TRASTA KOMERCBANKA

JSC "TRASTA KOMERCBANKA"

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY EU FOR THE YEARS ENDED 31 DECEMBER 2011 AND INDEPENDENT AUDITORS' REPORT

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MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

In 2011, Latvia's economy featured upward trends (significant GDP and trade growth, decline in unemployment rate), however, expectations of recession in 2012, make experts be cautious when describing sustainability of these trends. Considering the necessity to strengthen its position in the market and to provide customers with long-term development opportunities, *Trasta Komercbanka* devoted year 2011 to the activities aimed at its development and investments in its future.

For the purpose of further development, *Trasta komercbanka* in 2011 significantly increased its capital (by 7.5 million lats). The Bank's subordinated capital grew by 3.0 million lats. Last year the volume of *Trasta Komercbanka's* assets amounted to 296.9 million lats, which is by 78.1 million more compared to the end of 2010. The assets under Bank's management grew nearly twice - by 97%.

The volume of attracted deposits in *Trasta komercbanka* last year went up by 41.3%, but the customer base grew by 15%. Given that the number of Bank customer grows mostly on the basis of recommendations of *TKB* customers and partners, the rapid dynamics of customer acquisition can be regarded as a positive assessment of Bank's operations by its existing customers.

In 2011, Bank's losses amounted to 1.7 million. lats. The accumulated retained profit of previous years in the amount of 18 million lats made it possible for Trasta komercbanka to continue the implementation of its development strategy, where the cornerstone is not cutting of spending, but making investments in Bank's future.

In 2011, the Bank's Group continued to expand its geographic presence in the world, this time in the Asian region. A representative office was opened in Hong Kong, and *TKB* became the first Eastern European bank represented in the region. The representative office will render consultations to existing and prospective customers of the Group in Hong Kong, as well as provide support to Latvian entrepreneurs interested in business development in the region.

A member of Bank's Group – its Daughter Company *SIA TKB Līzings* also expanded its area of operation by opening in 2011 a subsidiary in Tajikistan - CJSC TKB Leasing in Tajikistan. It will provide leasing services in this market where there is a high demand for this type of funding. The subsidiary company has begun to work actively to attract new customers.

Group's assets as at the end of the reporting period amounted to 295.7 million lats, which is by 77.6 million lats higher than the final figure of 2010. The Group ended the year of 2011 with a loss of 2.2 million lats, which was basically a result of reclassification of Bank's investments, disclosed in Note 25, and application of a different accounting standard.

Last year, *Trasta komercbanka* continued to develop its investment services. It started to work on launching a new product, and at the beginning of 2012, *Trasta komercbanka* customers will be able to engage themselves in the operation of the electronic trading platform, which has been recognized by many experts of the world as the most convenient solution for investment portfolio management. In order to ensure Bank customers with even more opportunities for custody and trading of financial instruments, in 2011 the Bank continued to develop the network of contracting parties. Having improved its investment services, the Bank also extended the range of offered trust management services.

In 2011, the development of *Trasta komercbanka's* correspondent banking network provided its customers with an opportunity to make payments in Chinese yuan. The successful Bank's cooperation with correspondent banks and its impeccable reputation among foreign partners was once again confirmed by the annual award of Deutsche Bank for excellent international payment quality in the previous year.

In 2012, *Trasta komercbanka* will continue to provide its customers with new opportunities for business development in the world regions with a high economic growth potential, to create new products and solutions for customers' capital management, including investment and trust management services.

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY) (continued)

In addition to the information of these financial statements the Bank management has prepared The Corporate Governance Report for 2011, which incorporates a complex of measures for achievement of goals of the Bank, for control of compliance function and assessment and management of relevant risks. This Corporate Governance Report is freely available on the internetpage of the Bank at www.tkb.eu. Besides, according to provisions of the normative documents the Bank has disclosed the information on the risks inherent to its activities, risk management purposes, methods and policies, as well as equity requirements and internal capital adequacy which is presented in Note 45 of these financial statements.

This report is available on the Bank's Internet page at www.tkb.eu.

These financial statements were approved by the Board of the Bank on 29 March 2012 and by the Council of the Bank on 30 March 2012. According to the legislation of the Republic of Latvia the financial report of the Bank is subject to approval at a meeting of shareholders.

On behalf of the Bank's management:

I. Buimisters

Igors Buimisters	Gundars Grieze
Chairman of the Council	Chairman of the Board

Riga, Latvia
2 April 2012

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

Bank’s management (Group’s holding company) is responsible for preparation of consolidated financial statements and the separate financial statements, which fairly and truly present the Groups’ and the Bank’s financial standing as at the end of the financial year and the results of its activity and cash flow for that year, preparation according to the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 8 to 95 for the period from 1 January 2011 to 31 December 2011 have been prepared consistently applying relevant accounting methods and the management’s judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared based on a going concern concept basis. The Management Report on pages 3 to 4 presents an explicit account on the development and performance of the Group and Bank’s activities, as well as main risks and unclear conditions of the activities.

The Bank's management is responsible for proper keeping of accounting records, for safeguarding of the Group's and the Bank's assets and for prevention of any fraudulent actions. They are also responsible for managing the Group and the Bank in compliance with the Credit Institution Law of the Republic of Latvia, regulatory enactments of the Bank of Latvia and the Financial and Capital Market Commission and other applicable laws and regulations of the Republic of Latvia

On behalf of the management,

I. Buimisters

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
2 April 2012

MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

Supervisory Council

Name, surname	Positions	Date of appointment
Igors Buimisters	Chairman of the Council	24.03.2006, reappointed 07.10.2010
Alfrēds Čepānis	Vice-chairman of the Council	30.03.1999, reappointed 07.10.2010
Igor Snisarevski	Member of the Council	07.10.2010

During the current year no changes in the Supervisory Council occurred.

Management Board

Name, surname	Positions	Date of appointment
Gundars Grieze	Chairman of the Board	28.06.1999, reappointed 26.03.2010
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reappointed 26.03.2010
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reappointed 26.03.2010
Svetlana Krasovska	Member of the Board	24.10.1995, reappointed 26.03.2010
Tatjana Konnova	Member of the Board	23.03.2006, reappointed 26.03.2010

During the current year no changes in the Management Board occurred.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Trasta Komercbanka AS

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS "TRASTA KOMERCBANKA" and its subsidiaries (the "Group") and the accompanying financial statements of AS "TRASTA KOMERCBANKA" (the "Bank"), set out on pages 8 through 95 of the accompanying 2011 Consolidated Annual Report, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Basis for qualified opinion

As disclosed in Note 25 the Group and the Bank have investment in share capital related to Devon, which as at 31 December 2011 amounted to 14.1 million LVL and 13.8 million LVL respectively, as well as loan issued in amount of LVL 1.7 million. The impairment test carried out by the management revealed no need for impairment on the above balances. A significant assumption under the impairment test is the ability for Devon to operate and generate sufficient cash flows under the signed joint venture agreement. We were not able to obtain sufficient audit evidence in respect of this assumption. Consequently, we were unable to obtain sufficient audit evidence that the above mentioned balances are not impaired.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

Without further qualifying our opinion, we draw attention to Note 2 to the financial statements, which describe the assumptions of the Group and the Bank to continue operations under the new capital adequacy requirements.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2011 (set out on page 3 through 4 of the accompanying 2011 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2011.

We have assured ourselves that the Bank has prepared the corporate management report for the year 2011 and verified information presented in the report according to the requirements listed in the section $56.^1$ first paragraph clauses 3, 4, 6, 8 and 9 and in the section $56.^2$ second paragraph clause 5 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Member of the board

Mārtiņš Valters
Latvian Certified Auditor
Certificate No. 185

Riga, 3 April 2012

STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of lats	Note	The Group 2011	The Group 2010 (restated)	The Bank 2011	The Bank 2010 (restated)
Interest revenue	3	7 231	7 240	7 138	7 132
Interest expense	4	(3 606)	(3 896)	(3 624)	(3 910)
Net interest income		**3 625**	**3 344**	**3 514**	**3 222**
Loan impairment loss, net	11	(666)	(5 425)	(408)	(5 210)
Net interest gain/(loss) after allowance for impairment		**2 959**	**(2 081)**	**3 106**	**(1 988)**
Commission income	5	5 390	5 191	5 383	5 183
Commission expense	6	(1 039)	(1 049)	(1 038)	(1 049)
Net commission income		**4 351**	**4 142**	**4 345**	**4 134**
Dividends		2	3	2	3
Net (loss)/gain from trading financial assets	7	(389)	862	(389)	862
Realised gain from available-for-sale financial assets		2	-	2	-
Net gain from foreign currency trading and revaluation	8	1 412	550	1 435	550
Loss from associate		(503)	(723)	-	-
Other income		132	76	97	76
Other non-interest income		**656**	**768**	**1 147**	**1 491**
Salaries and benefits expenses	9	(4 925)	(4 677)	(4 759)	(4 544)
Administrative expenses	10	(3 014)	(2 581)	(3 137)	(2 617)
Depreciation	24	(759)	(736)	(751)	(729)
Other expenses		(426)	(197)	(410)	(161)
Other impairment loss, net		(270)	(142)	(554)	(141)
Other non-interest expense		**(9 394)**	**(8 333)**	**(9 611)**	**(8 192)**
Loss before corporate income tax		**(1 428)**	**(5 504)**	**(1 013)**	**(4 555)**

STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of lats	Note	The Group 2011	The Group 2010 (restated)	The Bank 2011	The Bank 2010 (restated)
Corporate income tax	12	(738)	181	(722)	188
Loss for the year		**(2 166)**	**(5 323)**	**(1 735)**	**(4 367)**
Other comprehensive income:					
Available for sale financial asset revaluation profit		5	15	5	15
Change in foreign currency translation reserve		84	1 400	-	-
Total comprehensive loss		**(2 077)**	**(3 908)**	**(1 730)**	**(4 352)**

Loss for the year, incl.:		***(2 166)***	***(5 323)***	***(1 735)***	***(4 367)***
Attributable to equity holders of the Bank		*(2 163)*	*(5 314)*	*(1 735)*	*(4 367)*
Attributable to minority interest		*(3)*	*(9)*	*-*	*-*
Total comprehensive loss, incl.:		***(2 077)***	***(3 908)***	***(1 730)***	***(4 352)***
Attributable to equity holders of the Bank		*(2 074)*	*(3 899)*	*(1 730)*	*(4 352)*
Attributable to minority interest		*(3)*	*(9)*	*-*	*-*
Loss per share (basic and diluted) attributable to equity holders of the Bank in lats	*35*	***(9.95)***	***(38.69)***	**-**	**-**

STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSISITION

In thousands of lats	Note	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
ASSETS					
Cash and balances due from the Bank of Latvia	14	67 322	16 588	67 322	16 588
Due from credit institutions with a maturity of less than 3 months	15	66 095	62 359	66 090	62 359
On demand		*54 965*	*53 147*	*54 960*	*53 147*
Other		*11 130*	*9 212*	*11 130*	*9 212*
Held for trading financial assets		1 619	2 224	1 619	2 224
Fixed income securities	16, (1)	*496*	*849*	*496*	*849*
Equity shares and other non-fixed income securities	16, (2)	*1 057*	*1 277*	*1 057*	*1 277*
Derivatives	17	*66*	*98*	*66*	*98*
Available for sale financial assets		9 388	7 960	9 388	7 960
Fixed income securities	18, (1)	*9 338*	*7 911*	*9 338*	*7 911*
Equity shares and other non-fixed income securities	18, (2)	*50*	*49*	*50*	*49*
Due from credit institutions with a maturity of more than 3 months	20	17 624	665	17 624	665
Loans	21	93 940	92 119	95 490	93 771
Accrued income and deferred expenses	22	140	127	139	124
Long-term projects costs	23	6 605	2 405	6 605	2 405
Property and equipment	24	8 467	8 918	8 458	8 894
Intangible assets	24	319	360	319	360
Investments in share capital of subsidiary	25	-	-	417	52
Investment in associate	25	14 109	14 531	13 848	-
Corporate income tax assets	12, (3)	-	20	-	-
Deferred tax assets	12, (4)	364	913	364	913
Other assets	26	9 680	8 925	9 217	8 621
Assets of disposal group classified as held for sale	19	-	-	-	13 848
TOTAL ASSETS		**295 672**	**218 114**	**296 900**	**218 784**

STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSISITION (continued)

In thousands of lats	Note	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
LIABILITIES					
Due to credit institutions	27	739	2 416	739	2 416
On demand		*461*	*2 389*	*461*	*2 389*
Term deposits		*278*	*27*	*278*	*27*
Held for trading financial liabilities	17	1	4	1	4
Derivatives		*1*	*4*	*1*	*4*
Due to customers	28	246 903	174 928	247 172	174 929
On demand		*164 853*	*117 714*	*165 122*	*117 715*
Term deposits		*82 050*	*57 214*	*82 050*	*57 214*
Debt securities issued	29	2 808	2 809	3 513	3 513
Accrued expenses and deferred income	30	656	503	635	493
Corporate income tax liabilities	12, (3)	13	25	5	25
Other liabilities	31	2 481	3 746	2 444	3 735
Liabilities before subordinated liabilities		**253 601**	**184 431**	**254 509**	**185 115**
Subordinated liabilities	32	7 667	4 673	7 667	4 673
Total liabilities		**261 268**	**189 104**	**262 176**	**189 788**
EQUITY AND RESERVES					
Share capital	33, (1)	14 507	7 049	14 507	7 049
Share premium		111	111	111	111
Reserve capital and other reserves	33, (2)	3 804	3 804	3 804	3 804
Available for sale financial assets revaluation reserves	18	1 483	1 394	(1)	(6)
Retained earnings		14 489	16 652	16 303	18 038
Equity and reserves attributable to shareholders of the Bank		**34 394**	**29 010**	**34 724**	**28 996**
Minority shareholder interest		10	-	-	-
Total equity and reserves		**34 404**	**29 010**	**34 724**	**28 996**
TOTAL LIABILITIES AND EQUITY AND RESERVES		**295 672**	**218 114**	**296 900**	**218 784**

STATEMENT OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(1) The Group

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset reva-luation reserves	Foreign exchange trans-lation reserve	Retained earnings	Total	Minority share-holder interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2009	**6 337**	**111**	**3 804**	**(21)**	**-**	**21 966**	**32 197**	**9**	**32 206**
Net loss for the year	*-*	*-*	*-*	*-*	*-*	*(5 314)*	*(5 314)*	*(9)*	*(5 323)*
Other comprehensive income	*-*	*-*	*-*	*15*	*1 400*	*-*	*1 415*	*-*	*1 415*
Total comprehensive loss	-	-	-	15	1 400	(5 314)	(3 899)	(9)	(3 908)
Issue of share capital	712	-	-	-	-	-	712	-	712
BALANCE AS AT 31 DECEMBER 2010	**7 049**	**111**	**3 804**	**(6)**	**1 400**	**16 652**	**29 010**	**-**	**29 010**
Net loss for the year	*-*	*-*	*-*	*-*	*-*	*(2 163)*	*(2 163)*	*(3)*	*(2 166)*
Other comprehensive income	*-*	*-*	*-*	*5*	*84*	*-*	*89*	*-*	*89*
Total comprehensive loss	-	-	-	5	84	(2 163)	(2 074)	(3)	(2 077)
Establishment of a subsidiary	-	-	-	-	-	-	-	13	13
Issue of share capital	7 458	-	-	-	-	-	7 458	-	7 458
BALANCE AS AT 31 DECEMBER 2011	**14 507**	**111**	**3 804**	**(1)**	**1 484**	**14 489**	**34 394**	**10**	**34 404**

(2) The Bank

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2009	**6 337**	**111**	**3 804**	**(21)**	**22 405**	**32 636**
Net loss for the year	*-*	*-*	*-*	*-*	*(4 367)*	*(4 367)*
Other comprehensive income	*-*	*-*	*-*	*15*	*-*	*15*
Other comprehensive loss	-	-	-	15	*(4 367)*	(4 352)
Issue of share capital	712	-	-	-	-	712
BALANCE AS AT 31 DECEMBER 2010	**7 049**	**111**	**3 804**	**(6)**	**18 038**	**28 996**
Net loss for the year	*-*	*-*	*-*	*-*	*(1 735)*	*(1 735)*
Other comprehensive income	*-*	*-*	*-*	*5*	*-*	*5*
Other comprehensive loss	-	-	-	5	(1 735)	(1 730)
Issue of share capital	7 458	-	-	-	-	7 458
BALANCE AS AT 31 DECEMBER 2011	**14 507**	**111**	**3 804**	**(1)**	**16 303**	**34 724**

STATEMENT OF CASH FLOWS AND CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of lats	Note	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Cash flows arising from operations:					
Loss before corporate income tax		(1 428)	(5 504)	(1 013)	(4 555)
Amortisation and depreciation		759	736	751	729
(Decrease)/increase in allowance for impairment of debts		(523)	4 772	(781)	4 557
Change in other provisions		274	142	272	141
Foreign currency revaluation loss		310	1 482	291	1 482
Financial assets revaluation loss/(profit)		88	(1 122)	373	(1 122)
Income adjustments		-	(30)	-	(67)
Gain from subsidiary		503	700	-	-
Gain on disposal of fixed and intangible assets		5	2	5	2
(Decrease)/increase in cash and cash equivalents from operating activities before changes in assets and liabilities		**(12)**	**1 178**	**(102)**	**1 167**
Decrease in trading assets, net		325	882	325	882
(Increase)/decrease in due from credit institutions		(16 959)	1 840	(16 959)	1 840
Increase in loans		(1 568)	(2 229)	(1 208)	(2 411)
(Increase)/decrease in accrued income and deferred expense		(145)	51	(147)	52
Increase in other assets		(2 609)	(4 315)	(2 448)	(4 125)
Decrease in due to credit institutions		251	-	251	-
Increase/(decrease) in deposits		71 975	(46 133)	72 243	(46 132)
Decrease in accrued expenses and deferred income		153	(92)	142	(93)
Increase/(decrease) in other liabilities		(1 230)	871	(1 238)	866
		50 181	**(47 947)**	**50 859**	**(47 954)**
Corporate income tax (paid)/ repaid		(181)	738	(193)	750
Increase/(decrease) in cash and cash equivalents from operating activities		**50 000**	**(47 209)**	**50 666**	**(47 204)**
Cash flows arising to investing activities:					
Purchase of tangible and intangible fixed assets		(272)	(423)	(279)	(418)
Increase in available for sale financial assets		(1 423)	(5 792)	(1 423)	(5 792)
Purchase of investments in share capital of subsidiary		-	-	(650)	-
Decrease/(increase) of net assets of disposal group classified as available for sale, net		-	10	-	-
Costs of long-term projects		(2 213)	(87)	(2 213)	(87)
Decrease in cash and cash equivalents from investing activities		**(3 908)**	**(6 292)**	**(4 565)**	**(6 297)**

STATEMENT OF CASH FLOWS AND CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of lats	Note	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Cash flows arising from financing activities:					
Subordinated debt issue		2 887	481	2 887	481
Repayment of subordinated debt		-	(110)	-	(110)
Issue of share capital		7 471	712	7 458	712
Increase/(decrease) in cash and cash equivalents from financing activities		**10 358**	**1 083**	**10 345**	**1 083**
(Decrease)/increase in cash and cash equivalents		**56 450**	**(52 418)**	**56 446**	**(52 418)**
Cash and cash equivalents at the beginning of the year		**76 558**	**130 320**	**76 558**	**130 320**
Foreign exchange (loss)/profit		**(52)**	**(1 344)**	**(53)**	**(1 344)**
Cash and cash equivalents at the end of the year	**39**	**132 956**	**76 558**	**132 951**	**76 558**

Amounts of interest income and (expense) received/(paid) and dividend paid are as follows:

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Interest received during the year	5 878	6 583	5 799	6 503
Interest paid during the year	(3 497)	(3 710)	(3 516)	(3 725)

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AS "Trasta Komercbanka" (the Bank) has been registered as a joint stock company, in the Latvian Register of Companies with the identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

The Bank has five representative offices outside Latvia, i.e. in Hon kong, Kazakhstan, Tajikistan, Ukraine and Belarus. Their mission is to represent interests of the Bank in the respective countries, maintain relations with the Bank customers and provide them with necessary information. The Bank has a foreign branch in Cyprus and two branches in Latvia – in Liepaja and Daugavpils. Their functions incorporate provision of financial services to customers of the Bank.

