

**AS „SMP Bank”**  
Bank's Separate and Group's Consolidated  
Financial Statements for the year ended  
31 December 2012

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**MANAGEMENT REPORT**

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**Dear customers and cooperation partners, honorable shareholders**

With great satisfaction the Board of AS SMP Bank announces that the year 2012 has been completed successfully.

During the reporting period, the Bank and the Group operated in circumstances when the Latvian economy held a leading position in the European Union in terms of the development pace. The process of global economy recovery continues though the slowing down of its pace causes a low level of external activity which impacts the outlook of Latvian companies and consumers regarding future trends in the volumes of goods produced and planned, and the valuation of export orders from outside of the country.

In the reporting period, the Bank and the Group were continuously following the developments on the local and international financial markets and the economic processes as they worked on the development of their own business activities and strengthening their position in the financial market, which is proved by their performance, the constantly growing range of services and the extended network of cooperation partners. These were the factors that enabled the Bank and the Group to maintain a full local presence without reducing the number of customer service centers, which appears to be a notable achievement in the today's local market that is characterized by the reducing number of market players and a significant decline in the number of regional structural units of banks. A noteworthy fact is that the Bank expanded its regional presence in the financial market of Lithuania where the Lithuanian branch of the Bank in the reporting period opened new customer service centers in Kaunas and Klaipeda.

The Bank's key priorities include customer loyalty, tailoring the services and expanding their range in response to customer needs as well as maintaining of a consistently high quality of financial services. During the reporting year the Bank conducted a number of targeted activities and commenced operations with non-physical gold which enabled the customers to obtain additional diversification of currency risks and introduced more beneficial conditions for payment cards which increased the number of payment cards issued by the Bank significantly while the turnover of the cards doubled. The Bank provided an opportunity for physical persons who own Maestro Standard payment cards to use them free of charge in the wide network of automatic telling machines of the parent bank OAO СМП Банк throughout Russia. The purpose built IT solutions enable the Bank to offer loyalty programs to separate groups of customers and to certain categories of payment cards. IT solutions in identifying fraud transactions with payment cards enabled to achieve in 2012 fivefold increase of the index characterizing security of payment card transactions.

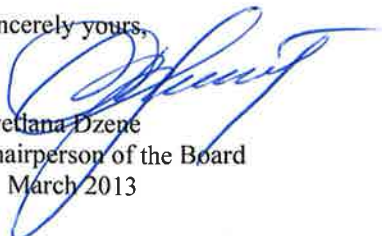
The high level of payment services maintained by the Bank in the reporting year was highly appreciated also on the international level. The Bank was handed *STP Award 2011 – Excellent Quality in the Delivery of Commercial Payments and Financial Institutions Transfers* by the correspondent bank Commerzbank AG, Frankfurt, Germany. In the reporting period the Bank systematically extended the network of correspondent banks. The Bank opened correspondent accounts in British Pound Sterling (Deutsche Bank AG, Frankfurt, Germany), Norwegian Krone (Handelsbanken, Oslo, Norway) and non-physical gold (Commerzbank AG, Luxembourg branch, Luxembourg). These factors add to the Bank's ability to offer customers more beneficial terms for cross-border payments in these currencies and to reduce the time required to perform transactions.

It is also the constantly growing network of cooperation partners that enables the Bank and the Group to expand the range of services. From 2012, the customers have an opportunity to purchase via the Bank a wide range of insurance products (from AAS Baltikums) and sign agreements on the management of their Tier 2 pension funds (in cooperation with AS Finasta Asset Management).

Our work during the reporting period enables us to plan our future development with confidence and to meet the challenges of the nearest future, including accession of Latvia to the European Monetary Union and the related organizational and technical measures. In these dynamic times when the financial markets face critical changes, on behalf of the Bank I would like to confirm that the Bank is and will be a trustworthy and safe partner for its customers as we have strong belief that professional work, mutual respect and loyalty is the way to successfully surmount any obstacles.

We highly appreciate the support that our shareholders provide and the loyalty of our cooperation partners and customers which is the basis for our stable operation and further growth alongside with the professional experience and proactivity of the Bank's staff.

Sincerely yours,



Svetlana Ozere  
Chairperson of the Board  
14 March 2013

**INFORMATION ON THE BANK'S MANAGEMENT**

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**Council members as of the date of signing these financial statements**

<b>Name, Surname</b>	<b>Position</b>	<b>Date of Appointment</b>
Dmitry Kalantyrskiy	Chairman of the Council	12 October 2006
Artem Obolenskiy	Member of the Council	12 October 2006
Andris Dzenis	Member of the Council	12 November 2006
Arkady Rotenberg	Member of the Council	12 October 2006
Boris Rotenberg	Member of the Council	12 October 2006

There were no changes in the Council in 2012.

**Board members as of the date of signing these financial statements**

<b>Name, Surname</b>	<b>Position</b>	<b>Date of Appointment</b>
Svetlana Dzene	Chairperson of the Board	28 September 1995
Maija Treija	Board Member	18 July 2005
Natālija Prohorova	Board Member	10 March 1995
Ivars Lapiņš	Board Member	19 March 1999
Sergejs Golubčikovs	Board Member	27 June 2005
Dmitrijs Kozlovs	Board Member	22 October 2010
Irina Cibulonoka	Board Member	8 November 2011

There were no changes in the Board in 2012.

**STATEMENT OF THE BANK'S MANAGEMENT RESPONSIBILITY**

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AS SMP Bank (hereinafter – Bank) management is responsible for preparation of the Bank's separate and consolidated financial statements of the Bank and its subsidiary AS SMP Finance (hereinafter – Group).

The financial statements on pages 8 to 63 are prepared based on source documents and present fairly the financial position of the Bank and the Group as at 31 December 2012 and the results of their operations, and cash flows for the year ended 31 December 2012.

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

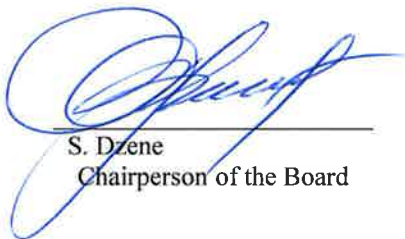
The management of AS “SMP Bank” are responsible for the maintenance of a proper accounting system, safeguarding the Group's and Bank's assets, and prevention and detection of fraud and other irregularities in the Group and Bank. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Supervisory Council and Management Board:



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D. Kalantyrskiy  
Chairman of the Council



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S. Dzene  
Chairperson of the Board

14 March 2013



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Riga LV 1013  
Latvia

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## **Independent Auditors' Report**

### **To the shareholders of AS "SMP Bank"**

#### **Report on the Separate and Consolidated Financial Statements**

We have audited the accompanying separate financial statements of AS "SMP Bank" ("the Bank"), which comprise the separate statement of financial position as at 31 December 2012, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 63. We have also audited the accompanying consolidated financial statements of AS "SMP Bank" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 63.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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



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

### *Opinion*

In our opinion, the separate financial statements give a true and fair view of the financial position of AS "SMP Bank" as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AS "SMP Bank" and its subsidiaries as at 31 December 2012, and of the consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Report on Other Legal and Regulatory Requirements**

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on page 3, the preparation of which is the responsibility of the Management, is consistent with the separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate and consolidated financial statements of the Bank and Group. In our opinion, the management report is consistent with the financial statements.

Ondrej Fikrle  
Partner pp KPMG Baltics SIA  
Riga, Latvia  
14 March 2013

Inga Lipšāne  
Sworn Auditor  
Certificate No 112


*This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.*

**BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

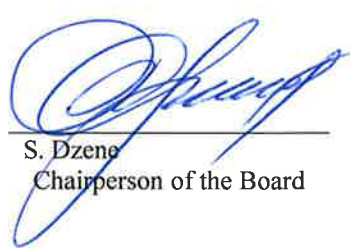
ASSETS	Note	2012	2012	2011	2011
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash and balance due from the Bank of Latvia	6	23,534	23,534	11,106	11,106
Demand deposits with credit institutions	7	47,397	47,397	45,883	45,883
Held to maturity financial investments	8,9	27,375	27,375	6,051	6,051
Loans and receivables		80,355	86,340	77,630	81,335
<i>Loans and term deposits due from credit institutions</i>	10	5,025	5,025	7,145	7,145
<i>Loans to customers</i>	11	75,330	81,315	70,485	74,190
Financial assets held for trading:		26	26	35	35
<i>Non fixed-income securities</i>		26	26	35	35
Property and equipment	12	826	759	743	675
Investment property	13	4,372	-	3,331	-
Other tax assets		34	-	4	4
Other assets	14	2,640	763	324	250
Non-current assets held for sale		-	-	373	-
<b>Total assets</b>		<b>186,559</b>	<b>186,194</b>	<b>145,480</b>	<b>145,339</b>

The accompanying notes on pages 13 to 63 form an integral part of these Bank Separate and Group Consolidated financial statements.

The Bank Separate and Group Consolidated financial statements as set out on pages 8 to 63 were authorised for issue by Management Board and Supervisory Council on 14 March 2013.



\_\_\_\_\_  
D. Kalantyrskiy  
Chairman of the Council



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S. Dzene  
Chairperson of the Board



**BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

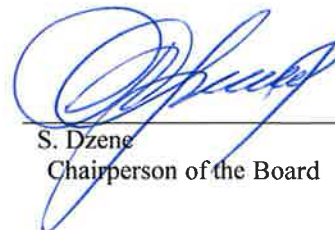
LIABILITIES	Note	2012	2012	2011	2011
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Due to credit institutions on demand	15	94	94	275	275
Financial liabilities at amortized cost:		165,715	165,715	132,959	132,971
<i>Deposits</i>	16	161,671	161,671	130,180	130,192
<i>Subordinated liabilities</i>	17	4,044	4,044	2,779	2,779
Other liabilities	18	9,354	8,802	2,956	2,829
Other taxes and social contributions		12	12	40	8
Deferred tax liability	27	24	24	24	24
Corporate income tax		105	105	86	86
Provisions	19	107	106	102	101
<b>Total Liabilities</b>		<b>175,411</b>	<b>174,858</b>	<b>136,442</b>	<b>136,294</b>
<b>Capital and reserves</b>					
Share capital	20	9,006	9,006	8,006	8,006
Share premium on share issue		182	182	182	182
Reserves	20	105	105	105	105
Retained earnings		1,921	2,043	719	752
Total equity, attributable to Group equity holders		<b>11,214</b>	<b>11,336</b>	<b>9,012</b>	<b>9,045</b>
Non controlling interest		(66)	-	26	-
<b>Total capital and reserves</b>		<b>11,148</b>	<b>11,336</b>	<b>9,038</b>	<b>9,045</b>
<b>Total capital, reserves and liabilities</b>		<b>186,559</b>	<b>186,194</b>	<b>145,480</b>	<b>145,339</b>
<b>Contingent liabilities</b>	31	<b>8,875</b>	<b>8,875</b>	<b>13,439</b>	<b>13,439</b>

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Chairman of the Council




S. Dzene  
Chairperson of the Board

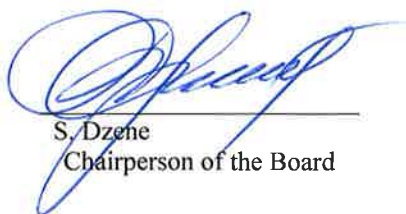
**BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	2012 Group LVL'000	2012 Bank LVL'000	2011 Group LVL'000	2011 Bank LVL'000
Interest income	21	3,859	3,837	3,300	3,244
Interest expense	22	(1,530)	(1,530)	(1,196)	(1,196)
<b>Net interest income</b>		<b>2,329</b>	<b>2,307</b>	<b>2,104</b>	<b>2,048</b>
Fee and commission income	23	3,231	3,226	2,417	2,398
Fee and commission expense	24	(620)	(620)	(509)	(509)
<b>Net commission income</b>		<b>2,611</b>	<b>2,606</b>	<b>1,908</b>	<b>1,889</b>
Gain on trading with financial instruments, net	25	2,015	2,028	1,329	1,306
Other operating expenses		(20)	(30)	(31)	(30)
<b>Net operating income</b>		<b>6,935</b>	<b>6,911</b>	<b>5,310</b>	<b>5,213</b>
Administrative expenses	26	(4,353)	(4,147)	(3,841)	(3,747)
Net impairment allowance expense	11	(1,281)	(1,282)	(927)	(927)
<b>Profit before tax</b>		<b>1,301</b>	<b>1,482</b>	<b>542</b>	<b>539</b>
Corporate income tax	27	(191)	(191)	(86)	(86)
<b>Profit for the reporting period</b>		<b>1,110</b>	<b>1,291</b>	<b>456</b>	<b>453</b>
<b>Attributable to:</b>					
<i>Shareholders of the Bank</i>		1,202	1,291	454	453
<i>Non-controlling interest</i>		(92)	-	2	-
<b>Total comprehensive income</b>		<b>1,110</b>	<b>1,291</b>	<b>456</b>	<b>453</b>
<b>Attributable to:</b>					
<i>Shareholders of the Bank</i>		1,202	1,291	454	453
<i>Non-controlling interest</i>		(92)	-	2	-

The accompanying notes on pages 13 to 63 form an integral part of these Bank Separate and Group Consolidated financial statements.

