Joint Stock Company
"NORVIK BANKA"

Consolidated and Separate Financial statements
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2011 and
independent auditors' report

CONTENTS

REPORT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL AND THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Clients, Partners and Shareholders,

Having evaluated the Bank and the Group annual achievements, it can be said that Norvik Group persistently keeps its market position despite the correction that it had to take for its previous five-year results in order to set up a sustainable basis for future development.

For several last years the Bank is ranked as 10th-11th biggest Latvian banks in terms of assets and takes 8th place by customers' deposits. The Bank's asset value remained unchanged year-on-year at end 2011 while deposits increased by 2.5%. The clients base grew by 10% and exceeded the remarkable figure of 150 thousand– the results every Bank's employee contributed in.

Stable financial standing of the Bank and the Group demonstrated in 2011 is well proved by two basic indicators –level of capital adequacy and liquidity. The Bank's capital adequacy ratio at the end of the year 2011 was 10,90% and 9,77% for the Group. Sufficient liquidity maintenance was one of the Bank's targets that resulted in high average annual liquidity ratio reached 58.57%, i.e. by 1.7% higher than in 2010.

Given yet persistent difficulties in the European and American economies and overall modest tempos of the global market recovery, the Bank's management opts to be conservative in future numbers forecasting and plans to continue bad loan provisioning.

In order to grant the Bank some support in challenging times, the Bank's shareholders increased share capital by LVL 1.1 million. The first level capital at year end was LVL 37,3 million. It was announced of having another capital increase by LVL 15 million to be pursued in March 2012. The Bank take 8th place among the Latvian banks by paid up capital that is an excellent indicator of shareholders' support.

It may be important to notice that the Group's operating income before provisions remained stable year-on-year and reaches LVL 25,1 million. The result was greatly driven by growing commission income and income from financial instruments and currency trading that respectively increased by 12% and 7,2%. It is planned to keep initially prudent approach for the Bank's asset assessment in 2012 and continue bad asset provisioning at the expense of current income.

From 2010 the Bank priorities financing its clients involved in export; this business is going to be developed further next year. It is planned to put particular emphasis to the industries regarded as important for the Latvian economy and granted financing and other support from the state and the European structural funds.

The Bank maintains the largest regional network for customer servicing in Latvia. Alternatively to visiting the Bank's offices, clients are offered a secured and friendly in use internet banking. In 2011, the Bank was recognized as the best internet service provider. The assessment was made by the market expert Metasite Business Solution for 12 different categories including security, functionality in making payments, functionality in helping users, payment card functionality, sms-banking, user-friendly web-site. The Bank was proud to be awarded for its high responsiveness as the best bank in the Baltics.

In 2011, the Bank attracted new subordinated deposits having the total amount of subordinated debts increased by 108% and reached LVL 17,8 million. Among subordinated debt depositors were the Bank's clients who used advantages offered through the Immigration programme for non-residents. Total amount of the Bank's second level capital at end 2011 was LVL 12,7 million.

The Bank continued its active and successful business in Armenia – the market with great business opportunities. Amount of profit gained by Norvik UCO, the Bank's subsidiary in Armenia, was LVL 1,2 million.

Norvik Ieguldījumu Pārvaldes Sabiedrība, another subsidiary of the Bank which runs the business of 2nd level pension fund management, had sustainably increased its market share that grew in terms of participants from 5.6% at end 2010 to 6.0% at the year end and accordingly from 3.9% to 4.1% by value of assets under management. Total amount of assets under management at year end reached LVL 36.1 million.

The Bank’s international activity got rewarded by the Bank Association of Central and Easter European countries for development of international banking co-operation.

The Bank continues to support social projects, sport events and various music events.

The Bank is ready for further growth and development to become even more trustworthy and accessible to its clients.

Chairman of the Supervisory Council H. Baldursson	Chairwoman of the Management Board L. Saltuma

Riga, 30 March 2012

SUPERVISORY COUNCIL AND MANAGEMENT BOARD

Supervisory Council as at 31 December 2011

Name	Position	Date of initial appointment
H. Baldursson	Chairman of the Supervisory Council	21/11/2011
B. Strupiša	Deputy Chairwoman of the Supervisory Council	21/11/2011
V. Keiša	Member of the Supervisory Council	01/04/2006

During the reporting period the following persons resigned their position:
- Chairman of the Supervisory Council J.H. Gudmundsson,
- Deputy Chairman of the Supervisory Council A. Svirčenkovs,
- Member of the Supervisory Council J. Svirčenkova,
- Member of the Supervisory Council B. Halldorsdottir.

During the reporting period the following persons were appointed:
- Deputy Chairwoman of the Supervisory Council B. Strupiša.

Management Board as at 31 December 2011

Name	Position	Date of initial appointment
L. Saltuma	Chairwoman of the Management Board	10/12/2007
J. Šapurovs	Deputy Chairman of the Management Board	01/04/2006
M. Stepiņa	Member of the Management Board	06/11/2008
A. Fedosejevs	Member of the Management Board	21/10/2011
E. Vaivods	Member of the Management Board	21/12/2011

During the reporting period the following persons resigned their position:
- Member of the Management Board A. Upenieks.

During the reporting period the following persons were appointed:
- Member of the Management Board A. Fedosejevs,
- Member of the Management Board E. Vaivods.

On behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council H. Baldursson	Chairwoman of the Management Board L. Saltuma

Riga, 30 March 2012

STATEMENT OF MANAGEMENT`S RESPONSIBILITIES

The Management of JSC "NORVIK BANKA" (the Bank) is responsible for preparing the Consolidated and Separate Financial Statements of the Bank and its subsidiaries (the Group).

The Consolidated and Separate Financial Statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2011 and the results of its operations and cash flows for the financial year ended 31 December 2011, as well as the financial position of the Bank as of 31 December 2011 and the results of its operations and cash flows for the financial year ended 31 December 2011.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the Consolidated and Separate Financial Statements for the year ended 31 December 2011 set out on pages 7 to 66. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed and that the Consolidated and the Separate Financial Statements have been prepared on a going concern basis and complies with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.

The Bank's management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, Regulations issued by the Latvian Financial and Capital Market Commission (FCMC) and other legislation of the Republic of Latvia in all material respects.