The consolidation group (the Group) consists of the Bank's subsidiaries TKB Nekustamie īpašumi , TKB LĪZINGS, subsidiary "Heckbert C7 Holdings" and its subsidiary "Ferrous Kereskedelmi KFT". Services provided by SIA TKB LĪZINGS and SIA TKB NEKUSTAMIE ĪPAŠUMI extend the range of Bank's services. SIA TKB LĪZINGS has two registered representative offices abroad, i.e. in Russia and in Azerbaijan, and at the beginning of July 2011 it incorporated a subsidiary in Tajikistan SAS TKB Līzings Tadžikistāna (ТКБ ЛИЗИНГ ТОЧИКИСТОН). The description of "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" is provided in Notes 19 and 25 herein.

This financial statement was approved by the Board of the Bank on 29 March 2012 and by the Council of the Bank on 30 March 2012. According to the legislation of the Republic of Latvia the financial statement of the Bank are subject to approval of the meeting of shareholders.

2 ACCOUNTING POLICIES

(1) General principles

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Bank is subject to the Law on Credit Institutions of the Republic of Latvia and the regulatory requirements of the Bank of Latvia, Financial and Capital Market Commission, and other regulations of the Republic of Latvia applicable to credit institutions. These regulations govern, among other things, capital adequacy, liquidity and the Bank's open foreign currency position.

The Bank maintains its accounting records in compliance with "The Law on Accounting" of the Republic of Latvia and instructions provided by the Financial and Capital Market Commission that comply with the legislation of the Republic of Latvia.

The consolidated and separate financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held for trading and available-for-sale investments that have been measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations

The Group/Bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IAS 24 Related Party Disclosures (Amended)
IAS 32 Classification on Rights Issues (Amended)
Improvements to IFRSs (May 2010)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group/Bank, its impact is described below:

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This interpretation does not affect the Group/Bank.

IAS 24 Related Party Transactions (Amendment). The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively. This interpretation does not affect the Group/Bank.

IAS 32 Financial Instruments: Presentation (Amendment). The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is applied retrospectively**.** This interpretation does not affect the Group/Bank.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

This improvement clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.

IFRS 7 Financial Instruments - Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and Separate Financial Statements: This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.

***IAS 34 Interim Financial Reporting**:* This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

IFRIC 13 Customer Loyalty Programmes: This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Standards issued but not yet effective and not early adopted

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

IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets. The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment has not yet been endorsed by the EU. The Group/Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank.

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

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

IAS 27 Separate Financial Statements (Revised). The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group/Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank. The Group/Bank does not present separate financial statements.

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

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

IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects. The Group/Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank.

IFRS 9 Financial Instruments - Classification and Measurement. The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Group/Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

IFRS 10 Consolidated Financial Statements. The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard has not yet been endorsed by the EU. The Group/Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank.

IFRS 11 Joint Arrangements. The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. The Group/Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank.

IFRS 12 Disclosures of Involvement with Other Entities. The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Group/Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank.

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

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine. The interpretation is effective for annual periods beginning on or after 1 January 2013.This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (striping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. The Group/Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Group/Bank.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(3) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements in accordance with IAS 27 and IAS 28. The data on subsidiaries of the Bank is provided in Note 25. The consolidation was based on control over the subsidiaries, which resulted from the majority of rights to vote in the subsidiaries.

When preparing the consolidated financial statements, their items were evaluated in accordance with the uniform accounting policies, which are used by the Group consistently from year to year in conformity with International Financial Reporting Standards as adopted by European Union and the Financial and Capital Market Commission regulations on preparation of Bank’s financial statements. If any of the accounting policies used by the subsidiaries differ from those applied by the Bank, the financial statements of the subsidiaries are adjusted for consolidation purposes. The financial statements of the subsidiaries were included in the Group’s consolidated financial statements applying the method of full consolidation.

Minority interest is the interest in subsidiaries not held, directly or indirectly, by the Bank. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within equity.

The Bank’ and the Group’s annual financial statements are reported in the currency of the Republic of Latvia – **the Lat**. All amounts in the financial statements are specified in **thousands of Lats** unless otherwised stated.

All information in Bank’s and Group’s financial statements contains comparatives with previous year. Should the difference between information about the Group and respective information about the Bank be insignificant, such information about the Group is not separately presented.

(4) Foreign currency translation

Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into lats using the official Bank of Latvia exchange rates at the period end. Transactions denominated in foreign currencies are translated into the functional currency (Latvian lat) using the official Bank of Latvia exchange rate on the date of the transaction. Gains and losses from currency exchange rate revaluation are included in the income statement for the period under Net gain from foreign currency trading and revaluation. The exchange rates applied at the period end for the principal currencies are as follows:

		31.12.2011	31.12.2010
LVL 1 =	USD	1.838	1.869
	EUR	1.423	1.423
	GBP	1.190	1.214
	RUB	58.824	56.818

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(5) Income and expense recognition

The accounting procedure of the Group's income and expense is based on the accrual principles.

Interest revenue and expense is recognised using the effective interest method.

Dividends are recognized in the income statement when the Bank or the Group obtain the right to receive them, namely, it has been assigned the right as a shareholder to receive dividends.

Commission revenue and expenses are recognized in the income statement as services are provided or on the execution of a significant act, as applicable.

Unrecognised gains and losses on Available-for-Sale Financial Assets are recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses for fixed income securities (monetary items), until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest calculated using the effective interest method is recognized in the income statement. Dividends on an available-for-sale equity instrument are recognized in the income statement when the right to receive payment is established.

Income gained from disposal of other assets is recognized provided that the following conditions are met:

- ✓ the Bank or the Group has transferred to the buyer all significant risks and rewards of ownership of the goods ;
- ✓ the Bank or the Group retains neither continuing rights usually associated with ownership nor effective control over the goods sold;
- ✓ the amount of revenue can be estimated reliably;
- ✓ it is probable that the Bank or the Group will receive the economic benefits related to the transaction;
- ✓ expenses, which have been or will be incurred, can be measured reliably.

(6) Recognition and derecognition of financial assets and liabilities

Recognition of financial assets and financial liabilities

Generally, the Group and the Bank recognize financial instruments on the balance sheet when the Group and the Bank become a party to the contractual provisions of the instrument, except for:

- ✓ loan commitments, which are recognized on drawdown; and
- ✓ financial guarantees and letters of credit, which are recognized when the related fee received as consideration is recognized.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(6) Recognition and derecognition of financial assets and liabilities (continued)

Derecognition of financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- ✓ the rights to receive cash flows from the asset have expired; or
- ✓ the Group and the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ✓ the Group and the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group and the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(7) Classification of financial assets

Financial assets are classified into the following categories: *financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.*

Financial assets at fair value through profit or loss – are financial assets classified as held for trading because they are:

- ✓ acquired principally for the purpose of selling them in the near term;
- ✓ part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- ✓ a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets classified as held for trading are not reclassified into another category.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(7) Classification of financial assets (continued)

Loans and receivables – are financial assets, created by the Group through its lending activities, sale of assets or provision of services directly to debtors, or participation in credit advanced by other lenders, and are not financial assets created for the purpose of immediate or short-term sale.

Held-to-maturity investments – are non-derivative financial assets with fixed or determinable payments and a fixed term, which the Group and the Bank has decided to keep till expiry and is capable of doing so, except those that meet the definition of loans and receivables. In case the Group and the Bank has no longer the positive intent or ability to hold the investment to maturity, the investment is reclassified into available-for-sale financial assets and measured at fair value.

Available-for-sale financial assets – are non-derivative financial assets, which are designated as available-for-sale or are not classified into the above-mentioned categories.

(8) Investments in subsidiaries and associate in the separate financial statements of the Bank

Investments in subsidiaries and associate are stated in the Bank's separate financial statements at cost, including transaction costs. In the event that the investment's carrying amount exceeds its recoverable amount it is reduced to its recoverable amount. That reduction is recognized as an impairment loss in the income statement.

The dividends received from those investments are included in the Bank's income statement.

(9) Derivatives

Derivative financial instruments are contracts whose fair values change in response to changes in variables underlying the derivative instruments such as foreign exchange rates, interest rates or a primary financial instruments (base asset).

All derivatives are measured at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value changes resulting from remeasuring derivative instruments (not designated for hedge accounting) are included in the income statement.

(10) Allowances for impairment of financial assets

<u>Amortised cost</u>

If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced applying the allowance account. The loss is recognized in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets at amortised cost (such as due from banks, loans and advances to customers and held-to-maturity investments) that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. *For financial assets that are assessed collectively* the estimation of impairment loss is based on historical loss rate, which is measured taking into account the loss experience of loans with similar risk parameters for last years. Assets individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

2 ACCOUNTING POLICIES (continued)

(10) Allowances for impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been at the reversal date absent the impairment.

Where possible, the Group seeks to restructure loans. These are loans that are granted concession due to the economic or legal reasons connected to borrower's financial difficulties that Group in other circumstances would not have granted and that may include the following types of restructuring:

- ✓ easing of any loan terms and conditions, e.g., extension of loan period, deferral of payments, capitalization of interest, lowering of initial interest rates;
- ✓ taking over of collateral or other assets for partial loan repayment;
- ✓ replacement of the original borrower or involvement of additional borrower.

Following the restructuring, loans continue to be subject to individual or collective impairment assessment using the original effective interest rate.

In case a loan loses all value and all measures taken to recover the debt have been exhausted, the provisions of 100% are formed for the loan and the Group's management takes a decision as to writing off the bad debt of the balance sheet.

<u>Available for sale assets</u>

The Group assesses at each balance sheet date whether there is objective evidence that available-for-sale securities are impaired. If any such evidence exists, for available for sale investments the cumulative impairment loss - measured as the difference between the amortised cost of the asset and the current fair value, less any impairment loss previously recognised - is removed from other comprehensive income and recognised in the income statement.

Impairment losses recognised in the income statement are subsequently reversed for fixed income (monetary) investments if a fair value increase is observed that can be objectively related to an event occurring after the impairment loss was recognised. The assessment of the evidence for impairment and the determination of the amount of impairment or its reversal requires the application of management's judgement and estimates.

The bank reviews its debt securities classified as available–for–sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The bank also records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(11) Property, equipment and intangible fixed assets

Fixed assets are stated at historical cost, less accumulated depreciation. Depreciation is calculated on a straight-line method, taking into account expected usage of the assets. The following depreciation rates have been applied:

Fixed assets:	
Buildings	2-5% annually
Furniture and equipment	10% annually
Computer hardware and office equipment	25% annually
Transport vehicles	20% annually
Other fixed assets	20-50% annually
Intangible assets:	
Patents, licences and trademark	20% annually
Software	20% annually
Concession	10% annually
Other intangible fixed assets	20% annually
Leasehold improvements	over the shorter of useful life and period of lease

Subsequent costs are included in the asset's carrying amount or are recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the Group and the cost of the item can be measured reliably.

Leasehold improvements are capitalized and depreciated over the shorter of their useful life and the remaining lease contract period on a straight-line basis, if the lease agreement of fixed assets does not foresee their compensation.

Gains and losses on disposal of fixed assets are recognized in the profit and loss account in the year of disposal.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(12) Long-term project costs

Long-term project costs are stated at the lower of cost and net realizable value. The land parcels mentioned in this note were purchased for the purpose of building a residential apartment house with subsequent sale of apartments.

(13) Debt securities issued

Debt securities issued are carried in the Bank's and the Group's balance sheet at amortized cost using the effective interest method. Incremental transaction costs directly related to issue or sale of debt securities are deducted from the fair value of the debt securities issued on initial recognition and amortized to the income statement using the effective interest method. In case where debt securities issued are sold at a discount or premium, the difference is amortized before the maturity date of the debt by applying the effective interest method and recognized in the Bank's income statement as interest expense or as a decrease in interest expense.

(14) Off-balance sheet financial instruments

The daily operating activities of the Group involve off-balance sheet financial transactions related to the issuance of loans, guarantees and the registration of letters of credit.

(15) Financial assets accounting and assessment

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable, willing parties on an arm's length basis. To estimate the fair value of a financial instrument the Group uses quoted market prices, or applicable valuation models. If a quoted market price is not available, the fair value of the financial instrument is estimated using alternative pricing methods taking into account that the fair value is not an amount, which the Group would receive or pay in case of a forced transaction, involuntary liquidation or a distress sale. Such models are based on a discounted cash flow method, where the associated cash flows from relevant financial assets are estimated and discounted by interest rate, which is based on discount rates applicable for certain type of assets.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(15) Financial assets accounting and assessment (continued)

Held for Trading Financial Instruments are initially recognized in the balance sheet at fair value. To recognize financial instruments included in the trading portfolio the Bank uses settlement date accounting, i.e., assets are recognized in the balance sheet only when transferred/supplied to the Bank. Any change in fair value between trade date and settlement date are recognized in the income statement. After initial recognition the financial instruments included in the trading portfolio are measured at fair value. Fair value is estimated:

- ✓ for a financial instrument with a published price quotation in an active securities market using such quotes;
- ✓ for a debt instrument with credit rating assigned by an independent rating agency using discounted cash flow analysis;
- ✓ for a financial instrument, which has an appropriate valuation model using such a model.

If the financial instrument market is not active, i.e., transactions in the market are not frequent, published price quotations are adjusted in order to get reliable measurement of fair value. If a quoted market price is not available, the fair value of the financial instrument is estimated using alternative pricing methods taking into account, that the fair value is not an amount which the Bank would receive or pay in case of a forced transaction, involuntary liquidation or distress sale. Changes in fair value of financial instruments included in the trading portfolio, which are related to their valuation at fair value, are recognized in the Bank's income statement in the period in which they occur.

Loans and receivables are stated *at amortized cost*. Lending commitments before the loan issuance (drawdown) date are disclosed as off-balance sheet items as a balance (limit) of undisbursed loan amount. Where objective evidence of impairment indicates that the Bank and the Group will not be able to collect all amounts that are due to it (principal and interest) specific impairment allowance is created. Gains or losses are recognized in the income statement when the financial asset is derecognized or impaired, and through the amortization process.

Held-to-maturity investments are initially recognized at fair value. Incremental transaction costs directly related to the acquisition of a financial asset are included in the initial carrying amount of the financial instrument. Held-to-maturity investments are recognized applying settlement date accounting. Any change in fair value between trade date and settlement date is not recognised. After initial recognition the held-to-maturity investments are measured in the balance sheet *at amortized cost*. Where objective evidence of impairment indicates that the Bank and the Group will not be able to collect all amounts that are due to it (principal and interest) it makes specific provisions equal to the amount of impairment. Gains or losses are recognized in the income statement when the financial asset is derecognized or impaired, and through the amortization process.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(15) Financial assets accounting and assessment (continued)

Available–for-sale financial assets are initially recognized at fair value, including incremental transaction costs which are directly related to acquisition of financial assets. Available–for-sale financial assets are recognized applying settlement date accounting. Any change in the fair value between trade date and settlement date is recognized directly in equity. After initial recognition the available-for-sale financial assets are measured at fair value. The methods applied to measure fair value of available-for-sale financial assets correspond to the methods applied to measure fair value of financial instruments of the trading portfolio. Profit or loss of available-for-sale financial assets due to changes in fair value is included directly in equity as revaluation reserve of available-for-sale financial assets in the period in which it occurs. When available-for-sale financial assets are purchased with a coupon, discount or premium, the difference is amortized before the investment maturity date using the effective interest method and included in the Bank's income statement as interest income or decrease in interest income - in case of a premium.

(16) Assets and liabilities under management

Managed assets and managed liabilities are assets and liabilities held by the Bank and the Group on behalf of clients and registered in the name of the Group. The Group does not carry credit risk, market risk or any other risk in respect of these managed assets. Accordingly, these assets and liabilities are not included in the Bank's or the Group's balance sheet.

(17) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash and deposits with other credit institutions with a maturity of less than 3 months when purchased, less balances due to credit institutions with a maturity of less than 3 months and subject to insignificant risk of change in value.

(18) Taxation

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

Deferred taxation is provided for all temporary differences arising between the carrying amount of assets and liabilities and their tax bases according to tax legislation. The deferred tax asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from the differing rates of amortization or depreciation on intangible and tangible fixed assets, and from tax losses carried forward. Where an overall deferred taxation asset arises, this is only recognized in the financial statements where its recoverability is probable. To recognize deferred taxation assets, management of the Group assesses its further activities and ability to cover tax losses within a certain period. Information on estimates and assumptions, underlying assessment of management of the Group, is disclosed in Note 12.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(19) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as adopted by European Union, requires management of the Bank and the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the financial statements relate to depreciation (residual values and useful lives),evaluation of impairment for loan losses, fair value of financial instruments provisions for loan commitments and recognition of deferred tax assets. The information on estimates and assumptions of the management of the Group in relation to recognition of the deferred tax is provided in Note 12.

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Group Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. In 2011, the main factor that influenced formation of provisions was connected to the low value of collateral, insufficient solvency of borrowers and their still unstable financial standing.

Employee entitlements to regular vacations are recognised when they accrue to employees. A provision is made for the estimated liability of employee vacation pay based on unused vacations by employees up to the balance sheet date.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

(20) Events after the reporting date

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

(21) Procedure of correction of material errors

The Group shall correct accounting period errors discovered in this period or after the end of it prior to financial statements authorisation for issue. The Group shall retroactively correct prior period material errors in the first set of financial statements authorised for issue after their discovery. Comparative indices for periods in which the error occurred are corrected by applying retrospective correction or, if the error occurred before the earliest prior period presented, opening balances of assets and liabilities, as well as of capital and reserves for the earliest prior period presented are corrected.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(22) Display principles of accounting policy changes

To register uniform transactions, facts and events the Group applies methods of consequent accounting. The Group changes its policy only if it is stipulated by external normative acts (standards and interpretations) or if change of accounting policy allows drawing up financial statements that provide credible and corresponding information regarding the influence of transactions, facts and events on the financial condition, activity results and cash flow of the Group.

Change of accounting policy is applied retrospectively, i.e. every equity capital item balance affected is corrected in prior periods presented in all financial statements, as well as other comparative indices for all prior periods presented are corrected as if the new accounting policy has always been applied.

(23) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at lower of carrying amount and fair value less cost to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through sales transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sales within one year from date of classification.

(24) Going concern

The Bank has made an assessment of its own future activities and it believes that given the credit market recovery trends and customer support measures through restructuring of their loans by the Bank, it can be expected that the ratio of bad loans will decrease in the next few years, which will positively affect the amount of savings and profit performance, and the Bank will be able to cover the losses. As a result the Bank have approved a budget with a profit for year 2012. Nevertheless the Bank is exposed to uncertainties in relation to current economic situation both in Latvian and in the world, as a result the actual results for the Bank can deviate from the budgeted.

At the end of 2011 the Financial and Capital Market Commission estimated that the Bank’s internal capital adequacy, taking into account its activities and customer structure, should amount to 12.3%. This ratio the Bank must reach by 30 April 2012. In this connection by the end of 2011 the Bank’s management developed a capital improvement plan, which was approved by the Council and submitted to the Financial and Capital Market Commission. The plan provides for various capital raising options, including partial or complete sale of the investment, details of which are disclosed in Note 25, attraction of subordinated capital, asset restructuring, credit quality enhancement, reduction of the off-balance sheet commitments, which have an impact on the capital adequacy, etc. Within the scope of this plan on 29 March 2012 the Bank concluded a sale transaction and the information on it as well as information on possible cancellation of this deal is provided in Note 25. According to preliminary estimates, the Bank's capital adequacy ratio by 30 April 2012 will reach 12.5%. Depending on uncetain future conditions until the said date, e.g., increase in assets or ability of the Bank to execute the approved budget, the actual capital adequacy ratio may differ from the preliminary estimate and may not amount to the required level. If this happens, it may result in restrictions on the part of FCMC imposed on extending of Bank’s activities. In such case the Bank will continue to work according to the plan and take all necessary actions to improve the capital adequacy ratio, having coordinated these activities with the FCMC.