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D. Kalantyrskiy  
Chairman of the Council

  
S. Dzene  
Chairperson of the Board

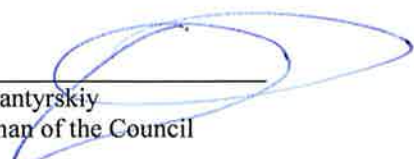
**BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2012**

Group LVL'000	Share capital	Share premium on share issue	Reserves	Retained earnings	Total Equity Attributable to Equity holders of the Bank	Non controlling interest	Total equity
<b>As at 31 December 2010</b>	<b>8,006</b>	<b>182</b>	<b>105</b>	<b>265</b>	<b>8,558</b>	<b>24</b>	<b>8,582</b>
Total comprehensive income							
Profit for the year	-	-	-	454	454	2	456
<b>As at 31 December 2011</b>	<b>8,006</b>	<b>182</b>	<b>105</b>	<b>719</b>	<b>9,012</b>	<b>26</b>	<b>9,038</b>
Total comprehensive income							
Profit for the year	-	-	-	1,202	1,202	(92)	1,110
Transactions with shareholders recorded directly in equity							
Increase in share capital	1,000	-	-	-	1,000	-	1,000
<b>As at 31 December 2012</b>	<b>9,006</b>	<b>182</b>	<b>105</b>	<b>1,921</b>	<b>11,214</b>	<b>(66)</b>	<b>11,148</b>

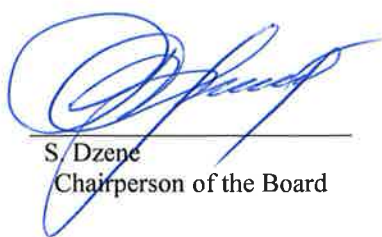
Bank LVL'000	Attributable to Equity Holders of the Bank				Total equity
	Share capital	Share premium on share issue	Reserves	Retained earnings	
<b>As at 31 December 2010</b>	<b>8,006</b>	<b>182</b>	<b>105</b>	<b>299</b>	<b>8,592</b>
Total comprehensive income					
Profit for the year	-	-	-	453	453
<b>As at 31 December 2011</b>	<b>8,006</b>	<b>182</b>	<b>105</b>	<b>752</b>	<b>9,045</b>
Total comprehensive income					
Profit for the year	-	-	-	1,291	1,291
Transactions with shareholders recorded directly in equity					
Increase in share capital	1,000	-	-	-	1,000
<b>As at 31 December 2012</b>	<b>9,006</b>	<b>182</b>	<b>105</b>	<b>2,043</b>	<b>11,336</b>

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D. Kalantyrskiy  
Chairman of the Council



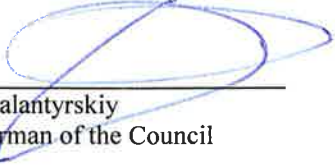
S. Dzene  
Chairperson of the Board

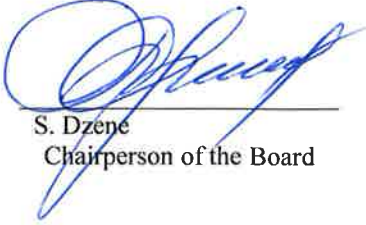
**BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENT OF CASH FLOWS**

		2012	2012	2011	2011
	Note	Group	Bank	Group	Bank
		LVL'000	LVL'000	LVL'000	LVL'000
<b>Cash flows from operating activities</b>					
Profit before corporate income tax		1,301	1,482	542	539
Depreciation		239	218	230	224
Increase of impairment allowance		1,281	1,282	927	927
Depreciation of investment property		69	-	24	-
<b>Cash and cash equivalents used in operating activities before changes in operating assets and liabilities</b>		<b>2,890</b>	<b>2,982</b>	<b>1,723</b>	<b>1,690</b>
Due from credit institutions (term over 3 months)		830	830	(1,398)	(1,398)
Loans to customers		(6,127)	(8,407)	(10,369)	(12,506)
Shares and other securities with non-fixed income		9	9	(15)	(15)
Latvian government bonds with fixed income		831	831	(395)	(395)
Fixed income debt securities		(22,155)	(22,155)	(2,553)	(2,553)
Decrease /(increase) in other assets		(2,346)	(509)	201	214
(Increase)/decrease in other assets held for sale		373	-	(373)	-
Increase in deposits		31,491	31,479	28,765	28,723
(Decrease)/increase in other liabilities		6,395	6,001	(6,879)	(6,967)
<b>Cash and cash equivalents from operating activities before tax</b>		<b>12,191</b>	<b>11,061</b>	<b>8,707</b>	<b>6,793</b>
Corporate income tax		(191)	(191)	-	-
<b>Cash and cash equivalents from operating activities after tax</b>		<b>12,000</b>	<b>10,870</b>	<b>8,707</b>	<b>6,793</b>
<b>Cash and cash equivalents used in investing activities</b>					
Property purchased and other property, plant and equipment		(322)	(302)	(252)	(178)
Purchase of investment property		(1,110)	-	(1,840)	-
<b>Net cash used in investing activities</b>		<b>(1,432)</b>	<b>(302)</b>	<b>(2,092)</b>	<b>(178)</b>
<b>Cash flows from financing activities</b>					
Issued shares		1,000	1,000	-	-
Acquisition of subordinated loans		1,265	1,265	1,779	1,779
<b>Net cash and cash equivalents from financing activities</b>		<b>2,265</b>	<b>2,265</b>	<b>1,779</b>	<b>1,779</b>
<b>Net increase in cash and cash equivalents</b>		<b>12,833</b>	<b>12,833</b>	<b>8,394</b>	<b>8,394</b>
<b>Cash and cash equivalents at the beginning of reporting year</b>		<b>60,454</b>	<b>60,454</b>	<b>52,060</b>	<b>52,060</b>
<b>Cash and cash equivalents at the end of reporting year</b>	28	<b>73,287</b>	<b>73,287</b>	<b>60,454</b>	<b>60,454</b>

The accompanying notes on pages 13 to 63 form an integral part of these Bank Separate and Group Consolidated financial statements.

The Bank Separate and Group Consolidated financial statements as set out on pages 8 to 63 were authorised for issue by Management Board and Supervisory Council on 14 March 2013.

  
D. Kalantyrskiy  
Chairman of the Council

  
S. Dzene  
Chairperson of the Board

## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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### 1 GENERAL INFORMATION

#### Information on the Bank

AS “SMP Bank” (until 17 June 2008 AS “Multibanka” – the Bank) was incorporated in the Republic of Latvia as a joint stock company “Multibanka” in 1994, in Riga, and is licensed as a bank offering a wide range of financial services to enterprises and individuals. The legal address of the Bank is Elizabetes iela 57, Riga, Latvia. The Bank has a branch in Liepaja and 16 cash offices in Riga, 3 cash offices in Daugavpils, 2 cash offices in Ventspils and cash offices in Olaine, Jelgava, Sigulda, and Jurmala. The Bank also has a foreign branch in Vilnius (Lithuania) and local cash offices in Vilnius, Klaipeda and Kaunas, and representative offices in Moscow and Yekaterinburg (Russian Federation) and Kiev (Ukraine).

These accounts include the Bank's consolidated and separate financial statements. Consolidated financial statements for year ended on 31 December 2012 include financial statements of the Bank and its controlled company AS “SMP Finance” (hereinafter “Group”). The legal address of AS “SMP Finance” is Elizabetes iela 57, Riga, Latvia.

#### Legislation regulating the Bank's operations

The Bank's operations are governed by the law of the Republic of Latvia “On Commercial Institutions”, “Commercial Law”, and other laws and regulations issued by the Financial and Capital Market Commission of the Republic of Latvia (further FCMC). The above regulations govern capital adequacy, minimum equity, liquidity, foreign exchange positions, risk transaction restrictions with respect to one counterparty, group of related customers and related parties of the Bank, as well as other applicable requirements.

### 2 BASIS OF PREPARATION

#### Statement of Compliance

The consolidated and separate financial statements of the Group and the Bank are prepared in accordance with International Financial Reporting Standards (further “IFRS”) as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at 31 December 2012.

The Board and Council of the Bank approved these consolidated and separate financial statements for issue on 14 March 2013. The shareholders have the power to reject the consolidated and separate financial statements prepared and issued by the management, and the right to request that new financial statements be issued.

#### Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial assets and liabilities at fair value through profit or loss are stated at fair value (including financial assets held for trading);
- all derivatives are carried at fair value;

#### Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated. Lats are the Bank's and the Group's functional currency.

### 3 PRINCIPAL ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been applied consistently.

#### Basis of consolidation

##### *Subsidiaries*

For the purpose of the Group consolidated financial statements, subsidiary is the enterprise controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Intra-group transactions, balances and unrealized profits arising from intra-group transactions are eliminated in the course of consolidation

The investment in AS “SMP Finance”, in which the Bank holds a 48.73% interest and voting rights, is accounted for in the Bank's separate financial statements at cost less impairment. The Bank, however, controls AS SMP Finance as it has power to govern the financial and operating policies of AS SMP Finance through its management board, and therefore includes that company in consolidation.

## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

### *Foreign currency translation*

Transactions in foreign currencies are translated into the respective functional currency of the operations at the exchange rate set by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost or are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the cost or fair value was determined, respectively. Foreign currency differences arising on retranslation are recognized in statement of comprehensive income, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized directly in other comprehensive income. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction.

The assets and liabilities of foreign operations are translated to the presentation currency at the exchange rate at reporting date. The income and expenses of foreign operations are translated to presentation currency at exchange rates that approximates those on the date of the transactions. Difference arising on translation to presentation currency are recognized in other comprehensive income.

Foreign exchange rates for the key currencies at the end of the reporting period were the following (LVL vs. 1 unit of foreign currency):

<i>Currency</i>	<i>Reporting date</i>	
	31.12.2012	31.12.2011
USD	0.5310	0.5440
EUR	0.7028	0.7028
LTL	0.2040	0.2040
RUB	0.0174	0.0170

### **Financial instruments**

#### *Classification*

Financial instruments are classified into the following categories:

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are 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 that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group or the Bank have the positive intention and ability to hold to maturity, and which are not classified as designated at fair value through profit or loss, or available for sale, or loans and receivables.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group or the Bank intends to sell immediately or in the short-term, (b) those that the Group or the Bank upon initial recognition designates as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply with these classification criteria.

*Liabilities at amortised cost* include deposits and balances from banks and current accounts and deposits from customers, subordinated loans and other liabilities.

#### *Recognition*

The Group and the Bank initially recognises loans and receivables, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are recognised in the statement of financial position on the trade date when the Group or the Bank becomes a party to the contractual provisions of the instrument.

## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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### *Measurement*

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- held-to-maturity investments and loans and receivables that are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

### *Fair value basis*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group and Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group and the Bank establishes fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group and the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by information about other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group and the Bank have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.



## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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### *Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the profit or loss;
- for financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the statement profit or loss when the financial asset or liability is derecognised or impaired.

### *Derecognition*

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

The Group and the Bank also derecognize certain assets when they write off balances pertaining to the assets deemed to be uncollectible.

### *Repurchase and reverse repurchase agreements*

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

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

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

### *Derivatives*

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

The Group and the Bank do not use hedge accounting.

### *Interest-bearing liabilities*

Interest-bearing borrowings are recognized initially at fair value less any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of comprehensive income over the period of the borrowings, using the effective interest method. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in profit or loss in the statement of comprehensive income.

## **Property and equipment**

### *Owned assets*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment. Cost includes expenses that are directly attributable to the acquisition of the asset.



## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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### *Depreciation*

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation methods, useful lives, and residual values are reviewed at each reporting date. The annual depreciation rates are as follows:

Buildings	5%
Furniture and cars	20%
Computers	35%
Other fixed assets	20%

### **Intangible assets**

Intangible assets, which are acquired by the Group or the Bank, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the individual assets. The estimated useful lives are 5 to 7 years.

### **Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or services or for administrative purposes. Investment property is carried at cost less accumulated depreciation and impairment. Impairment is recognised in the statement of comprehensive income on a straight line basis. Annual depreciation rate of all investment properties, except land, is 5%. No depreciation is calculated for land.

### **Repossessed assets**

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

### **Non-current assets held for sale**

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

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

### **Income and expense recognition**

All significant income and expense categories are recognized on an accrual basis.

Interest income and expense are recognized in the statement of comprehensive income as they accrue, taking into account the effective interest rate of the asset/liability. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

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**Impairment losses***Financial assets*

At each reporting date the Group and the Bank assess whether there is objective evidence that financial assets other than carried at fair value through profit or loss are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

The Group and the Bank consider evidence of impairment for loans and advances and held-to-maturity investment securities at specific asset level. All loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment.

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

*Non financial assets*

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

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

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

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

**Credit related commitments**

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

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

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

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

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

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**Taxes**

Corporate income tax comprises current and deferred tax. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax basis. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or expected to be enacted on basis of the available information by the reporting date.

A deferred tax asset is recognised in the statement of financial position to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, unrestricted deposits with the Bank of Latvia and high liquidity assets with a maturity of less than 3 months subject to insignificant changes in the fair value used by the Group and the Bank for covering short term liabilities; less balances due to the Bank of Latvia and credit institutions with original maturity of less than 3 months.

**Leases***Finance lease*

A finance lease is lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

When assets are leased out under a finance lease, the net investment in finance lease is recognized as a receivable. The net investment in finance lease represents the difference between the gross receivable and the unearned finance income.

*Operating lease*

An operating lease is a lease other than a finance lease.

Assets leased out under an operating lease, are presented within property and equipment in the statement of financial position, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned items of property and equipment.

**Provisions**

A provision is recognized in the statement of financial position when the Group and Bank have a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits that can be reliably estimated will be required to settle the obligation.

**Dividends**

The Group and the Bank receive dividends from the equity instruments that are recorded to income when the right to receive payment is established.

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

**Employee benefits**

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis. The Group and the Bank pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and the Bank will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

### *Adoption of new and changed IFRSs and IFRIC interpretations*

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

- Amendments to IFRS 7 and IAS 32 on *Offsetting Financial Assets and Financial Liabilities*  
Amendments to IFRS 7 Disclosures (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.  
Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Bank and the Group do not expect the Amendments to have any impact on the financial statements since the Bank and the Group do not apply offsetting to any of its financial assets and financial liabilities and have not entered into master netting arrangements.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:
  - (1) it is exposed or has rights to variable returns from its involvements with the investee;
  - (2) it has the ability to affect those returns through its power over that investee; and
  - (3) there is a link between power and returns.

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

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

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

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

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities. The Bank and the Group do not expect that the new standards will have a material impact on the financial statements.

IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The Company does not expect IFRS 13 to have a material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively). The amendments:
  - require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.
  - change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.

The amendments are not material to the Bank's and the Group's financial statements, since it does not have significant items of other comprehensive income.

- Amendments to IAS 12: *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendments are not relevant to the Bank's and the Group's consolidated financial statements, since the Bank and the Group do not have any investment properties measured using the fair value model in IAS 40.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's and Bank's financial statements as the Group and Bank have not issued such instruments at any time in the past.
- IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

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

- IAS 28 (2011) *Investments in Associates and Joint Ventures* (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). There are limited amendments made to IAS 28 (2008):
  - *Associates and joint ventures held for sale.* IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an *associate or a joint venture*.
  - *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

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

## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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### 4 RISK MANAGEMENT

Management of the Group and the Bank have developed a system for the identification, supervision and management of the Group's and the Bank's main financial risks. The Bank's Management has approved risk management system. This system is being constantly updated to take into account market conditions and the development of the Group's and the Bank's main operations. In order to achieve the Group's and the Bank's objectives related to capital adequacy, liquidity, foreign currency position, and in order to control transaction risks, the following policies have been approved:

1. Liquidity Risk Management policy;
2. Credit Risk Management policy;
3. Risk transactions and risk control policy for large transactions;
4. Currency risk management policy;
5. Country risk management policy;
6. Interest rate risk management policy;
7. Policy on prevention of laundering of proceeds derived from criminal activity and terrorist financing,
8. Operational compliance risk management policy;
9. Capital adequacy assessment policy;
10. Operational risk management policy.

The Group and the Bank maintain adequate amounts of liquid assets to ensure compliance with required liquidity ratio of 30% against the Group and Bank's current liabilities as at 31 December 2012 and 31 December 2011. For this purpose, the Group and the Bank have approved internal limits of net items of assets and liabilities ageing structure liquidity: in all the currencies LVL, EUR and USD. Internal limits for liquidity are used for risk analysis and control of liquidity and desirable structure of financing sources. An early warning system was developed in order to help identify exposure of the Bank's liquidity position and necessity to attract additional sources. On basis of data from early notification indices the Bank identifies negative tendencies impacting liquidity and analyses the tendencies and assess necessity to perform liquidity risk hedging measures. The Risk and resource management department of the Bank evaluates and plans the term structure of assets and liabilities on a regular basis, and accordingly prepares timely plans for attraction or sales of financial resources, as well as monitors compliance with the required liquidity norms and internal limits defined by the Group and the Bank. Liquidity stress testing is performed using 7 scenarios. These scenarios address both internal and external factors. Stress testing is performed on the following stress levels: internal and typical to the Bank unfavourable events, changes of general market conditions, banking crisis and general market crisis at the same time. The impact of various scenarios on the regulating liquidity ratio and the Bank's income is analysed. The Board of the Bank develops and the Council approves a contingency plan in case of liquidity crisis that specifies: preventive measures for reduction of the likelihood of the liquidity crisis, methods of timely identification of the liquidity crisis and risk assessment, measures that have to be taken immediately in order to overcome the liquidity crisis. The plan is tested regularly.