On the behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council H. Baldursson	Chairwoman of the Management Board L. Saltuma

Riga, 30 March 2012

CONSOLIDATED AND SEPARATE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 Group LVL'000	2011 Bank LVL'000	2010 Group LVL'000	2010 Bank LVL'000
Interest and similar revenue		21 186	18 162	23 488	21 509
Interest and similar expense		(10 799)	(10 565)	(12 879)	(12 893)
Net interest income	4	**10 387**	**7 597**	**10 609**	**8 616**
Fee and commission revenue		10 304	9 819	9 185	8 588
Fee and commission expense		(1 762)	(1 643)	(1 563)	(1 536)
Net fee and commission income	5	**8 542**	**8 176**	**7 622**	**7 052**
Dividend revenue		2	6 129	2	2
Net trading income	6	6 948	6 771	6 481	6 795
Net gain or (loss) from sales of available-for-sale financial assets	7	(507)	(507)	880	880
Other operating income	8	8 902	1 750	1 838	1 676
Other operating expense	8	(9 127)	(638)	(1 019)	(676)
Net operating income		**25 147**	**29 278**	**26 413**	**24 345**
Administrative expenses	9	(16 796)	(15 478)	(15 997)	(14 770)
Personnel expenses		*(9 199)*	*(8 472)*	*(8 991)*	*(8 110)*
Other expenses		*(7 597)*	*(7 006)*	*(7 006)*	*(6 660)*
Changes in fair value of investment property	20	459	844	(1 211)	833
Impairment of available for sale financial assets	17	-	(2 334)	-	-
Impairment of investments in subsidiaries		-	(100)	-	-
Impairment loss on tangible fixed assets		(60)	(60)	-	-
Depreciation and amortization		(2 430)	(749)	(976)	(917)
Impairments losses on financial assets	16	(26 807)	(29 929)	(9 462)	(9 470)
Operating expenses		**(45 634)**	**(47 806)**	**(27 646)**	**(24 324)**
Net operating (losses) profit before tax		**(20 487)**	**(18 528)**	**(1 233)**	**21**
Corporate income tax	10	(611)	(315)	133	243
(Loss) profit for the year		**(21 098)**	**(18 843)**	**(1 100)**	**264**
Attributable to:					
Equity holders of the parent		**(21 084)**		**(1 092)**	
Minority interest		(14)		(8)	
Basic and Diluted Earnings per share (LVL)	29	*(0.37)*		**(0.02)**	

The accompanying notes on pages 14 to 66 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 7 to 66 were approved by the Supervisory Council and the Management Board on 19 March 2012, and signed on their behalf by:

Chairman of the Supervisory Council
H. Baldursson

Chairwoman of the Management Board
L. Saltuma

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
(Loss) / Profit for the period	**(21 098)**	**(18 843)**	**(1 100)**	**264**
Revaluation reserve of foreign currency	727	-	988	-
Revaluation reserve of tangible fixed assets, net of tax	137	69	2 134	2 134
Revaluation and impairment of available-for-sale financial assets, net of tax	(1 369)	3 150	1 074	(1 574)
Total comprehensive income	**(21 603)**	**(15 624)**	**3 096**	**824**
Total comprehensive income attributable to non-controlling interests	(14)		(8)	
Total comprehensive income attributable to equity holders of the parent	(21 589)		3 104	

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H. Baldursson

Chairwoman of the Management Board
L. Saltuma

CONSOLIDATED AND SEPARATE BALANCE SHEET AND OFF-BALANCE SHEET ITEMS FOR THE YEAR ENDED 31 DECEMBER 2011

		31.12.2011		31.12.2010	
	Note	Group	Bank	Group	Bank
		LVL'000	LVL'000	LVL'000	LVL'000
Assets					
Cash and balances with the central bank	11	29 952	29 917	81 360	81 360
Loans to and receivables from banks	12	97 033	90 674	115 560	115 500
Trading financial assets	13	35 157	35 157	24 821	24 821
Derivatives financial instruments	14	6 173	6 173	2 198	2 198
Loans to and receivables from customers	15	249 934	267 471	295 902	291 526
Available-for-sale financial assets	17	55 423	124 844	40 111	48 427
Prepaid corporate income tax		1 197	1 197	1 560	1 420
Investment property	20	34 546	11 533	15 771	5 200
Investment in subsidiaries	18	-	9 672	-	3 774
Tangible fixed assets	21	75 989	12 366	3 915	3 641
Goodwill and other intangible assets	19	310	581	510	785
Other assets	22	6 490	3 099	9 635	8 528
Total assets		**592 204**	**592 684**	**591 343**	**587 180**
Liabilities					
Due to the central bank and other banks	24	3 527	3 527	5 321	5 321
Derivatives financial instruments	14	964	964	1 777	1 777
Customer deposits	25	518 981	521 732	507 904	509 063
Subordinated debt	26	17 819	17 819	8 568	8 568
Deferred tax liabilities	10	1 027	565	987	439
Other liabilities	27	6 426	3 128	3 247	3 046
Total liabilities		**548 744**	**547 735**	**527 804**	**528 214**
Equity attributable to equity holders of the Bank					
Share capital	28	57 390	57 390	56 290	56 290
Reserves		7	7	7	7
Revaluation reserve of tangible fixed assets, net of tax		2 136	2 136	2 134	2 134
Revaluation reserve of available-for-sale financial assets, net of tax		(1 662)	209	(293)	(2 941)
Revaluation reserve of foreign currency translation		719	-	(8)	-
Retained earnings		5 512	4 050	6 469	3 212
Profit (losses) for the year		(21 084)	(18 843)	(1 092)	264
Total equity attributable to equity holders of the Bank		**43 018**	**44 949**	**63 507**	**58 966**
Minority interest		**442**	**-**	**32**	**-**
Total equity		**43 460**	**44 949**	**63 539**	**58 966**
Total liabilities and equity		**592 204**	**592 684**	**591 343**	**587 180**
Commitments and contingencies					
Contingent liabilities		2 722	2 722	4 362	4 362
Commitments		5 936	10 420	21 933	36 800
Total commitments and contingencies	31	**8 658**	**13 142**	**26 295**	**41 162**

The accompanying notes on pages 14 to 66 form an integral part of these consolidated and Bank Financial Statements.

