



Baltic International Bank

Annual Report
2012



Baltic International Bank

The history of Latvian money is both extensive and exciting. Over various periods, marks, thalers, ducats and roubles have been used in Latvia, and only upon becoming an independent country, did accounts start to be settled using Latvian lats, which had been withdrawn from circulation in 1941.

The renewed lat has been around for roughly the same time as Baltic International Bank. Following the restoration of Latvian independence in 1991, the first monetary unit of the national currency – a five lat banknote – was put into circulation on 5 March 1993, just two months prior to the establishment of Baltic International Bank. Since that time, more than 100 Latvian banknotes and coins of various nominal values have been released, this having become a special field of Latvian artistic design.

In 2014 Latvia plans to adopt the euro, so henceforth Latvian lats will probably be seen only in private collections. We have also created a virtual collection for you – on the pages of our Annual Report we invite you to familiarise yourself with the history of lats, and evaluate the diversity of monetary units created by local artists.

*Materials from the Bank of Latvia's exhibition "Ls 20 Years of national currency art" have been used for the book's design.

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Dear Ladies and Gentlemen,

For the Bank, 2012 proved to be a dynamic and event-saturated year that brought us closer to a 20-year milestone. In 2013, the bank celebrates 20 years in business. The event is of equal importance to us and our customers.

We consistently moved towards the attainment of our goals. Today, we are proud of what we have achieved. We have attained stability, professional excellence, and a reputation for being able to ensure the financial security of our customers.

How do we evaluate the way we perform? What is the yardstick of measuring our success?

In our opinion, the achievements of any business are not measured only in terms of numbers, called quantitative variables. Indeed, quality is always an important factor contributing to success. Primarily, relationships with clients, partners and society at large set a successful business apart.

Any business is anchored first and foremost on relationships. To sustain strong partnerships with our customers, we strive to build a special atmosphere of trust and confidence. As a customer-centric bank, we make every customer feel special. We provide solutions geared towards the specific needs of customers and their families, and our customers know they can rely on us. We also foster relationships with our community. A Major emphasis is placed on our social responsibility, and the desire to contribute to society's well-being and thus make a positive social impact.

To honour a momentous landmark in the bank's 20-year history, it's the perfect time to take a look back at what we've accomplished and evaluate what we're leaving behind. Since our formation, we've been guided by the principle that money should not only work but also bring benefit to people. Therefore we make the most strenuous efforts to support arts, culture, and environment-protection projects, and to mould a brighter future for our children.

We would like to take the opportunity to thank our customers and partners for the confidence they have placed in us. We look forward to continuing our successful partnership. We're very honoured to share our anniversary celebration with you in 2013!

Yours sincerely,

Valeri Belokon
Chairperson of the Council

A stylized, handwritten signature in black ink, appearing to read 'VB', written over a light grey background.



Dear Ladies and Gentlemen,

Let's take a look back at what was accomplished during 2012. What were the pivotal events of the past year and what do they tell us?

We can surely say that the past twelve months have once again proved that: our world has changed dramatically and will never be the same again. We were more or less successful in tiding over the 2008 financial crisis. But it is clear from the current political, financial and economic climate that all of us still need to learn to live with the new reality.

The unpredictability of the financial markets, increased geopolitical tensions, shifting redistribution in global power, combined with environmental, demographic and socioeconomic challenges, and a pervasive globalisation are the central realities of today's world, which can give rise to critical situations in various spheres of life.

It is essential to recognise the irreversibility of the transformations that have occurred in the world. It is necessary to reinvent old frameworks of work in order to adapt to the new world order. Thriving in today's reinvented world requires new approaches towards evaluating and analysing the situation, planning, decision-making, and developing business.

Primary focus should be placed on such aspects as the capacity to foresee and mitigate emerging risks. Diversification issues (in the broadest sense) have become of paramount importance like never before. Specific wealth management tools and investment-related factors (such as geographies, sectors, and time horizons) need to be reconsidered. Today many investors pursue alternatives to conventional solutions.

An in-depth understanding of the most important trends surrounding global development, expertise in international business and international law, and the ability to see things from different angles are crucial for the success for which affluent individuals and business owners are striving. We therefore build our business approach upon these major facets.

Yet at the same time, we should remember that we are living in a world that has changed drastically. It is very important to shape our attitudes towards the surrounding world, being guided also by determinants other than financial. We strongly believe that every business affects, in one way or another, the welfare of society as a whole.

We continue to be committed to reaching long-term goals and enhancing the welfare of both our customers and the community we're living and working in today.

Yours sincerely,

Ilona Gulchak
Chairperson of the Board

A handwritten signature in black ink, appearing to read 'Ilona Gulchak', written over a light blue horizontal line.

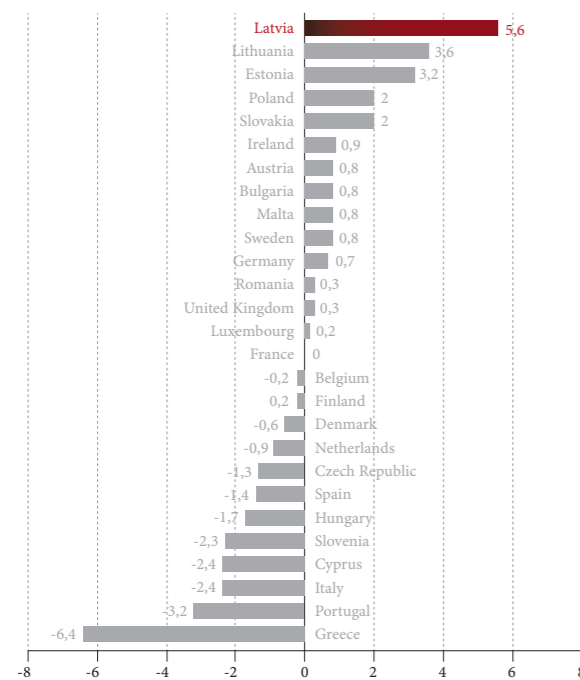
Latvia: Key Economic Events

The past year clearly showed clearly that Latvia's strategy proved its worth in steering the country out of economic crisis: the macroeconomic fundamentals continued to grow at a healthy rate. Latvia once again found itself among the leaders in EU GDP growth. Even in the context of Europe's sovereign debt problems, the country's economy in 2013 is expected to be buoyant.

Economic Growth: Best-Ranked in the EU

Economists predicted a slow-growth economy in Latvia due to a shaky economic situation both in

GDP Growth in EU Member States
in 2012 (YoY)*



*According to Eurostat

Europe and worldwide. Despite the pessimistic predictions, Latvia's economy remained on a dynamic growth path in 2012. According to the data published by Eurostat (the EU's statistical office), Latvia's GDP expanded 5.6 percent within the one-year period (2011: 5.5 percent). Thus, Latvia recorded the best GDP growth figure in the EU. For comparison: EU-27 GDP shrank by 0.3 percent.

As in previous years, the country's economic growth was largely underpinned by a booming export sector. Irrespective of EU's economic problems that caused a decrease in consumption, Latvia's exports surged 15 percent year-on-year. Foodstuff, agricultural products, metal products and timber were the major exports. According to forecasts by Latvia's economists, the country's export volumes are also expected to grow in 2013, albeit at a slower pace because of the overall instability in Europe. The EU remains Latvia's main trading partner (70 percent of total exports). By the end of 2012, Latvia's exports to the Commonwealth of Independent States (CIS) grew modestly to reach 15 percent of total exports.

Amidst the rising export figures, personal income growth spurred domestic consumption, fostered the development of domestic market-oriented sectors, and boosted the increase in non-financial investments.

Due to intense economic activities, the country made great strides towards improving its labour market situation. According to Latvia's Central Statistical Bureau, the unemployment rate fell by the end of the year to reach 13.8 percent (at the beginning of 2012: 16.3 percent).

According to analyst estimates, Latvia will have to rely on export opportunities for further economic growth. Therefore, given the vague dynamics of the global economy, Latvia's GDP growth is predicted to reach 3.7 percent in 2013, according to Latvia's Ministry of Economy.

The national currency of Latvia – lats and santims – was introduced pursuant to the Currency Regulations, approved by the Cabinet of Ministers of the Republic of Latvia on 3 August 1922. At that time the manager of the National Papers Printing-House was Latvian Graphic artist **Rihards Zarinsh (1869-1939)**. The most outstanding achievement of the artist in this sphere was a silver five-lat coin made in the style of National Romanticism, which was so much loved by the nation and sometimes called the Milda.



GALVANOPLASTIC FORM (1929)

The reverse of the silver five-lat coin stored in *The Royal Mint Museum* (Great Britain) created based on the drawing by Rihards Zarinsh.

*The coin series entitled **Persons** as a part of the Latvian Coin Programme "Latvia. At the Turn of an Epoch and the Epoch Values", dedicated to the spiritual fathers of the Latvian nation.*



RAINIS

Artists: **Arta Ozola-Jaunaraja** (graphic design),
Ligita Frankevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2005
in *Koninklijke Nederlandse Munt* (the Netherlands).



KRISHJANIS VALDEMARS

Artists: **Arta Ozola-Jaunaraja** (graphic design),
Ligita Frankevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2006
in *Koninklijke Nederlandse Munt* (the Netherlands).



KRISHJANIS BARONS

Artists: **Arta Ozola-Jaunaraja** (graphic design),
Ligita Frankevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2006
in *Koninklijke Nederlandse Munt* (the Netherlands).

First Independently-Formulated Budget. Tax Cuts

In 2012, for the first time since the crisis hit, Latvia's government didn't cut budgetary expenditure. Rather, Latvia increased government spending. Substantial tax revenues enabled Latvia to adopt the budget amendments that stipulated the extra spending of 70 million lats. As a result, additional funding was allocated to the Ministry of Transport (primarily towards road repair and maintenance) and the Ministry of Health.

The adoption of the 2013 Budget was a pivotal event for Latvia: for the first time since 2008, the representatives of international creditors did not participate in the national budget policy decision-making process. The budget stipulates that the funding will be used for healthcare, welfare, infrastructure and other programs suspended during the crisis, including measures designed to bolster economic growth. For fiscal year 2013, the government's total revenue is estimated to be 4.68 billion lats, while government spending is estimated to be 4.82 billion lats. The resultant deficit is projected to be 1.4 percent of GDP.

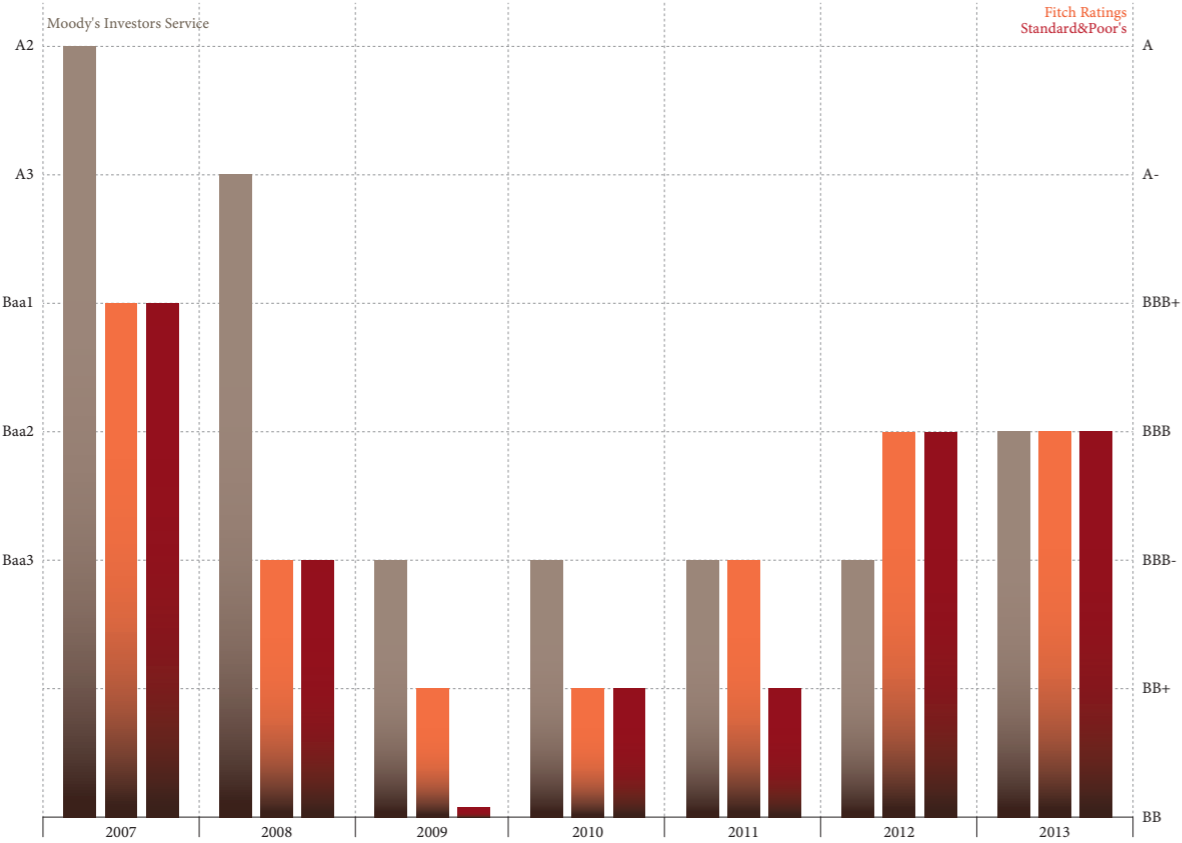
According to Latvia's Finance Minister Andris Vilks, in the future the government budget will aim to spur the country's economic growth and alleviate social disparities (through tax reductions). For 2013, Latvia has reduced the 25-percent personal income tax to 24 percent. Child and dependent care credit was also revised.

Credit Rating Upgrade

Most of the major world economies suffered a credit rating downgrade, while Latvia's sovereign rating was upgraded one notch by international agencies. Standard&Poors was the first agency to announce its upgrade decision. It raised long- and short-term local and foreign currency sovereign credit ratings to BBB/A-2 from BBB-/A-3. The outlook of the S&P rating is positive. Fitch's move followed that of rival Standard&Poors: Fitch Ratings raised its long-term credit rating for Latvia one notch to BBB. At the beginning of 2013, Moody's upgraded Latvia's government bond rating one notch to Baa2 from Baa3.

The agencies stated that the grade reflects Latvia's progress in achieving solid economic growth, and the significant improvement in Latvia's public finances. General government debt has stabilised and is expected to begin to

Latvia's sovereign credit ratings, 2007-2012



reverse in 2014. Moody's maintains a positive outlook on Latvia's ratings, and has cited the expected changeover to the euro in 2014 and the stabilisation of the economy resulting from joining the euro area as the reasons behind the agency's move.

Foreign Direct Investments (FDIs)

A clear improvement in Latvia's economic situation drew renewed interest from foreign investors. In 2012, the inward FDI stock grew 7 percent to exceed 10 billion euros. According to data from the Bank of Latvia, FDI inflows into the country in 2012 totalled 540.1 million lats (3.5 percent of GDP). In 2012, the bulk of investment went to the natural gas, heat and electricity sectors, as well as the transport & logistics sector. Latvia saw increased investments in the agriculture sector and HORECA business. Sectors such as finance and insurance, trade, and real estate hold the lion's share of accumulated FDI stock.