The said fact may cause uncertainties in relation to Bank’s future activities. In the opinion of the Bank’s management the desired internal capital adequacy level does not have decisive impact on continuation of Bank’s activities, even though certain restriction could be imposed, since the Bank observes and complies with all regulations and restrictions prescribed by the Law On Credit Institutions, including with regard to capital adequacy, which is defined in the amount of 8% of the risk weighted exposure totals. Information on the capital adequacy assessment process and the actual state of the capital adequacy is provided in Note 45 of the annual report.

Despite the mentioned uncertainties as mentioned above, these consolidated and separate financial statements for the year ended on 31 December 2011, have been prepared on a going concern concept basis, consistently applying the International Financial Reporting Standards as adopted by the European Union.

(25) Repossessed assets

In cases where the property which served as collateral for granted loans is transferred to the Bank (as a result of takeover or acquisition), initially the asset is recognized at transaction cost. In subsequent periods these assets are carried at cost less impaimrnet if any.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
3 INTEREST REVENUE				
Due from other credit institutions	1 214	788	1 214	788
Loans to customers	5 645	6 128	5 552	6 020
Incl. from impaired loans to customers	*1 276*	*1 199*	*1 254*	*1 161*
Debt and other fixed income securities	237	276	237	276
Incl. trading debt securities	*71*	*149*	*71*	*149*
Incl. available-for sale debt securities	*166*	*127*	*166*	*127*
Other interest income	135	48	135	48
	7 231	**7 240**	**7 138**	**7 132**
4 INTEREST EXPENSE				
Customer deposits	(2 525)	(3 010)	(2 525)	(3 010)
Payments in deposit guarantee fund	(400)	(361)	(400)	(361)
Due to other credit institutions	(10)	(3)	(10)	(3)
Subordinated debt	(548)	(454)	(548)	(454)
Debt securities issued	(73)	(57)	(91)	(71)
Other interest expense	(50)	(11)	(50)	(11)
	(3 606)	**(3 896)**	**(3 624)**	**(3 910)**
5 FEE AND COMMISSION REVENUE				
Money transfers	4 238	4 239	4 238	4 240
Management (trust) operations	525	362	525	362
Travellers cheques and credit cards	178	156	178	156
Current account servicing	75	60	75	60
Cash operations	69	92	69	92
Letters of credit	13	113	13	113
Guarantees	14	40	14	40
Securities operations	257	93	257	93
Other commission income	21	36	14	27
	5 390	**5 191**	**5 383**	**5 183**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

6 FEE AND COMMISSION EXPENSE

Money transfers	(728)	(847)	(727)	(847)
Credit cards	(101)	(90)	(101)	(90)
Cash operations	(35)	(46)	(35)	(46)
Securities operations	(96)	(53)	(96)	(53)
Other commission expense	(79)	(13)	(79)	(13)
	(1 039)	**(1 049)**	**(1 038)**	**(1 049)**

7 NET (LOSS)/PROFIT FROM TRADING FINANCIAL ASSETS

Loss from trading, net	(148)	(317)	(148)	(317)
(Loss)/income from revaluation, net	(241)	1 179	(241)	1 179
	(389)	**862**	**(389)**	**862**

This Note states the result gained from disposal of held-for-trading equity and debt securities and from changes in fair value of securities stated in Note 16. Total net losses and gains from equity instruments during the year was a loss of 136 (2010: profit 617) thousand lats and from debt securities loss 253 (2010: profit 245) thousand lats.

8 GAINS LESS LOSSES FROM FOREIGN CURRENCIES

Profit from trading, net	1 484	1 894	1 488	1 894
(Loss)/gain from foreign currency revaluation, net	(72)	(1 344)	(53)	(1 344)
incl. spot revaluation, net	*189*	*(29)*	*189*	*(29)*
incl. forward revaluation, net	*(28)*	*37*	*(28)*	*37*
	1 412	**550**	**1 435**	**550**

Profit from trading principally consists of sales and purchase of currency on behalf of the customers.

The result of foreign currency revaluation includes the result gained from the revaluation of assets and liabilities denominated in foreign currency, changes in the fair value of *spot* and *forward* transactions and loss on the exchange rate difference resulting from the Bank's investment that is described in Note 19 and 25 and posted in U.S. dollars. According to IFRS, this investment is recorded at the acquisition date, the exchange rate and balance amount in terms of lats does not change. Given that the Bank intends to sell this investment and to receive income in U.S. dollars, the Bank has valued this investment in U.S. dollars, including it in the calculation of open foreign exchange position. To minimize the possible currency fluctuation risk, the said position is covered with various financial commitments in U.S. dollars. As a result of revaluation of these commitments the Banks suffered loss in the amount of 252 thousand lats in 2011 (2010: 1 289 thousand lats of loss). The Bank is planning to recover the loss by selling the above mentioned investment.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
9 SALARIES AND BENEFITS EXPENSES				
Wages and salaries	(4 013)	(3 819)	(3 885)	(3 712)
Council	*(141)*	*(213)*	*(141)*	*(213)*
Board	*(416)*	*(380)*	*(392)*	*(347)*
Other	*(3 456)*	*(3 226)*	*(3 352)*	*(3 152)*
Social security contributions	(874)	(851)	(842)	(826)
Council	*(33)*	*(84)*	*(33)*	*(84)*
Board	*(101)*	*(59)*	*(95)*	*(51)*
Other	*(740)*	*(708)*	*(714)*	*(691)*
Release of provisions/(provisions) for unused annual holidays	(38)	(7)	(32)	(6)
Board	*(2)*	*-*	*(1)*	*1*
Other	*(36)*	*(7)*	*(31)*	*(7)*
	(4 925)	**(4 677)**	**(4 759)**	**(4 544)**
Council	***(174)***	***(297)***	***(174)***	***(297)***
Board	***(519)***	***(439)***	***(488)***	***(397)***
Other	***(4 232)***	***(3 941)***	***(4 097)***	***(3 850)***
Average number of employees in the reporting period	**270**	**248**	**249**	**233**
Employee category				
Managers	70	67	66	60
Other	200	181	183	173
	270	**248**	**249**	**233**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

10 ADMINISTRATIVE EXPENSES

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Professional services	(276)	(264)	(263)	(257)
Audit services	(67)	(76)	(59)	(73)
Rent	(579)	(572)	(541)	(544)
Communications	(261)	(267)	(251)	(260)
Advertising and presentation	(266)	(182)	(266)	(182)
Non-deductible value added tax	(181)	(58)	(180)	(57)
Sponsorship	(22)	(55)	(22)	(55)
Maintenance expenses	(479)	(415)	(483)	(415)
Travel and entertainment	(204)	(169)	(198)	(168)
Insurance	(106)	(110)	(106)	(107)
Low - value inventory	(15)	(15)	(15)	(15)
Security	(12)	(22)	(12)	(22)
Other administrative expenses	(546)	(376)	(741)	(462)
	(3 014)	**(2 581)**	**(3 137)**	**(2 617)**

11 LOAN IMPAIRMENT LOSS, NET

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Allowance for loans, assessed individually	(3 117)	(6 804)	(2 848)	(6 584)
Allowance for loans, assessed collectively, net	113	(145)	113	(145)
Release of individual allowance	2 338	1 524	2 327	1 519
	(666)	**(5 425)**	**(408)**	**(5 210)**

The following breakdown shows changes in allowance for impairment of loans during the reporting period:

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Allowance as of 1 January	**17 374**	**17 076**	**16 323**	**16 240**
Additional ***individual*** allowance	3 117	6 804	2 848	6 584
Additional ***collective*** (release)/allowance, net	(113)	145	(113)	145
Release of ***individual*** allowances	(2 338)	(1 524)	(2 327)	(1 519)
Interest on loans, which are recognized as impaired	(1 205)	(1 087)	(1 205)	(1 087)
Write-off credits	(1 195)	(4 474)	(1 195)	(4 474)
Effect of the foreign exchange	16	434	16	434
Allowance as of 31 December (Note 21)	**15 656**	**17 374**	**14 347**	**16 323**

In the reporting period the group's loans were reclassified into individual loans with the amount of provisions of 675 thousand lats.

The amount of impairment allowance for related persons is disclosed in Note 40.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

12 CORPORATE INCOME TAX

(1) Corporate income tax expense

Corporate income tax of the reporting year	(28)	(41)	(12)	(34)
Income tax paid abroad	(161)	(122)	(161)	(122)
Change in deferred tax (Note 12, (4))	(549)	344	(549)	344
Total	**(738)**	**181**	**(722)**	**188**

(2) Reconciliation of accounting profit to tax charge

(Loss)/profit before taxation	**(1 428)**	**(5 504)**	**(1 013)**	**(4 555)**
Current tax rate	15%	15%	15%	15%
Expected tax charge	(214)	(826)	(152)	(683)
Non deductable expenses	952	645	874	495
Total	**738**	**(181)**	**722**	**(188)**

Effective tax rate	**51.68%**	**(3.29%)**	**71.27%**	**(4.13%)**

The effective tax rate was influenced by the income tax paid abroad, which is not recognized for CIT needs, as well as by the amount of reduction in the deferred tax asset (Note 12 (4)).

(3) Movement of corporate income tax (assets)/liability

Corporate income tax (assets)/liabilities as of 1 January	**5**	**(896)**	**25**	**(881)**
Corporate income tax paid for previous years	(25)	-	(25)	-
Adjustments to the corporate income tax for previous years	(1)	-	-	-
Repayment of overpaid tax	16	881	-	881
Corporate income tax of the reporting year	28	41	12	34
Corporate income tax of the reporting year paid in advance	(10)	(21)	(7)	(9)
Corporate income tax (assets)/liabilities as of 31 December	**13**	**5**	**5**	**25**
incl. tax assets	*-*	*(20)*	*-*	*-*
incl. tax liabilities	*13*	*25*	*5*	*25*

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

12 CORPORATE INCOME TAX (continued)

(4) The Bank's deferred tax calculation

The management of the Bank manages deferred tax separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's tax analysis. The Group's tax analysis is not materially different from Bank's deferred tax analysis.

In thousands of lats	2011 Temporary differences	2011 Tax effect	2010 Temporary differences	2010 Tax effect
Deferred tax assets				
Taxable loss [1]	4 225	634	10 223	1 534
Deferred income	-	-	62	9
Provisions for unused annual holidays	295	44	263	39
Deferred tax assets	**4 520**	**678**	**10 548**	**1 582**
Deferred tax liabilities				
Accelerated tax depreciation	1 837	275	3 073	461
Accumulated taxable income [2]	259	39	1 387	208
Deferred tax liabilities	**2 096**	**314**	**4 460**	**669**
DEFERRED TAX ASSETS, NET VALUE [3]	**2 424**	**364**	**6 088**	**913**

[1] The accumulated taxable losses are tax losses calculated according to corporate income tax return. According to the Republic of Latvia legislation the Bank is entitled to cover these losses from the reporting year's profit before tax until the losses are fully settled. These losses occurred as a result of the world financial crisis which affected solvency and financial standing of borrowers of the Bank. The Bank considers that the economic situation in the country will gradually stabilize and the Bank will manage to cover these tax losses in due time.

[2] The accumulated taxable income includes the income related to revaluation of the future currency transactions (*spot* and *forward)* and assets classified as held for sale. Next year, when this income is realized, it will increase the basis of taxable income.

[3] The deferred tax assets are calculated taking into account the Bank management's assumption that the Bank will manage to cover these tax losses on time. The assumptions of the Bank management are based on the planned activities in after years when the Bank is planning to generate enough income to cover these losses.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

13 OTHER PAID TAXES AND FEES

Personal income tax of employees	978	984	953	961
Employer state social insurance obligatory payments (Note 9)	874	851	842	826
Non-deductible value added tax (Note 10)	181	58	180	57
Employees state social insurance obligatory payments	390	313	381	305
Taxes paid abroad (Note 12)	161	122	161	122
	2 584	**2 328**	**2 517**	**2 271**

The rest of the taxes and dues are included in positions of the current annual report according to their type and meaning.

As for the reporting years 2011 and 2010, the Bank had not received any tax relief and had not estimated or paid any penalty fines for delayed payments, which would affect its financial results.

14 CASH AND BALANCES DUE FROM THE BANK OF LATVIA

Balances due from the Bank of Latvia	66 156	15 099	66 156	15 099
Cash	1 166	1 489	1 166	1 489
	67 322	**16 588**	**67 322**	**16 588**

In accordance with the regulatory requirements credit institutions are required to maintain funds (mandatory reserves) on their accounts with the Bank of Latvia up to the standard of mandatory reserves. Their volume depends on the funds attracted by the credit institution. By the end of the reporting period the standard of mandatory reserves ranged between 3-5% (2010: 3-5%). The average standard of mandatory reserve in the reporting period was 4.85% (2010: 4.9%). The Bank of Latvia calculates remuneration for keeping the reserves on the reserve account with the Bank of Latvia in the amount of 24 thousands of lats (2010: 54 thousands of lats). These funds may be used without any restrictions.

15 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF LESS THAN 3 MONTHS [1]

Due from credit institutions registered in the Republic of Latvia	3 286	6 488	3 286	6 488
Due from credit institutions registered in foreign countries	62 809	55 871	62 804	55 871
	66 095	**62 359**	**66 090**	**62 359**

[1] Demand claims that may be satisfied without previous claim, or with demand term of 24 hours or one working day, and claims with demand term of up to 3 months are disclosed under this section. The claims are disclosed according to their initial maturity pursuant to the agreements.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

16 HELD FOR TRADING SECURITIES

(1) Held for trading debt securities and other fixed income securities

Investment amount of debt securities	549	854	549	854
Revaluation losses of debt securities, net	(53)	(5)	(53)	(5)
	496	**849**	**496**	**849**

The debt securities portfolio includes various Russian, Ukrainian and Poland corporate debt securities (2010: Russian, Ukrainian and Kazakhstan corporate debt securities).

All investments in debt securities and other securities with fixed income have been made in securities quoted on exchanges.

(2) Held for trading equity shares and other non-fixed income securities

Investments in equity shares	1 670	1 690	1 670	1 690
Changes on revaluation of equity investments, net	(613)	(413)	(613)	(413)
	1 057	**1 277**	**1 057**	**1 277**

The equity securities portfolio includes corporate equity securities of Latvia and Russia (in 2010: Latvia and Russia).

All investments in equity shares and other securities have been made in securities quoted at stock exchanges.

17 DERIVATIVES

The table below shows the fair value of forward foreign exchange contracts which is disclosed for each contract as an asset or liability. The notional value of these contracts reflects the reference amount of basis currency underlying the agreement whose changes determine the cash flow of the forward exchange contracts.

Fair value of foreign currency futures

Assets (positive fair value)	**66**	**98**	**66**	**98**
Liabilities (negative fair value)	**(1)**	**(4)**	**(1)**	**(4)**

Notional principal value of foreign currency futures

Assets (due from)	**1 339**	**3 205**	**1 339**	**3 205**
Liabilities (due to)	**(1 274)**	**(3 111)**	**(1 274)**	**(3 111)**

All foreign currency futures are forwards concluded to secure currency trading transactions of the Group's customers. The concluded foreign currency futures are provided for purchase and sale of foreign currency in the future under the terms specified beforehand. The maximum remaining term of payments of foreign currency futures does not exceed 14 days.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

18 AVAILABLE FOR SALE FINANCIAL ASSETS

(1) Available for sale debt securities and other fixed income securities

	2011	2010	2011	2010
Investment amount of government debt securities	8 307	7 772	8 307	7 772
Government debt securities revaluation profit/(losses), net	8	(4)	8	(4)
	8 315	**7 768**	**8 315**	**7 768**
Investment amount of debt securities of other institutions	1 032	145	1 032	145
Revaluation losses of debt securities of other institutions, net	(9)	(2)	(9)	(2)
	1 023	**143**	**1 023**	**143**
	9 338	**7 911**	**9 338**	**7 911**

The Government debt securities portfolio of 2011 includes debt securities issued by Latvian and other state governments (German, Poland, France, Finland, Netherlands, Austria). The debt securities portfolio of other institutions includes the debt securities of one Latvian credit institution and one corporate equity securities (2010: Latvian, Latvian, Danish, Swedish, Italian state governments and one Latvian credit institution).

All investments in debt securities and other securities with fixed income have been made in securities quoted on exchanges

(2) Available for sale equity shares and other non-fixed income securities

	2011	2010	2011	2010
Investments in equity shares and other non-fixed income securities	50	49	50	49
Changes on revaluation of equity investments, net	-	-	-	-
	50	**49**	**50**	**49**

By the end of the reporting year, this position included the investments in one Latvian company, whose securities are not quoted on the market, and in *SWIFT* (2010: *SWIFT*).

19 ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The investment disclosed in this item in 2010, was reclassified in 2011 into investments in share capital of subsidiaries and associates. The description of this investment is provided in Note 25.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

20 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF MORE THAN 3 MONTHS [1]

Due from credit institutions of other countries	17 624	665	17 624	665
Due from credit institutions registered in the Republic of Latvia	-	-	-	-
	17 624	**665**	**17 624**	**665**

[1] In this balance sheet caption, claims to credit institutions are disclosed according to their initial maturity pursuant to agreements.

21 LOANS

(1) Classification of loan balance by customer groups:

Private non-financial corporations	89 142	88 386	85 374	84 150
Households	18 797	19 556	18 547	19 311
Loans to subsidiary	-	-	4 416	5 132
Loans to financial institutions	45	14	45	14
Loans to employees	1 612	1 537	1 455	1 487
	109 596	**109 493**	**109 837**	**110 094**
Allowance for loans, ***assessed individually*** (Note 11)	(15 613)	(16 543)	(14 304)	(15 492)
Allowance for loans, ***assessed collectively*** (Note 11)	(43)	(831)	(43)	(831)
	93 940	**92 119**	**95 490**	**93 771**

By the end of the reporting year the total amount of the Bank's doubtful loans for which the accrual of nominal interest has been discontinued was thousand lats 51 596, including loans which have expired – 28 319 thousand lats, restructured loans – 19 594 thousand, loans past due over 30 days – 3 683 thousand lats (2010: 53 274 thousand lats, including loans which have expired — 24 595 thousand lats, restructured loans – 23 526 thousand lats, loans past due over 30 days – 5 153 thousand lats). To determine the value of these loans the Bank applied methods used for assessment of collateral adequacy and solvency of borrowers. The total amount of written off unrecoverable debts in the reporting year are 1 195 thousand lats (2010: 4 474).

(2) Classification of impairment for loans by customer groups:

Private non-financial corporations	12 950	14 562	11 828	13 698
Households	2 706	2 812	2 519	2 625
	15 656	**17 374**	**14 347**	**16 323**

The main criterion used to evaluate loan quality is the borrower's solvency. When assessing a loan the Bank takes into account the borrower's credit history, financial standing, performance and prospects of business activity and correspondence of the loan purpose to repayment sources, presence of solvent guarantors, adequacy of the borrower's current and anticipated cash flow to repay the loan, collateral value, compliance with repayment schedule, and country risk if a loan is granted to a non-resident. A collateral dependent loan is assessed based on the value of loan collateral. In 2011 and 2010, the main factor affecting the creditworthiness of borrowers was connected with still instable financial standing of borrowers.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

21 LOANS (continued)

(3) Loans principal classification by loan type:

	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Mortgage loans [1]	38 915	41 347	38 915	41 231
Commercial loans	27 572	27 147	31 988	32 279
Industrial loans	12 242	12 273	12 242	12 273
Finance leasing	3 950	4 305	-	-
Overdrafts	6 527	4 379	6 527	4 379
Reverse REPO	-	-	-	-
Consumer loans	590	433	365	323
Factoring	249	247	249	247
Secured by deposit	550	432	550	432
Payment card loans	439	335	439	335
Other	18 562	18 595	18 562	18 595
	109 596	**109 493**	**109 837**	**110 094**
Loans which serve as collateral for debt securities issued by the Bank (Note 29) [1]	*3 810*	*3 880*	*3 810*	*3 880*

[1] Mortgage loans secured by pledge (mortgage) of real estate registered in the Republic of Latvia are disclosed together with loans which serve as collateral for debt securities issued by the Bank. The fair value of this real estate by the end of 2011 was 5 030 thousand lats (unaudited), respectively by the end of 2010 – 5 145 thousand lats. The information on debt securities issued by the Bank is described in Note 29.