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Chairman of the Supervisory Council
H. Baldursson

Chairwoman of the Management Board
L. Saltuma

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

Group	Share capital LVL’000	Reserve LVL’000	Revaluation reserve of tangible fixed assets, net of tax LVL’000	Revaluation reserve of available-for-sale financial assets, net of tax LVL’000	Revaluation reserve of foreign currency translation LVL’000	Retained earnings LVL’000	Total LVL’000	Minority interest LVL’000	Total Groups’ equity LVL’000
	Attributable to shareholders of the Bank								
As at 31 December 2009	**56 290**	**7**	**-**	**(1 367)**	**(996)**	**6 469**	**60 403**	**40**	**60 443**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	1 074	-	-	**1 074**	-	**1 074**
Revaluation reserve of tangible fixed assets, net of tax	-	-	2 134	-	-	-	**2 134**	-	**2 134**
Foreign currency translation of foreign subsidiary*	-	-	-	-	988	-	**988**	**-**	**988**
Loss for the year	**-**	**-**	**-**	**-**	**-**	(1 092)	**(1 092)**	(8)	**(1 100)**
Total comprehensive income for the year	**-**	**-**	**2 134**	**1 074**	**988**	**(1 092)**	**3 104**	**(8)**	**3 096**
As at 31 December 2010	**56 290**	**7**	**2 134**	**(293)**	**(8)**	**5 377**	**63 507**	**32**	**63 539**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	(1 369)	-	-	**(1 369)**	-	**(1 369)**
Revaluation reserve of tangible fixed assets, net of tax	-	-	137	-	-	-	**137**	-	**137**
Foreign currency translation of foreign subsidiaries*	-	-	-	-	727	-	**727**	-	**727**
Loss for the year	-	-	-	-	-	(21 084)	**(21 084)**	(14)	**(21 098)**
Total comprehensive income for the year	**-**	**-**	**117**	**(1 369)**	**727**	**(21 084)**	**(21 589)**	**(14)**	**(20 603)**
Amortisation of revaluation reserve of tangible fixed assets, net of tax	-	-	(135)	-	-	135	**-**	-	**-**
Increase of share capital	1 100	-	-	-	-	-	**1 100**	424	**1 524**
As at 31 December 2011	**57 390**	**7**	**2 136**	**(1 662)**	**719**	**(15 572)**	**43 018**	**442**	**43 460**

* Revaluation reserve on consolidation with the subsidiaries that operate in different currencies.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

Bank	Share capital	Reserve	Revaluation reserve of tangible fixed assets, net of tax	Revaluation reserve of available-for-sale financial assets, net of tax	Retained earnings	Total
	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000	LVL’000
As at 31 December 2009	**56 290**	**7**	**-**	**(1 367)**	**3 212**	**58 142**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	(1 574)	-	**(1 574)**
Revaluation reserve of tangible fixed assets, net of tax	**-**	**-**	2 134	-	-	**2 134**
Profit for the year	-	-	-	-	264	**264**
Total comprehensive income for the year	**-**	**-**	**2 134**	**(1 574)**	**264**	**824**
As at 31 December 2010	**56 290**	**7**	**2 134**	**(2 941)**	**3 476**	**58 966**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	816	-	**816**
Impairment loss recognised on available- for-sale financial assets, net of tax	-	-	-	2 334	-	**2 334**
Revaluation reserve of tangible fixed assets, net of tax	-	-	69	-	-	**69**
Loss for the year	**-**	**-**	**-**	**-**	(18 843)	**(18 843)**
Total comprehensive income for the year	**-**	**-**	**69**	**3 150**	**(18 843)**	**(15 624)**
Amortisation of revaluation reserve of tangible fixed assets, net of tax	**-**	**-**	(115)	**-**	115	**-**
Merger of subsidiary company	**-**	**-**	48	**-**	459	**507**
Increase of share capital	1 100	-	-	-	-	**1 100**
As at 31 December 2011	**57 390**	**7**	**2 136**	**209**	**(14 793)**	**44 949**

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H. Baldursson

Chairwoman of the Management Board
L. Saltuma

CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

		2011		2010	
		Group	Bank	Group	Bank
	Note	LVL'000	LVL'000	LVL'000	LVL'000
Cash flow from operations					
Profit (loss) before corporate income tax		(20 487)	(18 528)	(1 233)	21
Depreciation of intangible and tangible fixed assets and write off		3 277	892	1 249	1 129
Increase in provisions for impairments losses on financial investments		13 163	30 136	9 779	9 713
Impairment of tangible fixed assets		-	60		
Impairment loss on investments in subsidiaries		-	100		
Impairment losses of available-for-sale financial assets		-	2 334		
Dividend (income)		-	(6 127)	-	-
Loss/(profit) from foreign exchange revaluation		864	1 048	1 561	1 781
Non-realised (profit)/loss from investment property		(459)	(844)	1 211	(833)
Operating cash flow before changes in operating assets and liabilities		**(3 642)**	**9 071**	**12 567**	**11 811**
Decrease/(increase) in loans and receivables to banks		(871)	(871)	284	-
Decrease/(increase) in trading financial assets		(10 336)	(10 336)	(11 981)	(11 981)
Decrease/(increase) in derivatives financial assets		(3 975)	(3 975)	(863)	(863)
Decrease/(increase) in loans and receivables to customers		27 561	5 559	(19 454)	(13 863)
Decrease/(increase) in other assets		1 471	3 516	(4 955)	(4 027)
Increase/(decrease) in due to banks		(1 794)	(1 794)	2 271	2 271
Increase/(decrease) in customer deposits		11 077	12 669	115 139	115 290
Increase/(decrease) in derivatives financial liabilities		(813)	(813)	845	845
Increase/(decrease) in other liabilities		3 179	82	373	369
Cash provided by (used in) operating activities		**21 857**	**13 108**	**94 226**	**99 852**
Corporate income tax (paid)		(288)	-	(91)	-
Net cash provided by (used in) operating activities		**21 569**	**13 108**	**94 135**	**99 852**
Cash flow from investing activities					
Acquisition of intangible and tangible fixed assets		(70 622)	(423)	(674)	(577)
Selling of intangible and tangible fixed assets		2 247	-	-	-
Acquisition of investment property		(17 943)	(5 489)	(9 727)	-
Dividend income from subsidiary		-	6 127	-	-
Acquisition of subsidiary		-	(12 243)	-	-
Decrease/(increase) in available-for-sale financial assets		(16 681)	(87 523)	(4 039)	(15 093)
Net cash provided by (used in) investing activities		**(102 999)**	**(99 551)**	(14 440)	(15 670)
Cash flow from financing activities					
Increase in share capital		1 510	1 100	-	-
Increase in subordinated debt, net		9 251	9 251	1 476	1 476
Net cash provided by financing activities		**10 761**	**10 351**	**1 476**	**1 476**
Net increase/(decrease) in cash and cash equivalents		**(70 669)**	**(76 092)**	**81 171**	**85 658**
Cash and cash equivalents at the beginning of the period		195 502	195 442	114 904	111 565
Effect of exchange changes on cash and cash equivalents		(137)	(1 048)	(573)	(1 781)
Cash and cash equivalents at the end of the period	30	**124 696**	**118 302**	**195 502**	**195 442**

Operating cash flows from interest and dividends

	2011		2010	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Interest paid	9 360	8 936	11 411	11 426
Interest received	15 619	14 521	19 402	18 296
Dividend received	2	2	2	2

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Chairman of the Supervisory Council
H. Baldursson

Chairwoman of the Management Board
L. Saltuma

1. GENERAL INFORMATION

"NORVIK BANKA" ("the Bank") is a joint stock company incorporated in the Republic of Latvia, acting in accordance with Latvian legislation and License No. 30 issued by the Bank of Latvia on 27 April 1992.