The geographic sources of Latvia's inward FDIs remain unchanged. In 2012, the main investors were residents of Sweden and the Netherlands, as well as Cyprus, Estonia and Norway. In 2012, FDIs from Russia rose noticeably (from 387 million euros to 494 million euros, up almost 28 percent). Inward FDIs originating from Ukraine and Belarus increased significantly as well. Throughout the year, international investors displayed ever-increasing interest in obtaining 5-year residence permit in Latvia. In 2010, Latvia amended its Immigration Act to provide extra incentives to foreign nationals. Since then, 4744 investors and their family members have received the temporary residence permits. Overall, foreign nationals invested 318.3 million lats. The majority of investors obtained their residence permits through real estate purchases (the total value of the transactions was 252.9 million lats). Subordinated debt investments in Latvia's credit institutions totalled 53.3 million. Equity investments in Latvia's businesses totalled 12.1 million lats.

The coin series entitled *The Foundation* from the Latvian Coin Programme "Latvia. At the Turn of an Epoch and the Epoch Values" reflects those fundamental national values that are eternal, common to all mankind, and, nevertheless, different in the traditions and representations of each nation.



EARTH
Artists: Juris Petrashkevichs (graphic design), Ligita Frankevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2000 in Rahapaja Oy (Finland).

SKY
Artists: Juris Petrashkevichs (graphic design), Ligita Frankevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2001 in Rahapaja Oy (Finland).



DESTINY
Artists: Juris Petrashkevichs (graphic design), Ligita Frankevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2002 in Rahapaja Oy (Finland).

In August 2004 the American Numismatic Association announced the *Destiny* silver coin of the Bank of Latvia as the winner of Coin of the Year award in the nomination "Most Artistic Coin" at the conference held in Pittsburgh (USA) organised by Krause Publications (USA numismatic publications) and World Coin News magazine.

Tax Legislation

The 2012 amendments to Latvia's Corporate Tax proved conducive to establishing a favourable holding company tax regime in Latvia. In 2012, Latvia's corporate income tax rate of 15 percent was the fourth-lowest in the EU. Latvia is therefore well-poised to attract foreign investors.

Tax incentives (exemptions) in Latvia: as of 1 January 2013, no withholding tax on outbound and inbound dividends (tax-exempt dividends) is applied. No capital gains tax is imposed on income from selling shares/membership units held in subsidiaries. Capital losses can be carried forward and used to offset capital gains or other taxable income.

As of 1 January 2014, outbound interest paid out by Latvian companies to Latvia's non-residents, as well as royalties and other remuneration for the use of intellectual property in Latvia (patents, trademarks, licences, etc.) will be tax-exempt.

To enjoy tax exemptions in Latvia, you are not required to satisfy any specific criteria established in other countries. For instance, Latvia imposes no restrictions in respect of types of business activity, the nationality of shareholders, etc. However, the following requirement must be met: tax exemptions do not actually apply if you conduct business with blacklisted offshore enterprises incorporated in tax havens (countries or territories where taxes are levied at a low rate or not at all).

One more important taxation-related event was the ratification of the Convention between the Republic of Latvia and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Income and Capital Gains Taxes (in effect as of 1 January 2013). The Convention is also expected to foster closer economic ties between the countries.

Practical Preparations for the Changeover to the Euro

Having scheduled its conversion to the euro in 2014, Latvia focused its 2012 activities on that high-priority challenge. At the end of 2012, Latvia's Saeima (Parliament) conceptually approved the government's decision to join the euro area. The Euro Changeover Act (a law regulating the adoption of the euro) took effect on 31 January 2013.



KURZEME

Artists: Arvids Priedite (graphic design), Ligita Franckevicha (plastic moulding). Metal: silver, assay 925. Minted in 2003 in Rahapaja Oy (Finland).



VIDZEME

Artists: Arvids Priedite, Ligita Franckevicha (plastic moulding). Metal: silver, assay 925. Minted in 2004 in Rahapaja Oy (Finland).

The differences between Latvian cultural and historical municipalities are of importance to daily consciousness and the value system of Latvians. Therefore, it was quite natural to create the coin series entitled Time, dedicated to these municipalities, as the coins traditionally represent essential and symbolic values.



LATGALE

Artists: Arvids Priedite (graphic design), Ligita Franckevicha (plastic moulding). Metal: silver, assay 925. Minted in 2004 in Rahapaja Oy (Finland).

Since the beginning of 2012, Latvia has complied with convergence criteria for euro adoption, except for the Maastricht inflation criterion. Latvia's average rate of inflation must not exceed by more than 1.5 percentage points that of the three best-performing Member States in terms of price stability for a period of one year before the examination. In September, the rate of inflation fell to an acceptable level, and reached 2.3 percent by the end of 2012. The rate of inflation showed a trend-like decline.

The transition to the euro is likely to encourage investor interest and confidence in Latvia as a country pursuing a predictable fiscal and economic policy. The changeover is also expected to boost FDI inflows, which in turn help drive economic growth.

Moreover, Latvia's accession to the EU's single-currency zone (the euro area) will make the country's financial system more resistant to the potential shocks associated with panic-stricken financial markets. The risk of recurring concerns regarding the devaluation of Latvian lats and devaluation-related costs will go down.

Implementation of the Maastricht Criteria – Latvia's data, December 2012

The Maastricht Criteria (euro convergence criteria)	Criteria, December 2012	Latvia's data, December 2012	Criteria, December 2011	Latvia's data, December 2011	Criteria, December 2010	Latvia's data, December 2010	Criteria, December 2009	Latvia's data, December 2009	Criteria, December 2008	Latvia's data, December 2008
Government budgetary position: the ratio of government deficit to GDP (%)	-3	-3.41	-3	-3.5	-3	-8.2	-3	-9.8	-3	-4.2
Government budgetary position: the ratio of (general) government debt to GDP (%)	60	42.21	60	42.6	60	44.7	60	36.7	60	19.7
Inflation rate (%)	2.8	2.32	3.1	4.2	2.4	-1.2	1.5	3.3	4.1	15.3
Long-term interest rates (measured on the basis of long-term government bonds) (%)	5.88	4.573	7.3	5.91	5.2	10.34	5.93	12.36	6.24	6.43
Exchange-rate stability (Exchange Rate Mechanism)	a standard fluctuation of +/- 15%	+/- 1	The exchange-rate mechanism (ERM / ERM II) under the European Monetary System (EMS) should have been applied							

*According to the Ministry of Finance of the Republic of Latvia

Banking Sector:

Stabilisation Followed by Development

In 2012, the key performance indicators of Latvia's banking sector showed signs of stabilisation. The banks recovered from the financial crisis and continued their strategy-envisaged development.

For the first time over the past four post-crisis years, the banking sector posted a full-year profit of 122.3 million lats. Specifically, 19 Latvian banks and foreign-bank branches, whose assets made up 94.1 percent of total sector-wide assets, earned 196.3 million lats.

In 2012, the upswing in profitability of the banks was aided by:

- a 19 percent increase in fee and commission income;
- a comparatively high net interest margin (1.6 percent), also known as net interest spread, the nominal average difference between the borrowing and lending rates;
- stabilisation of the size and quality of the loan portfolio.

Deposits showed positive dynamics. The sector-wide deposit base grew 12.7 percent to reach 12.5 billion lats at the end of December. Non-resident deposits increased significantly (by 830 million lats). Aggregate sector-held assets totalled 20.23 billion lats.

Overall, that the sector-wide loan portfolio decreased at a slower pace is seen as positive. The portfolio shrank by 2.8 percent (2011: 8.1 percent) within this one-year period. The volume of newly granted loans amounted to 1.9 billion lats. Non-resident loans represent 43 percent of the volume. The aggregate sector-held loan portfolio amounted to 11.7 billion lats.

On a year-on-year basis, the sector's capital adequacy ratio rose slightly to stand at 17.6 percent (2011: 17.4 percent). The banking sector continued to maintain a robust liquidity position; the sector-wide liquidity ratio was 59.8 percent (well above the regulatory threshold of 30 percent).

FIGHTING FOR FREEDOM

Ivo Grundulis (graphic design),
Ligita Franckevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2006 in Rahapaja Oy (Finland).



In February 2008 the American Numismatic Association announced the **Fighting for Freedom** coin of the Bank of Latvia as the winner of the **Coin of the Year** award in the nomination "Best Contemporary Event" at the World Coin Fair held in Berlin (Germany) and organised by Krause Publications (USA numismatic publications) and World Coin News magazine.

The series entitled **State** as a part of the Latvian Coin Programme "Latvia. At the Turn of an Epoch and the Epoch Values" reflect Latvia rising from the darkness of non-existence and sinking into it again, but managing to successfully revive itself.



FOREIGN POWERS

Artists: Ivo Grundulis (graphic design),
Ligita Franckevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2007 in Rahapaja Oy (Finland).



REVIVAL OF THE STATE

Artists: Ivo Grundulis (graphic design),
Ligita Franckevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2007 in Rahapaja Oy (Finland).

In order to confirm the thesis that money is art, the Bank of Latvia traditionally issues anniversary and commemorative coins, the artistic value and originality of which performance have been repeatedly awarded at international competitions.



BARON MUNCHAUSEN

Artists:
Arvids Priedite (graphic design),
Janis Strupulis (plastic moulding).
Metal: silver, assay 925
Minted in 2005
in Koninklijke Nederlandse Munt (the Netherlands).

*In 2006 during the Vicenza Numismatica Coin Exhibition in Italy the 100 santim commemorative silver coin **Baron Munchausen** won the main prize in the nomination "International Prize Vicenza Numismatica" as the most outstanding coin.*

LIFE COIN

Artists:
Ilmars Blumbergs (graphic design),
Ligita Franckevicha (plastic moulding).
Metal: silver, assay 925.
Minted in 2007
in Monnaie de Paris (France).



*In 2008 the silver **Life Coin** received the award "The most successful artistic solution" in the Coin Zodiac competition organised by the Russian Watermark Numismatic Publishing House.*

Overview of the Bank's 2012 Key Performance Indicators

Innovative Banking Products

In 2012, the bank rolled out a smartphone-deployed *Digipass for Mobile* application used to generate one-time passwords; the product is an alternative to a standard handheld *Digipass* identifier.

The bank offered its customers Yuan-denominated transfers as the Yuan is gaining a more powerful role in international trade.

In 2012, the bank broadened its range of payment cards by adding VISA Infinite (the most exclusive proposition by VISA International) positioned at the very pinnacle of VISA's card portfolio. The White Card is available to VISA Infinite cardholders as a complementary card coming with enhanced benefits. The White Card is designed specifically to maintain the cardholder's anonymity: no holder's name, bank's name or logo is embossed onto the card.

In November 2012, the bank launched a revised savings program. The bank offered its clients Start-Up Deposit, the most innovative product designed specifically to build initial capital for children and hence to give junior savers a good head-start in life. The percentage yield (the amount of interest earned) now depends on the child's age: the younger the child, the higher the interest rate applied to the deposit.

In 2012, the bank continued to evolve its partnership with clients through the lifestyle management program, with a specific focus on professional internships

In 2012, the bank's profit after taxes and impairment allowances totalled 393 533 lats. The bank posted a full-year operating profit of 9.7 million lats. The net interest income totalled 4.84 million lats, up 25.6 percent year-on-year.

The bank's assets totalled 221 million lats as at 2012 year-end, and its deposits reached 190.67 221 million lats (86.22 percent of the liability-side of the balance sheet) and continue to remain the major source of financing.

In 2012, The bank maintained a proactive stance in lending. As a result, the loan portfolio surged 5.7 percent (YoY) to reach 63.17 million lats. Assets under management reached 43.69 million lats, while brokerage portfolio increased by 6.51 million lats.

The bank consistently pursues a conservative approach towards managing its assets: the loan portfolio represents 28.6 percent of total assets (the percentage of assets held as loans), and the investment securities portfolio makes up 4.2 percent of total assets. Throughout the year, the bank continued to invest in fixed-income securities (78.9 percent of total portfolio).

The bank's capital adequacy ratio was 16.45 percent as at 31 December 2012, well above the regulatory threshold prescribed by the Financial and Capital Market Commission.

The bank's liquidity ratio of 71.49 percent significantly exceeds the average liquidity ratio in Latvia's banking sector.

for future wealth heirs. The internships provide an opportunity for higher education students to gain real-world experience, learn from professionals, and become financially mature.

The Bank and the Community

For Baltic International Bank, 2012 was a year of momentous events and new achievements. We are proud of supporting and participating in meaningful social projects.

In June, the bank sponsored a project of the utmost importance for the cultural heritage of our country. The Embassy of Ireland in Latvia was the initiator of the project.

The long-term project titled “Sodums. Ulysses. Travelling Man” was aimed to mark the 90th anniversary of the birth of Latvia-born writer in exile and translator Dzintars Sodums, and embraced urban art and literature. Within the project itself, an open-air exhibition was held in Riga to display authentic archival materials. All the connoisseurs of Latvian arts and culture had the opportunity to see a film dedicated to D. Sodums who became especially popular after translating James Joyce's (Irish novelist) epic novel „Ulysses” into Latvian.

Year-round events were organised to strengthen cultural ties between Latvia and Ukraine, and popularise Latvia's cultural legacy abroad. In 2012, the bank supported the publication of Ukrainian-translated poetry “Heart on the Pavement” written by Latvian Aleksandrs Chaks.

The bank sponsored cultural events such as the Days of Latvian Film festival organised by the Latvian Embassy in Ukraine jointly with Latvia's National Film Centre and the Ukrainian Association of Cinematographers.

In October, Baltic International Bank sponsored the business forum “Safely Navigating the Rough Waters of the European Economy” in London, a traditional event intended to promote economic ties between Latvia and the UK. The event was co-hosted by the Latvian Embassy in the UK and the Investment and Development Agency of Latvia (LIAA). The forum aimed to provide the opportunity for British businesspeople to enhance their awareness of solutions for overcoming the country's financial and economic crisis, the latest economic trends, and investment opportunities in the Baltic Sea Region and Latvia.

WATER COIN

Ilmars Blumbergs
(graphic design),
Janis Strupulis (plastic moulding).
Metal: silver, assay 925.
Minted in 2009
in *Rahapaja Oy* (Finland).



In 2010 the silver Water Coin received the “Outstanding Idea Solution” award in the Coin Zodiac competition organised by the Russian Watermark Numismatic Publishing House.

AMBER COIN

Artists: **Aigars Bikshe,**
Janis Strupulis (plastic moulding).
Metal: silver (assay 925), and amber.
Minted in 2010 in *Rahapaja Oy* (Finland).



In 2011 the Amber Coin received the “Original Technology” award in the Coin Zodiac competition organised by the Russian Watermark Numismatic Publishing House.

TIME COIN III

Artists: **Laimonis Shenbergs** (graphic design),
Janis Strupulis (plastic moulding).
Metal: central circle – niobium, external ring – silver (assay 900).
Minted in 2011 in *Rahapaja Oy* (Finland).