(4) Analysis of loans by industry:

	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Operations with real estate [1]	31 121	31 644	30 921	31 393
Wholesale and retail	15 482	20 506	15 204	20 034
Mortgage loans to private persons	7 334	7 861	7 334	7 861
Other loans to private persons	11 873	12 276	11 873	12 276
Transport, warehousing and communication	8 641	8 159	6 941	6 071
Financial services	9 990	7 199	14 406	12 331
Manufacturing	11 120	7 156	10 783	6 851
Construction	5 666	5 157	5 555	5 043
Extractive industry	1 769	1 742	1 769	1 742
Agriculture, hunting, wood processing and fishing	97	1 897	55	1 875
Hotels and restaurants	2 114	2 075	1 591	1 543
Consumer loans to private persons	1 202	956	795	662
Other	3 187	2 865	2 610	2 412
	109 596	**109 493**	**109 837**	**110 094**

[1] Operations with real estate mostly consist of loans given to real estate developers.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
21 LOANS (continued)				
(5) Analysis of collateral [1]:				
Apartments, dwelling houses, land	40 584	47 512	40 584	47 512
Commercial real estate	54 230	58 112	54 230	58 112
Current and fixed assets	26 616	20 951	30 382	24 445
Vehicles	12 564	16 010	8 957	12 435
Securities and shares (book value)	17 644	17 101	17 644	17 101
Guarantees	7 329	4 520	7 329	4 520
Deposits placed in the other credit institutions	2 829	2 782	2 829	2 782
Deposits placed in the Bank (Note 27 and 28)	3 677	5 670	3 677	5 670
	165 473	**172 658**	**165 632**	**172 577**

[1] Loan collaterals also refer to the Bank's off-balance liabilities with regard to loan limits that have not been used (Note 36) and serve as factors that mitigate the risk of such liabilities (Note 47, (1)).

Loan collaterals are stated at their fair values, except for fixed assets and shares, which are assessed at book value or face value.

(6) Grouping of Finance lease agreements by the type of leased assets:

	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Transport vehicles	3 023	3 408	-	-
Production equipment	923	884	-	-
Other assets	4	13	-	-
	3 950	**4 305**	**-**	**-**

(7) Analyses of finance lease receivables according to the time bands:

	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Present value of minimum lease payments				
Up to 1 year	2 187	2 030	-	-
Over 1 year to 5 years	1 763	2 257	-	-
Over 5 years	-	18	-	-
	3 950	**4 305**	**-**	**-**
Interest income to be received under financial leasing				
Up to 1 year	173	205	-	-
Over 1 year to 5 years	308	292	-	-
Over 5 years	-	1	-	-
	481	**498**	**-**	**-**
Future value of minimum financial leasing payments				
Up to 1 year	2 360	2 235	-	-
Over 1 year to 5 years	2 071	2 549	-	-
Over 5 years	-	19	-	-
	4 431	**4 803**	**-**	**-**
Allowance for finance lease	**(1 122)**	**(865)**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

22 ACCRUED INCOME AND DEFERRED EXPENSES

	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Pre-paid expenses	118	109	117	107
Other accrued income	80	75	80	74
	198	**184**	**197**	**181**
Impairment loss	(58)	(57)	(58)	(57)
	140	**127**	**139**	**124**

23 LONG-TERM PROJECT COSTS

	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Land parcels	2 400	2 225	2 400	2 225
Unfinished construction costs	3 707	148	3 707	148
Prepayments for unfinished construction	498	32	498	32
	6 605	**2 405**	**6 605**	**2 405**

The land parcels mentioned in this note were purchased for the purpose of building a residential apartment house with subsequent sale of apartments. Two facilities are shown here. One of them is located in Jurmala and was built from scratch. On it, a complex of apartment buildings is being built. The second, served as loan collateral, consisted of land and construction in progress, and it was taken over and posted on the Bank's balance sheet against a loan settlement. To increase the realization options and value of the facility, the Bank has made additional investments to finish the construction of the facility.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 PROPERTY, EQUIPMENTAND INTANGIBLE FIXED ASSETS

All property, equipment and intangible fixed assets in the possession of the Bank and the Group are used for the Bank's and Group's operations, for rendering financial services and maintenance of social infrastructure.

(1) The Group

Changes in tangible and intangible fixed assets in 2011	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2010	**6 337**	**885**	**2 037**	**1 992**	**992**	**12 243**
Additions	11	136	56	-	83	286
Prepayments	7	-	1	-	-	8
Disposals	-	(272)	(52)	-	-	(324)
At 31 December 2011	**6 355**	**749**	**2 042**	**1 992**	**1 075**	**12 213**
Accumulated depreciation						
At 31 December 2010	**273**	**561**	**1 227**	**272**	**632**	**2 965**
Charge for the reporting year	131	123	228	153	124	759
Disposals	-	(248)	(49)	-	-	(297)
At 31 December 2011	**404**	**436**	**1 406**	**425**	**756**	**3 427**
Net carrying value at 31 December 2010	**6 064**	**324**	**810**	**1 720**	**360**	**9 278**
Net carrying value at 31 December 2011	**5 951**	**313**	**636**	**1 567**	**319**	**8 786**

Changes in tangible and intangible fixed assets in 2010	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2009	**6 336**	**725**	**2 086**	**1 990**	**830**	**11 967**
Additions	1	224	45	2	162	434
Prepayments	-	-	-	-	-	-
Disposals	-	(64)	(94)	-	-	(158)
At 31 December 2010	**6 337**	**885**	**2 037**	**1 992**	**992**	**12 243**
Accumulated depreciation						
At 31 December 2009	**153**	**474**	**1 070**	**119**	**558**	**2 374**
Charge for the reporting year	120	140	249	153	74	736
Disposals	-	(53)	(92)	-	-	(145)
At 31 December 2010	**273**	**561**	**1 227**	**272**	**632**	**2 965**
Net carrying value at 31 December 2009	**6 183**	**251**	**1 016**	**1 871**	**272**	**9 593**
Net carrying value at 31 December 2010	**6 064**	**324**	**810**	**1 720**	**360**	**9 278**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 PROPERTY, EQUIPMENT AND INTANGIBLE FIXED ASSETS (continued)

(2) The Bank

Changes in tangible and intangible fixed assets in 2011	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2010	**6 337**	**853**	**2 025**	**1 992**	**992**	**12 199**
Additions	11	136	53	-	83	283
Prepayments	7	9	1	-	-	17
Disposals	-	(272)	(51)	-	-	(323)
At 31 December 2011	**6 355**	**726**	**2 028**	**1 992**	**1 075**	**12 176**
Accumulated depreciation						
At 31 December 2010	**273**	**546**	**1 222**	**272**	**632**	**2 945**
Charge for the reporting year	131	117	226	153	124	751
Disposals	-	(248)	(49)	-	-	(297)
At 31 December 2011	**404**	**415**	**1 399**	**425**	**756**	**3 399**
Net carrying value at 31 December 2010	**6 064**	**307**	**803**	**1 720**	**360**	**9 254**
Net carrying value at 31 December 2011	**5 951**	**311**	**629**	**1 567**	**319**	**8 777**

Changes in tangible and intangible fixed assets in 2010	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2009	**6 336**	**693**	**2 079**	**1 990**	**830**	**11 928**
Additions	1	224	40	2	162	429
Prepayments	-	-	-	-	-	-
Disposals	-	(64)	(94)	-	-	(158)
At 31 December 2010	**6 337**	**853**	**2 025**	**1 992**	**992**	**12 199**
Accumulated depreciation						
At 31 December 2009	**153**	**465**	**1 066**	**119**	**558**	**2 361**
Charge for the reporting year	120	134	248	153	74	729
Disposals	-	(53)	(92)	-	-	(145)
At 31 December 2010	**273**	**546**	**1 222**	**272**	**632**	**2 945**
Net carrying value at 31 December 2009	**6 183**	**228**	**1 013**	**1 871**	**272**	**9 567**
Net carrying value at 31 December 2010	**6 064**	**307**	**803**	**1 720**	**360**	**9 254**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY

(1) Composition of the consolidated group

The consolidation group of the Bank consists of the subsidiaries *TKB Nekustamie īpašumi* , *TKB Līzings and its subsidiary* CJSC TKB Leasing Tajikistan, and "Heckbert C7 Holdings" and its subsidiary "Ferrous Kereskedelmi KFT". The description of "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" is provided in this Note, part (3).

No	Name of commercial company	Registration place code , registration address	Type of activity of commercial company *	Share in the fixed capital (%)	Voting share in commercial company (%)	Grounds for inclusion in the Group**
1.	SIA TKB Nekustamie īpašumi LV-40003723143	LV, Rīga, Miesnieku 9	AC	100	100	MS
2.	SIA TKB Līzings LV-40003591059	LV, Rīga, Miesnieku 9	AFI	100	100	MS
3.	CJSC TKB Leasing Tajikistan TJ-0210013797	TJ, Dušanbe, Pr.Rudaki 100, Tajikistan	AFI	75	75	MS
4.	Heckbert C7 Holdings Limited CY-HE134861	CY, Nicosia, Kritonos 21, Cyprus	AFI	100	100	MS
5.	Ferrous Kereskedelmi KFT HU-01-09-717395	HU, Budapest, 3 Szegedi street, Hungary	AFI	100	100	MS

* - BNK – bank, EMI - electronic money institution, IC – insurance company, RI – reinsurer, IMC – insurance management company, IBC – investment brokerage company, IMC – investment management company, PF – pension fund, AFI – another financial institution, AC - auxiliary company, FMC – financial management company.

** - SC – subsidiary company, JVC – joint-venture company,, PC – parent company.

(2) The Bank has the following participation in the share capital of its subsidiary

	2011			2010		
	Investment and participation			Investment and participation		
Group companies: registration number and address	Total book value of assets	Cost	Cost less impair-ment	Total book value of assets	Cost	Cost less impair-Ment
SIA TKB Nekustāmie	2	2	2	4	2	50
SIA TKB Līzings	5 647	700	415	5 639	50	
	5 649	**702**	**417**	**5 643**	**52**	**52**

The methods applied to include the subsidiaries financial statements in the Group's consolidated financial statements are described in Note 2, (3). The subsidiaries shares are not quoted at stock exchange.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY (continued)

(2) The Bank has the following participation in the share capital of its subsidiary (continued)

The below data reflects consolidated information on subsidiaries and associated companies:

	2011	2010
Assets	5 649	5 643
Liabilities	(5 775)	(6 234)
Net assets	**(126)**	**(591)**

	2011	2010
Gross income from operating activities	280	303
Loss for the period	(180)	(215)

(3) Reclassified asset

At the end of the 2009 the Bank purchased 100% of the share capital of Cyprus Company "Heckbert C7 Holdings", which owns 100% of the share capital of the company "Ferrous Kereskedelmi KFT" (Hungary), which is the owner of 25,085% of the Ukrainian gas company "Dewon" shares. The purpose of this transaction was to obtain control over 25.085% of the share capital of "Dewon". "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" do not perform any other commercial activities, except the holding of "Dewon" shares.

The purpose of purchasing this investment was its further sale, therefore, according to International Financial Reporting Standard No. 5, in 2009 and 2010 it was classified as "Assets held for sale". But given the fact that as at the end of the reporting period the investment has not been sold yet and it is recognized in the Bank's balance sheet, the investment was reclassified from the item "Assets of disposal group classified as held for sale" (see Note 19) and presented in this item according to International Financial Reporting Standard No. 28, i.e. applying the equity method for consolidation. In 2011, the value of the investment was determined based on company's operations since the date of its purchase (see Note 25 (3)). Independent experts provided their fairness opinion of the "Dewon" company's shares based on the assumption of the company's operation and gas extraction contract conditions. The assessment showed no reduction in the fair value below the book value of the investment. Given that as at the date of approval of the annual statements the conditions of extraction contract have changed, the fairness opinion may change. According to estimates of the Bank's management, the new terms and conditions of the extraction contract should not reduce the current assessed value.

On 29 March 2012, the Bank entered into a deal on partial sale of the investment in the Cyprus Company «Heckbert C7 Holdings This deal resulted in sale of 24.64% of the shares of "Heckbert C7 Holdings" and receiving for them USD 7 million, which is below the purchase price paid by the Bank. Under the terms of the contract, the Bank is obliged to repay the purchase price, which may cause certain ambiguity as set out in 2 (Note 24) if it fails to re-register the shares in favor of the Buyer with the Cyprus Company Register, and in case of violation of the agreed guarantees. These guarantees apply to the company "Heckbert C7 Holdings" financial standing and contingent liabilities that may turn not to be reflected in the financial statements as at the conclusion date of the deal, as well as in relation to company's assessment. As at the date of signature of the financial statements the transaction is completed, i.e.: the certificate of the sold shares is liquidated, the Bank has signed and transferred the sold shares to the buyer, the buyer has received at its disposal the audited statements of the company "Heckbert C7 Holdings" and the purchase price has been received in full. Therefore, the Bank believes that the risk of cancelation and return of the transation in minimal.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY (continued)

(3) Reclassified asset (continued)

As at the date of acquisition in December 2009 the Bank had determined the fair value of identifiable assets, the calculation of which is provided below:

Report on the financial status of participation share	Fair value UAH	Fair value LVL	Book value UAH	Book value LVL
Cash and cash equivalent	19	1	19	1
Fixed ssets	178 751	10 904	57 668	3 518
Other assets	7 138	435	7 138	435
Bank borrowings	(95 726)	(5 839)	(95 726)	(5 839)
Other liabilities	(24 284)	(1 482)	(24 284)	(1 482)
Identifiable assets, net	**65 898**	**4 019**	**(55 185)**	**(3 367)**
Share of acquired assets	25,085%	25,085%	25,085%	25,085%
Identifiable assets acquired , net	**16 531**	**1 008**	**(13 843)**	**(845)**
Purchase price	227 012	13 848		
Goodwill	**210 482**	**12 840**		

Report on the financial status of participation share	2011		2010	
	UAH	LVL	UAH	LVL
Assets	247 147	16 721	251 744	16 921
Liabilities	(38 589)	(2 612)	(35 296)	(2 390)
Net assets	**208 558**	**14 109**	**216 448**	**14 531**
Gross income from operating activities	132	8	407	27
Loss for the period	(7 891)	(499)	(10 574)	(704)

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2011	2010	2011	2010

26 OTHER ASSETS

Receivables from brokerage companies	3 753	2 520	3 753	2 520
Real estate property hold for sale [1]	1 729	3 381	1 404	3 192
Spot foreign exchange assets [2]	225	89	225	89
Overpaid value added tax	365	485	358	393
Money in transit [3]	-	20	-	20
Other assets [4]	3 991	2 540	3 855	2 514
	10 063	**9 035**	**9 595**	**8 728**
Impairment loss	(383)	(110)	(378)	(107)
	9 680	**8 925**	**9 217**	**8 621**

In the reporting year other assets were written off in the amount of 5 thousand lats (2010: 11 thousand lats).

[1] A real estate property hold for sale is the real estate property whose possession is taken by the Bank (as a result of takeover or acquisition) and which served as collateral for granted loans. The acquisition cost of this real estate property is measured at the transaction cost. As a result of this transaction the amount received is channeled to settle customer's obligations to the Bank.

[2] The table below shows the fair value of *spot* foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the value of basis asset underlying the agreement whose changes in fair value are estimated and the due and payable amounts of cash flow.

Fair value of foreign currency futures

Assets (positive fair value)	**225**	**89**	**225**	**89**
Liabilities (negative fair value)	**(31)**	**(84)**	**(31)**	**(84)**

Notional principal value of foreign currency futures

Assets (due from)	**50 345**	**23 033**	**50 345**	**23 033**
Liabilities (due to)	**(50 151)**	**(23 028)**	**(50 151)**	**(23 028)**

All foreign currency spot transactions concluded to secure currency trading transactions of the Group's customers. The concluded foreign currency spot transactions are provided for purchase and sale of foreign currency in the future under the terms specified beforehand. The maximum remaining term of payments of foreign currency futures does not exceed 12 days.

[3] The funds, transferred from other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit.

[4] Other assets include various claims on debtors in relation to operating activities of the Bank, as well as Bank's co-financing in the construction facility for the amount of 2 768 thousand lats (2010: 1 940 thousand lats).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010

27 DUE TO CREDIT INSTITUTIONS

Credit institutions registered in other countries	406	2 335	406	2 335
Credit institutions registered in the Republic of Latvia	333	81	333	81
	739	**2 416**	**739**	**2 416**

Deposits that serve as collateral of the following claims:

Other transactions	27	27	27	27
Loans and unused credit lines (Note 21, (5) and 47, (1))	-	-	-	-
Letters of credit (Note 36, (2) and 47, (1))	-	-	-	-
	27	**27**	**27**	**27**

28 DUE TO CUSTOMERS

Private non-financial corporations	189 538	132 501	189 538	132 501
Including due from subsidiaries	*-*	*-*	*-*	*-*
Households	54 196	39 406	54 196	39 406
Non-profit institutions serving households	328	207	328	207
Financial institutions	1 781	2 788	2 050	2 789
Including due from subsidiaries	*-*	*-*	*269*	*1*
Local government	1 060	26	1 060	26
	246 903	**174 928**	**247 172**	**174 929**

Deposits which serve as collateral for the following claims:

Loans and unused credit lines (Note 21, (5) and 47, (1))	2 271	5 643	2 271	5 643
Guarantees (Note 36, (2) and 47, (1))	2 205	40	2 205	40
Letters of credit (Note 36, (2))	-	35	-	35
	4 476	**5 718**	**4 476**	**5 718**

In thousands of lats

29 DEBT SECURITIES ISSUED

(1) General information

On 1 March 2007 The Bank launched the first mortgage bond issue in the amount of five million euro (3.5 million LVL). It incorporated the issue of 50 000 bonds with the nominal value of 100 euro each. The issue was approved by the decision of the Financial and Capital Market Commission and organised by "SEB Latvijas Unibanka". The maturity date of the mortgage bonds is 1 December 2012. Since 26 October 2007 the bonds have been admitted to listing on the Riga Stock Exchange. By the end of the reporting year the carrying value of securities was 3 513 thousand lats (in 2010: 3 513 thousand lats).

According to the Bank's Mortgage Bonds prospectus interest are paid four times a year, i.e. on 1 March, 1 June, 1 September and 1 December. The interest rate of mortgage bonds consists of 3-month EURIBOR plus 1,4 percentage points. The interest rate for the interest period from 1 December 2011 to 1 March 2012 is 2.875% per annum.

(2) Pledge of the Bank's mortgage bonds

The mortgage loans real estate registered in the Republic of Latvia and other cover legally provided by the Law on Mortgage Bonds that have been issued by the bank have been pledged as collateral for the issued mortgaged bonds by the Bank. The fair value of this real estate by the end of 2011 was 5 030 thousand lats (unaudited, see Note 21, (3)), by the end of 2010 accordingly 5 145 thousand lats. The decrease in value of collateral is due to change in composition of collateralized loans, i.e. excluding some loans, which are replaces with other loans, that have higher collateral value. At all time the amount of pledged mortgage loans should be at least 110% of the issued mortgage bond amount. In case of early repayment or default of the mortgage loan that has been pledged as collateral for the mortgage bond, another mortgage loan should be pledged as collateral.