The legal address of JSC "NORVIK BANKA" is E. Birznieka-Upīša Street 21, Riga LV-1011, Latvia.

The Bank has a central office, 6 branches, 71 accounting group and one representative office in Moscow (Russia). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right and obligation to make decisions on approval of the annual financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Basis of preparation

The accompanying financial statements are presented in the national currency of Latvia in thousands of lats ("LVL'000").

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements.

The consolidated and separate financial statements have been prepared under the historical cost convention, except for available for sale securities, financial assets and financial liabilities held at fair value through profit or loss and investment property, which are measured at fair value and real estate included in the tangible fixed assets carried at revalued amounts. Other financial assets and liabilities are carried at amortised cost in accordance with the effective interest rate method.

Accounting policies applied in the year 2011are consistent with those followed in the preparation of the Group`s and Bank`s annual financial statements for the year ended 31 December 2010. During the year 2010 the Group changed its accounting policy for real estate included in tangible fixed assets from cost model to revaluation model. Management takes a view that the new policy provides reliable and more relevant information to the users of financial statements as book values of real estate according to such policy are based on up-to-date values. The policy has been applied prospectively. Accordingly, the adoption of the new policy has no effect on prior years.

Standards and Interpretations effective in the current period.

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

• **Amendments to IAS 24 *"Related Party Disclosures"*** – Simplifying the disclosure requirements for government related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),

• **Amendments to IAS 32 *"Financial Instruments: Presentation"*** – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),

• **Amendments to IFRS 1 *"First-time Adoption of IFRS"*** – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),

• **Amendments to IFRIC 14 *"IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction"*** – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),

• **IFRIC 19** ***“Extinguishing Financial Liabilities with Equity Instruments”***, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Group’s accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective
At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- ***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).
- ***Amendments to IAS 12 “Income Taxes”*** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).
- ***Amendments to IAS 19 “Employee Benefits”*** (effective for annual periods beginning on or after 1 January 2013).
- ***IAS 27 “Separate Financial Statements”*** (effective for annual periods beginning on or after 1 January 2013).
- ***IAS 28 “Investments in Associates and Joint Ventures”*** (effective for annual periods beginning on or after 1 January 2013).
- ***Amendments to IAS 32 “Financial Instruments: Presentation”*** – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).
- ***Amendments to IFRS 1 “First-time Adoption of IFRS*”** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011).
- ***Amendments to IFRS 7 “Financial Instruments: Disclosures”*** – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).
- ***IFRS 9 “Financial Instruments”*** and subsequent *amendments to IFRS 9 and IFRS 7* (effective for annual periods beginning on or after 1 January 2015).
- ***IFRS 10 “Consolidated Financial Statements”*** (effective for annual periods beginning on or after 1 January 2013).
- ***IFRS 11 “Joint Arrangements”*** (effective for annual periods beginning on or after 1 January 2013).
- ***IFRS 12 “Disclosures of Interests in Other Entities”*** (effective for annual periods beginning on or after 1 January 2013).
- ***IFRS 13 “Fair Value Measurement”*** (effective for annual periods beginning on or after 1 January 2013).
- ***IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”*** (effective for annual periods beginning on or after 1 January 2013).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group has not yet evaluated the impact of the adoption of ***IFRS 9 “Financial Instruments”***. The Group anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Basis of Consolidation

The consolidated financial statements include all subsidiaries, which are those companies in which the Group directly or indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over operations. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The subsidiaries are consolidated from the date on which effective control is acquired by the Group and are no longer consolidated from the date of loss of control.

The Bank and following companies make up a group of entities under the control of the Bank as a parent entity ("the Group"):

- CJSC NORVIK UNIVERSAL CREDIT ORGANISATION (Armenia) and its subsidiary company CJSC IKSOV;
- JSC NORVIK IEGULDĪJUMU PĀRVALDES SABIEDRĪBA and its subsidiary companies NORVIK MANAGEMENT OÜ and ACCOUNTING LAB LLC;
- NORVIK TECHNOLOGY LLC;
- LEGAL CONSULTING LLC;
- IPS NORVIK ALTERNATIVE INVESTMENTS JSC;
- NORVIK LĪZINGS LLC and its subsidiary company NORVIK APDROŠINĀŠANAS BROKERIS LLC;
- NORVIK IPS JSC CIF ŪDENS TRANSPORTA FONDS and its subsidiary companies ASTREA SHIPPING COMPANY LIMITED, RODA SHIPPING COMPANY LIMITED, VILAND SHIPPING COMPANY LIMITED, OMASTER SHIPPING COMPANY LIMITED, GRANADA SHIPPING COMPANY LIMITED, KALLISTO SHIPPING COMPANY LIMITED, SAVITAR SHIPPING COMPANY LIMITED;
- NORVIK IPS JSC CIF INFRASTRUKTŪRAS ĪPAŠUMU FONDS and its subsidiary companies KARAVELLA PROPERTY LLC and KARAVELLA LLC;
- NORVIK IPS JSC CIF NEKUSTAMO ĪPAŠUMU UZŅĒMUMU FONDS and its subsidiary companies VISALIA LLC, MADORA LLC, LANATA LLC, DAYS LLC, HOMELINK LLC, ACTON LLC;
- NORVIK IPS JSC CIF KOMERCĪPAŠUMU FONDS and its subsidiary companies MERKURS RIGANTE PLUSS LLC , EKO FORUMS PLUSS LLC, ALPI TRANS PLUSS LLC;
- NORVIK IPS JSC CIF NĀKOTNES ĪPAŠUMU FONDS and its subsidiary companies MAGNUM ESTATE LLC and SERENITY LLC;
- NORVIK IPS JSC CIF TRANSPORTA UZŅĒMUMU FONDS and its subsidiary companies CASSIOPEIA SHIPPING COMPANY LIMITED, VELA SKY SHIPPING COMPANY LIMITED, CABRANA SHIPPING COMPANY LIMITED, SAGITTA SKY SHIPPING COMPANY LIMITED, VOLANS SHIPPING COMPANY LIMITED, DALINA SHIPPING COMPANY LIMITED, NEO SHIPPING COMPANY LIMITED;
- NORVIK IPS JSC CIF IZAUGSMES UN ATTĪSTĪBAS FONDS and its subsidiary companies AURA WINDFARM LLC, EURUS WINDFARM LLC, HERMES WINDFARM LLC;
- NORVIK IPS JSC CIF DAUDZNOZARU UZŅĒMUMU FONDS and its subsidiary companies NJORD LLC, VENTI LLC, STRIBOG LLC;
- NORVIK IPS JSC CIF ENERĢĒTIKAS FONDS and its subsidiary company BALTIJAS NAFTAS GRUPA LLC;
- NORVIK IPS JSC CIF GLOBĀLAIS PĀRVADĀJUMU FONDS and its subsidiary companies INSTANTA SHIPPING COMPANY LIMITED, LINK SHIPPING LTD, NIKA SHIPPING COMPANY LIMITED, FREA SHIPPING COMPANY LTD, VESTI SHIPPING COMPANY LIMITED;
- NORVIK IPS JSC CIF JŪRAS TRANSPORTA FONDS and its subsidiary companies ARMIDA NAVIGATION COMPANY LIMITED, SIRIUS MARITIME LIMITED, CORSA NAVIGATION COMPANY LIMITED, OCEAN NAVIGATION COMPANY LIMITED, JUNO SHIPPING COMPANY LIMITED, MEDEA SHIPPING LIMITED, PRESTO MARITIME LIMITED, SATORI SHIPPING COMPANY LIMITED, SKADI SHIPPING COMPANY LTD, TARDIS SHIPPING COMPANY LIMITED.

