	-	**13 054 725**
Commitments to customers	1 912 262	2 885 255	106 194	110 879	3 499 886	**8 514 476**
Total commitments and contingencies	**12 923 723**	**4 928 519**	**106 194**	**110 879**	**3 499 886**	**21 569 201**

As of 31 December 2010

Total assets	49 243 764	89 987 865	7 289 819	14 735 941	7 010 100	**168 267 489**
Total liabilities and shareholders' equity	58 656 257	12 758 204	42 866 430	20 357 372	33 629 226	**168 267 489**
Sureties and commitments *	1 025 076	1 078 593	336 888	117 550	868 375	**3 426 482**

The table above represents geographical breakdown by the direct counterparty's registration country. This does not necessarily reflect the country of domicile of the ultimate counterparty.

50. CREDIT RISK

The table below shows the Bank's maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Exposures are based on net carrying amounts as reported in the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancement, and net, i.e. after taking into account any collateral and other credit enhancement. The details on the type and amounts of collateral held are disclosed in the respective notes.

	Gross maximum credit risk exposure 31.12.2011 LVL	Net maximum credit risk exposure 31.12.2011 LVL	Gross maximum credit risk exposure 31.12.2010 LVL	Net maximum credit risk exposure 31.12.2010 LVL
Cash and balances with Bank of Latvia	20 846 941	20 846 941	8 954 354	8 954 354
Due from credit institutions	123 837 380	123 837 360	67 583 008	67 582 987
Financial assets held-for-trading	397 883	397 883	1 176 545	1 176 545
Securities held-for-trading	*375 735*	*375 735*	*612 627*	*612 627*
Derivative financial instruments	*22 148*	*22 148*	*563 918*	*563 918*
Securities available-for-sale	193 275	165 579	192 603	165 579
Securities held-to-maturity	7 046 386	7 046 386	15 598 816	15 598 816
Loans	62 734 658	48 753 308	58 294 876	41 963 487
Intangible assets	2 861 824	2 861 824	2 394 061	2 394 061
Property and equipment	9 837 812	9 837 812	10 069 368	10 069 368
Investment property	3 125 133	3 125 133	2 847 401	2 847 401
Investments in associates	429 009	429 009	429 009	429 009
Investments in subsidiaries	1 365 600	1 365 600	1 363 600	1 363 600
Current income tax assets	76 446	76 446	93 717	93 717
Deferred expenses and accrued income	903 727	873 212	654 883	618 127
Other assets	1 987 477	1 847 101	781 583	662 059
Total assets	**235 643 551**	**221 463 594**	**170 433 824**	**153 919 110**
Sureties (guarantees)	13 054 725	290 370	684 426	290 370
Commitments to customers	8 514 476	5 853 698	2 742 056	2 509 842
Total commitments and contingencies	**21 569 201**	**6 144 068**	**3 426 482**	**2 800 212**
Total maximum credit risk exposure	**257 212 752**	**227 607 662**	**173 860 306**	**156 719 322**

The maximum exposures to credit risks for the components at the statement of financial position of the Group and the Bank do not vary significantly.

51. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-forsale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of the Bank's financial assets and liabilities are as follows:

As of 31 December 2011

ASSETS	Financial assets/ liabilities at amortised cost LVL	Financial assets/ liabilities at fair value through profit and loss LVL	Financial assets available-for-sale LVL	Total LVL	Fair value LVL
Cash and balances with Bank of Latvia	20 846 941	-	-	**20 846 941**	**20 846 941**
Due from credit institutions	123 837 360	-	-	**123 837 360**	**123 833 081**
Financial assets held-for-trading	-	397 883	-	**397 883**	**397 883**
Securities held-for-trading	-	*375 735*	-	***375 735***	***375 735***
Derivative financial instruments	-	*22 148*	-	***22 148***	***22 148***
Securities available-for-sale	-	-	165 579	**165 579**	**165 579**
Securities held-to-maturity	7 046 386	-	-	**7 046 386**	**7 187 574**
Loans	59 746 916	-	-	**59 746 916**	**62 100 474**
Total assets	**211 477 603**	**397 883**	**165 579**	**212 041 065**	**214 531 532**
LIABILITIES					
Due to credit institutions	9 237 479	-	-	**9 237 479**	**10 368 104**
Deposits	195 894 020	-	-	**195 894 020**	**196 658 906**
Derivative financial instruments	-	21 047	-	**21 047**	**21 047**
Subordinated liabilities	2 342 860	-	-	**2 342 860**	**2 342 860**
Total liabilities	**207 474 359**	**21 047**	-	**207 495 406**	**209 390 917**

As of 31 December 2010

ASSETS	Financial assets/ liabilities at amortised cost LVL	Financial assets/ liabilities at fair value through profit and loss LVL	Financial assets available-for-sale LVL	Total LVL	Fair value LVL
Cash and balances with Bank of Latvia	8 954 354	-	-	**8 954 354**	**8 954 354**
Due from credit institutions	67 582 987	-	-	**67 582 987**	**67 051 914**
Financial assets held-for-trading	-	1 176 545	-	**1 176 545**	**1 176 545**
Securities held-for-trading	-	*612 627*	-	***612 627***	***612 627***
Derivative financial instruments	-	*563 918*	-	***563 918***	***563 918***
Securities available-for-sale	-	-	165 579	**165 579**	**165 579**
Securities held-to-maturity	15 598 816	-	-	**15 598 816**	**16 317 956**
Loans	56 311 866	-	-	**56 311 866**	**58 820 299**
Total assets	**148 448 023**	**1 176 545**	**165 579**	**149 790 147**	**152 486 647**
LIABILITIES					
Due to credit institutions	13 510 438	-	-	**13 510 438**	**15 765 568**
Deposits	133 414 649	-	-	**133 414 649**	**134 652 538**
Derivative financial instruments	-	311 351	-	**311 351**	**311 351**
Subordinated liabilities	1 520 865	-	-	**1 520 865**	**1 520 865**
Total liabilities	**146 925 087**	**311 351**	-	**147 236 438**	**150 729 457**

52. FAIR VALUE HIERARCHY

The table below analysis of the Group's and Bank's financial instruments carried at fair value, by valuation method:

As of 31 December 2011

	Published price quotations (Level 1) LVL	Valuation techniques based on market observable inputs (Level 2) LVL	Total LVL
Financial assets			
Available for sale assets	-	38 468	**38 468**
Financial assets at fair value through profit or loss	375 735	-	**375 735**
Derivatives	3 295	18 853	**22 148**
	379 030	**57 321**	**436 351**
Financial liabilities			
Derivatives	-	21 047	**21 047**
	-	**21 047**	**21 047**

As of 31 December 2010

	Published price quotations (Level 1) LVL	Valuation techniques based on market observable inputs (Level 2) LVL	Total LVL
Financial assets			
Available for sale assets	-	38 468	**38 468**
Financial assets at fair value through profit or loss	612 627	-	**612 627**
Derivatives	-	563 918	**563 918**
	612 627	**602 386**	**1 215 013**
Financial liabilities			
Derivatives	-	311 351	**311 351**
	-	**311 351**	**311 351**

Included in category "Published price quotations" (Level 1) are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

Included in category "Valuation techniques based on market observable inputs" (Level 2) are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.

Not based upon market observable (Level 3) input means that fair values are determined in whole or in part using a valuation technique (model) base on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Main asset classes in this category are hedge funds, private equity funds and limited partnerships.