Credit risk is risk that:

- a counterparty, or obligor, fails to meet contractual obligations to the Group and Bank;
- collateral will not cover the claim; and
- financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group or Bank.

In order to minimize credit risk the Group and Bank have developed credit risk policies and procedures (regarding both risks of statement of financial position and risks of liabilities and contingent liabilities) including guidelines for hedging risk concentration in the loan portfolio. A loan committee has been established that is actively monitoring the credit risk of the Group and Bank. The Group's and Bank's liquidity policy is reviewed and approved by the Management Board.

The Group's and Bank's credit policy establishes:

- Procedures for review of loan applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Procedure for documenting the lending process;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Measurement of credit risks includes:

- risk assessments and credit decisions
- monitoring and management of credit risk;

## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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- estimating risk adjusted profitability;
- analysing the risk profile of credit portfolios;
- estimating capital requirements and capital allocation;
- regular stress testing credit risk by the use of different scenarios;

The Group and Bank continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The updated market value of collateral is regularly set by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

The Group's and Bank's maximum exposure to financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Group and Bank monitor concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 11 "Loans and receivables from customers" and Note 38 "Maximum credit risk".

In order to meet the requirements defined in the policy of risk transactions and large risk transactions, the Group and the Bank perform an assessment and control of risks associated with all assets and liabilities, including contingent liabilities of the Group and the Bank on a regular basis. Limits are regarded as the main tool for control of risk transactions. The assessment of credit risks enables the Group and the Bank to meet the required capital adequacy ratio – the proportion of weighted values of the Group and Bank's equity, assets, liabilities and off-balance items, which as at 31 December 2012 and 2011 was 12% and 11%, respectively.

The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., Bank's capital ratio against the risk weighted assets and contingent liabilities. The sum of notional risk weighted assets and contingent liabilities is determined as the sum of capital requirements of risks multiplied by 12.5. According to requirements of the FCMC the Bank has to maintain capital adequacy ratio of 10.4% as of 1 October 2012.

The assets have been weighted in accordance with pre-defined risk grades, determining risks in accordance with the amount of capital, necessary to maintain these assets. Off-balance sheet loan liabilities are weighted in accordance with lending risk adjustment grades and risk grades defined for liabilities of partners. The following risk grades are applied: 0%, 20%, 35%, 50%, 100%, 150%.

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

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

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

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy basically agree to the recommendations under the Basel Capital Accord and amendments thereto. According to the Basel Capital Accord, the capital adequacy ratio should be at least 8%. For the calculation of capital adequacy refer to Note 37.

During 2012, the Group and the Bank performed daily controls of compliance with limits defined in Currency risk management policy, for transactions with foreign currency. The Bank and the Group are subject to the Credit Institutions Law which requires that the open position in an individual currency should not exceed 10% of the Bank's capital and the total open foreign currency position should not exceed 20% of the Bank's capital. In accordance with requirements of Currency risk management policy, structural units of the Group and Bank are cooperating with department of financial operations in evaluation of currency risk component of the planned transactions and elaboration of hedging method for it.

Interest risk is represented by possible negative influence on the Group and the Bank's income that can result from possible changes of interest rates. The GAP analysis is used for regular measurements of interest rates risk. Assets, liabilities, guarantees and contingent liabilities, subjected to interest rate risk, are divided in accordance with minimum period, left till possible re-evaluation of interest rates. The Group and the Bank calculate the influence on yearly net



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interest income, with parallel increase of interest rates for 100 base points. In accordance with requirements of Interest rate risk management policy, the respective component of interest rate risk is assessed when limits are determined for any financial instruments. For the sensitivity analysis results refer to Note 33.

Country risk is represented by possible losses in cases, where a debtor of the Group and the Bank, being non-resident, will not be able to meet its liabilities against the Group and the Bank, due to political, social or economic circumstances of the country of residency of the debtor. Country risk is managed by the Board of the Bank. Based on analyses of economic, political and social conditions of each particular country, limits are determined for geographic concentration of assets, guarantees and contingent liabilities, for purpose of management of country risk. The evaluation of each case separately provided by international rating agencies is considered when assessing country risk in each separate case. Limitations have been approved for placement of assets in non-OECD countries, as well as for limitations on residual balances of nostro accounts. Limits for partners and transaction types are determined based on evaluation of risks of country and partners. For purpose of monitoring of compliance with these limits, control over observation of limits is performed on daily basis.

In order to avoid involvement in “money-laundering” schemes, the Bank and the Group have implemented policies and procedures to prevent AML and anti-terrorism financing. AML compliance risks may cause financial losses, arising from legal actions and eventual financial sanctions against the Bank and the Group, as well as from limitations on banking operations, loss of customers or its place on financial markets. The Group and the Bank manage their AML compliance risks on regular basis, identifying legal, reputational, operational and concentration risks, as well as planning and performing necessary measures to minimise those risks based on requirements of AML strategy and Customer policy that has been developed and approved by the Group and the Bank. These requirements are based on the adequate identification of a customer and its beneficiary owner and “Know Your Customer” principle of their business, as well as identification of unusual and suspicious transactions, its control and reporting to state authorities according to requirements of applicable legislative acts. AML compliance action plan includes also AML training of staff of structural units of the Group and the Bank, involved with servicing of customers and implementation of latest IT technologies and requirements of information security and data integrity principles in daily operations of the Group and the Bank.

Operational risk is the risk of loss resulting from inadequate or failed internal processes for the Group and the Bank, people and systems or from external events, including legal risk, but excluding strategic risk and reputation risks. Operational risk is related to the all types of products, activities, processes and systems, the Group and the Bank are dealing with. A primary objective of operational risk management is protection of the Group's and the Bank's assets and capital, by minimising eventual operational risk related losses and the frequency of the operational risk related cases. In line with the sound operational risk management process, the code of ethics is developed to be followed at all levels of the organizational structure of the Group and the Bank as well the effective internal control system has been set up. In order to identify and evaluate operational risk, the Bank and the Group has developed a database of operational risk cases. A set of indicators, reflecting the possible sources for operational risk level increase, is elaborated to monitor operational risk. To minimise the operational risk, data handling procedures, along with the IT security technologies as well as insurance of assets are used. To ensure a continuous performance of the Group and the Bank, as well as to minimise the possible emergency cases related losses, the Board of the Bank specifies activity related critical functions, develops and improves the Group and the Bank information system overall contingency plan, vital information systems backup procedures and the related contingency plans.

Operational compliance risk is the risk that the Bank may incur losses or be subject to legal obligations or sanctions or the Bank's reputation may deteriorate if the Bank fails to comply with or breaches compliance laws, rules and standards. In order to perform control and management of operational compliance risk the Bank has established a separate structural unit ensuring that its functions are independent from the operations of the Bank's structural units that are controlled by it. The identification and assessment of operational compliance risk is performed through planned inspections and analysis of the statistic and analytic data of the Bank's operations. The results of such inspections and recommendations regarding the reduction of operational compliance risks are regularly provided to the Board of the Bank.



## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

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### 5 USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

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

#### **Key sources of estimation uncertainty:**

##### *Impairment allowance for loans and receivables*

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

##### *Impairment of financial instruments (other than loans)*

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

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

##### *Classification of lease*

Only risks and rewards incidental to ownership of the leased asset during the lease period should be considered when determining lease classification. Relevant risks include the possibility of losses from idle capacity or technological obsolescence and from decreases in the value of the asset; relevant rewards may include the gain from the increase in value of the asset or realization of the residual value at the end of the lease. Conversely, risks associated with construction of the asset prior to lease commencement, financing such construction and the costs of providing services using the leased asset, are not incidental to ownership of the leased asset during the lease period and, in the Management's view generally should be disregarded in evaluating the classification of the lease. The classification of a lease is determined at the inception of the lease and is not revised unless the lease agreement is modified.

##### *Impairment of non-financial assets*

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

##### *Deferred tax asset recognition*

A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be recognized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **Determining fair values of financial instruments**

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

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

The table below analyses financial instruments measured at fair value at the end of reporting period, by the level in fair value hierarchy into which the fair value measurement is categorized:

**Group and Bank**

	Level 1
<b>2012</b>	
<b>Financial assets</b>	
Non fixed-income securities	26
	<u>26</u>
<b>2011</b>	
<b>Financial assets</b>	
Non fixed-income securities	35
	<u>35</u>

Level 1: Included in this category are financial assets and liabilities that are measured in whole by reference to published quotes in an active market. A financial instrument is considered quoted in an active market if quoted prices are readily and regularly available from a stock exchange, broker, industry group, rating or regulating agencies and prices represent the actual and regular market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

**6 CASH AND DUE FROM THE BANK OF LATVIA**

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Cash	2,807	2,807	3,014	3,014
Balance with the Bank of Latvia (including minimum reserve deposit)	20,727	20,727	8,092	8,092
<b>Total</b>	<b><u>23,534</u></b>	<b><u>23,534</u></b>	<b><u>11,106</u></b>	<b><u>11,106</u></b>

Due from Bank of Latvia represents the balance outstanding on correspondent account with the Bank of Latvia.

According to the regulations of the Bank of Latvia, the Bank is required to maintain obligatory reserves with the Bank of Latvia equal to 2% of balances at the end of the month due to credit institutions with maturity of over 2 years and equal to 4% of balances at the end of the month of all other liabilities included in the base of this reserve:

- Demand and term deposits (non credit institutions)
- Due to credit institutions (except Bank of Latvia)
- bonds and other debt securities issued by the Bank.

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average cash and correspondent balance should exceed the compulsory reserve requirement.

As at 31 December 2012 and 2011, the Bank was in compliance with the requirement.

**7 DEMAND DEPOSITS WITH CREDIT INSTITUTIONS**

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Credit institutions of OECD countries	22,672	22,672	23,763	23,763
Latvian credit institutions	10,924	10,924	11,573	11,573
Credit institutions of non-OECD countries	13,801	13,801	10,547	10,547
	<u>47,397</u>	<u>47,397</u>	<u>45,883</u>	<u>45,883</u>

The Bank maintained relationship with 33 correspondent banks (2011: 33).

The main correspondent banks of the Bank and the Group:

	2012	2011
Raiffeisen Bank International AG - Vienna, Austria	7,797 (16.5%)	8,322 (18.2%)
Deutsche Bank Trust Company Americas	7,726 (16.3%)	6,567 (14.4%)

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**8 LATVIAN GOVERNMENT BONDS WITH FIXED INCOME**

	2012	2012	2011	2011
	Group	Bank	Group	Bank
Term	LVL'000	LVL'000	LVL'000	LVL'000
Latvian government bonds with fixed income (S&P – BB, Moody's – Baa 3)				
2012	-	-	2,423	2,423
2013	1,061	1,061	-	-
2017	543	543	-	-
2021	1,063	1,063	1,075	1,075
	<b>2,667</b>	<b>2,667</b>	<b>3,498</b>	<b>3,498</b>

**9 FIXED INCOME BONDS**

	2012	2012	2011	2011	
	Group	Bank	Group	Bank	
Term	LVL'000	LVL'000	LVL'000	LVL'000	
Promsvjazjbank, Russian Federation (S&P – B)	2012	-	-	1,120	1,120
Promsvjazjbank, Russian Federation (S&P – B)	2013	1,145	1,145	-	-
Alfa Bank, Russian Federation (S&P – BB)	2013	1,083	1,083	1,152	1,152
USA government bonds with fixed income (S&P – BB, Moody's – Baa 3)	2013	21,240	21,240	-	-
Lithuanian government bonds with fixed income (S&P – AAA, Moody's – Aaa)	2014	316	316	-	-
Credit Bank of Moscow, Russian Federation (S&P – BB)	2014	274	274	281	281
Lithuanian government bonds with fixed income (S&P – BB, Moody's – Baa 3)	2015	440	440	-	-
Lithuanian government bonds with fixed income (S&P – B, Moody's – Baa 1)	2017	210	210	-	-
	<b>24,708</b>	<b>24,708</b>	<b>2,553</b>	<b>2,553</b>	

**10 LOANS AND TERM DEPOSITS DUE FROM CREDIT INSTITUTIONS**

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
Term deposits with credit institutions	2,450	2,450	5,051	5,051
Other balances due from credit institutions	2,575	2,575	2,094	2,094
<b>Total loans and term deposits</b>	<b>5,025</b>	<b>5,025</b>	<b>7,145</b>	<b>7,145</b>

As at 31 December 2012 the Group and Bank had due from credit institutions amounting to LVL 2,575 thousand (2011: LVL 2,094 thousand) that served as collaterals for guarantees issued by the Bank.