In 2011 the bi-metal (silver and niobium) Time Coin III received the “Outstanding Idea Solution” award in the Coin Zodiac competition organised by the Russian Watermark Numismatic Publishing House.

Plans for development: 2013



In 2013 Baltic International Bank celebrates its twenty years of operation. Baltic International Bank received a banking license from the Bank of Latvia on 8 April 1993; the bank was registered in the Latvian Register of Enterprises on 3 May 1993.

In continuing to improve its product line, in 2013 the bank intends to devote special attention to developing advisory services and asset management services.

Taking into account the increasing interest in free asset placement opportunities that differ from classic deposits, a service of investing into project financing is planned to be launched, by means of which the bank's clients will be able to invest funds in the development of companies financed by Baltic International Bank.

Throughout the year, various events will be held on the bank's key markets, within the framework of which both current and potential clients of the bank will be able to find out more about the bank's services, as well as about the latest trends in Latvian banking services.

- In 2009 the golden commemorative **Latvian Coin** took a second place in the nomination "**Golden Coin of the Year**" in the Coin Zodiac competition organised by the Russian Watermark Numismatic Publishing House.

- In 2010 World Coin News magazine awarded **Latvian Coin** as the **Best Golden Coin and the Coin of the Year 2010** (evaluation of coins issued in 2008).



LATVIAN COIN

Author of the coin – **Teodors Zalkalns**,
gypsum model for further minting
was prepared by **Ligita Franckeviča**.
Metal: gold, assay 999.90.
Minted in 2008
in *Münze Österreich* (Austria).

JSC “BALTIC INTERNATIONAL BANK”

GROUP CONSOLIDATED AND SEPARATE BANK FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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Dear Ladies and Gentlemen,

In 2012, the Bank's activities focused predominantly on improving the product- and- service assortment, enhancing the risk management system, developing the financial instruments-based services (brokerage services and asset management), and expanding.

The Bank posted a full-year operating profit of 9.7 million lats. Interest income (4.84 million lats) rose 25.6 percent year-on-year and made up a substantial portion of the profit.

A decrease in the Bank's fee and commission income is primarily attributed to a lower activity of customers engaged in forex trading. The decrease was offset by the effect of an increase in transaction fees and interest income. As a result, the Bank's net income totalled 1.62 million lats before impairment allowances, while the Bank's profit after taxes and impairment allowances totalled 393 533 lats.

The Bank's assets totalled 221 million lats as at 2012 year-end. Deposits continue to remain the major source of financing. By 2012 year-end, the deposits totalled 190.67 million lats and made up 86.22 percent of the liability-side of the balance sheet. Assets under management (trust operations) reached 43.69 million lats, while brokerage portfolio increased by 6.51 million lats during 2012.

The Bank maintains a proactive stance in lending - the loan portfolio surged 5.7 percent year-on-year to reach 63.17 million lats. Yet the Bank consistently pursues a conservative approach towards managing its own assets: the loan portfolio represents 28.6 percent of total assets (the percentage of assets held as loans), and the investment securities portfolio makes up 4.2 percent of total assets. The financial instruments portfolio saw growth due to additional investments in securities of Ukraine's and the UK's issuers. However, the investment pattern/structure has remained unaffected: the Bank still predominantly invests in fixed-income securities (78.9 percent of total portfolio).

The Bank continues to maintain a strong liquidity position (71.49 percent). The figure significantly exceeds the average liquidity ratio in Latvia's banking sector (59.8 percent).

The Bank's capital adequacy ratio was 16.45 percent as at 31 December 2012, well above the regulatory threshold of 14.5 set forth by the Financial and Capital Market Commission.

In its efforts to expand customer-aimed offering, the Bank:

- broadened its range of payment cards by adding VISA Infinite (the most exclusive proposition by Visa International) positioned at the very pinnacle of VISA's card portfolio;
- rolled out a smartphone-deployed DigiPass for Mobile application used to generate one-time passwords; the innovative product is an alternative to a standard handheld DigiPass identifier;
- offered its customers Yuan-denominated transfers as the Chinese Renminbi (Yuan) is gaining a more powerful role in international markets.

While sticking to a highly personalised service philosophy, the Bank continues to provide an extensive asset protection and structuring advice. The demand for the services continuously grows, thus enabling the Bank to accumulate experience and ensure customer-favoured comfort in dealing with financial and legal matters.

Key areas to focus upon in the coming year::

- to develop customer asset management related activities and hence ensure technological and informational support;
- to expand customer-aimed offering in respect of asset protection and tax planning;
- to ensure maximum opportunity for diversification of investment holdings;
- to continue developing the Bank's risk management system.

We thank the Bank's team for their extensive work, professional and very often a creative approach to tackling tasks assigned. We are also grateful for the co-operation and support we continue to receive from our partners.

25 March 2013

Valeri Belokon
Chairperson of the Council



Iлона Gulchak
Chairperson of the Board



SUPERVISORY COUNCIL (as of 31 December 2012)

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 2012)

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	-

In the year ended 31 December 2012, no changes have been made in the Council or Management Board membership.

During the period from 1 January 2013 to the date of the approval of these financial statements the following changes were made in the composition of JSC “Baltic International Bank” Management Board:

Ilze Lase (22.01.2013) and Bogdan Andrushchenko (04.02.20013) have withdrawn their membership in the Management Board of JSC “Baltic International Bank”.

Riga25 March 2013

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 Annual Report is 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 financial statements.

The Annual Report on pages 32 to 103 is prepared in accordance with the source documents and present the financial position of the Group and Bank as at 31 December 2012 and the results of their performance and cash flows for the for the year ended 31 December 2012.

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 and Bank. 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



Ilona Gulchak
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 2012, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 103. 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 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 103.

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 Baltics SIA, a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



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 2012, 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 2012, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 26 to 27, the preparation of which is the responsibility of management, is consistent with the 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 consolidated financial statements of the Group. In our opinion, the Management Report is consistent with the consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA

Inga Lipšāne
Sworn Auditor
Certificate No112

Rīga, Latvia
25 March 2013

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT
OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

		GROUP	BANK	GROUP	BANK
	Notes	31.12.2012 LVL	31.12.2012 LVL	31.12.2011 LVL	31.12.2011 LVL
Interest income	6	7 314 161	7 368 908	6 515 911	6 555 425
Interest expense	7	(2 536 736)	(2 530 466)	(2 702 340)	(2 702 340)
Net interest income		4 777 425	4 838 442	3 813 571	3 853 085
Fee and commission income	8	4 121 319	4 122 457	5 211 282	5 212 906
Fee and commission expense	9	(722 806)	(722 348)	(926 091)	(926 091)
Net fee and commission income		3 398 513	3 400 109	4 285 191	4 286 815
Dividend income		9 061	9 061	6 582	6 582
Net trading income/ (loss)	10	60 628	60 628	(51 110)	(51 110)
Net foreign exchange income	10	1 242 635	1 244 136	1 747 055	1 745 619
Other operating income	11	336 635	137 067	151 615	109 052
Total operating income		9 824 897	9 689 443	9 952 904	9 950 043
Administrative expenses	12	(8 049 407)	(7 944 941)	(7 319 121)	(7 264 879)
Other operating expenses	13	(205 469)	(189 195)	(148 198)	(145 619)
Net impairment loss	14	(1 177 406)	(1 056 650)	(982 540)	(1 026 110)
Gain on revaluation of investment property	27	221 297	63 771	357 304	54 047
Profit before income tax		613 912	562 428	1 860 349	1 567 482
Income tax expense	15	(176 673)	(168 895)	(342 837)	(332 052)
Profit for the period		437 239	393 533	1 517 512	1 235 430
Other comprehensive income		-	-	24 528	24 528
Total comprehensive income for the period		437 239	393 533	1 542 040	1 259 958

The accompanying notes on pages 40 to 103 are an integral part of this Annual Report.

The Annual Report on pages 32 to 103 has been authorised for issue by the Council and the Board on 25 March 2013, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT
OF FINANCIAL POSITION

As at 31 December 2012

ASSETS

		GROUP	BANK	GROUP	BANK
	Notes	31.12.2012 LVL	31.12.2012 LVL	31.12.2011 LVL	31.12.2011 LVL
Cash and balances with Bank of Latvia	16	27 205 835	27 205 135	20 847 541	20 846 941
Financial assets held-for-trading		2 186 456	2 186 456	397 883	397 883
<i>Securities held-for-trading</i>	18	1 136 384	1 136 384	375 735	375 735
<i>Derivative financial instruments</i>	19	1 050 072	1 050 072	22 148	22 148
Due from credit institutions	20	100 544 611	100 544 611	123 837 360	123 837 360
Loans	21	61 774 979	63 173 462	58 102 958	59 746 916
Securities available-for-sale	22	1 572 679	1 572 679	165 579	165 579
Securities held-to-maturity	23	6 559 545	6 559 545	7 046 386	7 046 386
Investments in associates	24	429 009	429 009	429 009	429 009
Investments in subsidiaries	25	-	1 365 600	-	1 365 600
Non-current assets held for sale	26	-	-	189 757	-
Investment property	27	5 776 684	2 911 810	6 006 796	3 125 133
Property and equipment	28	9 941 290	9 940 922	9 838 406	9 837 812
Intangible assets	29	3 213 039	3 213 039	2 861 824	2 861 824
Current income tax assets		-	-	76 446	76 446
Deferred expenses and accrued income	30	1 224 001	1 227 934	873 892	873 212
Other assets	31	1 090 419	806 800	2 014 710	1 847 101
Total assets		221 518 547	221 137 002	232 688 547	232 457 202

The accompanying notes on pages 40 to 103 are an integral part of this Annual Report.

The Annual Report on pages 32 to 103 has been authorised for issue by the Council and the Board on 25 March 2013, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT
OF FINANCIAL POSITION

As at 31 December 2012

LIABILITIES

		GROUP	BANK	GROUP	BANK
	Notes	31.12.2012 LVL	31.12.2012 LVL	31.12.2011 LVL	31.12.2011 LVL
LIABILITIES					
Derivative financial instruments	19	521 857	521 857	21 047	21 047
Due to credit institutions	32	257 556	257 556	9 237 479	9 237 479
Deposits	33	190 665 050	190 666 482	195 888 155	195 894 020
Accrued expenses, provisions and deferred income	34	808 318	806 432	647 337	646 093
Corporate income tax liabilities		71 892	71 892	-	-
Deferred tax liabilities	15	834 438	817 722	783 670	774 524
Other liabilities	35	762 893	458 623	736 376	525 955
Subordinated liabilities	36	4 127 681	4 127 681	2 342 860	2 342 860
Total liabilities		198 049 685	197 728 245	209 656 924	209 441 978
SHAREHOLDERS' EQUITY					
Share capital	37	20 772 105	20 772 105	20 772 105	20 772 105
Reserve capital	37	545 024	545 024	545 024	545 024
Property revaluation reserve	28	24 528	24 528	24 528	24 528
Retained earnings		2 127 205	2 067 100	1 689 966	1 673 567
<i>Retained earnings for the previous years</i>		<i>1 689 966</i>	<i>1 673 567</i>	<i>172 454</i>	<i>438 137</i>
<i>Profit for the period</i>		<i>437 239</i>	<i>393 533</i>	<i>1 517 512</i>	<i>1 235 430</i>
Total shareholders' equity		23 468 862	23 408 757	23 031 623	23 015 224
Total liabilities and shareholders' equity		221 518 547	221 137 002	232 688 547	232 457 202
COMMITMENTS AND CONTINGENCIES					
Sureties (guarantees)	38	13 036 699	13 036 699	13 054 725	13 054 725
Commitments to customers	38	15 255 661	15 339 823	7 437 180	8 514 476
Total commitments and contingencies		28 292 360	28 376 522	20 491 905	21 569 201

The accompanying notes on pages 40 to 103 are an integral part of this Annual Report.

The Annual Report on pages 32 to 103 has been authorised for issue by the Council and the Board on 25 March 2013, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council



Iлона Gulchak
Chairperson of the Board



GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2012

	GROUP				
	Share capital LVL	Reserve capital LVL	Property revaluation reserve LVL	Retained earnings LVL	TOTAL LVL
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	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
Total comprehensive income					
Net profit for the period	-	-	-	437 239	437 239
Total comprehensive income	-	-	-	437 239	437 239
Balance as of 31 December 2012	20 772 105	545 024	24 528	2 127 205	23 468 862

The accompanying notes on pages 40 to 103 are an integral part of this Annual Report.

The Annual Report on pages 32 to 103 has been authorised for issue by the Council and the Board on 25 March 2013, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council



Iлона Gulchak
Chairperson of the Board



GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2012

					BANK
	Share capital LVL	Reserve capital LVL	Property revaluation reserve LVL	Retained earnings LVL	TOTAL LVL
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	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
Total comprehensive income					
Net profit for the period	-	-	-	393 533	393 533
Total comprehensive income	-	-	-	393 533	393 533
Balance as of 31 December 2012	20 772 105	545 024	24 528	2 067 100	23 408 757

The accompanying notes on pages 40 to 103 are an integral part of this Annual Report.

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Valeri Belokon
Chairperson of the Council



Ilona Gulchak
Chairperson of the Board



GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT
OF CASH FLOWS

For the year ended 31 December 2012

	GROUP	BANK	GROUP	BANK
	31.12.2012 LVL	31.12.2012 LVL	31.12.2011 LVL	31.12.2011 LVL
Cash flow from operating activities				
Profit before income tax	613 912	562 428	1 860 349	1 567 482
Amortisation and depreciation	749 624	749 398	701 665	701 458
Increase in impairment allowance	1 177 406	1 056 650	982 540	1 026 110
Unrealised profit on revaluation of investment property	(221 297)	(63 771)	(357 304)	(54 047)
Loss on disposal of property and equipment and investment property	4 710	32 456	-	-
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	2 324 355	2 337 161	3 187 250	3 241 003
Increase in loans	(4 839 269)	(4 473 038)	(4 454 281)	(4 670 462)
Decrease/(increase) in due from credit institutions	2 244 976	2 244 976	(888 411)	(888 411)
(Increase)/decrease in financial assets held-for-trading	(1 788 573)	(1 788 573)	778 662	778 662
Increase in deferred expenses and accrued income	(353 195)	(355 956)	(93 774)	(249 480)
Decrease/(increase) in other assets	915 809	1 031 819	(1 287 467)	(1 167 282)
Decrease in due to credit institutions	(6 280 906)	(6 280 906)	(1 787 436)	(1 787 436)
(Decrease)/increase in deposits	(5 223 105)	(5 227 538)	62 612 646	62 479 371
Increase/(decrease) in derivative liabilities	500 810	500 810	(290 304)	(290 304)
Increase in accrued expenses, provisions and deferred income	160 981	160 339	130 136	135 354
Increase/(decrease) in other liabilities	28 369	(67 332)	(25 411)	(213 246)
(Decrease)/increase in cash and cash equivalents resulting from operating activities	(12 309 748)	(11 918 238)	57 881 610	57 367 769

The accompanying notes on pages 40 to 103 are an integral part of this Annual Report.