In accordance with IAS 27 "Consolidated and Separate Financial Statements" and the requirements of FCMC, the Bank has prepared consolidated financial statements for the Group and separate financial statements of the Bank.

In the separate financial statements the Bank has recognized investments in the subsidiaries in accordance with the cost method. The separate financial statements of the Bank and its subsidiaries are consolidated line by line by combining items of assets, liabilities, aggregation of off-balance sheets exposures, income and expenses. Intragroup balances of the Bank and its subsidiary as well as intragroup transactions, including income and expenses, are eliminated.

Goodwill

The excess of the cost of acquisition over the Bank's interest in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill.

After initial recognition, goodwill in the business combination is carried at cost less any impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the Group's cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated:

- Represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IFRS 8 Operating Segments.

Under IAS 36 *"Impairment of Assets"*, goodwill is reviewed for impairment at each balance sheet date or more frequently when there are indications that impairment may have occurred. If such indications exist the Bank estimates the recoverable amount of goodwill. In case of the carrying amount of goodwill is greater than its estimated recoverable amount an impairment loss of goodwill is recognised in the Group's consolidated income statement. There was no impairment identified in 2011 (2010: nil).

(2) Significant accounting judgments and estimates

The presentation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the entity to make estimates and assumptions that affect the recognised amounts for assets, liabilities and disclosure of contingent assets and liabilities as of the date of balance sheet date as well as recognised income and expenses for the reporting period. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from related actual results.

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

The most significant judgments and estimates representing most probably sources of uncertainty existing in current financial and economical market are presented below:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from active markets, fair value is determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Allowances for impairment losses on loans and receivables

The Group reviews its loan portfolios at each reporting date to assess whether an allowance for impairment should be recognized in the income statement and for which amount. In particular, judgment about financial position of counterparty and realization value of underlined collateral made by management in the estimation of net present value of expected future cash flows when determining the amount of allowance required, based on best knowledge about current situation. As of reporting date real estate market was still inactive and there was significant uncertainty around the expected future cash flows from loans and receivables and uncertainties related to valuation of collateral including real estate and ships and difficulties to predict timing of realization of collateral. Consequently actual future results might differ from the estimates recorded.

In addition to specific allowances for individually significant loans and receivables, the Group also creates a collective impairment allowance for exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Collective impairment allowances reflect historical data of respective markets as well as specific features of financial investment for which allowances estimations are made.

Impairment of financial instruments

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

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

Impairment of equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

Valuation of investment property

Investment property is stated at fair value, which has been determined based on valuation performed by certified valuator close to reporting date. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. As of reporting date the real estate market was still inactive, therefore, there are significant uncertainties related to determination of fair value of investment properties.

Valuation of tangible fixed assets carried at revalued amounts

Land and buildings held for own use are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. As of reporting date the real estate market was still inactive, therefore, there is significant uncertainty related to determination of fair value of land and buildings.

Current economic environment and its impact on the Group

In the reporting year the Group recognized large losses from its shipping portfolio. The Bank made investments in ship owning companies that were repossessed from the Bank's borrowers. The purpose of assets repossession is the growth of value in short and long run through the realization of operation optimization program of separate units and increasing the efficiency of management. The repossessed fleet in general consists of small tonnage vessels that operate in specific segment of limited tonnage supply. In medium term the further growth of demand for small tonnage ships is expected in the target niches- dry-cargo ships built in the last 10 years arrive to the target niche market in very limited amount. Before the crisis there was a boom in shipbuilding of middle and large tonnage vessels, but during the crisis the shipbuilding of vessels in target markets (Mediterranean, Black Seas) almost stopped, at the same time a significant part of tonnage was put in lay-up due to lack of financing required for renovation. According to the view of shipping experts, in the trading segment repossessed by the bank the tonnage deficit will persist in the next few years. This will allow the Bank to recover a part of recognized losses from the portfolio value drop.

Since overall concerns on renewed financial crisis started to meltdown the markets feel more optimistic about prospects for the global economy. Latvia is not an exception specially given the fact that 2011 brought increasingly positive news to the country– annual GDP growth significantly exceeded initial expectations and reached 5.5% year on year; the economy growth in split looks sustainable in long-term run with well- balanced mix of domestic demand and export –oriented sectors; manufacturing turnover increased by 16.8% compared to 2010; tax revenues appeared above the plan and a budget deficit below 3% of GDP becomes fairly plausible even without additional consolidation. As a result, the Japanese rating agency R&I upgraded Latvia's sovereign rating by one notch to BBB- with stable outlook; S&P's started to review the Latvian situation that let hope to coming update.