*Geographical classification:*

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
Residents of OECD countries	2,575	2,575	2,094	2,094
Residents of Latvia	1,700	1,700	-	-
Residents of other non-OECD countries	750	750	5,051	5,051
<b>Total loans and term deposits</b>	<b>5,025</b>	<b>5,025</b>	<b>7,145</b>	<b>7,145</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**11 LOANS**

(a) Loans by groups are comprised as follows:

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
Individuals	18,334	14,791	20,223	16,560
Corporate customers	60,578	70,106	52,589	59,956
Personnel of the Bank	487	487	461	461
<b>Total loans, gross</b>	<b>79,399</b>	<b>85,384</b>	<b>73,273</b>	<b>76,977</b>
Impairment allowance	(4,069)	(4,069)	(2,788)	(2,787)
<b>Total loans, net</b>	<b>75,330</b>	<b>81,315</b>	<b>70,485</b>	<b>74,190</b>

(b) Loans issued by type:

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
Loans to customers	59,076	65,061	54,656	58,360
Credit lines	20,049	20,049	18,410	18,410
Overdrafts	274	274	207	207
<b>Loans, gross</b>	<b>79,399</b>	<b>85,384</b>	<b>73,273</b>	<b>76,977</b>
Impairment allowance	(4,069)	(4,069)	(2,788)	(2,787)
<b>Total loans, net</b>	<b>75,330</b>	<b>81,315</b>	<b>70,485</b>	<b>74,190</b>

(c) Loans issued by industry, gross:

Corporate customers	2012		2012		2011		2011	
	Group		Bank		Group		Bank	
Real estate	11,935	20%	11,936	17%	9,526	18%	9,526	16%
Construction	4,998	9%	4,998	7%	6,051	12%	6,051	10%
Electricity	6,828	11%	6,828	10%	4,885	9%	4,885	8%
Wholesale and retailing	16,651	27%	16,651	24%	11,653	22%	11,653	19%
Industrial markets	6,325	10%	6,325	9%	8,287	16%	8,287	14%
Transport, warehousing and communications	2,918	5%	2,918	4%	3,155	6%	3,155	5%
Loans issued to financial intermediaries	-	-	15,492	22%	-	-	11,652	19%
Financial lease	5,965	10%	-	-	3,783	8%	-	-
Other	4,958	8%	4,958	7%	5,249	9%	4,474	9%
<b>Total</b>	<b>60,578</b>	<b>100%</b>	<b>70,106</b>	<b>100%</b>	<b>52,589</b>	<b>100%</b>	<b>59,956</b>	<b>100%</b>
<b>Individuals and personnel of the Bank</b>								
Consumer loans	391	2%	391	3%	406	2%	406	2%
Credit card commitments	386	2%	386	2%	376	2%	376	2%
Car loans	-	-	-	-	6	-	4	-
Mortgage loans	6,715	35%	6,715	44%	8,827	43%	8,827	52%
Financial lease	3,543	19%	-	-	4,123	20%	-	-
Business loans	6,737	36%	6,737	44%	5,880	28%	5,880	35%
Other	1,049	6%	1,049	7%	1,066	5%	1,528	9%
<b>Total</b>	<b>18,821</b>	<b>100%</b>	<b>15,278</b>	<b>100%</b>	<b>20,684</b>	<b>100%</b>	<b>17,021</b>	<b>100%</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**(d) Loans by geographical classification:**

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
Residents of Latvia	66,448	72,432	64,611	68,315
Residents of OECD countries	7,147	7,147	4,634	4,634
Residents of other non-OECD countries	5,804	5,805	4,028	4,028
<b>Total gross loans and receivables to non-banking customers</b>	<b>79,399</b>	<b>85,384</b>	<b>73,273</b>	<b>76,977</b>
Impairment allowance	(4,069)	(4,069)	(2,788)	(2,787)
<b>Loans and receivables, net</b>	<b>75,330</b>	<b>81,315</b>	<b>70,485</b>	<b>74,190</b>

**(e) Movements in the impairment allowance**

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
<b>Balance at the beginning of the year</b>	<b>2,788</b>	<b>2,787</b>	<b>1,861</b>	<b>1,860</b>
Increase of provisions	1,831	1,832	1,131	1,131
Recovery of prior period loan loss allowances	(550)	(550)	(204)	(204)
Analysis of movements in the impairment allowance, net	1,281	1,282	927	927
<b>Balance at the end of the reporting period</b>	<b>4,069</b>	<b>4,069</b>	<b>2,788</b>	<b>2,787</b>

**(f) Loans and accrued interest allocation, depending on delay of payments:**

**Group**

LVL'000	Loans not overdue	Loans for which the payments have not been made in due period						
		Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days	
<b>Loans to customers</b>								
<b>As at 31 December 2012</b>								
Gross loans and advances to customers	79,399	66,602	7,856	70	37	2,123	479	2,232
Impairment allowance	(4,069)	(1,894)	(182)	(14)	(4)	(643)	(32)	(1,300)
<b>As at 31 December 2011</b>								
Gross loans and advances to customers	73,273	65,147	455	466	154	1,136	3,691	2,224
Impairment allowance	(2,788)	(1,001)	(29)	(4)	(39)	(103)	(433)	(1,179)

**Bank**

LVL'000	Loans not overdue	Loans for which the payments have not been made in due period						
		Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days	
<b>Loans to customers</b>								
<b>As at 31 December 2012</b>								
Gross loans and advances to customers	85,384	72,587	7,856	70	37	2,123	479	2,232
Impairment allowance	(4,069)	(1,894)	(182)	(14)	(4)	(643)	(32)	(1,300)
<b>As at 31 December 2011</b>								
Gross loans and advances to customers	76,977	68,852	455	466	154	1,136	3,691	2,223
Impairment allowance	(2,787)	(1,001)	(29)	(4)	(39)	(103)	(433)	(1,178)

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**(g) Loans allocation by qualitative evaluation of collateral type:**

The table below shows separate loan groups by their carrying amount. The Bank and the Group hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Loan quality by separate groups:

	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
<b>Loans with collateral to corporate customers</b>				
Loans without impairment allowances	43,107	43,107	36,643	36,643
<i>Loans not overdue</i>	38,320	38,320	35,922	35,922
<i>Delayed payments not more than 90 days</i>	4,550	4,550	276	276
<i>Delayed payments over 90 days</i>	237	237	445	445
Loans with impairment allowances	5,907	5,907	6,956	6,956
<i>Loans not overdue</i>	2,766	2,766	3,560	3,560
<i>Delayed payments not more than 90 days</i>	515	515	-	-
<i>Delayed payments over 90 days</i>	2,626	2,626	3,396	3,396
Impairment allowance	(1,331)	(1,331)	(1,088)	(1,088)
<b>Total loans to corporate customers</b>	<b>47,683</b>	<b>47,683</b>	<b>42,511</b>	<b>42,511</b>
<b>Finance lease</b>				
Lease without impairment allowances	9,507	-	7,909	4
<i>Leases not overdue</i>	9,507	-	7,909	4
<i>Delayed payments not more than 90 days</i>	-	-	-	-
Leases with impairment allowances	-	-	1	-
<i>Leases not overdue</i>	-	-	-	-
<i>Overdue leases</i>	-	-	1	-
Impairment allowance	-	-	(1)	-
<b>Total finance lease</b>	<b>9,507</b>	<b>-</b>	<b>7,909</b>	<b>4</b>
<b>Mortgage loans</b>				
Loans without impairment allowances	5,103	5,103	6,125	6,125
<i>Loans not overdue</i>	4,237	4,237	5,193	5,193
<i>Delayed payments not more than 90 days</i>	609	609	383	383
<i>Delayed payments over 90 days</i>	257	257	549	549
Loans with impairment allowances	1,612	1,612	2,702	2,702
<i>Loans not overdue</i>	542	542	648	648
<i>Delayed payments not more than 90 days</i>	167	167	226	226
<i>Delayed payments over 90 days</i>	903	903	1,828	1,828
Impairment allowance	(492)	(492)	(745)	(745)
<b>Total mortgage loans</b>	<b>6,223</b>	<b>6,223</b>	<b>8,082</b>	<b>8,082</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

	2012 Group	2012 Bank	2011 Group	2011 Bank
<b>Loans to individuals with other collateral</b>				
Loans without impairment allowances	5,879	5,879	5,554	5,554
<i>Loans not overdue</i>	3,868	3,868	5,324	5,324
<i>Delayed payments not more than 90 days</i>	1,875	1,875	102	102
<i>Delayed payments over 90 days</i>	136	136	128	128
Loans with impairment allowances	1,719	1,719	2,000	2,000
<i>Loans not overdue</i>	1,387	1,387	1,766	1,766
<i>Delayed payments not more than 90 days</i>	150	150	41	41
<i>Delayed payments over 90 days</i>	182	182	193	193
Impairment allowance	(508)	(508)	(499)	(499)
<b>Total loans to individuals</b>	<b>7,090</b>	<b>7,090</b>	<b>7,055</b>	<b>7,055</b>

The amounts shown in the table below represent the gross carrying value of the loans by type of collateral and do not necessarily represent the fair value of the underlying collateral:

	As at 31 December 2012				As at 31 December 2011			
	Group		Bank		Group		Bank	
	LVL'000	%	LVL'000	%	LVL'000	%	LVL'000	%
Commercial buildings	24,706	31%	24,706	29%	23,923	33%	23,923	31%
Commercial assets pledge	16,887	21%	16,887	20%	9,900	14%	9,900	13%
Land mortgage	3,867	5%	3,867	5%	5,835	8%	5,835	7%
Mortgage on residential properties	14,796	19%	14,796	17%	17,184	23%	17,184	22%
Guarantee	2,468	3%	2,468	3%	2,749	4%	2,749	4%
Other	10,110	13%	603	1%	8,262	11%	394	1%
No collateral	6,565	8%	22,057	26%	5,420	7%	16,992	22%
<b>Total</b>	<b>79,399</b>	<b>100%</b>	<b>85,384</b>	<b>100%</b>	<b>73,273</b>	<b>100%</b>	<b>76,977</b>	<b>100%</b>

**Significant credit risk concentration**

As at 31 December 2012 and 2011, the Bank had 19 and 17 borrowers or groups of related borrowers, respectively, whose total loan liabilities exceeded 10% of the share capital of the Bank given in Note 37. Gross amount of the above loans as at 31 December 2012 and 2011 was LVL 35,165 thousand LVL and 17,108 thousand, respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients of more than 25% of Bank's equity. As at 31 December 2012 and 2011, the Bank was in compliance with the above requirement.

**(h) Impaired loans**

**Group**

	2012 '000 LVL	2011 '000 LVL
Impaired loans, gross	22 824	9,889
Impairment allowance	(4,069)	(2,788)
<b>Impaired loans and receivables, net</b>	<b>18,755</b>	<b>7,101</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**Bank**

	2012 '000 LVL	2011 '000 LVL
Impaired loans, gross	22 824	9,888
Impairment allowance	(4,069)	(2,787)
<b>Impaired loans and receivables, net</b>	<b>18,755</b>	<b>7,101</b>

When reviewing the loans the Group and the Bank set the following categories for individual loans to assess their credit risk:

**Group**

2012 '000 LVL	Gross	Impairment allowance
Standard	51,271	-
Watch	22,696	1,410
Substandard	4,195	1,563
Doubtful	425	284
Lost	812	812
<b>Total</b>	<b>79,399</b>	<b>4,069</b>

2011 '000 LVL	Gross	Impairment allowance
Standard	61,252	-
Watch	9,263	1,200
Substandard	1,759	621
Doubtful	611	579
Lost	388	388
<b>Total</b>	<b>73,273</b>	<b>2,788</b>

**Bank**

2012 '000 LVL	Gross	Impairment allowance
Standard	57,256	-
Watch	22,696	1,410
Substandard	4,195	1,563
Doubtful	425	284
Lost	812	812
<b>Total</b>	<b>85,384</b>	<b>4,069</b>

2011 '000 LVL	Gross	Impairment allowance
Standard	64,957	-
Watch	9,263	1,200
Substandard	1,759	621
Doubtful	611	579
Lost	387	387
<b>Total</b>	<b>76,977</b>	<b>2,787</b>



**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

*Restructured loans*

During the twelve month period ended 31 December 2012, the Group and Bank restructured loans in the total amount of:

<b>LVL'000</b>	<b>31 December 2012 '000 LVL</b>	<b>31 December 2011 '000 LVL</b>
Principal and interest payments waiver	8,906	7,101
<b>Total</b>	<b>8,906</b>	<b>7,101</b>

**(i) Finance lease receivables**

Loans and advances to customers include the following finance lease receivables for leases of certain fixed assets where the Group is the lessor:

<b>LVL'000</b>	<b>2012</b>	<b>2011</b>
Gross investment in finance leases, receivable with maturity:		
Less than one year	1,720	1,379
Between one year and five years	4,909	4,094
More than 5 years	4,290	3,598
<b>Total gross investment in finance leases, receivables</b>	<b>10,919</b>	<b>9,071</b>
Unearned interest income	(1,412)	(1,162)
<b>Net investment in finance lease</b>	<b>9,507</b>	<b>7,909</b>
 <b>Net investments in finance leases with maturity:</b>		
Less than one year	1,595	1,110
Between one year and five years	2,120	3,455
More than 5 years	5,792	3,344
	<b>9,507</b>	<b>7,909</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**12 PROPERTY AND EQUIPMENT**

**Group property and equipment**

	<b>Buildings</b>	<b>Vehicles</b>	<b>Office equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>LVL'000</b>					
<b>Historical cost</b>					
<b>As at 31 December 2010</b>	<b>380</b>	<b>46</b>	<b>683</b>	<b>116</b>	<b>1,225</b>
Additions	-	74	178	-	252
Disposals	-	-	(151)	-	(151)
<b>As at 31 December 2011</b>	<b>380</b>	<b>120</b>	<b>710</b>	<b>116</b>	<b>1,326</b>
Additions	-	20	302	-	322
Disposals	-	(46)	(58)	-	(104)
<b>As at 31 December 2012</b>	<b>380</b>	<b>94</b>	<b>954</b>	<b>116</b>	<b>1,544</b>
<b>Accumulated depreciation</b>					
<b>As at 31 December 2010</b>	<b>63</b>	<b>39</b>	<b>316</b>	<b>86</b>	<b>504</b>
Amortisation for the year	19	13	175	23	230
Depreciation of disposed fixed assets	-	-	(151)	-	(151)
<b>As at 31 December 2011</b>	<b>82</b>	<b>52</b>	<b>340</b>	<b>109</b>	<b>583</b>
Amortisation for the year	19	21	192	7	239
Depreciation of disposed fixed assets	-	(46)	(58)	-	(104)
<b>As at 31 December 2012</b>	<b>101</b>	<b>27</b>	<b>474</b>	<b>116</b>	<b>718</b>
<b>Balance</b>					
<b>As at 31 December 2010</b>	<b>317</b>	<b>7</b>	<b>367</b>	<b>30</b>	<b>721</b>
<b>As at 31 December 2011</b>	<b>298</b>	<b>68</b>	<b>370</b>	<b>7</b>	<b>743</b>
<b>As at 31 December 2012</b>	<b>279</b>	<b>67</b>	<b>480</b>	<b>-</b>	<b>826</b>

**Bank property and equipment**

	<b>Buildings</b>	<b>Vehicles</b>	<b>Office equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>LVL'000</b>					
<b>Historical cost</b>					
<b>As at 31 December 2010</b>	<b>380</b>	<b>46</b>	<b>683</b>	<b>116</b>	<b>1,225</b>
Additions	-	-	178	-	178
Disposals	-	-	(151)	-	(151)
<b>As at 31 December 2011</b>	<b>380</b>	<b>46</b>	<b>710</b>	<b>116</b>	<b>1,252</b>
Additions	-	-	302	-	302
Disposals	-	(10)	(58)	-	(68)
<b>As at 31 December 2012</b>	<b>380</b>	<b>36</b>	<b>954</b>	<b>116</b>	<b>1,486</b>
<b>Accumulated depreciation</b>					
<b>As at 31 December 2010</b>	<b>63</b>	<b>39</b>	<b>316</b>	<b>86</b>	<b>504</b>
Amortisation for the year	19	7	175	23	224
Depreciation of fixed assets sold	-	-	(151)	-	(151)
<b>As at 31 December 2011</b>	<b>82</b>	<b>46</b>	<b>340</b>	<b>109</b>	<b>577</b>
Amortisation for the year	19	-	192	7	218
Depreciation of fixed assets sold	-	(10)	(58)	-	(68)
<b>As at 31 December 2012</b>	<b>101</b>	<b>36</b>	<b>474</b>	<b>116</b>	<b>727</b>
<b>Balance</b>					
<b>As at 31 December 2010</b>	<b>317</b>	<b>7</b>	<b>367</b>	<b>30</b>	<b>721</b>
<b>As at 31 December 2011</b>	<b>298</b>	<b>-</b>	<b>370</b>	<b>7</b>	<b>675</b>
<b>As at 31 December 2012</b>	<b>279</b>	<b>-</b>	<b>480</b>	<b>-</b>	<b>759</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**13 INVESTMENT PROPERTY**

The Group's investment property

	Land	Buildings	Total
<b>Historical cost</b>			
As at 31 December 2010	858	691	1,549
Acquisitions	-	1,840	1,840
As at 31 December 2011	858	2,531	3,389
Acquisitions	206	904	1,110
As at 31 December 2012	1,064	3,435	4,499
<b>Accumulated depreciation</b>			
As at 31 December 2010	-	34	34
Amortisation for the year	-	24	24
As at 31 December 2011	-	58	58
Amortisation for the year	-	69	69
As at 31 December 2012	-	127	127
<b>Balance</b>			
As at 31 December 2011	858	2,473	3,331
As at 31 December 2012	1,064	3,308	4,372

Investment property is accounted in cost. Investment property includes land, residential properties and commercial properties. During 2011 the Group performed a revaluation of a part of its investment property portfolio. Due to the reason that real estate market was quite stable in comparison to year 2011, no revaluation was made in year 2012.