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT
OF CASH FLOWS

For the year ended 31 December 2012

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Corporate income tax paid	22 433	22 641	-	-
(Decrease)/increase in cash and cash equivalents from operating activities	(12 287 315)	(11 895 597)	57 881 610	57 367 769
Cash flow from investing activities				
Acquisition of property and equipment, intangible assets and investment property	(1 599 980)	(1 206 295)	(1 259 665)	(933 881)
Proceeds from sale of property and equipment and investment property	770 919	247 210	83	83
Acquisition of non-current assets held for sale	-	-	(189 757)	-
Proceeds from sale of non-current assets held for sale	261 794	-	-	-
Acquisition of shares in undertakings	-	-	-	(2 000)
Purchase available-for-sale securities	(1 407 100)	(1 407 100)	-	-
Purchase of securities held-to-maturity	(1 474 415)	(1 474 415)	(998 000)	(998 000)
Redemption of held-to-maturity investments	1 961 256	1 961 256	9 550 430	9 550 430
(Decrease)/increase in cash and cash equivalents as a result of investing activities	(1 487 526)	(1 879 344)	7 103 091	7 616 632

The accompanying notes on pages 40 to 103 are an integral part of this Annual Report.

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT
OF CASH FLOWS

For the year ended 31 December 2012

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Notes				
Cash flow from financing activities				
Issuance of shares	-	-	3 937 492	3 937 492
Subordinated liabilities	1 784 821	1 784 821	821 995	821 995
Increase in cash and cash equivalents as a result of financing activities	1 784 821	1 784 821	4 759 487	4 759 487
(Decrease)/increase in cash and cash equivalents	(11 990 020)	(11 990 120)	69 744 188	69 743 888
Cash and cash equivalents at the beginning of the period	17 137 543 978	137 543 378	67 799 790	67 799 490
Cash and cash equivalents at the end of the period	17 125 553 958	125 553 258	137 543 978	137 543 378

The accompanying notes on pages 40 to 103 are an integral part of this Annual Report.

The Annual Report on pages 32 to 103 has been authorised for issue by the Council and the Board on 25 March 2013, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council



Ilonia Gulchak
Chairperson of the Board



1. GENERAL INFORMATION

These 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” 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 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 the preparation of the Group consolidated and Bank separate financial statements in accordance with IFRS as adopted by the European Union.

The Financial Statements were authorised for issue by the Management Board on 25 March 2013. The financial statements may be amended by the shareholders and re-issue of the statements may be required.

The Financial Statements for the years ended 31 December 2012 and 31 December 2011 are available at the Bank's website (www.bib.eu).

Functional and Presentation Currency

The Financial Statements are presented in Latvian lats, unless indicated otherwise. The functional currency of the Bank and its subsidiaries is the Latvian lat.

Basis of measurement

The 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;
- part of property and equipment – motor vehicles – that is measured using a revaluation model.

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.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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.

3. SIGNIFICANT ACCOUNTING POLICIES**Changes in accounting policies**

The accounting policies applied by the Group and the Bank in these Financial Statements are the same as those applied by the Group and the Bank in its Financial Statements as at and for the year ended 31 December 2011.

Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules.

- I. has control or joint control over the reporting entity;
- II. has significant influence over the reporting entity; or
- III. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

- I. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- II. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- III. both entities are joint ventures of the same third party;
- IV. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- V. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
- VI. the entity is controlled, or jointly controlled by a person identified in (a);
- VII. a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction - a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

New standards and interpretations

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2012 and have not been applied in preparing these financial statements:

- Amendments to IFRS 7 and IAS 32 on Offsetting Financial Assets and Financial Liabilities.
- Amendments to IFRS 7 Disclosures (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

• Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Group and Bank do not expect the Amendments to have a significant impact on the financial statements, as they have not entered into master netting or similar arrangements.

• IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively).

• IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

- (1) it is exposed or has rights to variable returns from its involvements with the investee;
- (2) it has the ability to affect those returns through its power over that investee; and
- (3) there is a link between power and returns.

The new IFRS 10 also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements.

• Under the new IFRS 11, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

• IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. IFRS 11 eliminates the free choice of equity accounting or proportionate consolidation; the equity method must always be used in financial statements.

• IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Group and Bank do not expect that the new standards will have a material impact on the financial statements.

• IFRS 13 Fair Value Measurement (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs.

- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively). The amendments:

- require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections;

- change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the Company were to adopt the amendments from 1 January 2012, then there would be no impact since there were no revaluation recognized through other comprehensive income during the reporting year.

- Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

The Group and Bank do not expect the amendments to have any impact on the financial statements, since it does not result in a change in the Group's and Bank's accounting policy. The measurement of deferred tax assets and liabilities relating to investment properties measured using the fair value model in IAS 40 will not change.

- IAS 19 (2011) Employee Benefits (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply). The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognizing actuarial gains and losses, and eliminates the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognized in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

The amendments are not relevant to the Group's and Bank's financial statements, since the Group and Bank do not have any defined benefit plans.

- IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014) introduces minor clarifications. The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements.

The Bank does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the Bank's accounting policy.

- IAS 28 (2011) Investments in Associates and Joint Ventures (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Group and Bank do not expect the amendments to Standard to have material impact on the financial statements since the Group and Bank do not have any investments in associates or joint ventures that will be impacted by the amendments.

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 cost and fair value are retranslated at the exchange rate at the date that the cost or 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-for-sale equity instruments, which are recognised in other comprehensive income.

Currency name		31.12.2012	31.12.2011
1 BYR	=	LVL 0.0000619	LVL 0.0000649
1 EUR	=	LVL 0.7028040	LVL 0.7028040
1 GBP	=	LVL 0.8570000	LVL 0.8400000
1 RUB	=	LVL 0.0174000	LVL 0.0170000
1 USD	=	LVL 0.5310000	LVL 0.5440000

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 received.

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 Group and 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

Securities 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-for-sale; 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 Group and Bank on terms that the Group and 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 from 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 money-market 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 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.

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 software licences. 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, except for motor vehicles, are recorded in the 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 Group’s and 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.

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 reclassification 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 within the next 12 months are classified as held for sale. Immediately before classification as held for sale, a plan to sell must have been initiated, 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.

Equity accounted investees

Equity accounted investees 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 equity accounted investees 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 equity accounted investees, 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 equity accounted investees.

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 Financial Statements as at and for the year ended 31 December 2011.

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 policies 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 2012 and 31 December 2011, 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 Group and 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 Group and 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 Group and 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's liquidity ratio as at 31 December 2012 was 71.49%, compared to 91.33% as at 31 December 2011.

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 Notes 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 2012 and 31 December 2011 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

Currency risk management policy determines and regulates risk control and regulatory principles related to the currency exchange transactions that help the Bank in controlling its foreign currency open positions.

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 2012 and 31 December 2011 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 2012 and 31 December 2011 and a simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2012 LVL	Equity 31.12.2012 LVL	Net income 31.12.2011 LVL	Equity 31.12.2011 LVL
5% increase in securities prices	56 819	0.27%	18 787	0.09%
5% decrease in securities prices	(59 819)	-0.27%	(18 787)	-0.09%

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 have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level of 8%; as at 31 December 2012 the higher level set for the Bank was 14.5% (2011: 15.7%). As at 31 December 2012 and 2011 the Bank complied with this requirement.

The Bank's risk based capital adequacy ratio, as at 31 December 2012, was 16.45% (31 December 2011: 17.89%).

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
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Loans	5 440 902	5 495 649	5 360 079	5 399 593
Loans,	5 408 407	5 463 154	5 335 601	5 375 115
including incomes for which impairment allowance was made	7 282	7 282	86 722	86 722
Payment cards	32 495	32 495	24 478	24 478
Due from credit institutions	1 282 012	1 282 012	276 356	276 356
Securities held-to-maturity	564 878	564 878	860 474	860 474
Due from Bank of Latvia	15 640	15 640	19 002	19 002
Securities held-for-trading	10 729	10 729	-	-
	7 314 161	7 368 908	6 515 911	6 555 425

7. INTEREST EXPENSE

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Liabilities at amortised cost	1 933 465	1 933 471	2 405 579	2 405 579
Deposits	1 314 358	1 314 364	1 508 649	1 508 649
Due to credit institutions	414 393	414 393	783 892	783 892
Subordinated liabilities	204 714	204 714	113 038	113 038
Contributions to Deposit Guarantee Fund	577 641	577 641	284 843	284 843
Other interest expense	25 630	19 354	11 918	11 918
	2 536 736	2 530 466	2 702 340	2 702 340

8. FEE AND COMMISSION INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Servicing of transactions	2 251 739	2 252 877	2 067 688	2 069 306
Forex transactions	701 745	701 745	1 470 265	1 470 265
Trust operations	370 405	370 405	373 116	373 116
Payment cards	286 607	286 607	236 831	236 831
Fees and commissions from banks	173 049	173 049	170 236	170 236
Securities accounts administration charges	160 914	160 914	696 208	696 208
Letters of credit	150 794	150 794	98 652	98 652
Cash operations	12 254	12 254	12 221	12 227
Transactions in precious metals	9 942	9 942	44 278	44 278
Other	3 870	3 870	41 787	41 787
	4 121 319	4 122 457	5 211 282	5 212 906

9. FEE AND COMMISSION EXPENSE

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2012	31.12.2012
	LVL	LVL	LVL	LVL
Services of correspondent banks	307 534	307 534	310 889	310 889
Payment cards	284 999	284 999	244 073	244 073
Services of agents and brokers	72 192	72 192	40 763	40 763
Securities-based transactions	53 258	53 258	198 970	198 970
Foreign exchange operations	47	47	129 264	129 264
Other	4 776	4 318	2 132	2 132
	722 806	722 348	926 091	926 091

10. NET TRADING INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2012	31.12.2012
	LVL	LVL	LVL	LVL
Loss on foreign exchange operations	(518 295)	(516 794)	(41 130)	(42 566)
Gain on revaluation of positions in foreign currency	1 760 930	1 760 930	1 788 185	1 788 185
	1 242 635	1 244 136	1 747 055	1 745 619
(Loss)/gain on trading in financial instruments	(28 410)	(28 410)	29 792	29 792
Gain/(loss) on revaluation of financial instruments	89 038	89 038	(80 902)	(80 902)
	60 628	60 628	(51 110)	(51 110)
	1 303 263	1 304 764	1 695 945	1 694 509

11. OTHER OPERATING INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2012	31.12.2012
	LVL	LVL	LVL	LVL
Gain on sale of subsidiary	117 146	-	-	-
Professional services	80 734	80 734	69 796	51 508
Rent of premises	33 824	38 238	31 191	29 504
Gain on sale of property and equipment and investment property	33 756	6 010	83	83
Intermediary services	13 560	1 990	11 819	10 177
Profit from transactions in precious metals	2 389	2 389	8 540	8 540
Other	55 226	7 706	30 186	9 240
	336 635	137 067	151 615	109 052

12. ADMINISTRATIVE EXPENSES

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2012	31.12.2012
	LVL	LVL	LVL	LVL
Staff salaries	2 982 424	2 931 010	2 877 766	2 861 593
Amortisation and depreciation (Notes 28, 29)	749 624	749 398	701 665	701 458
Social insurance payments	686 667	674 281	663 207	659 311
Representation expenses	685 836	685 836	484 173	484 173
Professional services	511 016	495 815	384 768	372 161
Charity and sponsorship	339 193	339 193	217 558	217 558
Lease, renovation and maintenance of property and equipment	271 768	267 911	280 823	278 063
Non-deductible input VAT	234 428	218 787	214 274	214 274
Business trips	160 810	160 810	165 304	165 304
Communication	133 169	132 521	127 466	127 057
Taxes paid overseas	122 746	122 746	21 524	21 524
Security	108 590	108 590	36 341	36 341
Event organisation	75 706	75 706	96 377	96 377
Motor vehicles	73 915	70 734	63 965	61 209
Stationary goods and household equipment	57 991	57 991	71 394	71 394
Advertising and publicity	46 905	46 905	92 440	92 440
Real estate tax	40 802	39 882	43 258	37 677
Insurance	9 420	8 613	9 542	9 090
Other	758 397	758 212	767 276	757 875
	8 049 407	7 944 941	7 319 121	7 264 879

13. OTHER OPERATING EXPENSES

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2012	31.12.2012
	LVL	LVL	LVL	LVL
Association membership fees	143 194	143 194	122 577	122 577
Loss from sale of property and equipment and investment property	35 894	35 894	-	-
Sale-related expenses	11 345	-	-	-
Services of agents and brokers	1 435	1 435	10 566	10 566
Other	13 601	8 672	15 055	12 476
	205 469	189 195	148 198	145 619

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 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
Increase in allowances	4 638 957*	-	1 457 157	1 958	8 482	6 106 554
Reversal of allowances	-	-	(289 909)	(282)	-	(290 191)
Net impairment loss for the period	4 638 957	-	1 167 248	1 676	8 482	5 816 363
Amounts written-off	-	-	(36 095)	(30 581)	(48 115)	(114 791)
Difference due to fluctuations in foreign currency exchange rates	(332 512)	240	(27 107)	291	509	(358 579)
Allowances as of 31 December 2012	4 306 465	27 936	3 692 554	1 901	101 252	8 130 108

* During 2012, the Bank made an impairment allowance totalling LVL 4 638 957 for due from credit institutions. The allowance was made in respect of the amounts - whose recovery was assessed as doubtful - previously blocked with the Bank's counterparty. According to the relevant deposit agreement, the Bank's client has reimbursed (from client's funds placed with the Bank) the Bank for the losses incurred. Therefore, the Bank's operating results were not directly affected by the impairment allowance.

						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 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
Increase in allowances	4 638 957*	-	1 336 401	1 958	8 482	5 985 798
Reversal of allowances	-	-	(289 909)	(282)	-	(290 191)
Net impairment loss for the period	4 638 957	-	1 046 492	1 676	8 482	5 695 607
Amounts written-off	-	-	(36 095)	(30 581)	(48 115)	(114 791)
Difference due to fluctuations in foreign currency exchange rates	(332 512)	240	(27 107)	291	509	(358 579)
Allowances as of 31 December 2012	4 306 465	27 936	3 971 032	1 901	101 252	8 408 586

* During 2012, the Bank made an impairment allowance totalling LVL 4 638 957 for due from credit institutions. The allowance was made in respect of the amounts - whose recovery was assessed as doubtful - previously blocked with the Bank's counterparty. According to the relevant deposit agreement, the Bank's client has reimbursed (from client's funds placed with the Bank) the Bank for the losses incurred. Therefore, the Bank's operating results were not directly affected by the impairment allowance.

15. CORPORATE INCOME TAX

(a) Income tax charge

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Corporate income tax expense	125 905	125 697	-	-
Deferred income tax expense	50 768	43 198	342 837	332 052
	176 673	168 895	342 837	332 052

The Group's and the Bank's applicable tax rate is 15% (2011: 15%).