The volume of the mortgage loans pledged as a collateral:

In thousands of lats	**The Bank 2011**		**The Bank 2010**	
Maturity of loans	**Volume**	**Number**	**Volume**	**Number**
5-10 years	3 810	23	3 880	18
> 10 years	-	-	-	-
	3 810	**23**	**3 880**	**18**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

29 DEBT SECURITIES ISSUED (continued)

(2) Pledge of the Bank's mortgage bonds (continued)

Structure of the mortgage loans pledged as collateral by the legal status of borrowers:

In thousands of lats	**The Bank 2011**		**The Bank 2010**	
Borrowers	**Volume**	**Number**	**Volume**	**Number**
Residents companies	1 860	1	1 990	1
Resident individuals	1 950	22	1 890	17
	3 810	**23**	**3 880**	**18**

Structure of the mortgage loans pledged as collateral by amount of loans:

	The Bank 2011		**The Bank 2010**	
Amount in lats	**Volume 000'LVL**	**Number**	**Volume 000'LVL**	**Number**
<5 000	12	2	4	1
5 000 – 25 000	144	10	66	6
25 000 – 50 000	120	3	83	3
50 000 – 100 000	201	3	151	2
100 000 – 500 000	487	3	601	4
500 000 – 1 000 000	986	1	985	1
>1 000 000	1 860	1	1 990	1
	3 810	**23**	**3 880**	**18**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
30 ACCRUED EXPENSES AND DEFERRED INCOME				
Unused holiday and premium pay	309	271	295	263
Deferred income	-	3	-	3
Other accrued expenses	347	229	340	227
	656	**503**	**635**	**493**
31 OTHER LIABILITIES				
Suspense accounts[1]	102	953	102	953
Spot foreign exchange liabilities (Note 26)	31	84	31	84
Money in transit [2]	288	825	288	825
Unpaid dividends of previous periods	1 767	1 767	1 767	1 767
Other liabilities	293	117	256	106
	2 481	**3 746**	**2 444**	**3 735**

[1] Suspense accounts (cleared after the year end) represent payments received by the Bank where the beneficiary is not clearly identified. After clarification they are credited to customer accounts.

[2] As cash in transit are posted the funds the depreciation of which has not been confirmed by correspondent banks yet.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

32 SUBORDINATED LIABILITIES

As of 31 December 2011 the balance of subordinated non-convertible liabilities was 7 667 thousand lats (2010: 4 673 thousand lats) deposited with maturities in 2013- 2016.

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2011:

Name	Currency of contract	Principal 000'LVL	Book value 000'LVL	Date of conclusion	Maturity	Interest %
TUAREG HOLDINGS S.A.	USD	1 532	1 564	31.07.2008.	31.07.2015.	12
TUAREG HOLDINGS S.A.	EUR	470	480	31.07.2008.	31.07.2015.	12
PERRYCAT LIMITED	USD	1 360	1 292	01.08.2011.	02.08.2016.	5
Pārējie	USD, EUR	4 360	4 331	2008.-2011.	2013.-2016.	4.75-10
TOTAL		**7 722**	**7 667**			

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2010:

Name	Currency of contract	Principal 000'LVL	Book value 000'LVL	Date of conclusion	Maturity	Interest %
TUAREG HOLDINGS S.A.	USD	1 507	1 538	31.07.2008.	31.07.2015.	12
TUAREG HOLDINGS S.A.	EUR	470	480	31.07.2008.	31.07.2015.	12
Other	USD, EUR	2 642	2 655	2008.-2010.	2013.-2015.	7-10
TOTAL		**4 619**	**4 673**			

Subordinated liabilities (subordinated capital) consist of cash assets, borrowed by the Bank for the period which is not shorter than five years. Conditions that allow demanding pre-term repayment of a loan are regulated in accordance with the regulations for calculating of capital requirements that foresee the right of lenders to demand repayment of a loan before its maturity only in case of a borrower's liquidation. In case of a borrower's liquidation the subordination regulations of subordinated liabilities (loan) determine that the lender's claims are satisfied only after claims of all other borrower's creditors are satisfied, but before satisfying the claims of shareholders of the borrower. Basic provisions for all other subordinated liabilities correspond to the afore-mentioned.

The Bank may repay such loan on its own initiative before the maturity if after such loan repayment its own equity complies with the regulation provisions and the FCMC has no objections thereof.

The concluded agreements do not foresee possibility to change subordinated liabilities into investments in equity, or other possible liabilities.

The above mentioned amount of subordinated liabilities is included in excess capital for the purposes of calculation of the capital adequacy ratio (see Note 49).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

33 SHARE CAPITAL AND RESERVES

(1) Share capital

The Bank's registered and paid-up share capital on 31 December 2011 was respect14 507 thousand lats (2010: registered and paid-up capital 6 337 and 7 049 thousand lats). It consisted of 290 136 (2010: 140 972) ordinary shares with a nominal value of 50 lats each. The total number of shareholders is 47 (2010: 47), of which 10 (2010: 10) - corporate and 37 (2010: 37) individuals.

In 2011, the thirteenth issue of shares was announced. As a result of the share issue the Bank's capital increased by 7 458 thousand lats, or by 149 164 ordinary shares with nominal value of 50 lats each.

List of shareholders and mutually related shareholder groups which directly or indirectly control 10% or more of the share capital:

Shareholder	Country	Shareholding 2011		Shareholding 2010	
		%	LVL'000	%	LVL'000
I.Buimisters	Latvia	43.21	6 269	37.63	2 653
SIA "C&R Invest"	Latvia	14.60	2 117	13.70	966
C.E.G. Treherne	Great Britain	9.31	1 351	9.31	656
GCK Holdings Netherlands B.V.	Netherlands	7.40	1 074	6.95	490
Rikam S.A.H.	Luxembourg	7.29	1 058	6.85	483
S.Tarasenoks*	Latvia	6.18	896	12.72	896
Figon Co Limited	Cyprus	3.40	493	3.19	225

* Owing to the fact that Sergey Tarasenoks has passed away, his shares have been include in the succession mass.

(2) Reserves

The reserve capital and other reserves of the Bank were created by the decisions of shareholders in prior years. As there are no regulatory requirements for maintaining these reserves, they could be released in future periods based on the decision of shareholders. Reserves balance amount as at the end of the year was 3 804 thousand lats (2010: 3 804 thousand lats).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

34 THE BANK'S DIVIDEND

In thousands of lats	**2011**	**2010**
The amount of dividends paid for the previous period (for years 2010 and 2009)	-	-

35 THE GROUP'S LOSS PER SHARE

Loss per share (basic and diluted) attributable to equity holders of the Bank in lats	**2011**	**2010**
Loss for the year attributable to equity holders of the Bank	(2 163)	(5 314)
Average number of shares	217 393	137 350
Loss per share (in lats)	**(9.95)**	**(38.69)**

There are no dilutive instruments that influence loss/earnings per share.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

36 OFF-BALANCE SHEET ITEMS

(1) Classification of Off-Balance Sheet Commitments

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Contingent liabilities	**8 297**	**6 128**	**8 297**	**6 423**
including guarantees	*2 797*	*138*	*2 797*	*433*
including rent commitments [1]	*5 500*	*5 990*	*5 500*	*5 990*
Commitments to clients	**10 853**	**6 544**	**11 552**	**8 625**
including unused credit lines	*7 901*	*6 415*	*8 600*	*8 496*
including letters of credit	*-*	*35*	*-*	*35*
Including other liabilities [2]	*2 952*	*94*	*2 952*	*94*
Total off-balance sheet liabilities	**19 150**	**12 672**	**19 849**	**15 048**

[1] **Analysis of lease agreements according to remaining validity:**

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Up to 1 year	33	27	33	27
From 1 year up to 5 years	128	169	128	169
Over 5 years	5 339	5 794	5 339	5 794
	5 500	**5 990**	**5 500**	**5 990**

[2] Other liabilities are disclosed as the Bank's future liabilities for acquisition of fixed assets and future costs related to the construction in the amount of the unused amount of the agreement (Note 23).

(2) Analysis of collateral of off-balance-sheet liabilities

In thousands of lats	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Guarantees	2 693	110	2 693	110
Deposits placed in the Bank (Note 28)	*2 205*	*40*	*2 205*	*40*
Financial insurance	*161*	*-*	*161*	*-*
Apartments, dwelling houses, land	*327*	*70*	*327*	*70*
Letters of credit	-	35	-	35
Deposits placed in the Bank (Note 27 and 28)	*-*	*35*	*-*	*35*
	2 693	**145**	**2 693**	**145**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2011	2010	2011	2010

37 ASSETS AND LIABILITIES UNDER MANAGEMENT

This item includes assets and liabilities held by the Bank under its own name on behalf of the clients. The Bank receives fees based on the amounts managed. The amount of these assets and liabilities are not recognized in the balance sheet.

Assets and liabilities under management are composed as follows:

Assets under management

Due from corporate	21 561	11 818	21 561	11 818
Due from credit institutions	2 380	5 298	2 380	5 298
Due from individuals	9 792	-	9 792	-
	33 733	**17 116**	**33 733**	**17 116**

Customer profile on whose behalf the assets are managed

Credit institutions	10 983	4 280	10 983	4 280
Enterprises	22 750	12 836	22 750	12 836
	33 733	**17 116**	**33 733**	**17 116**

38 MORTGAGED ASSETS

As of 31 December 2011 and 2010 the Bank had no mortgaged assets, except for those described in Notes 21 and 29.

39 CASH AND CASH EQUIVALENTS

In thousands of lats	The Group		The Bank	
	2011	2010	2011	2010
Due from other credit institutions with a maturity of less than 3 months from the date of acquisition	66 095	62 359	66 090	62 359
Cash and balances due from the Bank of Latvia	67 322	16 588	67 322	16 588
Due to other credit institutions with a maturity of less than 3 months from the date of acquisition	(461)	(2 389)	(461)	(2 389)
	132 956	**76 558**	**132 951**	**76 558**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

40 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Group and the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, chairpersons and members of the council and management board, internal audit manager and members, inspector of the Bank and other employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Group and the Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, and brokerage etc. These transactions are mostly conducted on normal business terms.

(1) Presented below are the Group's transactions with related parties

In thousands of lats	2011				2010			
	Share-holders	Other related parties[1]	Council and board	Total	Share-holders	Other related parties[1]	Council and board	Total
Assets								
Loans	277	5 565	351	**6 193**	141	2 502	434	**3 077**
Allowance for loans	*(10)*	*(922)*	*(10)*	***(942)***	*(3)*	*(2)*	*(14)*	***(19)***
Loans, net	267	4 643	341	**5 251**	138	2 500	420	**3 058**
Liabilities								
Deposits	5	1 555	187	**1 747**	7	1 139	144	**1 290**
Off-balance sheet liabilities								
Unused credit lines	15	7	23	**45**	39	8	35	**82**
Income statement								
Interest income	16	44	23	**83**	5	71	8	**84**
Fee and commission income	-	3	1	**4**	5	22	3	**30**
Interest expense	-	(13)	(4)	**(17)**	(1)	(11)	(5)	**(17)**
Release of allowance/(allowance) for loans	(7)	(920)	4	**(923)**	9	968	(12)	**965**
Other expenses	(12)	(31)	(52)	**(95)**	(14)	(15)	(43)	**(72)**

[1] Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

40 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Presented below are the Bank's transactions with related parties

In thousands of lats	2011					2010				
	Share-holders	Subsi-diaries	Other related parties[2]	Council and board	Total	Share-holders	Subsi-diaries	Other related parties[2]	Council and board	Total
Assets										
Loans	141	4 416	5 565	346	**10 468**	117	5 132	2 502	424	**8 175**
Allowance for loans	*(10)*	*-*	*(922)*	*(10)*	***(942)***	*(3)*	*-*	*(2)*	*(14)*	***(19)***
Loans, net	131	4 416	4 643	336	**9 526**	114	5 132	2 500	410	**8 156**
Liabilities										
Deposits	5	273	1 555	187	**2 020**	7	1	1 139	144	**1 291**
Off-balance sheet liabilities										
Unused credit lines	15	699	7	23	**744**	39	2 081	8	35	**2 163**
Income statement										
Interest income	9	162	44	23	**238**	3	170	70	7	**250**
Fee and commission income	-	2	3	1	**6**	5	1	22	3	**31**
Interest expense	-	(19)	(13)	(4)	**(36)**	(1)	(15)	(11)	(5)	**(32)**
Release of allowance, net	(7)	-	(920)	4	**(923)**	9	-	968	(12)	**965**
Other expenses	(12)	(211)	(31)	(52)	**(306)**	(14)	(80)	(15)	(43)	**(152)**

[2] Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

(3) The Bank's related parties' loan and unused credit lines collateral analysis

In thousands of lats	2011	2010
Securities	-	-
Apartments, dwelling houses, land	553	1 346
Commercial real estate	4 053	116
Commercial collateral (current and fixed assets)	8 718	8 933
	13 324	**10 395**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

41 THE BANK'S ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The financial assets and liabilities of each subsidiary of the Bank are managed individually by the Bank management. Therefore the table given below contains a summary of the Bank's assets, liabilities and off-balance items arranged by categories. The arrangement of the assets, liabilities and off-balance items of the Group by categories does not differ materially from the arrangement of the Bank's assets, liabilities and off-balance items by categories.

(1) Arrangement of Assets by Categories

	CLASSIFICATION OF FINANCIAL ASSETS				
	Held for trading financial assets	Available for sale financial assets	Loans and receivables	Other	Total
ASSETS			**2011**		
Cash and balances due from the Bank of Latvia	-	-	66 156	1 166	67 322
Due from credit institutions with a maturity of less than 3 months	-	-	66 090	-	66 090
Held for trading financial assets	1 619	-	-	-	1 619
Available for sale financial assets	-	9 388	-	-	9 388
Due from credit institutions with a maturity of more than 3 months	-	-	17 624	-	17 624
Loans	-	-	95 490	-	95 490
Accrued income and deferred expenses	-	-	-	139	139
Long-term projects costs	-	-	-	6 605	6 605
Tangible assets	-	-	-	8 458	8 458
Intangible assets	-	-	-	319	319
Investments in share capital of subsidiary	-	-	-	14 265	14 265
Deferred tax assets	-	-	-	364	364
Other assets	225	1 404	7 230	358	9 217
Total assets as at 31 December 2011	**1 844**	**10 792**	**252 590**	**31 674**	**296 900**
ASSETS			**2010**		
Cash and balances due from the Bank of Latvia	-	-	15 099	1 489	16 588
Due from credit institutions with a maturity of less than 3 months	-	-	62 359	-	62 359
Held for trading financial assets	2 224	-	-	-	2 224
Available for sale financial assets	-	7 960	-	-	7 960
Due from credit institutions with a maturity of more than 3 months	-	-	665	-	665
Loans	-	-	93 771	-	93 771
Accrued income and deferred expenses	-	-	-	124	124
Long-term projects costs	-	-	-	2 405	2 405
Tangible assets	-	-	-	8 894	8 894
Intangible assets	-	-	-	360	360
Investments in share capital of subsidiary	-	-	-	52	52
Corporate income tax assets	-	-	-	-	-
Deferred tax assets	-	-	-	913	913
Other assets	89	3 192	4 947	393	8 621
Assets of disposal group classified as held for sale	-	-	-	13 848	13 848
Total assets as at 31 December 2010	**2 313**	**11 152**	**176 841**	**28 478**	**218 784**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

41 THE BANK'S ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS (continued)

(2) Arrangement of Liabilities and Off-Balance Liabilities by Categories

	CLASSIFICATION OF FINANCIAL LIABILITIES			
	Held for trading financial liabilities	Financial liabilities at amortized cost	Other	Total
LIABILITIES		**2011**		
Due to credit institutions	-	739	-	739
Held for trading financial liabilities	1	-	-	1
Due to customers	-	247 172	-	247 172
Debt securities issued	-	3 513	-	3 513
Accrued expenses and deferred income	-	-	635	635
Corporate income tax liabilities	-	-	5	5
Subordinated liabilities	-	7 667	-	7 667
Other liabilities	31	-	2 413	2 444
Liabilities as at 31 December 2011	**32**	**259 091**	**3 053**	**262 176**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities	-	-	8 297	8 297
Commitments to clients	-	-	11 552	11 552
Total off-balance sheet liabilities as at 31 December 2011	**-**	**-**	**19 849**	**19 849**
LIABILITIES		**2010**		
Due to credit institutions	-	2 416	-	2 416
Held for trading financial liabilities	4	-	-	4
Due to customers	-	174 929	-	174 929
Debt securities issued	-	3 513	-	3 513
Accrued expenses and deferred income	-	-	493	493
Corporate income tax liabilities	-	-	25	25
Subordinated liabilities	-	4 673	-	4 673
Other liabilities	84	-	3 651	3 735
Liabilities as at 31 December 2010	**88**	**185 531**	**4 169**	**189 788**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities	-	-	6 423	6 423
Commitments to clients	-	-	8 625	8 625
Total off-balance sheet liabilities as at 31 December 2010	**-**	**-**	**15 048**	**15 048**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES

(1) Comparison of the Bank's financial assets and liabilities accounting value to the fair value

The fair value of the financial assets and liabilities of each subsidiary company of the Bank is assessed individually by the Bank management. Therefore the table given below contains a comparison of the fair value of the Bank's financial assets and liabilities to their accounting value. An assessment of the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to this Annual Report.

	2011			2010		
	Carrying value	**Fairvalue**	**Difference**	**Carrying value**	**Fair value**	**Difference**
ASSETS						
Cash and balances due from the Bank of Latvia	66 156	66 156	-	15 099	15 099	-
Due from credit institutions with a maturity of less than 3 months	66 090	66 090	-	62 359	62 359	-
Held for trading financial assets	1 619	1 619	-	2 224	2 224	-
Available for sale financial assets	9 388	9 388	-	7 960	7 960	-
Due from credit institutions with a maturity of more than 3 months	17 624	17 624	-	665	665	-
Loans	95 490	94 232	1 258	93 771	92 413	1 358
Other assets	8 859	8 859	-	8 228	8 228	-
Total financial assets	**265 226**	**263 968**	**1 258**	**190 306**	**188 948**	**1 358**
LIABILITIES						
Due to credit institutions	739	739	-	2 416	2 416	-
Held for trading financial liabilities	1	1	-	4	4	-
Due to customers	247 172	247 621	(449)	174 929	175 487	(558)
Debt securities issued	3 513	3 513	-	3 513	3 511	2
Subordinated liabilities	7 667	8 474	(807)	4 673	5 262	(589)
Other liabilities	31	31	-	84	84	-
Total financial liabilities	**259 123**	**260 379**	**(1 256)**	**185 619**	**186 764**	**(1 145)**
OFF-BALANCE SHEET ITEMS						
Contingent liabilities	8 297	8 297	-	6 423	6 423	-
Commitments to clients	11 552	11 552	-	8 625	8 625	-
Total off-balance sheet financial liabilities	**19 849**	**19 849**	**-**	**15 048**	**15 048**	**-**

The fair value of loans was calculated taking into account the existing variable rates and attributing them to loans with fixed interest rates excluding loans with short period of maturity (approximately 1 year). The fair value of liabilities was calculated taking into account the existing market interest rates for relevant time deposits. It is assumed that the accounting value of financial assets and liabilities with liquidity or a short period of maturity is approximated to their fair value. This assumption is also used for demand deposits, savings accounts without time limitation and financial instruments with variable rates.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES (continued)

(2) Analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities

The fair value of the financial assets and liabilities of each subsidiary company of the Bank is assessed individually by the Bank management. Therefore the table given below contains an analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities. An assessment of the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to this Annual Report.

	2011				2010			
	1. level	2. level	3. level	Total	1. level	2. level	3. level	Total
ASSETS								
Held for trading financial assets	1 057	562	-	**1 619**	1 277	947	-	**2 224**
Fixed income securities	*-*	*496*	*-*	***496***	*-*	*849*	*-*	***849***
Equity shares and other non-fixed income securities	*1 057*	*-*	*-*	***1 057***	*1 277*	*-*	*-*	***1 277***
Derivatives	*-*	*66*	*-*	***66***	*-*	*98*	*-*	***98***
Available for sale financial assets	-	9 023	365	**9 388**	143	7 768	49	**7 960**
Fixed income securities	*-*	*9 023*	*315*	***9 338***	*143*	*7 768*	*-*	***7 911***
Equity shares and other non-fixed income securities	*-*	*-*	*50*	***50***	*-*	*-*	*49*	***49***
Total financial assets	**1 057**	**9 585**	**365**	**11 007**	**1 420**	**8 715**	**49**	**10 184**
LIABILITIES								
Held for trading financial liabilities	-	1	-	**1**	-	4	-	**4**
Derivatives	*-*	*1*	*-*	***1***	*-*	*4*	*-*	***4***
Total financial liabilities	**-**	**1**	**-**	**1**	**-**	**4**	**-**	**4**

The Group and the Bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices in active markets;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable;

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's geographical analysis. The Group's geographical analysis is not materially different from Bank's geographical analysis.