Such noticeable improvement in operating environment prompt the management to see positively the Group's development in 2012 while the Group will stay inherent to its principles of maintaining high level of liquidity and appropriate level of capital adequacy as well as continue to be conservative towards taking risk. It is planned to continue the efficiency improvement program launched in 2011 aimed to decrease cost-to- income ratio.

(3) Foreign currency translation

Transactions and balances

Transactions denominated in foreign currencies are translated into Latvian lat (LVL) at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date.

All realised gains and losses are recorded in the income statement in the period in which they arise. Unrealised gains and losses at reporting dates are credited or charged to the income statement.

The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows (lats for one foreign currency unit):

	Bank of Latvia exchange rates as of 31 December 2011	**Bank of Latvia exchange rates as of 31 December 2010**
EUR	0.702804	0.702804
USD	0.544000	0.535000

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity *"Revaluation reserve of foreign currency translations".*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(4) Financial assets and liabilities

Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are those that have been acquired or have arisen, mainly for the purpose of gaining profit from short-term fluctuations in prices. These include trading debt securities and equity instruments. Trading securities are initially recorded in the balance sheet at fair value. Subsequently these securities are recorded at their fair value, based on quoted market price. Any realized and unrealized profit or loss is recorded in the income statement as net profit or loss from trading securities. Interest earned by the Group from held for trading securities is recognized as interest income. Dividends received are recorded as dividend income. The Group recognizes purchase or sale of trading securities using settlement date accounting.

Derivatives recorded at fair value through profit or loss

The Group operates with derivative financial instruments such as future currency agreements (forwards), currency exchange agreements (swaps). All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Fair value of derivative transactions is included in the balance sheet as "Derivatives financial instruments". Changes in the fair value of derivatives are included in the income statement in "Net trading income" on a daily basis.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit and loss. Available-for-sale financial assets include certain bonds and investments in funds.

Available-for-sale financial assets are initially recorded at their fair value (including expenses on purchase of the securities). The Group recognizes purchase or sale of available-for-sale financial assets using settlement date accounting. Subsequently, securities are measured at their fair value based on quoted market prices, where available. If financial assets are not quoted in an active market their fair value is measured using alternative methods (for example, prices of similar investments).

Available-for-sale assets, for which the market price is not quoted and which fair value is not possible to measure by using other previously mentioned alternative methods, are initially recorded at their fair value and subsequently measured at cost less allowance for impairment, when appropriate.

Unrealised gains or losses on available-for-sale financial assets are recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from monetary assets, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Loans and receivables to banks and to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are measured at amortised cost using the effective interest rate method. The amortised cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (through the use of an allowance account) for impairment or uncollectibility.

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognised as loans granted to clients. Received lease payments, less principal amount, are recognised as interest income based on a pattern reflecting a constant periodic return on the net investment.

Reverse repurchase agreements

Securities purchases under agreements to resell at a specified future date (“reverse repo”) are not recognized on the balance sheet. The corresponding cash paid, including accrued interest, is recognised on the balance sheet as a Loans to and receivables from customers. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

Financial liabilities

Included in balance sheets as “Due to banks”, “Customer deposits” and “Subordinated debt” are financial liabilities measured at amortised cost.

After initial measurement, these financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount on the issue and costs that are an integral part of the effective interest rate. The amortization is included in “Interest and similar expense” in the income statement.

Derecognition of financial assets and financial liabilities

A financial asset is derecognized where:

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

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Impairment of financial assets

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all overdue loans regardless of the balance of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

For the measurement of collective impairment the Group assumes that all contractual cash flows will be received and recognises impairment loss based on historical loss experience which is adjusted on the basis of currently available data.

Allowances are assessed collectively on portfolios with similar features such as credit cards portfolio and unsecured consumer loans portfolio. The main criterion for assessment is settlement discipline and calculation of necessary allowance on portfolio is based on experience and previous period's statistics.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the income statement. If any loan and receivable can not be recovered, they are written off from the balance sheet accounts and charged against allowance for credit losses.

(5) Investment property

Group holds real estate as an investment property with the purpose to earn rental income or for value appreciation. Initially investment property is measured at cost. The fair value model of accounting is used for subsequent measurement of investment property. Fair value of investment property reflects market conditions at the balance sheet date. See Note 20 for more detailed information with respect to the Group's investment property. Gains or losses arising from changes in the fair value of investment property are included in the income statement in "Changes in fair value of investment property" in the period in which they arise.

(6) Intangible (except for goodwill) and tangible fixed assets

All fixed tangible and intangible assets, except for goodwill and real estate, are accounted at their cost less accumulated depreciation and amortisation. Depreciation and amortisation is calculated on a straight-line basis using the following depreciation and amortisation rates:

Intangible assets:	*Annual charge*
Licenses	20%
Software	20%
Tangible fixed assets:	
Buildings	3%
Other	7%-33%

Intangible assets with finite lives are amortised over the useful life. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. The depreciation and amortization expense on tangible fixed and intangible assets with finite lives is recognized in the income statement line "Depreciation and amortisation".

On purpose to avoid significant differences between book value and fair value of its real estate the Bank decided to carry its building at revalued amounts. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Fair value is determined based on valuator reports done by independent certified valuators. The increase of building value as the result of revaluation Bank recognizes in the equity and includes in comprehensive income report. If such increase cancels previous revaluation decrease that is recognized in the statement of profit or loss, Bank recognizes the increase in statement of profit or loss. The decrease of building's fair value that appeared during revaluation is recognized in statement of profit or loss, except if such decrease cancels previous revaluation increase that is shown in the equity and included in comprehensive income report, in that case the decrease is recognized in the equity and included in other comprehensive income report. After building revaluation Bank depreciates its value in accordance with Bank's depreciation rates.

(7) Property and equipment held for sale

Foreclosed properties and equipment are included in Properties and equipment held for sale and recorded in Other assets. They are carried at the lower of book value and net realizable value.

(8) Interest and fee income and expense recognition

Interest income and expenses are recognized in the income statement on an accrual basis of accounting using the effective interest rate method. Interest income and expense include the amortization of any difference (discount, premium or other) between the initial carrying amount of the interest-bearing financial asset or liability and its maturity amount calculated on an effective interest rate foundation.
Interest income includes coupons earned on trading and available-for-sale bonds and other fixed income securities.
Accrued interest income is recognized in the income statement if the Group has no objective evidence that they will not be received in full.
Fees and commissions are generally recognized on an accrual basis either as the service is provided or on the execution of a significant act, as applicable.
Income and expenses relating to the reporting period are recognised in the income statement irrespective of the date of receipt or payment.