(b) Reconciliation between tax expense and accounting profit

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Profit before income tax	613 912	562 428	1 860 349	1 567 482
Theoretically calculated tax at tax rate of 15%	92 087	84 364	279 052	235 122
Non-deductible expenses	84 586	84 531	63 785	96 930
	176 673	168 895	342 837	332 052

(c) Deferred taxes

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

GROUP						
	Assets	Assets	Liabilities	Liabilities	Deferred tax assets/ (liabilities)	Deferred tax assets/ (liabilities)
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	LVL	LVL	LVL	LVL	LVL	LVL
Financial instruments at fair value						
through profit or loss	37 891	52 002	-	-	37 891	52 002
Available-for-sale assets	-	-	-	(1 109)	-	(1 109)
Property and equipment	-	-	(828 335)	(806 012)	(828 335)	(806 012)
Investment property	-	-	(71 323)	(67 165)	(71 323)	(67 165)
Other assets	-	-	(681)	(5 710)	(681)	(5 710)
Other liabilities	24 444	23 810	-	-	24 444	23 810
Tax loss carry-forwards	3 566	20 514	-	-	3 566	20 514
Recognised net deferred tax assets/ (liabilities)	65 901	96 326	(900 339)	(879 996)	(834 438)	(783 670)

					BANK	
	Assets	Assets	Liabilities	Liabilities	Deferred	Deferred
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	tax assets/ (liabilities)	tax assets/ (liabilities)
	LVL	LVL	LVL	LVL	31.12.2012	31.12.2011
					LVL	LVL
Financial instruments at fair value through profit or loss	37 891	52 002	-	-	37 891	52 002
Available-for-sale assets	-	-	-	(1 109)	-	(1 109)
Property and equipment	-	-	(828 335)	(806 012)	(828 335)	(806 012)
Investment property	-	-	(54 607)	(58 019)	(54 607)	(58 019)
Other assets	-	-	(681)	(5 710)	(681)	(5 710)
Other liabilities	24 444	23 810	-	-	24 444	23 810
Tax loss carry-forwards	3 566	20 514	-	-	3 566	20 514
Recognised net deferred tax assets/ (liabilities)	65 901	96 326	(883 623)	(870 850)	(817 722)	(774 524)

(d) Movement in temporary differences

GROUP			
	Carrying amount 31.12.2011	Recognised in income statement 2012	Carrying amount 31.12.2012
	LVL	LVL	LVL
Financial instruments at fair value through profit or loss	52 002	(14 111)	37 891
Available-for-sale assets	(1 109)	1 109	-
Property and equipment	(806 012)	(22 323)	(828 335)
Investment property	(67 165)	(4 158)	(71 323)
Other assets	(5 710)	5 029	(681)
Other liabilities	23 810	634	24 444
Tax loss carry-forwards	20 514	(16 948)	3 566
	(783 670)	(50 768)	(834 438)

BANK			
	Carrying amount 31.12.2011	Recognised in income statement 2012	Carrying amount 31.12.2012
	LVL	LVL	LVL
Financial instruments at fair value through profit or loss	52 002	(14 111)	37 891
Available-for-sale assets	(1 109)	1 109	-
Property and equipment	(806 012)	(22 323)	(828 335)
Investment property	(58 019)	3 412	(54 607)
Other assets	(5 710)	5 029	(681)
Other liabilities	23 810	634	24 444
Tax loss carry-forwards	20 514	(16 948)	3 566
	(774 524)	(43 198)	(817 722)

16. CASH AND BALANCES WITH BANK OF LATVIA

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Cash	5 961 981	5 961 281	1 358 032	1 357 432
Balance with the Bank of Latvia	21 243 774	21 243 774	19 488 987	19 488 987
Accrued income on balance with Bank of Latvia	80	80	522	522
	27 205 835	27 205 135	20 847 541	20 846 941

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	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Cash	5 961 981	5 961 281	1 358 032	1 357 432
Balance with the Bank of Latvia	21 243 774	21 243 774	19 488 987	19 488 987
	27 205 755	27 205 055	20 847 019	20 846 419
Due from other credit institutions with up to 3 months original maturity	98 605 759	98 605 759	119 653 532	119 653 532
Due to other credit institutions with up to 3 months original maturity	(257 556)	(257 556)	(2 956 573)	(2 956 573)
	125 553 958	125 553 258	137 543 978	137 543 378

18. SECURITIES-HELD-FOR TRADING

GROUP AND BANK		
	31.12.2012	31.12.2011
	LVL	LVL
Debt securities		
<i>Bonds of other issuers and other fixed-income securities rated Caa</i>	749 519	-
Shares and other variable income securities	386 865	375 735
	1 136 384	375 735

The table below shows the securities recorded by issuer profile:

GROUP AND BANK		
	31.12.2012	31.12.2011
	LVL	LVL
Debt securities of credit institutions	749 519	-
Total debt securities	749 519	-
Shares of credit institutions	122 019	93 303
State-owned companies enterprises	155 395	150 026
Shares of private enterprises	109 451	119 567
Shares of financial institutions	-	10 162
Investment certificates	-	2 677
Total shares	386 865	375 735
	1 136 384	375 735

The table below shows the geographical concentration of securities:

GROUP AND BANK		
	31.12.2012	31.12.2011
	LVL	LVL
Debt securities of entities registered in EU countries	749 519	-
Total debt securities	749 519	-
Shares of entities registered in the Republic of Latvia	2 502	7 952
Shares of entities registered in other EU countries	10 726	11 021
Shares of entities registered in OECD countries	34 574	10 343
Shares of entities registered in CIS countries	339 063	343 741
Shares of entities registered in other countries	-	2 678
Total shares	386 865	375 735
	1 136 384	375 735

As of 31 December 2012 and 31 December 2011, the Bank did not possess any debt securities serving as collateral for repo loans.

19. DERIVATIVE FINANCIAL INSTRUMENTS

The table below summarises the contractual amounts of the Group's and the Bank's forward foreign exchange contracts outstanding at 31 December 2012 and 31 December 2011. 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				
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	Assets	Liabilities	Assets	Liabilities
	LVL	LVL	LVL	LVL
Notional amount				
Currency SWAPS	293 457 460	292 930 093	9 155 252	9 136 407
Foreign currency FORWARD contracts	186 839 859	186 845 585	11 029 622	11 050 661
FUTURES contracts (gold)	177 970	-	85 234	-
	480 475 289	479 775 678	20 270 108	20 187 068
Fair value				
Currency SWAPS	832 925	305 559	18 845	-
Foreign currency FORWARD contracts	210 573	216 298	8	21 047
FUTURES contracts (gold)	6 574	-	3 295	-
	1 050 072	521 857	22 148	21 047

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

GROUP AND BANK				
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	Assets	Liabilities	Assets	Liabilities
	LVL	LVL	LVL	LVL
Notional amount				
Currency SWAPS with Latvia incorporated credit institutions	28 017 790	28 112 160	-	-
Currency SWAPS with other EU countries incorporated credit institutions	37 526 946	37 539 494	-	-
Currency SWAPS with non-OECD incorporated credit institutions	227 912 724	227 278 439	9 155 252	9 136 407
	293 457 460	292 930 093	9 155 252	9 136 407

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

GROUP AND BANK				
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	Assets	Liabilities	Assets	Liabilities
	LVL	LVL	LVL	LVL
Notional amount				
Foreign currency exchange FORWARD transactions with non-OECD incorporated credit institutions	87 394 548	87 208 055	35 107	35 140
Foreign currency exchange FORWARD transactions with other countries customers	99 445 311	99 637 530	10 994 515	11 015 521
	186 839 859	186 845 585	11 029 622	11 050 661

20. DUE FROM CREDIT INSTITUTIONS

GROUP AND BANK		
	31.12.2012	31.12.2011
	LVL	LVL
Repayable on demand	95 837 732	108 659 872
Other deposits	9 013 344	15 177 508
	104 851 076	123 837 380
Allowances (Note 14)	(4 306 465)	(20)
	100 544 611	123 837 360

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

	GROUP AND BANK	
	31.12.2012	31.12.2011
	LVL	LVL
Due from credit institutions incorporated in the Republic of Latvia	1 887 174	1 730 374
Due from credit institutions incorporated in other EU countries	93 309 345	86 896 927
Due from credit institutions incorporated in other OECD countries	3 344 235	26 838 050
Due from credit institutions incorporated in other countries	6 310 322	8 372 029
	104 851 076	123 837 380
Allowances (Note 14)	(4 306 465)	(20)
	100 544 611	123 837 360

Concentration of placements with banks and other financial institutions

As at 31 December 2012 and 31 December 2011, 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 2012 and 31 December 2011 were LVL 93 335 042 and LVL 102 750 321, respectively.

21. LOANS

(a) Loans by type

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Commercial loans	26 247 322	26 380 484	26 647 810	26 769 765
Mortgage loans	16 825 537	18 336 814	17 813 105	19 699 023
Trade finance	11 532 162	11 532 162	5 757 091	5 757 091
Overdrafts	3 616 483	3 649 005	2 776 638	2 811 957
Industrial loans	2 679 481	2 679 481	5 811 130	5 811 130
Consumer loans	367 544	367 544	378 112	378 112
Payment cards	181 733	181 733	121 574	121 574
Other	917 061	917 061	486 614	486 614
	62 367 323	64 044 284	59 792 074	61 835 266
Reverse repos	3 100 210	3 100 210	899 392	899 392
	65 467 533	67 144 494	60 691 466	62 734 658
Allowances (Note 14)	(3 692 554)	(3 971 032)	(2 588 508)	(2 987 742)
	61 774 979	63 173 462	58 102 958	59 746 916

(b) Loan profile by geographic location

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Residents of the Republic of Latvia	26 094 484	27 771 445	20 917 340	22 960 532
Residents of other EU countries	20 705 760	20 705 760	22 508 924	22 508 924
Residents of non-EU OECD countries	5 891 040	5 891 040	5 420 203	5 420 203
Residents of CIS countries	3 079 902	3 079 902	2 959 574	2 959 574
Residents of other countries	9 696 347	9 696 347	8 885 425	8 885 425
	65 467 533	67 144 494	60 691 466	62 734 658
Allowances (Note 14)	(3 692 554)	(3 971 032)	(2 588 508)	(2 987 742)
	61 774 979	63 173 462	58 102 958	59 746 916

(c) Loans by customer profile

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Loans to corporate clients	49 817 955	51 494 916	47 016 702	49 059 894
Loans to financial institutions	5 492 951	5 492 951	5 448 571	5 448 571
Loans to non-profit institutions serving households	24	24	-	-
Loans to individuals	9 133 676	9 133 676	7 087 878	7 087 878
Loans to senior management and staff members of the Bank	1 022 927	1 022 927	1 138 315	1 138 315
	65 467 533	67 144 494	60 691 466	62 734 658
Allowances (Note 14)	(3 692 554)	(3 971 032)	(2 588 508)	(2 987 742)
	61 774 979	63 173 462	58 102 958	59 746 916

(d) Industry analysis of the loan portfolio

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Trade	25 509 740	25 509 740	17 267 196	17 267 196
Real estate	14 208 409	15 885 370	14 996 381	17 039 573
Finance	9 291 516	9 291 516	8 746 824	8 746 824
Manufacturing	1 747 661	1 747 661	2 499 240	2 499 240
Information and communication services	1 593 029	1 593 029	2 376 089	2 376 089
Energy	1 061 468	1 061 468	70	70
Agriculture, forestry and timber	2 673	2 673	2 662	2 662
Other services	622 502	622 502	6 565 552	6 565 552
Other	1 273 932	1 273 932	11 259	11 259
Loans to individuals	10 156 603	10 156 603	8 226 193	8 226 193
	65 467 533	67 144 494	60 691 466	62 734 658
Allowances (Note 14)	(3 692 554)	(3 971 032)	(2 588 508)	(2 987 742)
	61 774 979	63 173 462	58 102 958	59 746 916

(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	Allowances	Net loans
	31.12.2012	31.12.2012	31.12.2012
	LVL	LVL	LVL
Non-delinquent loans	50 507 832	(1 116 772)	49 391 060
Up to 1 month (inclusive)	3 462 237	(277 443)	3 184 794
1 to 3 months	277 347	(2 478)	274 869
3 to 6 months	5 488 298	(80 300)	5 407 998
More than 6 months	5 731 819	(2 215 561)	3 516 258
	65 467 533	(3 692 554)	61 774 979

	BANK		
	Gross loans	Allowances	Net loans
	31.12.2012	31.12.2012	31.12.2012
	LVL	LVL	LVL
Non-delinquent loans	52 184 793	(1 395 250)	50 789 543
Up to 1 month (inclusive)	3 462 237	(277 443)	3 184 794
1 to 3 months	277 347	(2 478)	274 869
3 to 6 months	5 488 298	(80 300)	5 407 998
More than 6 months	5 731 819	(2 215 561)	3 516 258
	67 144 494	(3 971 032)	63 173 462

	GROUP		
	Gross loans	Allowances	Net loans
	31.12.2011	31.12.2011	31.12.2011
	LVL	LVL	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	Allowances	Net loans
	31.12.2011	31.12.2011	31.12.2011
	LVL	LVL	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

Movements in the loan impairment allowance for the years ended 31 December 2012 and 31 December 2011 are disclosed in Note 14.

(f) Restructured loans:

During the year ended 31 December 2012, the Bank restructured loans by changing the terms of the loan agreement as follows:

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Extension of the loan maturity date	5 763 385	5 763 385	2 948 680	2 948 680
Principal grace	2 277 837	2 277 837	-	-
Interest rate change	1 518 399	1 518 399	-	-
Other changes	19 941	19 941	107 923	107 923
	9 579 562	9 579 562	3 056 603	3 056 603

(g) Analysis of collateral

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

	GROUP		BANK	
	Net loans	% of loan	Net loans	% of loan
	31.12.2012	31.12.2012	31.12.2012	31.12.2012
	LVL	%	LVL	%
Real estate	38 011 565	61.60%	39 410 048	62.38%
Commercial pledge	8 658 482	14.00%	8 658 482	13.71%
Traded securities	3 302 244	5.30%	3 302 244	5.23%
Deposits	851 643	1.40%	851 643	1.35%
Motor vehicles	2 192	0.00%	2 192	0.00%
Other collateral	5 391 355	8.70%	5 391 355	8.53%
No collateral	5 557 498	9.00%	5 557 498	8.80%
	61 774 979	100%	63 173 462	100%

	GROUP		BANK	
	Net loans	% of loan	Net loans	% of loan
	31.12.2011	31.12.2011	31.12.2011	31.12.2011
	LVL	%	LVL	%
Real estate	32 543 890	56.00%	34 152 529	57.16%
Commercial pledge	11 330 047	19.50%	11 330 047	18.96%
Traded securities	1 111 575	1.90%	1 111 575	1.86%
Deposits	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%

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 vehicle 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 Group and Bank have obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans (2012: nil).

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Premises	-	-	223 685	223 685
Land plots	-	-	123 000	-
	-	-	346 685	223 685

(h) Significant credit exposures

As at 31 December 2012 and 31 December 2011 the Bank had no borrowers, including related parties whose outstanding loan balances 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 2012 and 31 December 2011.