31 December 2011	Latvia	EU	USA	Russia	Ukraine	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	67 322	-	-	-	-	-	67 322
Due from credit institutions with a maturity of less than 3 months	3 286	44 856	4 929	10 016	1 695	1 308	66 090
Held for trading financial assets	26	121	-	1 373	99	-	1 619
Available for sale financial assets	6 009	3 379	-	-	-	-	9 388
Due from credit institutions with a maturity of more than 3 months	-	2 125	-	-	14 127	1 372	17 624
Loans	48 299	19 505	-	1 284	12 059	14 343	95 490
Accrued income and deferred expenses	93	35	6	-	-	5	139
Long-term projects costs	6 605	-	-	-	-	-	6 605
Tangible assets	8 382	76	-	-	-	-	8 458
Intangible assets	262	57	-	-	-	-	319
Investments in share capital of subsidiary	417	-	-	-	13 848	-	14 265
Deferred tax assets	363	1	-	-	-	-	364
Other assets	2 288	6 653	-	160	87	29	9 217
Total assets	**143 352**	**76 808**	**4 935**	**12 833**	**41 915**	**17 057**	**296 900**
LIABILITIES							
Due to credit institutions	333	92	-	177	-	137	739
Held for trading financial liabilities	-	1	-	-	-	-	1
Due to customers	48 117	63 763	2 445	7 277	524	125 046[1]	247 172
Debt securities issued	3 513	-	-	-	-	-	3 513
Accrued expenses and deferred income	567	68	-	-	-	-	635
Corporate income tax liabilities	-	5	-	-	-	-	5
Subordinated liabilities	1 470	1 234	-	1 642	407	2 914	7 667
Other liabilities	2 330	83	-	6	-	25	2 444
Total liabilities	**56 330**	**65 246**	**2 445**	**9 102**	**931**	**128 122**	**262 176**
OFF-BALANCE SHEET COMMITMENTS							
Contingent liabilities	7 814	230	-	144	-	109	8 297
Commitments to clients	8 603	1 700	10	105	-	1 134	11 552
Total off-balance sheet commitments	**16 417**	**1 930**	**10**	**249**	**-**	**1 243**	**19 849**
Net position as at 31 December 2011	**70 605**	**9 632**	**2 480**	**3 482**	**40 984**	**(112 308)**	**14 875**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Panama, New Zealand, Belize, Hong Kong , Seychelles, Marshall Islands and other countries.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS (continued)

31 December 2010	Latvia	EU	USA	Russia	Ukraine	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	16 588	-	-	-	-	-	16 588
Due from credit institutions with a maturity of less than 3 months	6 488	40 507	7 041	5 233	975	2 115	62 359
Held for trading financial assets	39	98	-	1 630	348	109	2 224
Available for sale financial assets	4 515	3 445	-	-	-	-	7 960
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	665	-	665
Loans	49 745	17 714	1	1 373	14 364	10 574	93 771
Accrued income and deferred expenses	63	47	-	1	2	11	124
Long-term projects costs	2 405	-	-	-	-		2 405
Tangible assets	8 799	95	-	-	-	-	8 894
Intangible assets	340	20	-	-	-	-	360
Investments in share capital of subsidiary	52	-	-	-	-	-	52
Deferred tax assets	913	-	-	-	-	-	913
Other assets	3 993	4 557	-	23	44	4	8 621
Assets of disposal group classified as held for sale	-	-	-	-	13 848	-	13 848
Total assets	**93 940**	**66 483**	**7 042**	**8 260**	**30 246**	**12 813**	**218 784**
LIABILITIES							
Due to credit institutions	81	797	-	90	-	1 448	2 416
Held for trading financial liabilities	-	4	-	-	-	-	4
Due to customers	40 803	55 733	2 170	3 717	285	72 221[1]	174 929
Debt securities issued	3 513	-	-	-	-	-	3 513
Accrued expenses and deferred income	435	58	-	-	-	-	493
Corporate income tax liabilities	-	25	-	-	-	-	25
Subordinated liabilities	1 029	-	-	1 415	-	2 229	4 673
Other liabilities	3 683	44	1	2	2	3	3 735
Total liabilities	**49 544**	**56 661**	**2 171**	**5 224**	**287**	**75 901**	**189 788**
OFF-BALANCE SHEET COMMITMENTS							
Contingent liabilities	6 196	184	-	-	-	43	6 423
Commitments to clients	7 230	354	12	86	-	943	8 625
Total off-balance sheet commitments	**13 426**	**538**	**12**	**86**	**-**	**986**	**15 048**
Net position as at 31 December 2010	**30 970**	**9 284**	**4 859**	**2 950**	**29 959**	**(64 074)**	**13 948**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Panama, New Zealand, Belize, Panama, Marshall Islands and other countries.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 ANALYSIS OF SEGMENTS

The following analysis of segments is based on the Group's and the Bank's internal reporting forms. Activities of the Group and the Bank are considered as one segment and none of them is singled out separately.

(1) Balance sheet

	The Group		The Bank	
Cash	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Balance from credit institutions	67 322	16 588	67 322	16 588
Loans and receivables	83 558	63 004	83 553	63 004
Latvian state fixed income securities	108 679	108 439	108 976	109 085
Other state fixed income securities	9 687	8 736	9 687	8 736
Shares and other investments	15 216	1 326	15 373	15 225
Fixed assets and intangible assets	8 786	9 278	8 777	9 254
Other assets	18 761	28 435	18 223	13 502
Total assets	**312 009**	**235 806**	**311 911**	**235 394**
Balances due to banks	735	2 416	735	2 416
Deposits	246 309	174 399	246 578	174 400
Issued bonds	2 802	2 803	3 504	3 506
Other liabilities	3 940	5 016	3 865	4 969
Impairment and accrued liabilities	16 097	17 542	14 783	16 488
Equity	42 126	33 630	42 446	33 615
Total equity and liabilities	**312 009**	**235 806**	**311 911**	**235 394**
Total assets per internal reporting	**312 009**	**235 806**	**311 911**	**235 394**
Reconciling items:				
Impairment[1]	*(16 097)*	*(17 542)*	*(14 783)*	*(16 488)*
Other reconciling items[2]	*(240)*	*(150)*	*(228)*	*(122)*
Total assets per IFRS statements	**295 672**	**218 114**	**296 900**	**218 784**
Total liabilities per internal reporting	**269 883**	**202 176**	**269 465**	**201 779**
Reconciling items:				
Impairment[1]	*(16 097)*	*(17 542)*	*(14 783)*	*(16 488)*
Subordinated liabilities[3]	*7 722*	*4 620*	*7 722*	*4 620*
Other reconciling items[2]	*(240)*	*(150)*	*(228)*	*(123)*
Total liabilities per IFRS statements	**261 268**	**189 104**	**262 176**	**189 788**

[1] For internal reporting purposes impairment is shown as a liability and not netted with related assets.

[2] Other reconciling items mostly represent cut-off and classification required by IFRS.

[3] For internal reporting purposes subordinated liabilities are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 ANALYSIS OF SEGMENTS

The following analysis of segments is based on the Group's and the Bank's internal reporting forms.

(2) Income statement

	The Group		The Bank	
	2011	2010	2011	2010
Interest revenue	6 021	6 151	5 928	6 041
Commission revenue	5 395	5 193	5 388	5 187
Profit from trading	1 045	1 414	1 048	1 415
Impairment	3 765	3 624	3 755	3 619
Other income	132	76	97	76
Total revenues	**16 358**	**16 458**	**16 216**	**16 338**
Interest expenses	3 606	3 896	3 624	3 910
Commission expenses	1 039	1 049	1 038	1 049
Administration expenses[1]	8 834	8 020	8 784	7 915
Tax expenses	738	(181)	722	(188)
Impairment	3 497	8 135	3 226	7 885
Other	810	862	557	134
Total expenses	**18 524**	**21 781**	**17 951**	**20 705**
Loss	**(2 166)**	**(5 323)**	**(1 735)**	**(4 367)**

[1] The Bank's administration expenses include depreciation charge in the amount of 751 thousand lats (2010: 729 thousand lats). The Group's administration expenses accordingly include depreciation charge in the amount of 759 thousand lats (2010: 736 thousand lats).

Revenue split by location of the customer

	The Group				The Bank			
	2011		2010		2011		2010	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest revenue	2 331	3 690	2 332	3 819	2 255	3 673[1]	2 238	3 803[1]
Commission revenue	451	4 944	356	4 837	445	4 943[2]	349	4 838[2]
Total income	**2 782**	**8 634**	**2 688**	**8 656**	**2 700**	**8 616**	**2 587**	**8 641**

All non-current assets other than financial instruments are located in Latvia. Additions to non-current assets during year 2011 amounted to LVL 2 492 thousand (2010: LVL 505 thousand).

[1] This balance sheet item includes interest income whose was received from the USA, Cyprus, Bulgaria, Austria, United Kingdom and other countries (2010: the same).

[2] This balance sheet item includes commission income whose was received from the United Kingdom, British Virgin Islands, New Zealand, Panama and other countries (2010: the same).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT

As the amount of transactions at the Group's level was insignificant, the Bank performs management of the relevant risks individually, except credit risk which is managed at the Group's level. The same procedures that are described below are used for risk management at the Group's level. During the reporting period the Bank performed identification of substantial risks and assessment of internal capital adequacy. The identified substantial risks compared to the previous period have not changed. The description of results of the identification of substantial risks inherent to Bank's activities and assessment of internal capital adequacy is provided below.

(1) General principles

In order to manage Bank's exposures the Bank identifies on a regular basis the risks inherent to its activities. The Bank regularly assesses the risks that may affect its operation and performance results. For each important exposure the Bank has elaborated appropriate policies and control procedures. For the purpose of management and control of Bank's risks the Bank has approved the Risk Management Policy, Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, State Risk Management Policy, Lending Policy, Investment Policy, Reputation Risk Management Policy, Compliance Function Risk Management Policy, Policy on Prevention of Money Laundering and Terrorist Financing and other policies, which the Bank Board and Council have approved. These policies are developed according to the Bank's Strategic Plan and they are regularly updated taking account of the development of the market and Bank activities.

These policies define the principles according to which the Bank defines:

- ✓ general guidelines which govern the Bank in its activities in order to minimise all kinds of risks which may result in losses ;
- ✓ classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- ✓ general day-to-day control and administration of risks of the Bank.

The main purpose of the Risk Management Policy of the Bank is to describe and determine an aggregate of means with help of which the Bank would be able to ultimately minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not paid on time and in the full amount, or the Bank incurs losses of another kind.

The Risk Management Policy of the Bank is implemented by the Bank Council, Board, Asset-Liability Assessment Committee (hereinafter – ALCO), Loan Committee, Loan Assessment Committee and respective Bank subdivisions controlling risk transactions.

The Council provides general management of the Bank ensuring achievement of goals and targets set in the Articles of Association. To exercise control over the risk management system of the Bank, the Council approves internal risk management policies, ensures compliance with such policies, their efficiency analysis and improvement.

The Board provides day-to-day management of the Bank ensuring compliance with internal documents which set out risk management procedures and requirements, distribution of powers and responsibilities among subdivisions and elaboration, approval and submission of risk management reports. The Board ensures identification and management of operational risks.

ALCO Committee determines the asset-liability structure of the Bank, sets and monitors parametres controlling balance and off-balance sheet positions - limits for positions of assets and liabilities; where necessary, it sets the volume of special provisions for doubtful loans, save for the portfolio of commercial loans where reserves are set by the Loan Committee; ensures the Bank's ability to fulfill its current financial liabilities, takes charge of long-term liquidity of the Bank by forming a balanced asset-liability term-structure; takes care of ensuring the Bank contingent activities with financial resources; analyses, assesses and controls risks of the Bank on a regular basis; elaborates and revises regularly limits restricting risks of the Bank; keeps track of compliance with these limits; determines assets/liabilities portfolios of the Bank (commercial loans, interbank loans, securities and others) and their limits; determines administrators of portfolios and guidelines of administration; defines and conducts correspondent banking policy of the Bank; at least once a quarter provides assessment of correspondent banks and state of correspondent accounts.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(1) General principles (continued)

Loan Committee is in charge of elaboration of the Bank Lending Policy; formation of the loan portfolio and its management within the framework of the Lending Policy; considers loan applications and guarantee requests; takes decisions on lending terms and conditions and interest rates of loans to be granted; on a regular basis (at least once a month) inspects the quality of loan portfolio.

Loan Assessment Committee develops certain procedures in order to timely identify impairment of loan quality, ie. main criteria for assessment and classification; revises procedures in place on a regular basis and, where necessary, amend the same regularly but no less than once a quarter, provides assessment of loan quality of the Bank and classification according to the respective risk degree and based on the assessment and classification criteria.

The AML Compliance Committee works on a regular basis in order to improve the internal control system for prevention of money laundering and terrorist financing according to the developed and approved plans.

The Compliance Function Committee is a unit established in the Bank which is responsible for identification, assessment and management of of compliance risk. Compliance risk is the risk of the Bank to suffer losses or to become subject to legal liabilities or to sanctions, or the risk to deteriorate the bank's reputation due to non-compliance or breach of compliance laws by the Bank.

The main purpose of ***the Internal Audit Division*** is to provide independent and objective evaluation of effectiveness of the internal control system of the Bank and its monitoring in order to assist the Council and the Board and subdivisions of the Bank to perform their functions with greater efficiency. The Internal Audit Division performs its work in accordance with the activities plan approved by the Council. On every audit performed by the Internal Audit Division it prepares a report to the Bank management of its findings and deficiencies in the internal control system, policies and procedures, and inadequately identified or managed risks and it provides recommendations for remedial actions.

(2) Capital Adequacy Assessment Process

For the purpose of capital adequacy assessment and in accordance with its capital adequacy maintenance strategy the Bank has defined that capital is an aggregate of elements of capital, reserves and liabilities which are freely available to the Bank to cover contingent, yet not identified, losses related to risks of ordinary activities. To assess capital adequacy the Bank applies the "First Pillar+" approach using as a basis regulatory minimum capital requirements, set in the amount of 8% of the total of their risk-weighted exposure amounts, and including the following risks and assessment methods:

- ✓ for credit risk capital requirements – *standardised approach;*
- ✓ for market risk capital requirements - *standardised approach;*
- ✓ for operational risk capital requirements – *key figure approach.*

Within the framework of the internal capital adequacy assessment the Bank :

- ✓ evaluates whether the calculated regulatory minimum capital requirements for credit risk, operational risk and market risk are adequate and comply with the Bank's activities;
- ✓ assesses the risks for which the regulatory minimum capital requirements are not set and calculates the amount of capital that is necessary to cover the substantial risks;
- ✓ determines the reserve of capital;
- ✓ determines the amount of internal capital that is necessary to cover overall risks;
- ✓ determines the internal early warning level of necessary capital which, if being reached, requires the plan for maintenance of capital adequacy maintenance to be put in place.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(2) Capital Adequacy Assessment Process (continued)

The purpose of assessment of the internal capital adequacy is to ensure that the Bank's capital in terms of volume, elements and their specific weight is adequate in order to cover the risks inherent to the current Bank's activities and also the contingent risks. Upon assessment of the internal capital adequacy for 2010, the Bank has determined the internal capital adequacy level not less than 11.04% (2010: 10%). The Financial and Capital Market Commission has determined the Bank's capital adequacy ratio of 12.3%, effective from April 30, 2012. Within the framework of the capital adequacy assessment performed in 2011, the Bank identified the following risks inherent to its activities:

- ✓ credit risk;
- ✓ liquidity risk;
- ✓ country risk;
- ✓ operational risk;
- ✓ concentration risk;
- ✓ reputation risk;
- ✓ risk of laundering the money derived from criminal activity and financing of terrorism;
- ✓ strategy and business risks.

To ensure capital adequacy the Bank provides for the following capital increment sources:

- ✓ increase of capital through share issue;
- ✓ attraction of subordinated capital;
- ✓ formation of operation development reserves from profit of the Bank;
- ✓ retained earnings from the previous year;
- ✓ audited profit of the current year (by permission of the Financial and Capital Market Commission).

The Bank has developed the "Internal Capital Adequacy Maintenance Plan" which includes detailed measures for maintenance of capital adequacy in contingent cases (where threat occurs for the capital adequacy ratio to fall below the early warning level). In addition to the above described capital increasing sources, the plan foresees:

- ✓ improvement of asset quality;
- ✓ asset restructuring for the purpose of minimising the share of risk group assets;
- ✓ application of Tier 3 capital elements (by permission of the Financial and Capital Market Commission).

The Bank management ensures daily supervision of the capital adequacy. The relevant subdivisions regularly provide information to the ALCO Committee and the Board on compliance with the internal capital adequacy level and minimum regulatory requirements, as well as capital adequacy scenario analysis. The Board at least once a year submits a report to the Council on the state of capital.

The analysis of the actual figure is provided in the table below:

	2011	2010
	%	%
31 December	11.40	14.44
Average for the period	14.09	15.50
Highest level	19.06	16.84
Lowest level	11.40	14.44

(3) Credit Risk

Credit risks – is a risk of incurring losses if a borrower (debtor of the Bank) may not fulfill or refuse to fulfill its liabilities to the Bank according to the terms and conditions of the agreement.

The Bank provides assessment of its loan quality on a regular basis which allows timely identification of contingent losses and operational risks if the loan quality impairs. The loans granted by the Bank and its subsidiaries are regularly supervised and assessed in order to minimise the amount of losses that the Bank and its subsidiaries may incur in transactions with domestic and foreign customers. The loan assessment principles are described in section 10 of Note 2.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(3) Credit Risk (continued)

The Bank Lending Policy specifies general guidelines according to which the Bank provides lending services. It defines the general procedure for issue of loans and guarantees and for loan repayment; the procedure for control and supervision of risk transactions; basic principles for analysis of borrower's financial standing, criteria for assessment of loans and guarantees, procedure for implementation of security measures in case of contingent losses. Creating its Loan Portfolio, the Bank controls concentration of risks and complies with the restrictions of maximum volume. In order to minimise exposure to credit risks and prevent concentration of credit means the Bank manages diversification of its loan portfolio by countries, industries, loan types, currencies and collateral types, and sets limits for transactions per one customer (group of mutually related customers) or counterparty.

In order to meet the limits set by the Bank State Risk Management Policy, the Bank provides daily and monthly reviews of these limits. The limits for transaction partners and types of transactions are determined by evaluating state risks and risks of transaction partners.

(4) Liquidity risk

Liquidity risk – a risk that the Bank may not be able on a daily basis and/or in the future to fulfill timely obligations in regard to legally sound claims without suffering substantial losses, and may not surmount unplanned changes in Bank resources and/or market conditions due to insufficient volume of liquid assets.

The Bank Liquidity Management Policy and Policy for Attraction of Deposits and Other Resources specifies:

- ✓ general guidelines according to which the Bank determines its asset-liability structure and their quality;
- ✓ system of planning and control of liquidity risk;
- ✓ early warning showings, which may help identify the vulnerability of the Bank's liquidity position;
- ✓ internal limits for liquidity net positions of asset-liability term-structure and liquidity net positions in lats, dollars and euros separately; procedure and frequency for assessment of the term-structure;
- ✓ internal limits for the concentration of funding ;
- ✓ behaviour in case of non-compliance with the internal limits;
- ✓ contingent action plan to surmount a liquidity crisis.