The estimated fair value of investment property revalued in year 2011 was noted to be in range from 2,500 thousand LVL to 3,000 thousand LVL. Net book value of revalued investment property in year 2011 was 893 thousand LVL. Valuations were performed using two generally accepted methodologies in order to estimate fair value of investment properties: income approach using discounted cash flows model valuation technique, and market approach using market comparables valuation method.

Income from rent services in year 2012 amounted to 97 thousand LVL (2011: 66 thousand LVL) and corresponding maintenance expenses amounted to 92 thousand LVL (2011: 75 thousand LVL).

**14 OTHER ASSETS**

Other assets are as follows:

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
<i>Financial assets:</i>				
Deferred expenses and accrued income	76	76	-	-
Funds in transit	389	389	86	86
Trade receivables	1,315	37	-	-
Credit card transactions in transit	210	210	36	36
Other financial assets	599	-	-	-
<i>Non financial assets:</i>				
Deferred expenses and accrued income	51	51	93	93
Other non-financial assets	-	-	109	36
<b>Total</b>	<b>2,640</b>	<b>763</b>	<b>324</b>	<b>250</b>

Trade receivables represent receivable for AS SMP Finance of non-current assets held for sale sold during year 2012.

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**15 DUE TO CREDIT INSTITUTIONS ON DEMAND**

Due to credit institutions are comprised as follows:

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Credit institutions registered in OECD countries	20	20	37	37
Residents of other non-OECD countries	74	74	238	238
<b>Total demand deposits</b>	<b>94</b>	<b>94</b>	<b>275</b>	<b>275</b>

As at 31 December 2012 there were 3 accounts to correspondent banks (31 December 2011 - 4).

**Concentration of Demand balances due to credit institutions**

As at 31 December 2012 and 2011 the Bank had 3 and 4 credit institutions, whose balances exceeded 10% of total Demand balances due to credit institutions. The gross value of these balance as of 31 December 2012 and 2011 was LVL 94 thousand and LVL 271 thousand, respectively.

**16 DEPOSITS**

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
<b>Sector profile:</b>				
<b>Non-banking deposits</b>				
Corporate customers	99,390	99,390	81,094	81,106
Individuals	48,810	48,810	34,358	34,358
State institutions	13,471	13,471	14,728	14,728
<b>Total non-banking deposits:</b>	<b>161,671</b>	<b>161,671</b>	<b>130,180</b>	<b>130,192</b>
<b>Total deposits</b>	<b>161,671</b>	<b>161,671</b>	<b>130,180</b>	<b>130,192</b>
<b>Geographical profile:</b>				
Residents	42,953	42,953	33,867	33,879
Non-residents	118,718	118,718	96,313	96,313
<i>Residents of OECD countries</i>	<i>41,449</i>	<i>41,449</i>	<i>30,728</i>	<i>30,728</i>
<i>Residents of other non-OECD countries</i>	<i>77,269</i>	<i>77,269</i>	<i>65,585</i>	<i>65,585</i>
<b>Total deposits</b>	<b>161,671</b>	<b>161,671</b>	<b>130,180</b>	<b>130,192</b>
<b>Current accounts and deposits due to non-banking customers</b>				
<b>Demand</b>				
Corporate customers	83,368	83,368	64,294	64,306
Individuals	29,296	29,296	19,391	19,391
Government-related entities	13,471	13,471	14,728	14,728
<b>Total demand deposits</b>	<b>126,135</b>	<b>126,135</b>	<b>98,413</b>	<b>98,425</b>
<b>Term deposits</b>				
Corporate customers	16,022	16,022	16,800	16,800
Individuals	19,514	19,514	14,967	14,967
<b>Total term deposits</b>	<b>35,536</b>	<b>35,536</b>	<b>31,767</b>	<b>31,767</b>
<b>Total current accounts and deposits due to non-banking customers</b>	<b>161,671</b>	<b>161,671</b>	<b>130,180</b>	<b>130,192</b>

As of 31 December 2012, the Bank maintained customer deposit balances of 1,504 thousand LVL (2011: 2,388 thousand LVL) which were blocked by the Bank as collateral for loans, and other contingent liabilities, granted by the Bank.

**Concentrations of current accounts and customer deposits**

As at 31 December 2012 and 31 December 2011 the Bank had no customers, whose deposits exceeded 10% of total customer deposits.

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**17 SUBORDINATED LIABILITIES**

Subordinated liabilities as at 31 December 2012 comprise of loans received from 7 individuals and 1 private company (31 December 2011: 5 individuals).

	Maturity	Interest rate	31 December 2012		31 December 2011	
			Group	Bank	Group	Bank
Loan No. 1	02.09.2017	4%	200	200	200	200
Loan No. 2 (related party)	02.09.2017	4%	300	300	300	300
Loan No. 3 (related party)	02.09.2017	4%	200	200	200	200
Loan No. 4 (related party)	28.12.2017	4%	300	300	300	300
Loan No. 5	30.09.2016	3.2%	214	214	214	214
Loan No. 6 (related party)	26.04.2018	4%	300	300	300	300
Loan No. 7 (related party)	30.12.2016	3,5%	351	351	351	351
Loan No. 8 (related party)	25.11.2018	3.6%	914	914	914	914
Loan No. 9 (related party)	22.03.2019	3.6%	1,054	1,054	-	-
Loan No. 10	30.10.2017	3,5%	211	211		
<b>Total</b>			<b>4,044</b>	<b>4,044</b>	<b>2,779</b>	<b>2,779</b>

Subordinated loans are to be satisfied after the claims of all other creditors of the Bank, but before claims of shareholders of the Bank in case of liquidation of the Bank.

**18 OTHER LIABILITIES**

Other liabilities are as follows:

LVL'000	2012		2011	
	Group	Bank	Group	Bank
<i>Financial liabilities:</i>				
Funds in transit	3,516	3,516	1,000	1,000
Unallocated funds	5,046	5,046	1,744	1,744
Other payables	545	56	-	-
<i>Non-financial liabilities:</i>				
Accrued expenses and deferred income	184	184	108	76
Other payables	63	-	104	9
<b>Total</b>	<b>9,354</b>	<b>8,802</b>	<b>2,956</b>	<b>2,829</b>

Cash in transit includes amounts requested by clients for payment with a value date of 2 January 2013 and 2012 respectively.

Unallocated funds include amounts for which the Bank has not matched incoming funds to its client accounts. Unallocated accounts are matched within ten working days after they are received.

**19 PROVISIONS**

Provisions include provisions for unused vacations and amount to LVL 106 thousand for the Bank purposes and 107 thousand for the Group purposes (2011: 101 thousand LVL and 102 thousand LVL respectively).

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**20 SHARE CAPITAL**

	As at 31 December 2012			As at 31 December 2011	
	Value per share (LVL)	Number of shares	Share capital (LVL'000)	Number of shares	Share capital (LVL'000)
Ordinary shares	50	180,124	9,006	160,124	8,006
Shareholders' analysis					
		<b>2011</b>		<b>2010</b>	
		<b>Number of shares</b>	<b>%</b>	<b>Number of shares</b>	<b>%</b>
Individuals		9,229	5.12	9,229	5.76
SMP bank (Russian Federation)		170,821	94.84	150,821	94.19
Other corporate shareholders		74	0.04	74	0.05
<b>Total</b>		<b>180,124</b>	<b>100</b>	<b>160,124</b>	<b>100</b>

The Bank's capital is registered and fully paid. Ordinary shares rank equally with respect to dividends, as may be declared, and entitle all holders to equal voting rights at the shareholders' meeting. All shares rank equal with respect to residual assets. As at 31 December 2012, there were 8 shareholders – 2 legal persons and 6 individuals (31 December 2011: 8 – 2 legal persons and 6 individuals). The Bank's immediate parent bank is SMP Bank (Russia). Two individuals own 36.8% each of the immediate parent.

In 2012, the general meeting of shareholders decided on the issuance of 20 000 ordinary shares at a price of 50 LVL that equals their par value. All shares are fully paid.

Reserves of LVL 105 thousand (2011: 105 thousand LVL) consist of reserves that were created upon privatization of the Bank in accordance with statutory regulatory framework requirements which were in force at privatization date.

The use of share premium is defined by applicable Latvian legislation.

**21 INTEREST INCOME**

LVL'000	2012		2011	
	Group	Bank	Group	Bank
<b>Interest income on loans and receivables</b>				
Loans and receivables	3,335	3,313	2,995	2,939
Loans from banks	253	253	121	121
Bonds	271	271	184	184
<b>Total</b>	<b>3,859</b>	<b>3,837</b>	<b>3,300</b>	<b>3,244</b>

Interest recognized on impaired loans during the year period ended 31 December 2012 amounts to 315 thousand LVL (31 December 2011: 447 thousand LVL).

**22 INTEREST EXPENSE**

LVL'000	2012		2011	
	Group	Bank	Group	Bank
<b>Interest expenses on liabilities at amortized cost:</b>				
Current accounts and deposits of customers	1,530	1,530	1,196	1,196
<b>Total</b>	<b>1,530</b>	<b>1,530</b>	<b>1,196</b>	<b>1,196</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**23 FEE AND COMMISSION INCOME**

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Commissions from money transfers, cash operations and servicing accounts	2,292	2,292	1,670	1,670
Fees from cards services	425	425	287	287
Commissions from guarantees	318	318	243	243
Brokerage fees	152	152	155	155
Other	44	39	62	43
<b>Total</b>	<b>3,231</b>	<b>3,226</b>	<b>2,417</b>	<b>2,398</b>

**24 FEE AND COMMISSION EXPENSE**

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Commissions paid to correspondent banks	293	293	192	192
Commissions for transactions with payment cards	301	301	293	293
Fees for operations with securities	23	23	21	21
Other	3	3	3	3
<b>Total</b>	<b>620</b>	<b>620</b>	<b>509</b>	<b>509</b>

**25 GAIN ON TRADING WITH FINANCIAL INSTRUMENTS, NET**

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Profit from foreign currency transactions	2,016	2,016	1,319	1,319
Profit/(loss) from revaluation of foreign exchange	6	19	(5)	(28)
Proceeds from trading securities with non-fixed income	1	1	-	-
Gain/(loss) on revaluation of investments	(8)	(8)	15	15
<b>Total</b>	<b>2,015</b>	<b>2,028</b>	<b>1,329</b>	<b>1,306</b>

**26 ADMINISTRATIVE EXPENSES**

Salaries, wages and related social security contributions represent the basic remuneration of the employees, social security contributions as well as other remuneration. During the years ended 31 December 2012 and 2011, the Bank and the Group employed on average 200 and 194 employees, respectively. Administrative expenses are as follows:

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Personnel salaries and wages	1,748	1,740	1,534	1,531
Rent of premises and other maintenance expenses	516	516	535	535
Compulsory state social security contributions	464	462	402	401
Professional services	633	614	541	511
Depreciation of property and equipment and investments in rented property and equipment	239	218	230	224
Salaries to Board of Directors and Council	197	197	168	168
Office supplies	30	29	34	31
Advertising and marketing	64	64	26	26
Other	462	307	371	320
<b>Total</b>	<b>4,353</b>	<b>4,147</b>	<b>3,841</b>	<b>3,747</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**27 TAXES**

**(a) Corporate income tax**

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Corporate income tax	191	191	85	85
Deferred tax	-	-	1	1
<b>Corporate income tax</b>	<b>191</b>	<b>191</b>	<b>86</b>	<b>86</b>

**(b) Reconciliation of effective tax rate:**

	2012	2012	2011	2011
LVL'000	Group	Bank	Group	Bank
Profit before tax	1,301	1,482	542	539
Expected tax charge applying current tax rate of 15%	195	222	81	81
Non-deductible expenses and non-taxable income	31	4	5	5
Utilized tax relief on taxes paid abroad	(26)	(26)	-	-
Other	(9)	(9)	-	-
<b>Corporate income tax charge</b>	<b>191</b>	<b>191</b>	<b>86</b>	<b>86</b>

**(c) Deferred tax asset and liabilities:**

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

Bank	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
LVL'000						
Property and equipment	-	-	(39)	(39)	(39)	(39)
Other accruals	15	15	-	-	15	15
<b>Total deferred tax asset /(liabilities)</b>	<b>15</b>	<b>15</b>	<b>(39)</b>	<b>(39)</b>	<b>(24)</b>	<b>(24)</b>

The rate of tax applicable for deferred taxes was 15% (2009: 15%).

**Movement in temporary differences during the year ended 31 December 2012**

Bank	Balance as at 1 January 2012	Recognized in the statement of comprehensive income		As at 31 December 2012
LVL'000				
Property and equipment	(39)	-	-	(39)
Provisions	15	-	-	15
	<b>(24)</b>	<b>-</b>	<b>-</b>	<b>(24)</b>

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

Group	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
LVL'000						
Property and equipment	-	-	(39)	(39)	(39)	(39)
Other provisions	15	15	-	-	15	15
<b>Total deferred tax asset /(liabilities)</b>	<b>15</b>	<b>15</b>	<b>(39)</b>	<b>(39)</b>	<b>(24)</b>	<b>(24)</b>

The rate of tax applicable for deferred taxes was 15% (2010: 15%).



**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**Movement in temporary differences during the year ended 31 December 2012**

Group LVL'000	Balance as at 1 January 2012	Recognized in the statement of comprehensive income	Balance Sheet as at 31 December 2012
Property and equipment	(39)	-	(39)
Provisions	15	-	15
	<b>(24)</b>	<b>-</b>	<b>(24)</b>

**28 CASH AND CASH EQUIVALENTS**

LVL'000	2012 Group	2012 Bank	2011 Group	2011 Bank
Cash	2,807	2,807	3,014	3,014
Current placements with the Bank of Latvia	20,727	20,727	8,092	8,092
Demand deposits and term deposits with credit institutions with initial maturity of less than three months	49,847	49,847	49,623	49,623
Due to credit institutions on demand with maturity of less than three months	(94)	(94)	(275)	(275)
<b>Total</b>	<b>73,287</b>	<b>73,287</b>	<b>60,454</b>	<b>60,454</b>

**29 RELATED PARTY TRANSACTIONS**

**(a) Control relationships**

Related parties are defined as shareholders who have significant influence over the Bank and its subsidiary, members of the Supervisory Board and Board of Management, and other related parties, i.e., key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

During 2012 and 2011, all related party transactions were performed on an arm's length basis.