22. SECURITIES AVAILABLE-FOR-SALE

	GROUP AND BANK	
	31.12.2012	31.12.2011
	LVL	LVL
Debt securities of credit institutions domiciled in Iceland	27 936	27 696
Shares and other variable income securities	1 572 679	165 579
<i>Capital, JSC</i>	127 111	127 111
<i>S.W.I.F.T., SCRL</i>	38 468	38 468
<i>Imprimatur Capital Technology Venture Fund, LP</i>	78 750	-
<i>Tamar Energy, Ltd</i>	1 328 350	-
	1 600 615	193 275
Allowances (Note 14)	(27 936)	(27 696)
	1 572 679	165 579

Investment Capital is measured at cost less impairment as the Bank believes there is no readily available active market to determine 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 2012 and 31 December 2011.

Imprimatur Capital Technology Venture Fund makes seed investments in SMEs which become its portfolio companies. The Fund's purpose is to invest in technology-related SMEs, develop their business potential and then sell its ownership interests in such SMEs at a profit and for the benefit of the Fund and its Investors. Investment Imprimatur Capital Technology Venture Fund is measured at cost as there is no readily available active market to determine the fair value.

Tamar Energy is a renewable energy business focusing entirely on anaerobic digestion. Investment Tamar Energy is measured at cost as there is no readily available active market to determine the fair value. Management has assessed the investment and no impairment was identified.

23. SECURITIES HELD-TO-MATURITY

GROUP AND BANK		
	31.12.2012	31.12.2011
	LVL	LVL
Government bonds	541 850	-
Bonds and other fixed-income securities	6 017 695	7 046 386
	6 559 545	7 046 386

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

GROUP AND BANK		
	31.12.2012	31.12.2011
	LVL	LVL
Debt securities of credit institutions (Moody's ratings)	2 714 897	3 081 092
<i>Debt securities of credit institutions rated Baa</i>	54 709	56 246
<i>Debt securities of credit institutions rated Ba</i>	1 344 117	1 646 137
<i>Debt securities of credit institutions rated B</i>	1 316 071	1 378 709
Debt securities of private enterprises (Moody's ratings)	1 372 152	2 238 463
<i>Debt securities of private enterprises rated Ba</i>	1 372 152	1 415 290
<i>Debt securities of private enterprises rated B</i>	-	823 173
Public non-financial Corporations (Moody's ratings)	1 930 646	1 726 831
<i>Public non-financial Corporations rated Baa</i>	1 667 529	1 726 831
<i>Public non-financial Corporations rated Ba</i>	263 117	
Debt securities of central governments (Moody's ratings)	541 850	-
<i>Debt securities of central governments rated Baa</i>	541 850	-
	6 559 545	7 046 386

24. INVESTMENTS IN ASSOCIATES

GROUP AND BANK					
	Ownership %	Country of incorporation	Purpose	31.12.2012 LVL	31.12.2011 LVL
LLC "Komunikācijas un projekti"	25	Latvia	Investments	429 009	429 009
				429 009	429 009

As at 31 December 2012, SIA "Komunikācijas un projekti" assets amounted to LVL 22 539, liabilities amounted to LVL 41 057, and losses for 2012 comprised LVL 6 835. The management assessed future cash flows to be generated by the associate and as a result of this assessment concluded that there is no objective evidence of impairment of investment in associate.

25. SALE OF SUBSIDIARY

On 9 August 2012, the Group sold a subsidiary "SD Investment Corporation" LLC. The subsidiary at the sales date had negative net assets at the amount of LVL 122 860. The gain recognized in Consolidated Financial statements at the sales date was LVL 117 146, which are disclosed in Note 11 Other income.

The subsidiaries of the Bank are as follows:

NAME	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITIES	CARRYING AMOUNT OF INVESTMENT	OWNERSHIP	
				31.12.2012 %	31.12.2011 %
"BIB Real Estate" LLC	Latvia	Real estate	1 365 600	100	100
"Gaujas Īpašumi" LLC	Latvia	Real estate	2 000	100	100
"Global Investments" LLC	Latvia	Real estate	2 000	100	100
„BIB Consulting” LLC	Latvia	Legal advice, asset protection services and advice and guidance on taxation and tax planning	2 000	100	100
"SD Investment Corporation" LLC	Latvia	Real estate	-	-	100

26. NON-CURRENT ASSETS HELD FOR SALE

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	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 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	BANK
	LVL	LVL
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
Additions	393 685	-
Revaluation	221 297	63 771
Sale	(845 094)	(277 094)
As of 31 December 2012	5 776 684	2 911 810

Loss on investment property sold during 2012 was LVL 80 185 in the Group and LVL 35 894 in the Bank.

	GROUP	BANK
	LVL	LVL
Amounts recognised in the profit or loss (apart from revaluation result):		
Rental income earned on investment property	40 210	38 285
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	(7 942)	(7 385)
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	(9 060)	(7 597)

28. PROPERTY AND EQUIPMENT

	Buildings and land (own use) LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	GROUP Total LVL
Acquisition cost					
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
Additions	-	43 323	269 423	359 381	672 127
Disposals	-	(54 015)	(67 781)	-	(121 796)
As of 31 December 2012	9 042 608	177 998	2 491 512	472 492	12 184 610
Depreciation					
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)
Depreciation	(158 684)	(35 820)	(372 167)	-	(566 671)
Disposals	-	51 658	67 566	-	119 224
As of 31 December 2012	(774 450)	(89 750)	(1 379 120)	-	(2 243 320)
Net book value					
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
As of 31 December 2012	8 268 158	88 248	1 112 392	472 492	9 941 290

	Buildings and land (own use) LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	BANK Total LVL
Acquisition cost					
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
Additions	-	43 323	269 423	359 381	672 127
Disposals	-	(54 015)	(67 781)	-	(121 796)
As of 31 December 2012	9 042 608	177 998	2 489 184	472 492	12 182 282
Depreciation					
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)
Depreciation	(158 684)	(35 820)	(371 941)	-	(566 445)
Disposals	-	51 658	67 566	-	119 224
As of 31 December 2012	(774 450)	(89 750)	(1 377 160)	-	(2 241 360)
Net book value					
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
As of 31 December 2012	8 268 158	88 248	1 112 024	472 492	9 940 922

The fair value of motor vehicles was determined by an independent appraiser by using the comparable transaction method based on recent market transactions with similar vehicles between independent parties. The evaluation of motor vehicles was carried out as at 7 September 2011.

29. INTANGIBLE ASSETS

	GROUP	BANK
	Software LVL	Software LVL
Acquisition cost		
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
Additions	534 168	534 168
Disposals	(8 277)	(8 277)
As of 31 December 2012	3 749 526	3 749 062
Amortisation		
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)
Amortisation	(182 953)	(182 953)
Disposals	8 277	8 277
As of 31 December 2012	(536 487)	(536 023)
Net book value		
As of 31 December 2010	2 394 169	2 394 061
As of 31 December 2011	2 861 824	2 861 824
As of 31 December 2012	3 213 039	3 213 039

30. DEFERRED EXPENSES AND ACCRUED INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2012 LVL	31.12.2012 LVL	31.12.2011 LVL	31.12.2011 LVL
Deferred expenses	608 168	607 701	442 104	441 424
Other accrued income	617 734	622 134	462 303	462 303
	1 225 902	1 229 835	904 407	903 727
Allowances (Note 14)	(1 901)	(1 901)	(30 515)	(30 515)
	1 224 001	1 227 934	873 892	873 212

31. OTHER ASSETS

	GROUP	BANK	GROUP	BANK
	31.12.2012 LVL	31.12.2012 LVL	31.12.2011 LVL	31.12.2011 LVL
Accounts receivable	418 655	192 167	310 891	227 157
Precious metals	259 717	259 717	141 012	141 012
Unsettled spot forex transactions	156 498	156 498	367 880	367 880
Prepayments	129 889	110 156	91 612	84 358
Money in transit (replenishment of a correspondent account)	110 012	110 012	1 091 671	1 091 671
VAT pre-tax payment	36 707	-	100 819	24 894
Funds placed in guarantee funds	13 317	13 317	7 919	7 919
Other prepaid taxes	61 204	60 513	36 476	36 476
Others	5 672	5 672	6 806	6 110
	1 191 671	908 052	2 155 086	1 987 477
Allowances (Note 14)	(101 252)	(101 252)	(140 376)	(140 376)
	1 090 419	806 800	2 014 710	1 847 101

32. DUE TO CREDIT INSTITUTIONS

	GROUP AND BANK	GROUP AND BANK
	31.12.2012 LVL	31.12.2011 LVL
Repayable on demand	257 556	988 721
Term balances	-	8 248 758
	257 556	9 237 479

The table below shows geographical concentration:

	GROUP AND BANK	GROUP AND BANK
	31.12.2012 LVL	31.12.2011 LVL
Credit institutions incorporated in the Republic of Latvia	52 310	458 371
Credit institutions incorporated in other EU countries	-	765
Credit institutions incorporated in other non-OECD countries	205 246	8 778 343
	257 556	9 237 479

As at 31 December 2012 due to credit institutions did not include any deposits serving as collateral for the outstanding loans. As at 31 December 2011, due to non-OECD incorporated credit institutions included deposits totaling LVL 8 111 651, serving as collateral for the outstanding loans.

Concentration of due to credit institutions

As at 31 December 2012 and 31 December 2011, the Group and Bank had balances with two and three credit institutions, which exceeded 10% of total placements by credit institutions. The gross values of these balances as of 31 December 2012 and 31 December 2011 were LVL 257 492 and LVL 8 247 339, respectively.

33. DEPOSITS

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Repayable on demand				
Corporate customers	110 227 108	110 228 540	117 702 232	117 708 097
Financial institutions	7 497 242	7 497 242	960 841	960 841
Municipalities	1 861 331	1 861 331	3 620 425	3 620 425
Public organisations	110 935	110 935	66 708	66 708
State-owned companies	29 927	29 927	400 464	400 464
Central governments	130	130	19	19
Individuals	16 435 481	16 435 481	12 540 451	12 540 451
	136 162 154	136 163 586	135 291 140	135 297 005
Term deposits				
Corporate customers	20 411 869	20 411 869	30 232 939	30 232 939
Municipalities	10 850 014	10 850 014	10 850 014	10 850 014
Financial institutions	4 540 574	4 540 574	243 047	243 047
Individuals	18 700 439	18 700 439	19 271 015	19 271 015
	54 502 896	54 502 896	60 597 015	60 597 015
Total deposits	190 665 050	190 666 482	195 888 155	195 894 020

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

Blocked accounts

As at 31 December 2012, the Bank maintained customer deposit balances of LVL 22 891 561 (as at 31 December 2011: LVL 25 907 023) 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 2012, the Bank had no clients whose account balance exceeded 10% of the total of all customer account balances. As of 31 December 2011, the Bank had no clients whose account balance exceeded 10% of the total of all customer account balances.

34. ACCRUED EXPENSES, PROVISIONS AND DEFERRED INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Provision for unused vacation	162 961	162 961	158 733	158 733
Accrued payable to the Deposit Guarantee Scheme (DGS)	148 362	148 362	88 823	88 823
Accruals for other payments	396 401	394 515	163 611	162 367
Other accrued expense	24 829	24 829	166 829	166 829
Deferred income	75 765	75 765	69 341	69 341
	808 318	806 432	647 337	646 093

35. OTHER LIABILITIES

	GROUP	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Money in transit	228 248	228 248	76 871	76 871
Unsettled spot forex transactions	92 644	92 644	256 462	256 462
Staff salaries	77 984	77 984	71 012	71 012
Other accounts payable	364 017	59 747	332 031	121 610
	762 893	458 623	736 376	525 955

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 2012, the Bank had one customer whose deposit exceeded 10% of the total volume of subordinated deposits.

GROUP AND BANK					
		Amount		The date of	Amount
Depositor	Currency	in currency	Interest rate	conclusion of the loan agreement	31.12.2010
					LVL
Yana Belokon	EUR	1 000 194	0.070	06.06.2012	06.06.2019
					702 941
Total					702 941

GROUP AND BANK		GROUP AND BANK
	31.12.2012	31.12.2011
	LVL	LVL
Residents of the Republic of Latvia		
Corporate customers	13 405	13 399
Individuals	1 168 383	465 429
Residents of other countries		
Individuals	2 945 893	1 864 032
	4 127 681	2 342 860

37. SHAREHOLDERS' EQUITY

The total authorised and paid-in share capital remained unchanged from 2011. The Bank's share capital totals LVL 20 772 105 and is divided into 4 154 421 ordinary shares carrying identical voting rights (2011: 20 772 105 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 2011: 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 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
Total paid-in share capital 31 December 2012	4 154 421	20 772 105

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

	31.12.2012	31.12.2011
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	BANK	GROUP	BANK
	31.12.2012	31.12.2012	31.12.2011	31.12.2011
	LVL	LVL	LVL	LVL
Sureties and guarantees	13 036 699	13 036 699	13 054 725	13 054 725
Commitments to customers	15 255 661	15 339 823	7 437 180	8 514 476
Commitments to extend credit	9 353 528	9 437 690	4 795 519	5 872 815
Unused creditcard limits	563 233	563 233	579 104	579 104
Other commitments	5 338 900	5 338 900	2 062 557	2 062 557
	28 292 360	28 376 522	20 491 905	21 569 201

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 2012, assets administered by the Bank totaled LVL 43 689 723. As of 31 December 2011, the Bank's administered assets stood at LVL 50 784 150.

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 2012 and 2011.

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

In 2012, the Bank's average staff count increased to 230 (2011: 224). Remuneration to the Bank's Supervisory Council and Management Board members amounted to:

	31.12.2012 LVL	31.12.2011 LVL
Council members	136 837	129 163
Board members	262 016	243 002
	398 853	372 165

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 risk-takers (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 non-compliance 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.

Information about the remuneration of institution’s material risk takers (MRTs):

	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 2012	*Installation allowance (gross) paid in 2012	**Severance pay paid in 2012	Total guaranteed variable remuneration in 2012	Discretionary pension benefits assessed in 2012
	LVL	LVL							
Job groups									
Board (7)	201 128	60 888	Cash only	-	-	-	-	-	-
Internal Control Functions (3)	61 095	9 375	Cash only	-	-	-	-	-	-
Others (4)	101 362	15 505	Cash only	-	-	-	-	-	-
Lines of business									
Investment services (3)	88 318	13 492	Cash only	-	-	-	-	-	-
Services for private individuals or small and medium-sized enterprises (3)	93 563	25 646	Cash only	-	-	-	-	-	-
Asset management (3)	79 021	25 017	Cash only	-	-	-	-	-	-
Accounting and control functions (5)	102 683	21 613	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.									