The Bank monitors its liquidity in both short and long-term positions, bearing in mind the regulations on liquidity requirements for credit institutions set by FCMC. The Bank maintains a high level of internal liquidity (liquidity reserve) on a daily basis by attracting additional resources from outside in order to remove any doubts as to liquidity of the Bank on the part of its customers and the market and to prevent any excess losses. To ensure sufficient liquidity, the Bank provides regular assessment and control of asset-liability term-structure. The Bank maintains liquid assets in the amount which is sufficient to fulfill its liabilities but not less than 30% of the total amount of its current liabilities (liquidity ratio). The actual liquidity ratio for the reporting period is presented in the table below:

	2011	2010
	%	%
31 December	73.97	59.78
Average for the period	64.86	60.08
Highest level	73.97	70.82
Lowest level	53.50	49.53

A liquidity crisis in the Bank's understanding occurs when the daily liquidity ratio becomes less than 35%. In this event the Bank takes a number of measures in order to increase the liquidity indicators. Such measures include the following:

Optimization of the Bank's loan portfolio,

- ✓ reduction in the loan portfolio – negotiations with a preliminarily determined group of customers (*loyal customers*), to inquire about the possibility of premature repayment of loans;
- ✓ monitoring of unused credit lines – all the credit lines which have not been used protractedly are view as subject to probable reduction;
- ✓ re-crediting of a part of the loan portfolio in other financial institutions (loan residents – in commercial banks of Latvia, non-residents – in banks of their residence countries).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(4) Liquidity risk (continued)

Management of the liquidity portfolio (in the current market situation the Bank considers that a liquidity portfolio is the highly-liquid part of the interbank loan portfolio and securities trade portfolio),

- ✓ Reduction in the Interbank loan portfolio with the term which is not longer than 1 week;
- ✓ Repo transactions;
- ✓ Realisation of portfolio;

Management of fixed assets, assessment of fixed assets for the purpose of further realistion;

Attraction of shareholder support, considering of the question about a possible support from shareholders (increasing of subordinated capital and equity capital and other options);

Increasing of customer basis by means of term deposits,

- ✓ Attraction of term deposits offering interest rates which exceed the market rates (*loyal customers*);
- ✓ Attraction of subordinated capital (*loyal customers*);

Increasing of customer basis with deposits on demand,

- ✓ Attraction of news customer through representative offices and subsidiaries;
- ✓ Increasing of residents' balances (negotiations of TKB with customers).

Attraction of additional funding,

- ✓ Receiving of approved lines from partner - banks;
- ✓ Receiving of different loans from banks, including syndicated, club, etc.;
- ✓ Issuing of mortgage bonds, other long-term and medium-term financial instruments;
- ✓ Finding of funding in the Bank of Latvia, international organisations and domestic financial organisations against the collateral of loan portfolio.

Implementation of the communication action plan:

- ✓ Summarizing of information concerning the crisis situation;
- ✓ Stating of Bank's position and preparation of key information for each group of information recipients (Bank staff and representatives; Bank shareholders, Bank customers, incl. depositors and borrowers, authorities supervising Bank's activities, the entire society, mass media representatives);
- ✓ Aggregating of the information confirming Bank's stability and ability to overcome temporary difficulties;
- ✓ Formulation and dissemination of messages to Bank employees, customers and mass media;
- ✓ In-depth media monitoring and research of other public space, analysis of the monitoring results.

(5) Market risk

Market risk – is a risk to incur losses due to revaluation of balance sheet and off-balance sheet items which is related to changes of market prices of financial instruments, including derivatives, caused by fluctuation of currency rates and interest rates.

Currency risk is a risk to incur losses due to revaluation of balance and off-balance sheet items denominated in foreign currency when currency exchange rates change. The Bank Currency Risk Management Policy specifies general guidelines which govern the Bank in formation of its currency asset-liability structure; in general daily control and management of currency risks of the Bank and in defining its safeguard mechanism against contingent currency risks.

To ensure control of currency risks the Bank defines limits for the currency risk to which it can be exposed and keeps track whether its assets are in a balanced position in relation to liabilities in the respective currencies (ie., the Bank maintains as minimal as possible its currency positions and the total currency position). To control its currency exposure the Bank determines restrictions for positions of each foreign currency and of the total open position and their relation against the equity capital and various types of limits. As a result the Bank ensures that it complies with the required standards. According to the Law on Credit Institutions the total open position in foreign currencies cannot exceed 20% of equity capital.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(5) Market risk (continued)

The analysis of the total open position in foreign currencies of the Bank is presented in the table below:

	2011	2010
	%	%
31 December	7.74	3.30
Average for the period	3.70	4.45
Highest level (worse)	7.74	6.42
Lowest level (better)	2.75	2.30

Interest rate risk is a risk that market changes of interest rates may affect financial standing of the Bank. The day-to-day activity of the Bank is related to interest rate exposure which is affected by maturity dates of the assets, liabilities and off-balance sheet items that are related to interest income and expenses and interest rate revision dates. The Bank Interest Rate Risk Management Policy defines the interest rate risk measurement methodology which covers the main sources of interest rate exposures and allows assessing the impact of interest rate exposure on earnings of the Bank and its economic value; internal limits of interest rate risk and measures to be taken in case of noncompliance with these limits; procedure for stress testing and its frequency, including assumptions of possible development scenarios and conditions in which the Bank may incur substantial losses due to interest rate exposure (if the losses thereof exceeds 15% of equity capital), and assumptions and feasible plan of actions.

To measure the exposure to interest rate risk the Bank applies spread analysis method. This method sets the net position of interest rate risk as a spread between assets, liabilities and off-balance sheet items which are interest rate sensitive according to their remaining maturities.

The Bank assesses the size of interest rate risk by calculating the net position of interest risk, overall position of the interest risk and impact on the annual net interest income if interest rates in parallel increase (regardless of the original period) by 1 percent (or 100 basis points).

As a part of implementation of the Trade Portfolio Policy, the Bank values assets in the trading portfolio on a daily basis. Thus, it allows increased efficiency for the short-term investments of the Bank. Besides, the Trade Portfolio Policy sets the limits for market risk in relation to share prices.

(6) Operational risk

Operational risk – a risk is a possibility to incur losses due to irrelevant or incomplete fulfillment of internal processes, human actions or system functioning or due to the influence of external circumstances, including legal risk, except for strategic or reputation risks. The Operational Risk Management Policy sets operational risk management objectives; definition of operational risk that is intended for internal use and that corresponds to the application and experience of the Bank; the key processes and priorities of the operational risk management; approach that is to be applied to identification, assessment, supervision and control of operational risks, and methods of operational risk mitigation and basic principles for provision of continuity of operations, which include methods chosen by the Bank to handle emergency situations .

The Bank provides regular supervision of inherent operational risks in regard to all its major products, types of activities, processes and systems in order to discover and eliminate on time any discrepancies regarding the Operational Risk Management Policy and procedures and, therefore, considerably minimise the frequency of possible occurrence of operational losses and their size.

The Bank applies the following methods to operational risk mitigation:

- ✓ investments into respective data processing and information security technologies;
- ✓ investments into training of personnel;
- ✓ outsourcing in situations where service providers have more experience or higher potential in management of operational risks related to certain activities of the Bank;
- ✓ insurance (if necessary), making sure that its use for operational risk mitigation does not create other types of risk (legal risk or business partner risk);
- ✓ elaboration of a plan for provision of continuity of operations.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(7) Internal Control System for Prevention of Laundering of Proceeds Derived From Crime and Financing of Terrorism.

The internal control system for prevention of money laundering and terrorism financing is a set of document and measures, which the bank observes and improves on a regular basis in order to ensure rigid management of money laundering and terrorism financing risk.

Within the framework of the internal control system for prevention of money laundering and terrorism financing the Bank has defined the procedure for identification and monitoring of customers (true beneficial owners) and unusual and suspicious financial transactions, and submission of reports thereof, it has developed a risk-based approach to customer due diligence, acceptance and supervision of transactions performed by customers, it organizes training of employees on a regular basis to provide them with necessary knowledge for the prevention of money laundering and terrorism financing and to ensure practical application of this knowledge to the measures prescribed in the internal control system documents.

In order to ensure sufficient compliance with the legislation of the prevention of money laundering and terrorism financing and best international practices, the Internal Audit Division of the Bank inspects and evaluates efficiency of the internal control system regularly.

The Bank continuously develops its internal control system, including the technical equipment. The Bank has yearly drafted and approved a plan of measures for upgrading the internal control system for prevention of money laundering and terrorism financing. Within the scope of this plan the Bank improves its technical supply and conducts employee training and knowledge testing.

Since 2006, employees of the Bank have been regular participants of training programs organized by the Consultation and Training centre to the Association of Commercial banks of Latvia on the prevention of money laundering and terrorism financing, and they have successfully passed exams and accordingly obtained certificates. Overall, 36 employees of the Bank possess such certificates.

In 2010 the Bank established the Customer Payments Monitoring Division. Its main task is monitoring of Customers' daily payments. At the beginning of 2011 the Bank introduced an automated transaction monitoring system. This system ensures effective identification of suspicious transactions or deviations from the model of customer's behaviour.

In 2011, The Financial and Capital Market Commission performed inspections at the Bank, which resulted in identification of gaps in the money laundering and terrorist financing prevention of the internal control system. In order to eliminate the gaps and to ensure enhanced understanding of customer business, the Bank is currently in the process of reorganization of the Customer Department.

45 RISK CONTROL AND MANAGEMENT (continued)

(8) Other substantial risks inherent to Bank activities

Country risk is the risk that a partner/ customer of the Bank that is a resident of another country will not be able to fulfill its obligations to the Bank due to impact of economic, social and political conditions of the country on the resident of this country. This risk is managed according to the Bank's Country Risk Management Policy which sets risk classification, limit and controlling mechanisms.

Concentration risk - any exposure or exposure group, due to which the Bank may incur such losses that may threaten Bank's solvency or ability to continue operations. Concentration risk arises from the large-scale risk transactions with customers or groups of related customers or risk transactions with customers whose creditworthiness is determined by one joint risk factor (e.g., economic sector, geographic region, currency, and etc.). For the purpose of containment and minimisation of concentration risk the ALCO Committee has developed a number of concentration limits (e.g., concentration of assets in breakdown by countries, concentration of correspondent accounts, etc.). The system of management of the concentration risk is governed by appropriate risk management policies.

Reputation risk is the risk that the Bank customers, business partners, shareholders, supervisory authorities and other stakeholders may develop a negative opinion about the Bank which could adversely affect Bank's ability to maintain its existing business relationships or establish new relationships with its customers and business partners. The reputation risk management is governed by the Bank's Reputation Risk Management Policy.

Strategy and business risk is the risk that changes in business environment and Bank's failure to timely respond to such changes, or inappropriately or wrongly chosen development strategy of the Bank, or Bank's failure to provide necessary resources for implementation of the strategy may adversely affect profits, amount of capital and liquidity of the Bank. The underlying principle of risk management - regular control over Bank's compliance with the strategy (long-term) and budget plans (short-term), deviation analysis and making of timely management decisions.

In thousands of lats

46 CREDIT RISK

As one of the Bank's subsidiaries extends finance leases and loans, credit quality management of financial assets is carried out by the Bank's management on a consolidated basis. Therefore, in the opinion of the Bank's management, presenting information in the tables analysing aging and credit quality of the financial assets only for the Group increases quality of information and provides the most realistic information about credit quality.

(1) Maximum exposure to credit risk by types of financial assets

	The Group		The Bank	
	2011	2010	2011	2010
ASSETS				
Cash and balances due from the Bank of Latvia	66 156	15 099	66 156	15 099
Due from credit institutions with a maturity of less than 3 months	66 095	62 359	66 090	62 359
Held for trading financial assets	1 619	2 224	1 619	2 224
Available for sale financial assets	9 388	7 960	9 388	7 960
Due from credit institutions with a maturity of more than 3 months	17 624	665	17 624	665
Loans	93 940	92 119	95 490	93 771
Other assets	9 315	8 440	8 859	8 228
TOTAL ASSETS	**264 137**	**188 866**	**265 226**	**190 306**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities	2 797	138	2 797	433
Commitments to clients	7 901	6 450	8 600	8 531
TOTAL OFF-BALANCE SHEET LIABILITIES	**10 698**	**6 588**	**11 397**	**8 964**

The maximum exposure to credit risk reflects the value of financial assets and off-balance liabilities exposed to credit risk and is not reduced for the value of security or other factors reducing the credit.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(2) Analysis of a summary of the credit quality of the Group's financial assets and off-balance sheet liabilities

	Assets not past due nor impaired	Assets past due but not impaired	Impaired assets	Total
		2011		
Cash and balances due from the Bank of Latvia	66 156	-	-	66 156
Due from credit institutions with a maturity of less than 3 months	66 061	34	-	66 095
Held for trading financial assets	1 619	-	-	1 619
Available for sale financial assets	9 388	-	-	9 388
Due from credit institutions with a maturity of more than 3 months	17 624	-	-	17 624
Loans	63 107	17 137	13 696	93 940
Other assets	9 135	180	-	9 315
TOTAL ASSETS	**233 090**	**17 351**	**13 696**	**264 137**
Contingent liabilities	2 797	-	-	2 797
Commitments to clients	7 901	-	-	7 901
TOTAL OFF-BALANCE SHEET LIABILITIES	**10 698**	**-**	**-**	**10 698**
		2010		
Cash and balances due from the Bank of Latvia	15 099	-	-	15 099
Due from credit institutions with a maturity of less than 3 months	62 359	-	-	62 359
Held for trading financial assets	2 224	-	-	2 224
Available for sale financial assets	7 960	-	-	7 960
Due from credit institutions with a maturity of more than 3 months	665	-	-	665
Loans	64 933	8 884	18 302	92 119
Other assets	8 291	125	24	8 440
TOTAL ASSETS	**161 531**	**9 009**	**18 326**	**188 866**
Contingent liabilities	138	-	-	138
Commitments to clients	6 450	-	-	6 450
TOTAL OFF-BALANCE SHEET LIABILITIES	**6 588**	**-**	**-**	**6 588**

[1] Criteria of loan evaluation are described in Note 21, (2) and 2, (10).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(3) Analysis of the Group's financial assets neither past due nor impaired (Note 46, (2))

	By groups of classification	By ratings	Other	Total
		2011		
Cash and balances due from the Bank of Latvia	-	66 156	-	66 156
Due from credit institutions with a maturity of less than 3 months	-	66 061	-	66 061
Held for trading financial assets	-	1 619	-	1 619
Available for sale financial assets	-	9 388	-	9 388
Due from credit institutions with a maturity over than 3 months	-	17 624	-	17 624
Loans [1]	63 107	-	-	63 107
Other assets	-	-	9 135	9 135
TOTAL ASSETS	**63 107**	**160 848**	**9 135**	**233 090**
Contingent liabilities	2 797	-	-	2 797
Commitments to clients	7 901	-	-	7 901
TOTAL OFF-BALANCE SHEET LIABILITIES	**10 698**	**-**	**-**	**10 698**
		2010		
Cash and balances due from the Bank of Latvia	-	15 099	-	15 099
Due from credit institutions with a maturity of less than 3 months	-	62 359	-	62 359
Held for trading financial assets	-	2 224	-	2 224
Available for sale financial assets	-	7 960	-	7 960
Due from credit institutions with a maturity over than 3 months	-	665	-	665
Loans [1]	64 933	-	-	64 933
Other assets	-	-	8 291	8 291
TOTAL ASSETS	**64 933**	**88 307**	**8 291**	**161 531**
Contingent liabilities	138	-	-	138
Commitments to clients	6 450	-	-	6 450
TOTAL OFF-BALANCE SHEET LIABILITIES	**6 588**	**-**	**-**	**6 588**

[1] Loans that are assessed by classification groups incorporates the loans, classified as Standard. *Standard loans* are loans for which there is no indication as at balance sheet date that they will not be paid, i.e. no problem is expected to occur with loan repayment, as the current and forecast cash flows are sufficient to repay the debt.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(4) Analysis of the Group's financial assets with credit quality assessed by credit ratings (Note 46, (3))

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No ratings	Total
				2011				
Cash and balances due from the Bank of Latvia	-	-	-	66 156	-	-	-	66 156
Due from credit institutions with a maturity of less than 3 months	42 674	45	554	10 610	-	-	12 178	66 061
Held for trading financial assets	-	55	-	342	-	99	1 123	1 619
Available for sale financial assets	1 471	1 860	5 692	-	-	-	365	9 388
Due from credit institutions with a maturity of more than 3 months	-	2 125	-	-	-	450	15 049	17 624
Other assets	-	-	-	-	-	-	-	-
Total assets	**44 145**	**4 085**	**6 246**	**77 108**	**-**	**549**	**28 715**	**160 848**
				2010				
Cash and balances due from the Bank of Latvia	-	-	-	15 099	-	-	-	15 099
Due from credit institutions with a maturity of less than 3 months	41 276	5 216	63	6 215	-	-	9 589	62 359
Held for trading financial assets	-	-	-	270	445	134	1 375	2 224
Available for sale financial assets	3 396	-	-	4 372	-	143	49	7 960
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	-	665	-	665
Other assets	-	-	-	-	-	-	-	-
Total assets	**44 672**	**5 216**	**63**	**25 956**	**445**	**942**	**11 013**	**88 307**

* Here such assets are listed which at the end of 2011 were deposited in Ukraine (13 677), in Luxembourg (5 440), in Latvia (3 418) and other countries. In 2010 – in Latvia (5 725), in Russia (2 303), in Denmark (1 330) and other countries. All assets at year end were repaid.

Table of Rating Summary

	Moody's Investors Service Ltd		FitchRatings		Standard&Poor's Ratings Services	
Quality grade	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**
Class 1	Aaa to Aa3	P-1	AAA to AA-	F-1+, F-1	AAA to AA-	A-1+, A-1
Class 2	A1 to A3	P-2	A+ to A-	F-2	A+ to A-	A-2
Class 3	Baa1 to Baa3	P-3	BBB+ to BBB-	F-3	BBB+ to BBB-	A-3
Class 4	Ba1 to Ba3	NP	BB+ to BB-	Lower than F3	BB+ to BB-	B-1, B-2, B-3, C
Class 5	B1 to B3		B+ to B-		B+ to B-	
Class 6	Caa1 and lower		CCC+ and lower		CCC+ and lower	

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(5) Age analysis of the Group's financial assets past due but not impaired by time for which they are late (Note 46, (2))

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Total
			2011			
Private non-financial corporations	4 082	4 371	198	1 493	4 846	14 990
Households	381	266	88	432	980	2 147
Total assets	**4 463**	**4 637**	**286**	**1 925**	**5 826**	**17 137**
Collaterals	*8 413*	*3 851*	*1 771*	*2 452*	*9 376*	*25 863*
			2010			
Private non-financial corporations	718	1 446	-	1 393	488	4 045
Households	2 792	833	53	260	901	4 839
Total assets	**3 510**	**2 279**	**53**	**1 653**	**1 389**	**8 884**
Collaterals	*5 010*	*2 970*	*65*	*2 756*	*2 342*	*13 143*

(6) Age analysis of the Group's impaired assets by time for which they are late (Note 46, (2))

	Without delay	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Total
				2011			
Private non-financial corporations	8 407	-	-	519	500	12 058	21 484
Households	1 116	-	-	-	95	6 614	7 825
Total assets	**9 523**	**-**	**-**	**519**	**595**	**18 672**	**29 309**
Allowance for loans	**(4 349)**	**-**	**-**	**(480)**	**(417)**	**(10 367)**	**(15 613)**
Total assets, net	**5 174**	**-**	**-**	**39**	**178**	**8 305**	**13 696**
Collaterals	*6 681*	-	-	*41*	*206*	*10 888*	*17 816*
				2010			
Private non-financial corporations	8 750	-	-	-	639	17 590	26 979
Households	1 130	-	-	-	5	6 731	7 866
Total assets	**9 880**	**-**	**-**	**-**	**644**	**24 321**	**34 845**
Allowance for loans	**(4 777)**	**-**	**-**	**-**	**(642)**	**(11 124)**	**(16 543)**
Total assets, net	**5 103**	**-**	**-**	**-**	**2**	**13 197**	**18 302**
Collaterals	*5 888*	-	-	-	*4*	*22 406*	*28 298*

(7) Analysis of revised loans which would otherwise be overdue and/or impaired in their value

	2011	2010
Private non-financial corporations	8 534	13 099
Households	5 162	5 203
Total assets	**13 696**	**18 302**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's maturity analysis. The Group's maturity analysis is not materially different from Bank's maturity analysis.