Transactions with SMP Bank (Russia) for year ended 31 December are analysed as follows:

LVL'000	2012 Group/ Bank	Average rate	2011 Group/ Bank	Average rate
Due from SMP Bank (Russia)	5,550	2.0%	5,732	2.3%
Due to SMP bank (Russia)	36	0.0%	186	0.0%

The outstanding part of the liabilities to related parties amounted to 3,619 thousand LVL as at 31 December 2012 (2011: 2,565 thousand LVL). For more detailed information refer to Note 17.

Transactions with AS SMP Finance (Latvia) for year ended 31 December 2012 are as follows:

LVL'000	2012 Bank	Average rate	2011 Bank	Average rate
Loans to AS SMP Finance	15,492	1.71%	11,729	1.87%
Deposits from AS SMP Finance	-	-	12	-

The total amount of related party loans and deposits at the year-end:

LVL'000	2012 Bank	Average rate	2011 Bank	Average rate
<b>Deposits from SMP Bank (Russian Federation); AS SMP Finance and other related parties</b>	<b>11,217</b>	<b>1.1%</b>	<b>11,029</b>	<b>0.0%</b>
<b>Loans to other related parties</b>				
Opening balance	600		600	
Issued loans in current year	936		26	
Matured loans in current year	(131)		(26)	
<b>Loans closing balance</b>	<b>1,405</b>	<b>3.8%</b>	<b>600</b>	<b>4.0%</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

Remuneration to the Supervisory Council and Management Board:

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
Remuneration of the Supervisory Council and Management Board	197	197	168	168
<b>Total</b>	<b>197</b>	<b>197</b>	<b>168</b>	<b>168</b>

Transactions with related parties for year ended 31 December 2012 are as follows:

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
Interest income	263	263	198	198
Interest expense	(135)	(135)	(19)	(19)
<b>Total</b>	<b>128</b>	<b>128</b>	<b>179</b>	<b>179</b>

**30 ASSETS AND LIABILITIES UNDER TRUST MANAGEMENT**

Assets '000 LVL	2012	2012	2011	2011
	Group	Bank	Group	Bank
Loans from banks	10,089	10,089	38,080	38,080
Fiduciary loan	4,183	4,183	4,712	4,712
Bonds quoted in CIS countries	8	8	9	9
<b>Total</b>	<b>14,280</b>	<b>14,280</b>	<b>42,801</b>	<b>42,801</b>

Liabilities '000 LVL	2012	2012	2011	2011
	Group	Bank	Group	Bank
Funds received from individuals	8	8	150	150
Funds received from corporate customers	14,272	14,272	42,651	42,651
<b>Total</b>	<b>14,280</b>	<b>14,280</b>	<b>42,801</b>	<b>42,801</b>

Managed liabilities consist of clients' – non resident funds in total amount LVL 14,272 thousand and clients' –resident funds in total amount LVL 8 thousand.

A fiduciary loan is a transaction whereby the Bank and Group have attracted a fiduciary deposit that has been issued to a borrower specified by those depositors on behalf of the depositors and at the depositor's risk. The property owned by clients is kept under management separately from the property of the Bank and Group and is kept in separate accounts at credit institutions through which the funds are invested. Assets under management often represent a securities portfolio separated from the Bank's and the Group's assets, which is treated as a joint management object with its own structure, liquidity degree, sources of resources, yield and common risk. The Group and Bank is engaged in securities purchase and sales on behalf of their clients. These securities are not disclosed in the statement of financial position of the Group and the Bank.

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**31 CONTINGENT LIABILITIES**

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to ten years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum exposure that would be recognised in the statement of comprehensive income date if counterparties failed completely to perform as contracted.

LVL'000	2012	2012	2011	2011
	Group	Bank	Group	Bank
Loans and credit line liabilities	3,822	3,822	5,747	5,747
Guarantees and letters of credit	5,053	5,053	7,692	7,692
<b>Total</b>	<b>8,875</b>	<b>8,875</b>	<b>13,439</b>	<b>13,439</b>

**32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES**

The geographical segmentation of the Group's and the Bank's statements of financial position as at 31 December 2012 was as follows:

**Group**

	Latvia	OECD countries	CIS countries	Other countries	Total
<b>As at 31 December 2012</b>					
<b>Assets '000 LVL</b>					
Cash and balance due from the Bank of Latvia	23,201	-	-	333	23,534
Latvian government bonds with fixed income	2,667	-	-	-	2,667
Fixed income bonds	-	21,240	2,502	966	24,708
Demand deposits with credit institutions	10,924	22,672	6,083	7,718	47,397
Loans and term deposits due from credit institutions	1,700	2,575	750	-	5,025
Loans to customers	62,616	6,948	2,948	2,818	75,330
Held-for-trading financial assets:	26	-	-	-	26
Property and equipment	762	-	-	64	826
Investment property	4,372	-	-	-	4,372
Other tax assets	34	-	-	-	34
Other assets	2,461	-	6	173	2,640
<b>Total assets</b>	<b>108,763</b>	<b>53,435</b>	<b>12,289</b>	<b>12,072</b>	<b>186,559</b>

	Latvia	OECD countries	CIS countries	Other countries	Total
<b>As at 31 December 2012</b>					
<b>Liabilities '000 LVL</b>					
Due to credit institutions on demand	-	20	74	-	94
Deposits	42,953	42,503	24,651	51,564	161,671
Subordinated liabilities	351	-	2,639	1,054	4,044
Other liabilities	9,042	-	-	312	9,354
Other taxes and social contributions	12	-	-	-	12
Provisions	99	-	-	8	107
Deferred tax liability	24	-	-	-	24
Corporate income tax	105	-	-	-	105
Capital and reserves	2,472	-	8,676	-	11,148
<b>Total capital, reserves and liabilities</b>	<b>55,058</b>	<b>42,523</b>	<b>36,040</b>	<b>52,938</b>	<b>186,559</b>
<b>Forecasted and contingent liabilities</b>	<b>6,096</b>	<b>2,722</b>	<b>-</b>	<b>57</b>	<b>8,875</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES (CONTINUED)**

**Bank**

	<b>Latvia</b>	<b>OECD countries</b>	<b>CIS countries</b>	<b>Other countries</b>	<b>Total</b>
<b>As at 31 December 2012</b>					
<b>Assets '000 LVL</b>					
Cash and balance due from the Bank of Latvia	23,201	-	-	333	23,534
Latvian government bonds with fixed income	2,667	-	-	-	2,667
Fixed income bonds	-	21,240	2,502	966	24,708
Demand deposits with credit institutions	10,924	22,672	6,083	7,718	47,397
Loans and term deposits due from credit institutions	1,700	2,575	750	-	5,025
Loans to customers	68,601	6,948	2,948	2,818	81,315
Held-for-trading financial assets:	26	-	-	-	26
Property and equipment	695	-	-	64	759
Other assets	584	-	6	173	763
<b>Total assets</b>	<b>108,398</b>	<b>53,435</b>	<b>12,289</b>	<b>12,072</b>	<b>186,194</b>
	<b>Latvia</b>	<b>OECD countries</b>	<b>CIS countries</b>	<b>Other countries</b>	<b>Total</b>
<b>As at 31 December 2012</b>					
<b>Liabilities '000 LVL</b>					
Due to credit institutions on demand	-	20	74	-	94
Deposits	42,953	42,503	24,651	51,564	161,671
Subordinated liabilities	351	-	2,639	1,054	4,044
Other liabilities	8,490	-	-	312	8,802
Other taxes and social contributions	12	-	-	-	12
Provisions	98	-	-	8	106
Deferred tax liability	24	-	-	-	24
Corporate income tax	105	-	-	-	105
Capital and reserves	2,660	-	8,676	-	11,336
<b>Total capital, reserves and liabilities</b>	<b>54,693</b>	<b>42,523</b>	<b>36,040</b>	<b>52,938</b>	<b>186,194</b>
<b>Forecasted and contingent liabilities</b>	<b>6,096</b>	<b>2,722</b>	<b>-</b>	<b>57</b>	<b>8,875</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES (CONTINUED)**

The geographical segmentation of the Group's and the Bank's statements of financial position as at 31 December 2011 was as follows:

**Group**

	<b>Latvia</b>	<b>OECD countries</b>	<b>CIS countries</b>	<b>Other countries</b>	<b>Total</b>
<b>As at 31 December 2011</b>					
<b>Assets '000 LVL</b>					
Cash and balance due from the Bank of Latvia	10,853	-	-	253	11,106
Latvian government bonds with fixed income	3,498	-	-	-	3,498
Fixed income bonds	-	-	2,553	-	2,553
Demand deposits with credit institutions	11,573	23,763	3,991	6,556	45,883
Loans and term deposits due from credit institutions	-	2,094	5,051	-	7,145
Loans to customers	61,909	4,586	1,160	2,830	70,485
Held-for-trading financial assets:	35	-	-	-	35
Property and equipment	709	-	-	34	743
Investment property	3,331	-	-	-	3,331
Other tax assets	4	-	-	-	4
Other assets and non-current assets held for sale	659	-	14	24	697
<b>Total assets</b>	<b>92,571</b>	<b>30,443</b>	<b>12,769</b>	<b>9,697</b>	<b>145,480</b>
<b>As at 31 December 2011</b>					
<b>Liabilities '000 LVL</b>					
Due to credit institutions on demand	-	37	238	-	275
Deposits	33,683	30,728	23,648	42,121	130,180
Subordinated liabilities	351	-	2,428	-	2,779
Other liabilities	2,956	-	-	-	2,956
Other taxes and social contributions	40	-	-	-	40
Provisions	98	-	-	4	102
Deferred tax liability	24	-	-	-	24
Corporate income tax	86	-	-	-	86
Capital and reserves	1,362	-	7,676	-	9,038
<b>Total capital, reserves and liabilities</b>	<b>38,600</b>	<b>30,765</b>	<b>33,990</b>	<b>42,125</b>	<b>145,480</b>
<b>Forecasted and contingent liabilities</b>	<b>7,461</b>	<b>3,305</b>	<b>-</b>	<b>2,673</b>	<b>13,439</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES (CONTINUED)**

**Bank**

	<b>Latvia</b>	<b>OECD countries</b>	<b>CIS countries</b>	<b>Other countries</b>	<b>Total</b>
<b>As at 31 December 2011</b>					
<b>Assets '000 LVL</b>					
Cash and balance due from the Bank of Latvia	10,853	-	-	253	11,106
Latvian government bonds with fixed income	3,498	-	-	-	3,498
Fixed income bonds	-	-	2,553	-	2,553
Demand deposits with credit institutions	11,573	23,763	3,991	6,556	45,883
Loans and term deposits due from credit institutions	-	2,094	5,051	-	7,145
Loans to customers	65,614	4,586	1,160	2,830	74,190
Held-for-trading financial assets:	35	-	-	-	35
Property and equipment	641	-	-	34	675
Other tax assets	4	-	-	-	4
Other assets	212	-	14	24	250
<b>Total assets</b>	<b>92,430</b>	<b>30,443</b>	<b>12,769</b>	<b>9,697</b>	<b>145,339</b>
	<b>Latvia</b>	<b>OECD countries</b>	<b>CIS countries</b>	<b>Other countries</b>	<b>Total</b>
<b>As at 31 December 2011</b>					
<b>Liabilities '000 LVL</b>					
Due to credit institutions on demand	-	37	238	-	275
Deposits	33,695	30,728	23,648	42,121	130,192
Subordinated liabilities	351	-	2,428	-	2,779
Other liabilities	2,829	-	-	-	2,829
Other taxes and social contributions	8	-	-	-	8
Provisions	97	-	-	4	101
Deferred tax liability	24	-	-	-	24
Corporate income tax	86	-	-	-	86
Capital and reserves	1,369	-	7,676	-	9,045
<b>Total capital, reserves and liabilities</b>	<b>38,459</b>	<b>30,765</b>	<b>33,990</b>	<b>42,125</b>	<b>145,339</b>
<b>Forecasted and contingent liabilities</b>	<b>7,461</b>	<b>3,305</b>	<b>-</b>	<b>2,673</b>	<b>13,439</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**33 INTEREST RATE REPRICING ANALYSIS**

The interest rate repricing analysis of the Group's and Bank's financial assets and liabilities as of 31 December 2012 was as follows:

**Group**

LVL'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1- 5 years	Over 5 years	Not sensitive against interest rate changes	Total
<b>Financial assets</b>								
Cash and balance due from the Bank of Latvia	20,727	-	-	-	-	-	2,807	23,534
Demand deposits with credit institutions	47,397	-	-	-	-	-	-	47,397
Latvian government bonds with fixed income	-	-	497	564	543	1,063	-	2,667
Fixed income bonds	21,240	-	1,083	1,145	1,240	-	-	24,708
Loans and receivables	3,208	1,432	6,493	24,867	26,876	12,454	-	75,330
Term deposits due to credit institutions	200	2,250	-	2,575	-	-	-	5,025
Non fixed-income securities	-	-	-	-	-	-	26	26
Other financial assets	-	-	-	-	-	-	2,589	2,589
<b>Total financial assets</b>	<b>92,772</b>	<b>3,682</b>	<b>8,073</b>	<b>29,151</b>	<b>28,659</b>	<b>13,517</b>	<b>5,422</b>	<b>181,276</b>
<b>Financial liabilities</b>								
Due to credit institutions on demand	94	-	-	-	-	-	-	94
Deposits	130,893	6,931	10,380	9,604	3,283	76	504	161,671
Subordinated liabilities	-	-	-	-	1,776	2,268	-	4,044
Other financial liabilities	-	-	-	-	-	-	9,170	9,170
<b>Total financial liabilities</b>	<b>130,987</b>	<b>6,931</b>	<b>10,380</b>	<b>9,604</b>	<b>5,059</b>	<b>2,344</b>	<b>9,674</b>	<b>174,979</b>
<b>Interest rate risk</b>	<b>(38,215)</b>	<b>(3,249)</b>	<b>(2,307)</b>	<b>19,547</b>	<b>23,600</b>	<b>11,173</b>	<b>(4,252)</b>	<b>6,297</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**33 INTEREST RATE REPRICING ANALYSIS (CONTINUED)**