Information about remuneration paid to the institution’s employees

	Workforce number (in terms of full-time equivalent)	Total remuneration for 2012	Variable remuneration component
		LVL	LVL
Lines of business			
Investment services	19	195 856	27 395
Services for private individuals or small and medium-sized enterprises (3)	49	770 623	110 640
Asset management	11	176 870	35 097
Accounting and legal functions	36	377 855	60 901
Internal control functions and transaction control functions	19	231 339	35 128
Administrative and support functions	118	1 087 766	175 737

42. RELATED PARTY TRANSACTIONS

The outstanding balances as of 31 December 2012 and related income statement amounts of transactions for the year ended 31 December 2012 with other related parties are as follows:

As of 31 December 2012

	GROUP AND BANK					
	Subsidiary LVL	Associate LVL	Shareholders, Members of the Supervisory Council and Management Board LVL	Other senior executives LVL	Other LVL	Total LVL
Due from credit institutions						
At the beginning of the period	-	-	-	-	43	43
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	(1)	(1)
At the end of the period	-	-	-	-	42	42
Loans						
At the beginning 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)
Issued during the period	675 720	1 724	253 409	-	37 093	967 946
Repaid during the period	(537 009)	-	(289 597)	-	(390 259)	(1 216 865)
Difference due to fluctuations in foreign currency exchange rates	-	-	100	-	(5 002)	(4 902)
Changes in the group of Bank-related parties	(384 187)	-	-	-	2 303 789	1 919 602
At the end of the period	1 398 483	17 954	432 476	-	2 304 233	4 153 146
Gross Loans	1 676 961	17 954	432 476	-	2 304 233	4 431 624
Allowances	(278 478)	-	-	-	-	(278 478)
Interest income	54 747	1 724	15 405	-	182 591	254 467
Other assets						
At the beginning of the period	37 474	-	-	-	-	37 474
Issued during the period	126	-	-	-	-	126
Repayment during the period	(37 474)	-	-	-	-	(37 474)
At the end of the period	126	-	-	-	-	126
Sureties (guarantees)						
At the beginning of the period	-	-	-	-	10 591	10 591
Redeemed during the period	-	-	-	-	(10 591)	(10 591)
At the end of the period	-	-	-	-	-	-
Due to credit institutions						
At the beginning of the period	-	-	-	-	154 078	154 078
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	(952)	(952)
At the end of the period	-	-	-	-	153 126	153 126
Deposits						
At the beginning of the period	5 865	-	521 599	94 111	1 193 431	1 815 006
Increase in balances during the period	986 244	-	13 820 791	632 440	30 998 219	46 437 694
Decline in balances during the period	(990 410)	-	(13 770 428)	(677 020)	(31 387 371)	(46 825 229)
Difference due to fluctuations in foreign currency exchange rates	-	-	15	-	10 091	10 106
Changes in the group of Bank-related parties	(267)	-	-	-	(30 818)	(31 085)
At the end of the period	1 432	-	571 977	49 531	783 552	1 406 492
Interest expense	6	-	21 954	3 730	16 460	42 150
Subordinated liabilities						
At the beginning of the period	-	-	7 028	-	13 142	20 170
Increase in balances during the period	-	-	45	-	703 203	703 248
At the end of the period	-	-	7 073	-	716 345	723 418
Interest expense	-	-	365	-	26 278	26 643

All related party transactions are at arm’s length.

As of 31 December 2011

	GROUP AND BANK					
	Subsidiary LVL	Associate LVL	Shareholders, Members of the Supervisory Council and Management Board LVL	Other senior executives LVL	Other LVL	Total LVL
Due from credit institutions						
At the beginning of the period	-	-	-	-	43	43
At the end of the period	-	-	-	-	43	43
Loans						
At the beginning of the period	1 326 927	5 296	463 157	-	377 631	2 173 011
<i>Gross Loans</i>	1 682 592	5 296	463 157	-	377 631	2 528 676
<i>Allowances</i>	(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
<i>Gross Loans</i>	2 043 193	16 230	468 564	-	358 612	2 886 599
<i>Allowances</i>	(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
At the end of the period	37 474	-	-	-	-	37 474
Sureties (guarantees)						
At the beginning of the period	-	-	-	-	10 591	10 591
At the end of the period	-	-	-	-	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

All related party transactions are at arm's length.

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 2012:

	GROUP	BANK
	LVL	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	1 689 966	1 673 567
Profit for the current year	437 239	393 533
Intangible assets	(3 213 039)	(3 213 039)
Specific decline in Tier 1 capital, as stipulated by the applicable law	(12 871)	(12 871)
Less revaluation of investment property	(706 752)	(365 676)
Tier 1 Core Capital	19 511 672	19 792 643
Subordinated liabilities	2 662 131	2 662 131
Specific decline in Tier 2 capital, as stipulated by the applicable law	(12 871)	(12 871)
Tier 2 Supplementary Capital	2 649 260	2 649 260
TOTAL CAPITAL	22 160 932	22 441 903
Capital charge for credit risk inherent in the Bank's book, including the breakdown of exposures by categories:	9 359 999	9 332 749
<i>Central governments or central banks</i>	21 674	21 674
<i>Public entities</i>	1 913 453	1 913 453
<i>Commercial companies</i>	4 356 971	4 472 216
<i>Overdue (delinquent) exposures</i>	1 055 981	1 055 981
<i>High-risk exposures</i>	42 168	42 168
<i>Other items</i>	1 969 752	1 827 257
The total capital charge for market risks	331 629	331 629
Capital charge for operational risk	1 251 664	1 248 031
Total capital charge	10 943 292	10 912 409
CAPITAL ADEQUACY RATIOS		
31 December 2012	16.20%	16.45%
CAPITAL ADEQUACY RATIOS		
31 December 2011	17.75%	17.89%

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 2012 and 31 December 2011.

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 assets and liabilities. This term structure will not necessarily coincide with discounted cash flows.

As of 31 December 2012

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	With no stated maturity or LVL	TOTAL LVL
Cash and balances with Bank of Latvia	27 205 755	80	-	-	-	-	-	-	27 205 835
Due from credit institutions	88 926 148	5 313 958	-	-	-	-	-	6 304 505	100 544 611
Financial assets held-for-trading	1 123 243	1 043 498	6 574	-	-	-	13 141	-	2 186 456
<i>Securities held-for-trading</i>	1 123 243	-	-	-	-	-	13 141	-	1 136 384
<i>Derivative financial instruments</i>	-	1 043 498	6 574	-	-	-	-	-	1 050 072
Securities available-for-sale	-	-	-	-	-	-	1 572 679	-	1 572 679
Securities held-to-maturity	-	92 143	289 531	1 089 873	2 769 820	2 263 803	54 375	-	6 559 545
Loans	12 893 638	7 420 657	6 233 974	4 465 991	14 412 004	11 917 227	1 700 518	2 730 970	61 774 979
Non-financial assets	352 990	298 411	24 648	527 201	63 502	9 293	-	20 398 397	21 674 442
Total assets	130 501 774	14 168 747	6 554 727	6 083 065	17 245 326	14 190 323	3 340 713	29 433 872	221 518 547
LIABILITIES									
Due to credit institutions	257 556	-	-	-	-	-	-	-	257 556
Deposits	136 294 903	23 964 609	10 037 855	2 703 563	12 631 715	2 308 877	2 723 528	-	190 665 050
Derivative financial instruments	-	416 192	105 665	-	-	-	-	-	521 857
Subordinated liabilities	-	4 022	12 396	9 637	127	3 398 695	702 804	-	4 127 681
Non-financial liabilities	2 080 356	304 704	149	7 829	12 560	54 610	617	16 716	2 477 541
Shareholders' equity	-	-	-	-	-	-	-	23 468 862	23 468 862
Total liabilities and shareholders' equity	138 632 815	24 689 527	10 156 065	2 721 029	12 644 402	5 762 182	3 426 949	23 485 578	221 518 547
Sureties and commitments *	14 219 512	-	-	-	-	-	-	-	14 219 512
Maturity gap	(22 350 553)	(10 520 780)	(3 601 338)	3 362 036	4 600 924	8 428 141	(86 236)	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 12 404 433.
The value of the gold totals LVL 1 668 415.

As of 31 December 2011

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	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 2012

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	With no stated maturity or LVL	TOTAL LVL
Cash and balances with Bank of Latvia	27 205 055	80	-	-	-	-	-	-	27 205 135
Due from credit institutions	88 926 148	5 313 958	-	-	-	-	-	6 304 505	100 544 611
Financial assets held-for-trading	1 123 243	1 043 498	6 574	-	-	-	13 141	-	2 186 456
<i>Securities held-for-trading</i>	1 123 243	-	-	-	-	-	13 141	-	1 136 384
<i>Derivative financial instruments</i>	-	1 043 498	6 574	-	-	-	-	-	1 050 072
Securities available-for-sale	-	-	-	-	-	-	1 572 679	-	1 572 679
Securities held-to-maturity	-	92 143	289 531	1 089 873	2 769 820	2 263 803	54 375	-	6 559 545
Loans	12 926 160	7 927 988	6 233 974	4 790 453	14 897 365	11 966 034	1 700 518	2 730 970	63 173 462
Non-financial assets	110 011	298 411	24 648	527 201	26 795	9 293	-	18 898 755	19 895 114
Total assets	130 290 617	14 676 078	6 554 727	6 407 527	17 693 980	14 239 130	3 340 713	27 934 230	221 137 002
LIABILITIES									
Due to credit institutions	257 556	-	-	-	-	-	-	-	257 556
Deposits	136 296 335	23 964 609	10 037 855	2 703 563	12 631 715	2 308 877	2 723 528	-	190 666 482
Derivative financial instruments	-	416 192	105 665	-	-	-	-	-	521 857
Subordinated liabilities	-	4 022	12 396	9 637	127	3 398 695	702 804	-	4 127 681
Non-financial liabilities	1 776 086	302 818	149	7 829	12 560	54 610	617	-	2 154 669
Shareholders' equity	-	-	-	-	-	-	-	23 408 757	23 408 757
Total liabilities and shareholders' equity	138 329 977	24 687 641	10 156 065	2 721 029	12 644 402	5 762 182	3 426 949	23 408 757	221 137 002
Sureties and commitments *	14 303 674	-	-	-	-	-	-	-	14 303 674
Maturity gap	(22 343 034)	(10 011 563)	(3 601 338)	3 686 498	5 049 578	8 476 948	(86 236)	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 12 404 433.
The value of the gold totals LVL 1 668 415.

As of 31 December 2011

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	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.

45. CONTRACTUAL CASH FLOWS

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

As of 31 December 2012

	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	257 556	-	-	-	-	257 556	257 556
Current accounts and deposits due to customers	160 278 913	10 088 368	2 730 592	12 967 625	6 369 169	192 434 667	190 666 482
Other borrowed funds	4 022	12 396	9 637	127	5 118 572	5 144 754	4 127 681
Derivative liabilities							
- Inflow	(161 505 845)	-	-	-	-	(161 505 845)	-
- Outflow	162 027 702	-	-	-	-	162 027 702	521 857
Total	161 062 348	10 100 764	2 740 229	12 967 752	11 487 741	198 358 834	195 573 576
Credit related commitments	28 376 522	-	-	-	-	-	-

As of 31 December 2011

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	-	-	-	-	-	-

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

46. ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE

As of 31 December 2012

	GROUP						
ASSETS	LVL	EUR	USD	RUB	GBP	Other currencies	TOTAL LVL
Cash and balances with Bank of Latvia	16 088 792	5 830 195	5 230 475	-	35 685	20 688	27 205 835
Due from credit institutions	1 500 007	55 315 627	40 499 156	193 049	1 590 611	1 446 161	100 544 611
Financial assets held-for-trading	1 052 574	-	1 133 882	-	-	-	2 186 456
<i>Securities held-for-trading</i>	2 502	-	1 133 882	-	-	-	1 136 384
<i>Derivative financial instruments</i>	1 050 072	-	-	-	-	-	1 050 072
Securities available-for-sale	127 111	117 218	-	-	1 328 350	-	1 572 679
Securities held-to-maturity	-	-	6 559 545	-	-	-	6 559 545
Loans	111 788	26 186 083	33 753 659	667	1 621 068	101 714	61 774 979
Non-financial assets	19 273 803	1 244 366	829 300	8 344	59 493	259 136	21 674 442
Total assets	38 154 075	88 693 489	88 006 017	202 060	4 635 207	1 827 699	221 518 547
LIABILITIES							
Due to credit institutions	126	111 009	144 682	-	1 739	-	257 556
Deposits	12 755 134	47 718 829	113 539 391	169 033	13 584 857	2 897 806	190 665 050
Derivative financial instruments	521 857	-	-	-	-	-	521 857
Subordinated liabilities	-	2 354 133	1 773 548	-	-	-	4 127 681
Non-financial liabilities	2 049 211	155 357	223 135	15 650	33 760	428	2 477 541
Shareholders' equity	23 468 862	-	-	-	-	-	23 468 862
Total liabilities and shareholders' equity	38 795 190	50 339 328	115 680 756	184 683	13 620 356	2 898 234	221 518 547
GROSS POSITION	(641 115)	38 354 161	(27 674 739)	17 377	(8 985 149)	(1 070 535)	
Unsettled spot forex contracts	262 910	16 276 182	2 797 825	-	(10 024 758)	(9 248 305)	
Forward contracts	-	(54 590 751)	25 684 936	-	18 854 000	10 573 456	
NET POSITION	(378 205)	39 592	808 022	17 377	(155 907)	254 616	
Ratio to the shareholders' equity (%)*		0.18%	3.65%	0.08%	-0.70%		

As of 31 December 2011

Assets	37 747 489	47 797 735	117 791 806	1 582 313	26 654 914	1 114 290	232 688 547
Liabilities	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)	
Net position	348 998	(422 387)	163 932	8 332	(103 355)	113 704	

* Equity (net worth) totalling LVL 22 160 932 as of 31 December 2012 (as of 31 December 2011: 21 053 045).

As of 31 December 2012

							BANK
ASSETS	LVL	EUR	USD	RUB	GBP	Прочие валюты	ИТОГО LVL
Cash and balances with Bank of Latvia	16 088 092	5 830 195	5 230 475	-	35 685	20 688	27 205 135
Due from credit institutions	1 500 007	55 315 627	40 499 156	193 049	1 590 611	1 446 161	100 544 611
Financial assets held-for-trading	1 052 574	-	1 133 882	-	-	-	2 186 456
<i>Securities held-for-trading</i>	2 502	-	1 133 882	-	-	-	1 136 384
<i>Derivative financial instruments</i>	1 050 072	-	-	-	-	-	1 050 072
Securities available-for-sale	127 111	117 218	-	-	1 328 350	-	1 572 679
Securities held-to-maturity	-	-	6 559 545	-	-	-	6 559 545
Loans	144 310	27 552 046	33 753 659	667	1 621 068	101 712	63 173 462
Non-financial assets	17 490 075	1 248 766	829 300	8 344	59 493	259 136	19 895 114
Total assets	36 402 169	90 063 852	88 006 017	202 060	4 635 207	1 827 697	221 137 002
LIABILITIES							
Due to credit institutions	126	111 009	144 682	-	1 739	-	257 556
Deposits	12 756 162	47 719 226	113 539 391	169 033	13 584 857	2 897 813	190 666 482
Derivative financial instruments	521 857	-	-	-	-	-	521 857
Subordinated liabilities	-	2 354 133	1 773 548	-	-	-	4 127 681
Non-financial liabilities	1 721 939	159 757	223 135	15 650	33 760	428	2 154 669
Shareholders' equity	23 408 757	-	-	-	-	-	23 408 757
Total liabilities and shareholders' equity	38 408 841	50 344 125	115 680 756	184 683	13 620 356	2 898 241	221 137 002
GROSS POSITION	(2 006 672)	39 719 727	(27 674 739)	17 377	(8 985 149)	(1 070 544)	
Unsettled spot forex contracts	262 910	16 276 182	2 797 825	-	(10 024 758)	(9 248 305)	
Forward contracts	-	(54 590 751)	25 684 936	-	18 854 000	10 573 456	
NET POSITION	(1 743 762)	1 405 158	808 022	17 377	(155 907)	254 607	
Ratio to the shareholders' equity (%)*		6.26%	3.60%	0.08%	-0.69%		

As of 31 December 2011

Assets	36 097 262	49 216 618	117 791 806	1 582 313	26 654 914	1 114 289	232 457 202
Liabilities	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)	
Net position	(1 064 352)	990 970	163 932	8 332	(103 355)	113 697	

* Equity (net worth) totalling LVL 22 441 903 as of 31 December 2012 (as of 31 December 2011: 21 269 936).