(9) Cash and cash equivalents

Under IAS 7 *"Cash Flow Statements"*, cash and cash equivalents comprise cash, balances with the Bank of Latvia, correspondent accounts and deposits with original maturity of 3 months or less in other banks. Cash flow statement reflects an analysis of the cash flow from operating, investing and financing activities for the period.

Cash flows from operating activities are presented using the indirect method. Cash flows from investing and financing activities are presented based on gross receipts and payments made during the reporting period.

(10) Taxes

Corporate income tax is calculated in conformity with the tax legislation of the Republic of Latvia. Deferred taxation is provided for temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base according to taxation legislation. The deferred taxation asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. When an overall deferred tax asset arises, this is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(11) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

The Group creates provisions for guarantees issued and other off balance sheet items based on individual review of off balance sheet items. The management uses its judgement and estimates as to the probability of an outflow of economic resources and makes assessment of the value of security and collateral held and the amounts and timings of such outflows and recoveries, if any.

3. RISK MANAGEMENT

Risk is an integral part of the Group's activities, and it is managed through a process of ongoing identification, assessment and monitoring. The process of risk management is essential for the Group's continuing profitability. Each separate structural unit of the Group is responsible for the risk exposures relating to their responsibilities. The Group activity is subject to the following main types of risks: liquidity risk, credit risk and market risk, as well as operational risk. Risk monitoring function on the level of the Group and the Bank is separated from business structures. System of risk limits that is established on the level of the Group and the Bank includes all above-mentioned types of risk.

Risk management structure

The Management Board is ultimately responsible for identifying and controlling risks.

Supervisory Council

The Supervisory Council reviews and approves policies for risk management.

Management Board

The Management Board is responsible for the overall risk management approach, for the establishment of risk management principles and structure as well as for the approval of the methodologies and procedures to ensure implementation of risk management policies. The Management Board sets limits on total portfolios and restrictions on large exposures.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for the assets and liabilities management monitoring and sets limits on counterparties within the limits and restrictions set by the Board.

Risk Management Committee

The Risk Management Committee is responsible for assessing the current quality of the Group's assets and off-balance sheet items, and for making decisions on provisions for and/or writing off impaired assets.

Credit Committee

The Credit Committee responsible for the approval of the exposure within its competence and credit portfolio quality analysis.

Risk Management Department

The Risk Management is responsible for the establishment of the Risk Management system: identification and assessment of risks inherent in the Bank's activity, preparation and submission of the risk reports. This unit also ensures the development of the Capital Adequacy Assessment Process.

Treasury

Treasury is responsible for managing assets and liabilities within set norms and limits, i.e. is charged with liquidity, funding and deposits pricing, foreign risks and foreign exchange operations, interest rate risks, cash management as well as the Bank's securities portfolio and repo\reverse repo portfolio management. It is also provides brokerage operations in financial markets.

Internal Audit

Risk Management processes are audited annually by the Internal Audit function that examines both the adequacy of the policies and procedures and the compliance with the internal and external requirements. Internal Audit discusses the results of inspections with the management, and submits reports on inspection results with necessary recommendations to the Supervisory Council, Managing Board and related units. Internal Audit performs follow-up engagements to check whether recommendations are followed and implemented.

To ensure control and management over financial risks, the Managing Board and Supervisory Council of the Group has approved Credit policy, Investment policy and Financial Risks Management and Control policy with regard to such significant risks as liquidity risk, credit risk and market risk, as well as other documents, that regulate financial risk management system created by the Group.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn or paid. This may result in the failure to meet obligations to repay depositors and fulfil commitments to lend.

In order to limit this risk, the Bank as the Group liquidity manager places its assets so as to ensure settling of their creditors' legal claims at any time (liquidity), has arranged diversified funding sources in extent appropriate to current market condition in addition to its core deposit base and monitors future cash flows and liquidity on a daily basis.

To ensure liquidity the Bank evaluates and plans the term structure of their assets and liabilities on a regular basis. The Bank maintains marketable trading and available-for-sale portfolios that can be liquidated or pledged in unforeseen situations. The bank also has money market lines that it can use to meet liquidity needs. In addition, the Bank maintains an obligatory reserve deposit with the Central bank of Latvia equal to 5% of borrowings (at the end of 2011). In accordance to liquidity requirements determined by the FCMC the Bank maintains liquid assets that are sufficient for settling liabilities, however, no less than 30% of total current liabilities of the Bank (liquidity ratio). Current liabilities are demand liabilities and liabilities with a residual maturity of no more than 30 days. The liquidity ratio during the year was as follows:

	2011	**2010**
	%	**%**
31 December	49.05	65.52
Average during the period	58.57	56.83
Highest	71.50	66.48
Lowest	41.95	49.17

The Financial Risk Management and Control Policy determines liquidity risk control and management, according to that the Management Board of the Bank and the Assets and Liabilities Committee state general liquidity risk management criteria by regulating the volumes, terms and directions of the Group’s activities, the Resource division (the Treasury) manages liquidity on a daily basis and Risk Management Department measures and monitors liquidity risk and submits reports to the management.

Liquidity risk management and control is based on asset and liability term analysis, incoming and outgoing cash flows analysis, internal limit regulations regarding the net liquidity position, the effective usage of liquidity surplus and liquidity regulation for the remaining free resources, etc.

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below presents an analysis of the Group assets, liabilities and off-balance sheet liabilities analyzed according to their liquidity. According to the regulations of the Latvian Financial and Capital Market Commission, securities that the Bank is able to sell without any significant losses or use them as security assets for loan issue are classified in the group “Up to 1 month”.