According to terms of the payments to maturity

31 December 2011	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Un-dated	Total
ASSETS								
Cash and balances due from the Bank of Latvia	67 322	-	-	-	-	-	-	67 322
Due from credit institutions with a maturity of less than 3 months	64 452	1 638	-	-	-	-	-	66 090
Held for trading financial assets	66	4	4	-	434	54	1 057	1 619
Available for sale financial assets	34	12	840	5 225	3 096	131	50	9 388
Due from credit institutions with a maturity of more than 3 months	14 201	1 651	-	1 360	412	-	-	17 624
Loans	10 434	11 954	8 838	15 623	33 832	14 809	-	95 490
Accrued income and deferred expenses	12	23	35	69	-	-	-	139
Long-term projects costs	-	-	-	-	-	-	6 605	6 605
Tangible assets	-	-	-	-	-	-	8 458	8 458
Intangible assets	-	-	-	-	-	-	319	319
Investments in share capital of subsidiary	-	-	-	-	-	-	14 265	14 265
Deferred tax assets	-	-	-	-	-	-	364	364
Other assets	3 978	-	-	-	-	-	5 239	9 217
Total assets	**160 499**	**15 282**	**9 717**	**22 277**	**37 774**	**14 994**	**36 357**	**296 900**
LIABILITIES								
Due to credit institutions	462	27	85	165	-	-	-	739
Held for trading financial assets	1	-	-	-	-	-	-	1
Due to customers	196 204	6 808	10 687	25 633	7 840	-	-	247 172
Debt securities issued	-	8	-	3 505	-	-	-	3 513
Accrued expenses and deferred income	635	-	-	-	-	-	-	635
Corporate income tax liabilities	-	-	5	-	-	-	-	5
Subordinated liabilities	63	-	6	-	7 598	-	-	7 667
Other liabilities	692	-	-	1 752	-	-	-	2 444
Total liabilities	**198 057**	**6 843**	**10 783**	**31 055**	**15 438**	**-**	**-**	**262 176**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2011	**Up to 1 month**	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Other**	**Total**
Off-balance sheet commitments								
Contingent liabilities	53	209	423	2 537	1 224	3 851	-	8 297
Incl. secured by deposits, placed in the Bank[1]	*1*	*-*	*-*	*2 203*	*1*	*-*	*-*	*2 205*
Commitments to clients	9 113	-	2 439	-	-	-	-	11 552
Incl. secured by deposits, placed in the Bank (Note 21, (5). and 36, (2))	*268*	*-*	*-*	*-*	*-*	*-*	*-*	*268*
Total off-balance sheet commitments	**9 166**	**209**	**2 862**	**2 537**	**1 224**	**3 851**	**-**	**19 849**
Liquidity net position as at 31 December 2011	**(46 455)**	**8 230**	**(3 928)**	**(9 112)**	**21 113**	**11 143**	**36 357**	**17 348**

According to the Rules for compliance with the liquidity requirements, Off-balance sheet liabilities secured by deposits are not required to be included in the net position calculation. Off-balance liabilities with possible maturity before the agreement expires are disclosed in the maturity group "Up to 1 month".

In the maturity analysis trading and available-for-sale securities are stated according to their maturity date. Assets that do not have a definite repayment or sales date are disclosed in the "Over 5 years" category. Liabilities with an indefinite due date or which are payable on demand are disclosed in the "Up to 1 month" category.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

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47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2010	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Un-dated	Total
ASSETS								
Cash and balances due from the Bank of Latvia	16 588	-	-	-	-	-	-	16 588
Due from credit institutions with a maturity of less than 3 months	62 359	-	-	-	-	-	-	62 359
Held for trading financial assets	98	6	6	-	704	133	1 277	2 224
Available for sale financial assets	125	-	2 240	4 810	596	140	49	7 960
Due from credit institutions with a maturity of more than 3 months	19	-	-	-	646	-	-	665
Loans	12 597	8 425	4 467	11 886	47 007	9 389	-	93 771
Accrued income and deferred expenses	11	21	30	62	-	-	-	124
Long-term projects costs	-	-	-	-	-	-	2 405	2 405
Tangible assets	-	-	-	-	-	-	8 894	8 894
Intangible assets	-	-	-	-	-	-	360	360
Investments in share capital of subsidiary	-	-	-	-	-	-	52	52
Deferred tax assets	-	-	-	-	-	-	913	913
Other assets	2 629	-	-	-	-	-	5 992	8 621
Assets of disposal group classified as held for sale	-	-	-	-	-	-	13 848	13 848
Total assets	**94 426**	**8 452**	**6 743**	**16 758**	**48 953**	**9 662**	**33 790**	**218 784**
LIABILITIES								
Due to credit institutions	2 389	-	-	-	27	-	-	2 416
Held for trading financial assets	4	-	-	-	-	-	-	4
Due to customers	132 603	3 230	12 309	20 691	6 096	-	-	174 929
Debt securities issued	-	7	-	-	3 506	-	-	3 513
Accrued expenses and deferred income	493	-	-	-	-	-	-	493
Corporate income tax liabilities	-	-	-	25	-	-	-	25
Subordinated liabilities	54	-	-	-	4 619	-	-	4 673
Other liabilities	1 983	-	-	1 752	-	-	-	3 735
Total liabilities	**137 526**	**3 237**	**12 309**	**22 468**	**14 248**	**-**	**-**	**189 788**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2010	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Off-balance sheet commitments								
Contingent liabilities	350	126	148	318	2 182	3 299	-	6 423
Incl. secured by deposits, placed in the Bank¹	*-*	*25*	*-*	*-*	*15*	*-*	*-*	*40*
Commitments to clients	8 496	77	8	15	29	-	-	8 625
Incl. secured by deposits, placed in the Bank (Note 21, (5). and 36, (2))	*-*	*35*	*-*	*-*	*-*	*-*	*-*	*35*
Total off-balance sheet commitments	**8 846**	**203**	**156**	**333**	**2 211**	**3 299**	**-**	**15 048**
Liquidity net position as at 31 December 2010	**(51 946)**	**5 072**	**(5 722)**	**(6 043)**	**32 509**	**6 363**	**33 790**	**14 023**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(2) Analysis of the gross contractual future cash flow of the Bank's liabilities and off-balance items [1]

The cash flow of each subsidiary company of the Bank is managed individually by the Bank management. Therefore the table given below contains an analysis of the expected future cash flow of the Bank's liabilities. The analysis of the expected future cash flow of the Group's liabilities does not differ materially from that of the Bank.

According to terms of the payments

31 December 2011	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES							
Due to credit institutions	462	27	86	169	-	-	744
Held for trading financial liabilities	(65)	-	-	-	-	-	(65)
incl. forward foreign exchange receivable	*(1 339)*	-	-	-	-	-	*(1 339)*
incl. forward foreign exchange payable	*1 274*	-	-	-	-	-	*1 274*
Due to customers	196 281	7 206	10 923	26 346	8 428	-	249 184
Debt securities issued	-	25	21	3 556	-	-	3 602
Accrued expenses and deferred income	635	-	-	-	-	-	635
Subordinated liabilities	93	62	165	312	9 491	-	10 123
Corporate income tax liabilities	-	-	5	-	-	-	5
Other liabilities	467	-	-	1 752	-	-	2 219
incl. spot foreign exchange receivable	*(50 345)*	-	-	-	-	-	*(50 345)*
incl. spot foreign exchange payable	*50 151*	-	-	-	-	-	*50 151*
Total liabilities	**197 873**	**7 320**	**11 200**	**32 135**	**17 919**	**-**	**266 447**
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	53	209	423	2 537	1 224	3 851	8 297
Commitments to clients	9 113	-	2 439	-	-	-	11 552
Total off-balance sheet liabilities	**9 166**	**209**	**2 862**	**2 537**	**1 224**	**3 851**	**19 849**
Total as at 31 December 2011	**207 039**	**7 529**	**14 062**	**34 672**	**19 143**	**3 851**	**286 296**

[1] This analysis is based on the undiscounted liability cash flow which includes interest payments as well as the gross value of the cash flow of derivative instruments.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(2) Analysis of the expected future cash flow of the Bank's liabilities and off-balance items (continued)

According to terms of the payments

31 December 2010	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES							
Due to credit institutions	2 389	-	1	1	27	-	2 418
Held for trading financial liabilities	(94)	-	-	-	-	-	(94)
incl. forward foreign exchange receivable	*(3 205)*	-	-	-	-	-	*(3 205)*
incl. forward foreign exchange payable	*3 111*	-	-	-	-	-	*3 111*
Due to customers	134 040	4 118	14 266	21 949	6 520	-	180 893
Debt securities issued	-	21	21	42	3 597	-	3 681
Accrued expenses and deferred income	493	-	-	-	-	-	493
Subordinated liabilities	80	39	119	241	6 274	-	6 753
Corporate income tax liabilities	-	-	-	25	-	-	25
Other liabilities	1 894	-	-	1 752	-	-	3 646
incl. spot foreign exchange receivable	*(23 033)*	-	-	-	-	-	*(23 033)*
incl. spot foreign exchange payable	*23 028*	-	-	-	-	-	*23 028*
Total liabilities	**138 802**	**4 178**	**14 407**	**24 010**	**16 418**	**-**	**197 815**
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	350	126	148	318	2 182	3 299	6 423
Commitments to clients	8 496	77	8	15	29	-	8 625
Total off-balance sheet liabilities	**8 846**	**203**	**156**	**333**	**2 211**	**3 299**	**15 048**
Total as at 31 December 2010	**147 648**	**4 381**	**14 563**	**24 343**	**18 629**	**3 299**	**212 863**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and off-balance sheet items

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's currency analysis. The Group's currency analysis is not materially different from Bank's currency analysis.

31 December 2011	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	21 447	449	45 411	15	67 322
Due from credit institutions with a maturity of less than 3 months	32	49 607	7 016	9 435	66 090
Held for trading financial assets	92	1 527	-	-	1 619
Available for sale financial assets	3 495	1 153	4 740	-	9 388
Due from credit institutions with a maturity of more than 3 months	-	15 499	2 125	-	17 624
Loans	6 482	38 161	50 847	-	95 490
Accrued income and deferred expenses	100	18	21	-	139
Long-term projects costs	6 605	-	-	-	6 605
Tangible assets	8 448	10	-	-	8 458
Intangible assets	319	-	-	-	319
Investments in share capital of subsidiary	564	13 701	-	-	14 265
Deferred tax assets	363	-	1	-	364
Other assets	2 557	6 410	136	114	9 217
Total assets	**50 504**	**126 535**	**110 297**	**9 564**	**296 990**
Spot foreign exchange receivable [1]	**733**	**29 562**	**11 305**	**8 745**	**50 345**
LIABILITIES					
Due to credit institutions	60	423	115	141	739
Held for trading financial liabilities	1	-	-	-	1
Due to customers	10 425	134 418	91 331	10 998	247 172
Debt securities issued	-	-	3 513	-	3 513
Accrued expenses and deferred income	541	17	75	2	635
Corporate income tax liabilities	-	-	5	-	5
Subordinated liabilities	455	3 603	3 609	-	7 667
Other liabilities	2 059	232	126	27	2 444
Total liabilities	**13 541**	**138 693**	**98 774**	**11 168**	**262 176**
Spot foreign exchange payable [1]	**1 015**	**18 451**	**22 764**	**7 921**	**50 151**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2011	LVL	USD	EUR	Other currencies	Total
Off-balance sheet commitments [3]	7 546	109	642	-	8 297
Contingent liabilities	3 123	2 977	5 452	-	11 552
Commitments to clients	**10 669**	**3 086**	**6 094**	**-**	**19 849**
Total off-balance sheet commitments					
	-	**(341)**	**(434)**	**840**	**65**
Net forward position [2]					
Net position as at 31 December 2011					
Total amount of the long/(short) position[3]	**36 681**	**(1 388)**	**(370)**	**60**	**34 983**
Net position	**-**	**(1 388)**	**(370)**	**60**	**(1 758)**
% of regulatory capital	**-**	**(6.11)**	**(1.63)**	**0.26**	**(7.74)**

[1] In compliance with the Rules for calculation of the minimum capital requirements, the total sums of Spot Agreements are to be included into calculation of currency net open position in case settlement date accounting has been applied for transaction accounting purposes.

[2] According to the Rules for calculation of the minimum capital requirements, net forward position i.e. difference between all receivable and payable amounts from concluded foreign currency forward agreements are to be included in the calculation of currency net forward position.

[3] Under the Rules for calculation of the minimum capital requirements, off-balance sheet liabilities need not be included in the calculation, if the Bank does not have reason to believe that settlement of the liabilities will be demanded and the means to pay will not be available.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2010	**LVL**	**USD**	**EUR**	**Other currencies**	**Total**
ASSETS					
Cash and balances due from the Bank of Latvia	14 959	446	1 173	10	16 588
Due from credit institutions with a maturity of less than 3 months	-	35 374	20 903	6 082	62 359
Held for trading financial assets	137	2 087	-	-	2 224
Available for sale financial assets	4 372	538	3 050	-	7 960
Due from credit institutions with a maturity of more than 3 months	-	665	-	-	665
Loans	6 336	36 097	51 338	-	93 771
Accrued income and deferred expenses	100	7	17	-	124
Long-term projects costs	2 405	-	-	-	2 405
Tangible assets	8 894	-	-	-	8 894
Intangible assets	360	-	-	-	360
Investments in share capital of subsidiary	52	-	-	-	52
Deferred tax assets	913	-	-	-	913
Other assets	3 060	4 367	1 147	47	8 621
Assets of disposal group classified as held for sale	147	13 701	-	-	13 848
Total assets	**41 735**	**93 282**	**77 628**	**6 139**	**218 784**
Spot foreign exchange receivable [1]	**511**	**9 951**	**6 754**	**5 817**	**23 033**
LIABILITIES					
Due to credit institutions	132	739	1 539	6	2 416
Held for trading financial liabilities	4	-	-	-	4
Due to customers	6 725	89 380	68 582	10 242	174 929
Debt securities issued	-	-	3 513	-	3 513
Accrued expenses and deferred income	398	28	65	2	493
Corporate income tax liabilities	-	-	25	-	25
Subordinated liabilities	200	1 538	2 935	-	4 673
Other liabilities	1 894	990	315	536	3 735
Total liabilities	**9 353**	**92 675**	**76 974**	**10 786**	**189 788**
Spot foreign exchange payable [1]	**3 278**	**11 734**	**5 587**	**2 429**	**23 028**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2010	LVL	USD	EUR	Other currencies	Total
Off-balance sheet commitments [3]					
Contingent liabilities	5 836	32	555	-	6 423
Commitments to clients	1 464	336	6 825	-	8 625
Total off-balance sheet commitments	**7 300**	**368**	**7 380**	**-**	**15 048**
Net forward position [2]	**-**	**223**	**(1 445)**	**1 316**	**94**
Net position as at 31 December 2010					
Total amount of the long/(short) position[3]	**29 615**	**(953)**	**376**	**57**	**29 095**
Net position	**-**	**(953)**	**376**	**57**	**(953)**
% of regulatory capital	**-**	**(3.30)**	**1.30**	**0.20**	**(3.30)**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(2) Analysis of the Bank's exposure to interest rate risks

	2011			2010		
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
LVL	+25	427	358	-25	(315)	(260)
USD	-12.5	555	496	+25	(304)	(233)
EUR	-12	(74)	(54)	+75	63	32
		908	**800**		**(556)**	**(461)**

	2011			2010		
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
LVL	-25	(427)	(358)	+25	315	260
USD	+12.5	(555)	(496)	-25	304	233
EUR	+12	74	54	-25	(21)	(11)
		(908)	**(800)**		**598**	**482**

The Bank has been assessing on a regular basis the interest rate risk for each currency for which the extent of the Bank's assets or liabilities exceeds 5 percent of the total balance, and for all currencies on the whole. The analysis of exposure to interest rate risks is calculated as the effect on the net income of interest per year (which equals the effect of pre-tax profit or loss), assuming that the interest rates grew concurrently (regardless of the initial term) for 1 per cent (or 100 basis points).

When calculating the effect of interest rate changes, the interest rate risk's net open position as at 31 December 2011 and 31 December 2010 is multiplied by expected change in interest rates expressed as basis points.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(3) Analysis of the Bank's exposure to currency risks

		2011			2010	
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
USD	+5	(69)	(59)	+5	(48)	(41)
EUR	+1	(4)	(3)	+1	4	3
Other	+5	3	3	+5	3	3
		(70)	**(59)**		**(41)**	**(35)**

		2011			2010	
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
USD	-5	69	59	-5	48	41
EUR	-1	4	3	-1	(4)	(3)
Other	-5	(3)	(3)	-5	(3)	(3)
		70	**59**		**41**	**35**

The analysis of exposure to currency risks is calculated as the effect (which equals the effect of pre-tax profit or loss) on the net income of interest. As the actual market situation changes, its effect may change either positively or negatively.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

49 CALCULATION OF CAPITAL ADEQUACY

	Group		Bank	
	2011	2010	2011	2010
OWN FUNDS	**21 952**	**27 492**	**22 708**	**28 878**
Tier 1 capital	***32 601***	***27 250***	***34 405***	***28 636***
Adequate equity	**14 618**	**7 160**	**14 618**	**7 160**
Paid up capital	*14 507*	*7 049*	*14 507*	*7 049*
Share issue premium	*111*	*111*	*111*	*111*
Adequate reserves	**18 302**	**20 450**	**20 106**	**21 836**
Reserve capital and other reserves, revaluation reserves and retained profit and losses of previous years	*20 456*	*25 770*	*21 842*	*26 209*
Minority interest	*10*	*-*	*-*	*-*
Audited profit of the current year of operation or audited (losses) of the current year of operation	*(2 163)*	*(5 314)*	*(1 735)*	*(4 367)*
Revaluation reserve for other available for sale financial assets	*(1)*	*(6)*	*(1)*	*(6)*
Other elements reducing Tier 1 capital (-)	**(319)**	**(360)**	**(319)**	**(360)**
Intangible assets (Note 24)	*(319)*	*(360)*	*(319)*	*(360)*
Tier 2 capital	***4 957***	***3 404***	***4 957***	***3 404***
2 group of Tier two capital	**4 957**	**3 404**	**4 957**	**3 404**
Subordinated capital	*4 957*	*3 404*	*4 957*	*3 404*
Deductions from Tier 1 and Tier 2 capital	***(15 606)***	***(3 162)***	***(16 654)***	***(3 162)***
Deductions from Tier 1 and Tier 2 capital prescribed by the legislation [1]	(15 606)	(3 162)	(16 654)	***(3 162)***

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Thousands of lats

49 CAPITAL ADEQUACY CALCULATION (continuation)

	Group		Banka	
	2011	2010	2011	2010
SUMMARY OF CAPITAL REQUIREMENT CALCULATIONS	**15 799**	**16 345**	**15 935**	**15 996**
Total of capital requirements for credit risk, counterparty credit risk, dilution risk and free deliveries risk according to standardized approach	***13 748***	***12 212***	***13 966***	***12 385***
Central governments or central bankas	*18*	*-*	*18*	*-*
Public authorities	*52*	*48*	*52*	*48*
Institutions	*2 810*	*1 262*	*2 810*	*1 262*
Commercial companies	*6 415*	*6 547*	*6 574*	*6 753*
Secured by real property	*35*	*50*	*35*	*50*
Delayed exposures	*1 724*	*1 753*	*1 697*	*1 735*
Other items	*2 694*	*2 552*	*2 780*	*2 537*
Capital requirements for position, foreign exchange and commodities risks according to standardized approach	***355***	***377***	***288***	***320***
Traded debt instruments	*49*	*98*	*49*	*98*
Equity instruments	*169*	*153*	*169*	*153*
Foreign currency	*137*	*126*	*70*	*69*
Capital requirements for operational risk according to basic indicator approach				
	1 696	***3 756***	***1 681***	***3 291***
CAPITAL REQUIREMENTS COVERED BY OWN FUNDS (SUPLUS (+) OR SHORTFALL (-))				
	6 153	**11 147**	**6 773**	**12 882**
CAPITAL ADEQUACY RATIO (%)				
	11.12	**13.46**	**11.40**	**14.44**

[1] Certain adjustments have been made to the loan balances in amount of 3 913 thousand of lats (2010: 3 452 thousand of lats) and investmetns in associates in amoutn of 12 741 thousand of lats (2010: nil lats) for purpose of capital adequacy calculations, which have been requested by Financial and Capital Market Commission.

50 SUBSEQUENT EVENTS

Within the period from the last day of the reporting year till the date of signature of these financial statements the Bank management developed and approved a plan of capital increase. According to this plan at end of March 2012 the Bank made partial disposal of its investment as disclosed in Note 25.

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