47. SENSITIVITIES ANALYSIS

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 4.34% of the Group's equity as of 31 December 2012 (as of 31 December 2011: 1.13%).

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):

	31.12.2012 EUR	31.12.2012 USD	31.12.2012 GBP	31.12.2011 EUR	31.12.2011 USD	31.12.2011 GBP
Rate valid:	0.702804	0.531	0.857	0.702804	0.544000	0.840
Foreign currency position (in LVL):	39 592	808 022	(155 907)	(422 387)	163 932	(103 355)
(Loss)/profit (in LVL):	(2 783)	(42 825)	13 408	29 685	(8 852)	8 682

The sum of overall foreign exchange exposure and the net position in gold stood at 10.38% of the Bank's equity as of 31 December 2012 (as of 31 December 2011: 5.51%).

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):

	31.12.2012 EUR	31.12.2012 USD	31.12.2012 GBP	31.12.2011 EUR	31.12.2011 USD	31.12.2011 GBP
Rate valid:	0.702804	0.531	0.857	0.702804	0.544000	0.840
Foreign currency position (in LVL):	1 405 158	808 022	(155 907)	990 970	163 932	(103 355)
(Loss)/profit (in LVL):	(98 755)	(42 825)	13 408	(69 645)	(8 852)	8 682

48. REPRICING MATURITIES OF ASSETS AND LIABILITIES

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 2012

							GROUP
	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
ASSETS							
Cash and balances with Bank of Latvia	15 822 056	-	-	-	-	11 383 779	27 205 835
Due from credit institutions	97 359 695	-	-	1 371 247	-	1 813 669	100 544 611
Financial assets held-for-trading	-	-	-	-	749 292	1 437 164	2 186 456
<i>Securities held-for-trading</i>	-	-	-	-	749 292	387 092	1 136 384
<i>Derivative financial instruments</i>	-	-	-	-	-	1 050 072	1 050 072
Securities available-for-sale	-	-	-	-	-	1 572 679	1 572 679
Securities held-to-maturity	-	263 117	1 063 433	2 769 820	2 318 178	144 997	6 559 545
Loans	7 512 194	6 233 974	5 136 076	14 425 106	12 944 725	15 522 904	61 774 979
Non-financial assets	-	-	-	-	-	21 674 442	21 674 442
Total assets	120 693 945	6 497 091	6 199 509	18 566 173	16 012 195	53 549 634	221 518 547
LIABILITIES							
Due to credit institutions	-	-	-	-	-	257 556	257 556
Deposits	126 601 763	10 009 326	2 698 074	12 617 587	5 032 117	33 706 183	190 665 050
Derivative financial instruments	-	-	-	-	-	521 857	521 857
Subordinated liabilities	-	-	-	-	4 101 500	26 181	4 127 681
Non-financial liabilities	-	-	-	-	-	2 477 541	2 477 541
Shareholders' equity	-	-	-	-	-	23 468 862	23 468 862
Total liabilities and shareholders' equity	126 601 763	10 009 326	2 698 074	12 617 587	9 133 617	60 458 180	221 518 547
Net position sensitive to interest rate risk	(5 907 818)	(3 512 235)	3 501 435	5 948 586	6 878 578	(6 908 546)	

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 49 131 LVL (as of 31 December 2011: LVL 115 347).

As of 31 December 2011

Assets	137 302 278	6 292 225	6 839 615	16 967 690	20 164 358	45 122 381	232 688 547
Liabilities	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)	

As of 31 December 2012

							BANK
	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
ASSETS							
Cash and balances with Bank of Latvia	15 822 056	-	-	-	-	11 383 079	27 205 835
Due from credit institutions	97 359 695	-	-	1 371 247	-	1 813 669	100 544 611
Financial assets held-for-trading	-	-	-	-	749 292	1 437 164	2 186 456
<i>Securities held-for-trading</i>	-	-	-	-	749 292	387 092	1 136 384
<i>Derivative financial instruments</i>	-	-	-	-	-	1 050 072	1 050 072
Securities available-for-sale	-	-	-	-	-	1 572 679	1 572 679
Securities held-to-maturity	-	263 117	1 063 433	2 769 820	2 318 178	144 997	6 559 545
Loans	7 512 194	6 233 974	5 136 076	14 425 106	12 944 725	15 522 904	61 774 979
Non-financial assets	-	-	-	-	-	21 674 442	21 674 442
Total assets	120 693 945	6 497 091	6 199 509	18 566 173	16 012 195	53 549 634	221 518 547
LIABILITIES							
Due to credit institutions	-	-	-	-	-	257 556	257 556
Deposits	126 601 763	10 009 326	2 698 074	12 617 587	5 032 117	33 706 183	190 665 050
Derivative financial instruments	-	-	-	-	-	521 857	521 857
Subordinated liabilities	-	-	-	-	4 101 500	26 181	4 127 681
Non-financial liabilities	-	-	-	-	-	2 477 541	2 477 541
Shareholders' equity	-	-	-	-	-	23 468 862	23 468 862
Total liabilities and shareholders' equity	126 601 763	10 009 326	2 698 074	12 617 587	9 133 617	60 458 180	221 518 547
Net position sensitive to interest rate risk	(5 907 818)	(3 512 235)	3 501 435	5 948 586	6 878 578	(6 908 546)	

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 40 717 LVL (as of 31 December 2011: LVL 123 299).

As of 31 December 2011

Assets	137 844 772	6 292 225	6 839 615	18 068 633	20 164 358	43 247 599	232 457 202
Liabilities	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)	

49. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

As of 31 December 2012

						GROUP
	Latvia LVL	Other EU Member States LVL	Other OECD countries LVL	CIS countries LVL	Others LVL	TOTAL LVL
ASSETS						
Cash and balances with Bank of Latvia	27 205 835	-	-	-	-	27 205 835
Due from credit institutions	1 887 174	89 002 901	3 344 235	6 310 301	-	100 544 611
Financial assets held-for-trading	2 502	803 244	34 574	1 331 311	14 825	2 186 456
<i>Securities held-for-trading</i>	2 502	760 245	34 574	339 063	-	1 136 384
<i>Derivative financial instruments</i>	-	42 999	-	992 248	14 825	1 050 072
Securities available-for-sale	205 861	1 366 818	-	-	-	1 572 679
Securities held-to-maturity	541 850	-	-	6 017 695	-	6 559 545
Loans	23 397 891	20 278 237	5 631 501	2 962 155	9 505 195	61 774 979
Non-financial assets	20 343 561	1 009 231	24 177	54 120	243 353	21 674 442
Total assets	73 584 674	112 460 431	9 034 487	16 675 582	9 763 373	221 518 547
LIABILITIES						
Due to credit institutions	52 310	-	-	153 190	52 056	257 556
Deposits	31 939 635	42 506 890	3 062 272	14 912 580	98 243 673	190 665 050
Derivative financial instruments	94 370	48 974	-	171 469	207 044	521 857
Subordinated liabilities	1 181 788	70 290	-	2 875 603	-	4 127 681
Non-financial liabilities	2 198 381	181 297	23 422	35 397	39 044	2 477 541
Shareholders' equity	23 466 807	300	25	1 635	95	23 468 862
Total liabilities and shareholders' equity	58 933 291	42 807 751	3 085 719	18 149 874	98 541 912	221 518 547
Sureties (guarantees)	10 871 816	2 164 883	-	-	-	13 036 699
Commitments to customers	2 508 738	6 745 752	32 696	2 895 247	3 073 228	15 255 661
Total commitments and contingencies	13 380 554	8 910 635	32 696	2 895 247	3 073 228	28 292 360

As of 31 December 2011

Total assets	61 790 001	110 936 057	32 088 161	18 765 613	9 108 715	232 688 547
Total liabilities and shareholders' equity	57 184 707	43 218 067	20 770 602	23 709 885	87 805 286	232 688 547
Sureties and commitments *	11 846 427	4 928 519	106 194	110 879	3 499 886	20 491 905

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 2012

						BANK
	Latvia LVL	Other EU Member States LVL	Other OECD countries LVL	CIS countries LVL	Others LVL	TOTAL LVL
ASSETS						
Cash and balances with Bank of Latvia	27 205 135	-	-	-	-	27 205 135
Due from credit institutions	1 887 174	89 002 901	3 344 235	6 310 301	-	100 544 611
Financial assets held-for-trading	2 502	803 244	34 574	1 331 311	14 825	2 186 456
<i>Securities held-for-trading</i>	2 502	760 245	34 574	339 063	-	1 136 384
<i>Derivative financial instruments</i>	-	42 999	-	992 248	14 825	1 050 072
Securities available-for-sale	205 861	1 366 818	-	-	-	1 572 679
Securities held-to-maturity	541 850	-	-	6 017 695	-	6 559 545
Loans	24 796 374	20 278 237	5 631 501	2 962 155	9 505 195	63 173 462
Non-financial assets	18 564 233	1 009 231	24 177	54 120	243 353	19 895 114
Total assets	73 203 129	112 460 431	9 034 487	16 675 582	9 763 373	221 137 002
LIABILITIES						
Due to credit institutions	52 310	-	-	153 190	52 056	257 556
Deposits	31 941 067	42 506 890	3 062 272	14 912 580	98 243 673	190 666 482
Derivative financial instruments	94 370	48 974	-	171 469	207 044	521 857
Subordinated liabilities	1 181 788	70 290	-	2 875 603	-	4 127 681
Non-financial liabilities	1 875 509	181 297	23 422	35 397	39 044	2 154 669
Shareholders' equity	23 406 702	300	25	1 635	95	23 408 757
Total liabilities and shareholders' equity	58 551 746	42 807 751	3 085 719	18 149 874	98 541 912	221 137 002
Sureties (guarantees)	10 871 816	2 164 883	-	-	-	13 036 699
Commitments to customers	2 592 900	6 745 752	32 696	2 895 247	3 073 228	15 339 823
Total commitments and contingencies	13 464 716	8 910 635	32 696	2 895 247	3 073 228	28 376 522

As of 31 December 2011

Total assets	61 558 656	110 936 057	32 088 161	18 765 613	9 108 715	232 457 202
Total liabilities and shareholders' equity	56 953 362	43 218 067	20 770 602	23 709 885	87 805 286	232 457 202
Sureties and commitments *	12 923 723	4 928 519	106 194	110 879	3 499 886	21 569 201

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 31.12.2012 LVL	Net maximum credit risk exposure 31.12.2012 LVL	Gross maximum credit risk exposure 31.12.2011 LVL	Net maximum credit risk exposure 31.12.2011 LVL
Cash and balances with Bank of Latvia	27 205 135	27 205 135	20 846 941	20 846 941
Due from credit institutions	104 851 076	100 544 611	123 837 380	123 837 360
Financial assets held-for-trading	2 186 456	2 186 456	397 883	397 883
<i>Securities held-for-trading</i>	<i>1 136 384</i>	<i>1 136 384</i>	<i>375 735</i>	<i>375 735</i>
<i>Derivative financial instruments</i>	<i>1 050 072</i>	<i>1 050 072</i>	<i>22 148</i>	<i>22 148</i>
Securities available-for-sale	1 600 615	1 572 679	193 275	165 579
Securities held-to-maturity	6 559 545	6 559 545	7 046 386	7 046 386
Loans	67 144 494	63 190 060	62 734 658	48 753 308
Total financial assets	209 547 321	201 258 486	215 056 523	201 047 457
Sureties (guarantees)	13 036 699	1 726 276	13 054 725	290 370
Commitments to customers	15 339 823	14 283 643	8 514 476	5 853 698
Total commitments and contingencies	28 376 522	16 009 919	21 569 201	6 144 068
Total maximum credit risk exposure	237 923 843	217 268 405	236 625 724	207 191 525

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
AND COMPARISON WITH FAIR VALUE

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale 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 2012

	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
ASSETS					
Cash and balances with Bank of Latvia	27 205 135	-	-	27 205 135	27 205 135
Due from credit institutions	100 544 611	-	-	100 544 611	100 545 529
Financial assets held-for-trading	-	2 186 456	-	2 186 456	2 186 456
<i>Securities held-for-trading</i>	<i>-</i>	<i>1 136 384</i>	<i>-</i>	<i>1 136 384</i>	<i>1 136 384</i>
<i>Derivative financial instruments</i>	<i>-</i>	<i>1 050 072</i>	<i>-</i>	<i>1 050 072</i>	<i>1 050 072</i>
Securities available-for-sale	-	-	1 572 679	1 572 679	1 572 679
Securities held-to-maturity	6 559 545	-	-	6 559 545	6 559 545
Loans	63 173 462	-	-	63 173 462	63 933 730
Total assets	197 482 753	2 186 456	1 572 679	201 241 888	201 997 280
LIABILITIES					
Due to credit institutions	257 556	-	-	257 556	257 556
Deposits	190 666 482	-	-	190 666 482	191 731 385
Derivative financial instruments	-	521 857	-	521 857	521 857
Subordinated liabilities	4 127 681	-	-	4 127 681	4 127 681
Total liabilities	195 051 719	521 857	-	195 573 576	196 638 479

As of 31 December 2011

	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
ASSETS					
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
<i>Securities held-for-trading</i>	<i>-</i>	<i>375 735</i>	<i>-</i>	<i>375 735</i>	<i>375 735</i>
<i>Derivative financial instruments</i>	<i>-</i>	<i>22 148</i>	<i>-</i>	<i>22 148</i>	<i>22 148</i>
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

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 2012

	Published price quotations (Level 1) LVL	Valuation techniques based on market observable inputs (Level 2) LVL	Valuation techniques not based on market observable inputs LVL	Total LVL
Financial assets				
Available for sale assets	-	38 468	78 750	117 218
Financial assets at fair value through profit or loss	1 136 384	-	-	1 136 384
Derivatives	6 574	1 043 498	-	1 050 072
	1 142 958	1 081 966	78 750	2 303 674
Financial liabilities				
Derivatives	-	521 857	-	521 857
	-	521 857	-	521 857

As of 31 December 2011

	Published price quotations (Level 1) LVL	Valuation techniques based on market observable inputs (Level 2) LVL	Valuation techniques not based on market observable inputs 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

Included in category "Published price quotations" (Level 1) are financial assets and liabilities that are measured 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.