**Bank**

LVL'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1- 5 years	Over 5 years	Not sensitive against interest rate changes	Total
<b>Financial assets</b>								
Cash and balance due from the Bank of Latvia	20,727	-	-	-	-	-	2,807	23,534
Demand deposits with credit institutions	47,397	-	-	-	-	-	-	47,397
Latvian government bonds with fixed income	-	-	497	564	543	1,063	-	2,667
Fixed income bonds	21,240	-	1,083	1,145	1,240	-	-	24,708
Loans to customers	4,172	5,457	30,442	27,418	12,080	1,746	-	81,315
Term deposits due to credit institutions	200	2,250	-	2,575	-	-	-	5,025
Non fixed-income securities	-	-	-	-	-	-	26	26
Other financial assets	-	-	-	-	-	-	712	712
<b>Total financial assets</b>	<b>93,736</b>	<b>7,707</b>	<b>32,022</b>	<b>31,702</b>	<b>13,863</b>	<b>2,809</b>	<b>3,545</b>	<b>185,384</b>
<b>Financial liabilities</b>								
Due to credit institutions on demand	94	-	-	-	-	-	-	94
Deposits	130,893	6,931	10,380	9,604	3,283	76	504	161,671
Subordinated liabilities	-	-	-	-	1,776	2,268	-	4,044
Other financial liabilities	-	-	-	-	-	-	8,618	8,618
<b>Total financial liabilities</b>	<b>130,987</b>	<b>6,931</b>	<b>10,380</b>	<b>9,604</b>	<b>5,059</b>	<b>2,344</b>	<b>9,122</b>	<b>174,427</b>
<b>Interest rate risk</b>	<b>(37,251)</b>	<b>776</b>	<b>21,642</b>	<b>22,098</b>	<b>8,804</b>	<b>465</b>	<b>(5,577)</b>	<b>10,957</b>



**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**33 INTEREST RATE REPRICING ANALYSIS (CONTINUED)**

The interest rate repricing analysis of the Group's and Bank's financial assets and liabilities as of 31 December 2011 was as follows:

**Group**

<b>LVL'000</b>	<b>Less than 1 month</b>	<b>1 – 3 months</b>	<b>3 – 6 months</b>	<b>6 – 12 months</b>	<b>1- 5 years</b>	<b>Over 5 years</b>	<b>Not sensitive against interest rate changes</b>	<b>Total</b>
<b>Financial assets</b>								
Cash and balance due from the Bank of Latvia	8,092	-	-	-	-	-	3,014	11,106
Demand deposits with credit institutions	45,883	-	-	-	-	-	-	45,883
Latvian government bonds with fixed income	-	181	-	2,242	-	1,075	-	3,498
Fixed income bonds	-	-	1,120	-	-	1,433	-	2,553
Loans and receivables	5,755	2,361	34,977	26,220	6,959	1,358	-	77,630
Non fixed-income securities	-	-	-	-	-	-	35	35
Other financial assets	-	-	-	-	-	-	122	122
<b>Total financial assets</b>	<b>59,730</b>	<b>2,542</b>	<b>36,097</b>	<b>28,462</b>	<b>6,959</b>	<b>3,866</b>	<b>3,171</b>	<b>140,827</b>
<b>Financial liabilities</b>								
Due to credit institutions on demand	275	-	-	-	-	-	-	275
Deposits	102,685	8,096	3,911	12,627	2,420	83	358	130,180
Subordinated liabilities	-	-	-	-	214	2,565	-	2,779
Other financial liabilities	-	-	-	-	-	-	2,744	2,744
<b>Total financial liabilities</b>	<b>102,960</b>	<b>8,096</b>	<b>3,911</b>	<b>12,627</b>	<b>2,634</b>	<b>2,648</b>	<b>3,102</b>	<b>135,978</b>
<b>Interest rate risk</b>	<b>(43,230)</b>	<b>(5,554)</b>	<b>32,186</b>	<b>15,835</b>	<b>4,325</b>	<b>1,218</b>	<b>69</b>	<b>4,849</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**33 INTEREST RATE REPRICING ANALYSIS (CONTINUED)**

**Bank**

	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1- 5 years	Over 5 years	Not sensitive against interest rate changes	Total
<b>LVL'000</b>								
<b>Financial assets</b>								
Cash and balance due from the Bank of Latvia	8,092	-	-	-	-	-	3,014	11,106
Demand deposits with credit institutions	45,883	-	-	-	-	-	-	45,883
Latvian government bonds with fixed income	-	181	-	2,242	-	1,075	-	3,498
Fixed income bonds	-	-	1,120	-	-	1,433	-	2,553
Loans and receivables	5,755	2,361	34,977	26,598	10,286	1,358	-	81,335
Non fixed-income securities	-	-	-	-	-	-	35	35
Other financial assets	-	-	-	-	-	-	122	122
<b>Total financial assets</b>	<b>59,730</b>	<b>2,542</b>	<b>36,097</b>	<b>28,840</b>	<b>10,286</b>	<b>3,866</b>	<b>3,171</b>	<b>144,532</b>
<b>Financial liabilities</b>								
Due to credit institutions on demand	275	-	-	-	-	-	-	275
Deposits	102,697	8,096	3,911	12,627	2,420	83	358	130,192
Subordinated liabilities	-	-	-	-	214	2,565	-	2,779
Other financial liabilities	-	-	-	-	-	-	2,744	2,744
<b>Total financial liabilities</b>	<b>102,972</b>	<b>8,096</b>	<b>3,911</b>	<b>12,627</b>	<b>2,634</b>	<b>2,648</b>	<b>3,102</b>	<b>135,990</b>
<b>Interest rate risk</b>	<b>(43,242)</b>	<b>(5,554)</b>	<b>32,186</b>	<b>16,213</b>	<b>7,652</b>	<b>1,218</b>	<b>69</b>	<b>8,542</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**33 INTEREST RATE REPRICING ANALYSIS (CONTINUED)**

*Sensitivity analyses*

The following demonstrates the sensitivity to reasonably possible changes in interest rates of the Bank's statement of comprehensive income. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The sensitivity of statement of comprehensive income is the effect of the assumed changes in the interest rates on the net interest income for one year, following the reporting period end date, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012 and 31 December 2011.

Sensitivity of the Group's profit and loss to changes in interest rates is not disclosed separately as it does not differ significantly from that of the Bank.

An increase and decrease of interest rates by 100 basis points would result in the following change to the statement of comprehensive income and equity:

	Net interest income sensitivity Interest rate increase LVL'000	Net interest income sensitivity Interest rate decrease LVL'000
<b>As at 31 December 2012</b>		
<b>Aggregate impact</b>	<b>(158)</b>	<b>158</b>
<b>As at 31 December 2011</b>		
<b>Aggregate impact</b>	<b>(219)</b>	<b>219</b>

**34 FINANCIAL ASSETS AND FINANCIAL LIABILITIES ALLOCATION BY TYPE**

**Group 31 December 2012**

LVL'000	Held to maturity	Financial assets at fair value through profit and loss	Loans and receivables	Liabilities at amortised cost	Total
<b>Financial assets</b>					
Cash and balance due from the Bank of Latvia	-	-	23,534	-	23,534
Demand deposits with credit institutions	-	-	47,397	-	47,397
Latvian government bonds with fixed income	2,667	-	-	-	2,667
Fixed income bonds	24,708	-	-	-	24,708
Loans and receivables	-	-	80,355	-	80,355
Non fixed-income securities	-	26	-	-	26
Other financial assets	-	-	2,589	-	2,589
<b>Total financial assets</b>	<b>27,375</b>	<b>26</b>	<b>153,875</b>	<b>-</b>	<b>181,276</b>
<b>Financial liabilities</b>					
Due to credit institutions on demand	-	-	-	94	94
Deposits	-	-	-	165,715	165,715
Subordinated liabilities	-	-	-	4,044	4,044
Other financial liabilities	-	-	-	9,170	9,170
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>179,023</b>	<b>179,023</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**34 FINANCIAL ASSETS AND FINANCIAL LIABILITIES ALLOCATION BY TYPE (CONTINUED)**

**Bank 31 December 2012**

	Held to maturity	Financial assets at fair value through profit and loss	Loans and receivables	Liabilities at amortised cost	Total
<b>LVL'000</b>					
<b>Financial assets</b>					
Cash and balance due from the Bank of Latvia	-	-	23,534	-	23,534
Demand deposits with credit institutions	-	-	47,397	-	47,397
Latvian government bonds with fixed income	2,667	-	-	-	2,667
Fixed income bonds	24,708	-	-	-	24,708
Loans and receivables	-	-	86,340	-	86,340
Non fixed-income securities	-	26	-	-	26
Other financial assets	-	-	712	-	712
<b>Total financial assets</b>	<b>27,375</b>	<b>26</b>	<b>157,983</b>	<b>-</b>	<b>185,384</b>
<b>Financial liabilities</b>					
Due to credit institutions on demand	-	-	-	94	94
Deposits	-	-	-	165,715	165,715
Subordinated liabilities	-	-	-	4,044	4,044
Other financial liabilities	-	-	-	8,618	8,618
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>178,471</b>	<b>178,471</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**35 CURRENCY ANALYSIS**

The Group and Bank actively controls foreign exchange open positions. The Bank operates based on the Law on Credit Institutions stating that the open position in any currency should not exceed 10% of shareholders' equity and that the total open position should not exceed 20% of the shareholders' equity.

The currency analysis of the Group's and the Bank's financial assets, liabilities and contingent liabilities as at 31 December 2012 was as follows:

**Group**

	LVL	USD	EUR	Other	Total
As at 31 December 2012	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Financial assets</b>					
Cash and balance due from the Bank of Latvia	18,560	291	4,250	433	23,534
Demand deposits with credit institutions	-	29,088	4,159	14,150	47,397
Latvian government bonds with fixed income	1,594	1,073	-	-	2,667
Fixed income bonds	-	23,742	-	966	24,708
Loans to customers	12,510	19,629	43,191	-	75,330
Loans and term deposits due from credit institutions	2,450	2,575	-	-	5,025
Held-for-trading financial assets:	26	-	-	-	26
Other financial assets	2,064	8	350	167	2,589
<b>Total financial assets</b>	<b>37,204</b>	<b>76,406</b>	<b>51,950</b>	<b>15,716</b>	<b>181,276</b>
<b>Financial liabilities</b>					
Due to credit institutions on demand	20	33	41	-	94
Deposits	27,030	70,464	48,681	15,496	161,671
Subordinated liabilities	1,300	-	2,744	-	4,044
Other financial liabilities	1,441	4,791	1,849	1,026	9,107
<b>Total financial liabilities</b>	<b>29,791</b>	<b>75,288</b>	<b>53,315</b>	<b>16,522</b>	<b>174,916</b>
Net open position in the statement of financial position	7,413	1,118	(1,365)	(806)	6,360
Net position from foreign exchange – contractual amounts	176	(1,300)	423	701	-
<b>Net open position total</b>	<b>7,589</b>	<b>(182)</b>	<b>(942)</b>	<b>(105)</b>	<b>6,360</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**35 CURRENCY ANALYSIS (CONTINUED)**

**Bank**

	LVL	USD	EUR	Other	Total
As at 31 December 2012	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Financial assets</b>					
Cash and balance due from the Bank of Latvia	18,560	291	4,250	433	23,534
Demand deposits with credit institutions	-	29,088	4,159	14,150	47,397
Latvian government bonds with fixed income	1,594	1,073	-	-	2,667
Fixed income bonds	-	23,742	-	966	24,708
Loans to customers	17,796	19,533	43,986	-	81,315
Loans and term deposits due from credit institutions	2,450	2,575	-	-	5,025
Held-for-trading financial assets:	26	-	-	-	26
Other financial assets	187	8	350	167	712
<b>Total financial assets</b>	<b>40,613</b>	<b>76,310</b>	<b>52,745</b>	<b>15,716</b>	<b>185,384</b>
<b>Financial liabilities</b>					
Due to credit institutions on demand	20	33	41	-	94
Deposits	27,030	70,464	48,681	15,496	161,671
Subordinated liabilities	1,300	-	2,744	-	4,044
Other financial liabilities	952	4,791	1,849	1,026	8,618
<b>Total financial liabilities</b>	<b>29,302</b>	<b>75,288</b>	<b>53,315</b>	<b>16,522</b>	<b>174,427</b>
Net open position in the statement of financial position	11,311	1,022	(570)	(806)	10,957
Net position from foreign exchange – contractual amounts	176	(1,300)	423	701	-
<b>Net open position total</b>	<b>11,487</b>	<b>(278)</b>	<b>(147)</b>	<b>(105)</b>	<b>10,957</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**35 CURRENCY ANALYSIS (CONTINUED)**

The currency analysis of the Group's and the Bank's financial assets, liabilities and contingent liabilities as at 31 December 2011 was as follows:

**Group**

<b>As at 31 December 2011</b>	<b>LVL</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>LVL'000</b>	<b>LVL'000</b>	<b>LVL'000</b>
<b>Financial assets</b>					
Cash and balance due from the Bank of Latvia	7,615	443	2,716	332	11,106
Demand deposits with credit institutions	8,000	24,128	5,817	7,938	45,883
Latvian government bonds with fixed income	2,955	543	-	-	3,498
Fixed income bonds	-	2,553	-	-	2,553
Loans to customers	9,740	17,096	43,649	-	70,485
Loans and term deposits due from credit institutions	750	2,094	-	4,301	7,145
Held-for-trading financial assets:	35	-	-	-	35
Other financial assets	-	5	80	37	122
<b>Total financial assets</b>	<b>29,095</b>	<b>46,862</b>	<b>52,262</b>	<b>12,608</b>	<b>140,827</b>
<b>Financial liabilities</b>					
Due to credit institutions on demand	37	154	84	-	275
Deposits	23,544	48,982	45,208	12,446	130,180
Subordinated liabilities	1,300	-	1,479	-	2,779
Other financial liabilities	389	1,870	388	97	2,744
<b>Total financial liabilities</b>	<b>25,270</b>	<b>51,006</b>	<b>47,159</b>	<b>12,543</b>	<b>135,978</b>
Net open position in the statement of financial position	3,825	(4,144)	5,103	65	4,849
Net position from foreign exchange – contractual amounts	537	4,462	(4,999)	-	-
<b>Net open position total</b>	<b>4,362</b>	<b>318</b>	<b>104</b>	<b>65</b>	<b>4,849</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**35 CURRENCY ANALYSIS (CONTINUED)**

**Bank**

	LVL	USD	EUR	Other	Total
As at 31 December 2011	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Financial assets</b>					
Cash and balance due from the Bank of Latvia	7,615	443	2,716	332	11,106
Demand deposits with credit institutions	8,000	24,128	5,817	7,938	45,883
Latvian government bonds with fixed income	2,955	543	-	-	3,498
Fixed income bonds	-	2,553	-	-	2,553
Loans to customers	14,356	16,794	43,040	-	74,190
Loans and term deposits due from credit institutions	750	2,094	-	4,301	7,145
Held-for-trading financial assets:	35	-	-	-	35
Other financial assets	-	5	80	37	122
<b>Total financial assets</b>	<b>33,711</b>	<b>46,560</b>	<b>51,653</b>	<b>12,608</b>	<b>144,532</b>
<b>Financial liabilities</b>					
Due to credit institutions on demand	37	154	84	-	275
Deposits	23,545	48,987	45,214	12,446	130,192
Subordinated liabilities	1,300	-	1,479	-	2,779
Other financial liabilities	389	1,870	388	97	2,744
<b>Total financial liabilities</b>	<b>25,271</b>	<b>51,011</b>	<b>47,165</b>	<b>12,543</b>	<b>135,990</b>
Net open position in the statement of financial position	8,440	(4,451)	4,488	65	8,542
Net position from foreign exchange – contractual amounts	537	4,462	(4,999)	-	-
<b>Net open position total</b>	<b>8,977</b>	<b>11</b>	<b>(511)</b>	<b>65</b>	<b>8,542</b>

An analysis of sensitivity of the Group's and Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 2012 and a simplified scenario of a 10% change in USD or EUR to LVL exchange rates is as follows:

**Group**

	2012	2011
'000 LVL	Net profit	Net profit
10% appreciation of USD against LVL	(20)	(32)
10% depreciation of USD against LVL	20	32
10% appreciation of EUR against LVL	(96)	(10)
10% depreciation of EUR against LVL	96	10

**Bank**

	2012	2011
'000 LVL	Net profit	Net profit
10% appreciation of USD against LVL	(30)	(1)
10% depreciation of USD against LVL	30	1
10% appreciation of EUR against LVL	(16)	51
10% depreciation of EUR against LVL	16	(51)

The foreign exchange rate is LVL/EUR is pegged as at 31 December 2011 and 31 December 2012.



**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The below amounts represent the financial assets and liabilities grouped by residual maturity.

The Finance Operation Department based on its liquidity management policy manages liquidity risk. All departments whose operations affect the liquidity of the Group and Bank are involved in liquidity management. The structure of assets/liabilities and the difference between them are calculated in order to carry out liquidity control. Liquidity is largely managed by using monetary instruments.

The maturity analysis of the Group's and Bank's financial assets and liabilities as at 31 December 2012 was as follows:

**Group**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Over 5 years or not determined	Total
As at 31 December 2012	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Financial assets</b>							
Cash and balance due from the Bank of Latvia	23,534	-	-	-	-	-	23,534
Demand deposits with credit institutions	47,397	-	-	-	-	-	47,397
Latvian government bonds with fixed income	-	-	497	564	543	1,063	2,667
Fixed income bonds	21,240	-	1,083	1,145	1,240	-	24,708
Loans and term deposits due from credit institutions	200	2,250	-	2,575	-	-	5,025
Loans to customers	3,208	1,432	6,493	24,867	27,247	12,083	75,330
Held-for-trading financial assets:	-	-	-	-	26	-	26
Other financial assets	2,589	-	-	-	-	-	2,589
<b>Total financial assets</b>	<b>98,168</b>	<b>3,682</b>	<b>8,073</b>	<b>29,151</b>	<b>29,056</b>	<b>13,146</b>	<b>181,276</b>
<b>Financial liabilities</b>							
Due to credit institutions on demand	94	-	-	-	-	-	94
Deposits	131,027	7,018	10,487	9,674	3,465	-	161,671
Subordinated liabilities	-	-	-	-	1,779	2,265	4,044
Other financial liabilities	9,107	-	-	-	-	-	9,107
<b>Total financial liabilities</b>	<b>140,228</b>	<b>7,018</b>	<b>10,487</b>	<b>9,674</b>	<b>5,244</b>	<b>2,265</b>	<b>174,916</b>
<b>Liquidity risk</b>	<b>(42,060)</b>	<b>(3,336)</b>	<b>(2,414)</b>	<b>19,477</b>	<b>23,812</b>	<b>10,881</b>	<b>6,360</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)**

**Bank**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Over 5 years or not determined	Total
As at 31 December 2012	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Financial assets</b>							
Cash and balance due from the Bank of Latvia	23,534	-	-	-	-	-	23,534
Demand deposits with credit institutions	47,397	-	-	-	-	-	47,397
Latvian government bonds with fixed income	-	-	497	564	543	1,063	2,667
Fixed income bonds	21,240	-	1,083	1,145	1,240	-	24,708
Loans and term deposits due from credit institutions	200	2,250	-	2,575	-	-	5,025
Loans to customers	3,211	1,815	5,723	32,416	29,335	8,815	81,315
Held-for-trading financial assets:	-	-	-	-	26	-	26
Other financial assets	712	-	-	-	-	-	712
<b>Total financial assets</b>	<b>96,294</b>	<b>4,065</b>	<b>7,303</b>	<b>36,700</b>	<b>31,144</b>	<b>9,878</b>	<b>185,384</b>
<b>Financial liabilities</b>							
Due to credit institutions on demand	94	-	-	-	-	-	94
Deposits	131,027	7,018	10,487	9,674	3,465	-	161,671
Subordinated liabilities	-	-	-	-	1,779	2,265	4,044
Other financial liabilities	8,618	-	-	-	-	-	8,618
<b>Total financial liabilities</b>	<b>139,739</b>	<b>7,018</b>	<b>10,487</b>	<b>9,674</b>	<b>5,244</b>	<b>2,265</b>	<b>174,427</b>
<b>Liquidity risk</b>	<b>(43,445)</b>	<b>(2,953)</b>	<b>(3,184)</b>	<b>27,026</b>	<b>25,900</b>	<b>7,613</b>	<b>10,957</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)**

The maturity analysis of the Bank's assets and liabilities as of 31 December 2011 was as follows:

**Group**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Over 5 years or not determined	Total
As at 31 December 2011	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Financial assets</b>							
Cash and balance due from the Bank of Latvia	11,106	-	-	-	-	-	11,106
Demand deposits with credit institutions	45,883	-	-	-	-	-	45,883
Latvian government bonds with fixed income	-	181	-	2,242	-	1,075	3,498
Fixed income bonds	-	-	1,120	-	-	1,433	2,553
Loans and term deposits due from credit institutions	3,740	-	750	2,655	-	-	7,145
Loans to customers	1,670	2,092	2,206	27,298	26,110	11,109	70,485
Held-for-trading financial assets:	35	-	-	-	-	-	35
Other financial assets	122	-	-	-	-	-	122
<b>Total financial assets</b>	<b>62,556</b>	<b>2,273</b>	<b>4,076</b>	<b>32,195</b>	<b>26,110</b>	<b>13,617</b>	<b>140,827</b>
<b>Financial liabilities</b>							
Due to credit institutions on demand	275	-	-	-	-	-	275
Deposits	102,778	8,147	3,967	12,736	2,552	-	130,180
Subordinated liabilities	-	-	-	-	215	2,564	2,779
Other financial liabilities	2,744	-	-	-	-	-	2,744
<b>Total financial liabilities</b>	<b>105,797</b>	<b>8,147</b>	<b>3,967</b>	<b>12,736</b>	<b>2,767</b>	<b>2,564</b>	<b>135,978</b>
<b>Liquidity risk</b>	<b>(43,241)</b>	<b>(5,874)</b>	<b>109</b>	<b>19,459</b>	<b>23,343</b>	<b>11,053</b>	<b>4,849</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)**

**Bank**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Over 5 years or not determined	Total
As at 31 December 2011	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Financial assets</b>							
Cash and balance due from the Bank of Latvia	11,106	-	-	-	-	-	11,106
Demand deposits with credit institutions	45,883	-	-	-	-	-	45,883
Latvian government bonds with fixed income	-	181	-	2,242	-	1,075	3,498
Fixed income bonds	-	-	1,120	-	-	1,433	2,553
Loans and term deposits due from credit institutions	3,740	-	750	2,655	-	-	7,145
Loans to customers	1,670	2,092	2,206	27,676	29,437	11,109	74,190
Held-for-trading financial assets:	35	-	-	-	-	-	35
Other financial assets	122	-	-	-	-	-	122
<b>Total financial assets</b>	<b>62,556</b>	<b>2,273</b>	<b>4,076</b>	<b>32,573</b>	<b>29,437</b>	<b>13,617</b>	<b>144,532</b>
<b>Financial liabilities</b>							
Due to credit institutions on demand	275	-	-	-	-	-	275
Deposits	102,790	8,147	3,967	12,736	2,552	-	130,192
Subordinated liabilities	-	-	-	-	215	2,564	2,779
Other financial liabilities	2,744	-	-	-	-	-	2,744
<b>Total financial liabilities</b>	<b>105,809</b>	<b>8,147</b>	<b>3,967</b>	<b>12,736</b>	<b>2,767</b>	<b>2,564</b>	<b>135,990</b>
<b>Liquidity risk</b>	<b>(43,253)</b>	<b>(5,874)</b>	<b>109</b>	<b>19,837</b>	<b>26,670</b>	<b>11,053</b>	<b>8,542</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**36 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)**

Analysis of financial liabilities' contractual undiscounted cash flows.

The table below presents the cash flows payable by the Bank under both non-derivative and derivative financial liabilities by remaining contractual maturities as at 31 December 2012 and 2011.

The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The Group analysis of financial liabilities' contractual undiscounted cash flows has not been presented as the differences to the Bank analysis are insignificant.

	Carrying amount	Gross nominal out flow	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
As at 31 December 2012	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Non-derivative financial liabilities</b>							
Due to credit institutions on demand	(94)	(94)	(94)	-	-	-	-
Deposits	(161,671)	(162,670)	(131,038)	(7,157)	(20,800)	(3,675)	-
Subordinated liabilities	(4,044)	(4,911)	(3)	(44)	(84)	(2,321)	(2,459)
Other financial liabilities	(8,618)	(8,618)	(8,618)	-	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>(174,427)</b>	<b>(176,293)</b>	<b>(139,753)</b>	<b>(7,201)</b>	<b>(20,884)</b>	<b>(5,996)</b>	<b>(2,459)</b>
Unrecognized loan commitments	-	(5,053)	(5,053)	-	-	-	-
Guarantees and letters of credit	-	(3,822)	-	(3,822)	-	-	-
<b>Total financial liabilities</b>	<b>(174,753)</b>	<b>(185,168)</b>	<b>(144,806)</b>	<b>(11,023)</b>	<b>(20,884)</b>	<b>(5,996)</b>	<b>(2,459)</b>
As at 31 December 2011	LVL'000	Gross nominal inflow / (outflow) LVL'000	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
<b>Non-derivative financial liabilities</b>							
Due to credit institutions on demand	(275)	(275)	(275)	-	-	-	-
Deposits	(130,192)	(130,957)	(102,790)	(8,167)	(17,003)	(2,997)	-
Subordinated liabilities	(2,779)	(3,408)	-	(8)	(65)	(589)	(2,746)
Other liabilities	(2,774)	(2,774)	(2,774)	-	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>(136,020)</b>	<b>(137,414)</b>	<b>(105,839)</b>	<b>(8,175)</b>	<b>(17,068)</b>	<b>(3,586)</b>	<b>(2,746)</b>
Unrecognized loan commitments	-	(7,141)	(7,141)	-	-	-	-
Guarantees and letters of credit	-	(6,298)	-	(6,298)	-	-	-
<b>Total financial liabilities</b>	<b>(136,020)</b>	<b>(150,853)</b>	<b>(112,980)</b>	<b>(14,473)</b>	<b>(17,068)</b>	<b>(3,586)</b>	<b>(2,746)</b>

**NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

**37 CAPITAL ADEQUACY**

The legislation of Latvia requires Latvian banks to maintain a minimum capital adequacy ratio of 8%. According to requirements of the FCMC the Bank has to maintain capital adequacy ratio of 10.4% as of 1 October 2012. As of 31 December 2012 and 2011 the Bank's activity complies with the requirements of the capital adequacy ratio and equity minimum prescribed by the Law on Credit Institutions and by the Financial and Capital Market Commission requirements.

The Financial and Capital Market Commission requirements are principally consistent with the Basel Committee guidelines and the European Union directives for the calculation of equity to be utilised in the capital adequacy ratio. Based on these requirements set by the Financial and Capital Market Commission, the Bank's equity to be utilised in the capital adequacy ratio as at 31 December 2012 has been calculated as follows below:

	<b>2012</b>	<b>2011</b>
	<b>LVL'000</b>	<b>LVL'000</b>
<b>Tier 1</b>		
Paid-in share capital	9,006	8,006
Share premium on share issue	182	182
Reserves	105	105
Retained earnings for the previous periods	752	299
(Loss) / profit for the year	1,291	453
Tier 1 decrease	(790)	-
<b>Total Tier 1</b>	<b>10,546</b>	<b>9,045</b>
<b>Tier 2 capital</b>		
Subordinated capital	3,879	2,769
Tier 2 decrease	(790)	-
<b>Total Tier 2 capital</b>	<b>3,089</b>	<b>2,769</b>
<b>Equity to be utilised in the adequacy ratio per FCMC</b>	<b>13,635</b>	<b>11,814</b>
<b>Summary</b>		
Credit risk capital	7,876	7,643
Currency risk capital	59	44
Operational risk capital	806	570
<b>Total</b>	<b>8,741</b>	<b>8,257</b>
<b>Capital requirements covering with capital</b>	<b>4,894</b>	<b>3,557</b>
<b>Capital adequacy rate according to FCMC requirements</b>	<b>12%</b>	<b>11%</b>
<b>Minimal capital adequacy rate according to FCMC requirements</b>	<b>8%</b>	<b>8%</b>

## NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

### 38 MAXIMUM CREDIT RISK EXPOSURE

The table below shows the maximum credit risk for the components of the statement of the financial position, including derivatives. Credit risk exposure is disclosed based on subjected to credit risk net carrying amount of statement of financial position items less doubtful loans and receivables.

The maximum credit exposures are shown gross, i.e. without taking into account any pledges and collaterals. Detailed information on the type and amount of collateral is presented in the respective notes.

The maximum credit risk exposure for the Group is not disclosed as it does not differ significantly from that of the Bank.

	Maximum credit exposure	
	2012	2011
Balances with the Bank of Latvia	20,727	8,092
Demand deposits with credit institutions	47,397	45,883
Latvian government bonds with fixed income	2,667	3,498
Fixed income bonds	24,708	2,553
Loans and term deposits due from credit institutions	5,025	7,145
Loans and receivables	81,315	74,190
Held-for-trading financial assets:	26	35
Other assets	712	122
<b>Total items of the statement of financial position subjected to credit risk</b>	<b>182,577</b>	<b>141,518</b>
Guarantees	4,602	6,298
Letters of credit	451	1,394
Loan commitments	3,822	5,747
<b>Forecasted and contingent liabilities</b>	<b>8,875</b>	<b>13,439</b>
<b>Maximum credit risk in total</b>	<b>191,452</b>	<b>154,957</b>

As it is shown above, 42% from total gross maximum credit risk amount refers to loans and receivables (2011: 52%).

### 39 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group and Bank have performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The estimated fair values of financial instruments at fair value through profit are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instrument at the reporting date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of financial instruments of the Group and Bank approximate their carrying values at 31 December 2012 and 31 December 2011, except for loans and receivables. Fair values of loans and receivables of the Group and the Bank at 31 December 2012 approximate LVL 72,951 thousand and LVL 79,249 thousand (2011: LVL 78,625 thousand and LVL 82,330 thousand) respectively.

### 40 LITIGATION

In the ordinary course of business the Group and Bank are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group or the Bank.

### 41 SUBSEQUENT EVENTS

There are no subsequent events, which would have significant effect on the financial statements of the Bank or the Group as at and for the year ended 31 December 2012.