As at 31 December 2011 - Group	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	29 952	-	-	-	-	-	-	**29 952**
Loans and receivables to banks	76 236	5 444	15 353	-	-	-	-	**97 033**
Trading financial assets	34 900	-	-	-	53	204	-	**35 157**
Derivative financial instruments	5 967	205	1	-	-	-	-	**6 173**
Loans and receivables to customers	28 243	20 253	10 714	41 999	102 732	24 678	21 315	**249 934**
Available-for-sale financial assets	44 191	-	544	-	-	10 688	-	**55 423**
Prepaid corporate income tax	-	-	-	-	1 197	-	-	**1 197**
Investment property	-	-	-	-	-	-	34 546	**34 546**
Tangible fixed assets	-	-	-	112	25	-	75 852	**75 989**
Goodwill and other intangible assets	-	-	-	-	-	-	310	**310**
Other assets	5 835	112	45	97	135	-	266	**6 490**
Total assets	**225 324**	**26 014**	**26 657**	**42 208**	**104 142**	**35 570**	**132 289**	**592 204**
Liabilities								
Due to the central bank and other banks	1 720	27	-	-	1 780	-	-	**3 527**
Derivative financial instruments	735	135	-	94	-	-	-	**964**
Customer deposits	356 155	29 215	52 045	64 832	16 501	233	-	**518 981**
Subordinated debt	-	-	-	-	10 686	7 133	-	**17 819**
Deferred tax	-	-	-	-	-	-	1 027	**1 027**
Other liabilities	4 503	701	309	513	211	-	189	**6 426**
Total liabilities	**363 113**	**30 078**	**52 354**	**65 439**	**29 178**	**7 366**	**1 216**	**548 744**
Off-balance sheet items	6 696	1 077	20	-	-	-	-	**7 793**
Net liquidity	**(144 485)**	**(5 141)**	**(25 717)**	**(23 231)**	**74 964**	**28 204**	**131 073**	

As at 31 December 2010 - Group	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	81 360	-	-	-	-	-	-	**81 360**
Loans and receivables to banks	99 679	14 463	-	-	1 418	-	-	**115 560**
Trading financial assets	24 583	-	-	1	56	181	-	**24 821**
Derivative financial instruments	2 052	112	30	4	-	-	-	**2 198**
Loans and receivables to customers	27 082	16 751	15 099	40 979	137 269	21 492	37 230	**295 902**
Available-for-sale financial assets	32 366	-	-	96	623	7 026	-	**40 111**
Prepaid corporate income tax	-	-	-	-	1 560	-	-	**1 560**
Investment property	-	-	-	-	-	-	15 771	**15 771**
Tangible fixed assets	-	-	-	-	-	-	3 915	**3 915**
Goodwill and other intangible assets	-	-	-	-	-	-	510	**510**
Other assets	8 808	-	586	-	-	-	241	**9 635**
Total assets	**275 930**	**31 326**	**15 715**	**41 080**	**140 926**	**28 699**	**57 667**	**591 343**
Liabilities								
Due to the central bank and other banks	5 321	-	-	-	-	-	-	**5 321**
Derivative financial instruments	1 684	93	-	-	-	-	-	**1 777**
Customer deposits	316 803	33 275	55 142	72 945	29 159	580	-	**507 904**
Subordinated debt	-	-	-	143	8 144	281	-	**8 568**
Deferred tax	-	-	-	-	-	-	987	**987**
Other liabilities	3 049	1	195	-	2	-	-	**3 247**
Total liabilities	**326 857**	**33 369**	**55 337**	**73 088**	**37 305**	**861**	**987**	**527 804**
Off-balance sheet items	20 967	3 484	720	198	-	-	-	**25 369**
Net liquidity	**(71 894)**	**(5 527)**	**(40 342)**	**(32 206)**	**103 621**	**27 838**	**56 680**	

As at 31 December 2011- Bank	Up to 1 month LVL’000	From 1 to 3 months LVL’000	From 3 to 6 months LVL’000	From 6 months to 1 year LVL’000	From 1 to 5 years LVL’000	5 years and over LVL’000	Other LVL’000	Total LVL’000
Assets								
Cash and balance with the central bank	29 917	-	-	-	-	-	-	**29 917**
Loans and receivables to banks	74 778	543	15 353	-	-	-	-	**90 674**
Trading financial assets	34 900	-	-	-	53	204	-	**35 157**
Derivative financial instruments	5 967	205	1	-	-	-	-	**6 173**
Loans and receivables to customers	41 810	20 060	12 940	44 158	103 588	24 082	20 833	**267 471**
Available-for-sale financial assets	44 191	-	544	-	-	80 109	-	**124 844**
Prepaid corporate income tax	-	-	-	-	1 197	-	-	**1 197**
Investment property	-	-	-	-	-	-	11 533	**11 533**
Investments in subsidiaries	-	-	-	-	-	-	9 672	**9 672**
Tangible fixed assets	-	-	-	-	-	-	12 366	**12 366**
Goodwill and other intangible assets	-	-	-	-	-	-	581	**581**
Other assets	3 056	-	-	-	-	-	43	**3 099**
Total assets	**234 619**	**20 808**	**28 838**	**44 158**	**104 838**	**104 395**	**55 028**	**592 684**
Liabilities								
Due to the central bank and other banks	1 720	27	-	-	1 780	-	-	**3 527**
Derivative financial instruments	735	135	-	94	-	-	-	**964**
Customer deposits	358 235	29 412	52 213	65 137	16 502	233	-	**521 732**
Subordinated debt	-	-	-	-	10 686	7 133	-	**17 819**
Deferred tax	-	-	-	-	-	-	565	**565**
Other liabilities	2 664	-	-	464	-	-	-	**3 128**
Total liabilities	**363 354**	**29 574**	**52 213**	**65 695**	**28 968**	**7 366**	**565**	**547 735**
Off-balance sheet items	11 127	1 130	20	-	-	-	-	**12 277**
Net liquidity	**(139 862)**	**(9 896)**	**(23 395)**	**(21 537)**	**75 870**	**97 029**	**54 463**	

As at 31 December 2010- Bank	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	81 360	-	-	-	-	-	-	**81 360**
Loans and receivables to banks	99 619	14 463	-	-	1 418	-	-	**115 500**
Trading financial assets	24 583	-	-	1	56	181	-	**24 821**
Derivative financial instruments	2 052	112	30	4	-	-	-	**2 198**
Loans and receivables to customers	26 898	16 570	14 679	47 683	131 145	20 649	33 902	**291 526**
Available-for-sale financial assets	32 366	-	-	96	535	15 430	-	**48 427**
Prepaid corporate income tax	-	-	-	-	1 420	-	-	**1 420**
Investment property	-	-	-	-	-	-	5 200	**5 200**
Investments in subsidiaries	-	-	-	-	-	-	3 774	**3 774**
Tangible fixed assets	-	-	-	-	-	-	3 641	**3 641**
Goodwill and other intangible assets	-	-	-	-	-	-	785	**785**
Other assets	8 485	-	-	-	-	-	43	**8 528**
Total assets	**275 363**	**31 145**	**14 709**	**47 784**	**134 574**	**36 260**	**47 345**	**587 180**
Liabilities								
Due to the central bank and other banks	5 321	-	-	-	-	-	-	**5 321**
Derivative financial instruments	1 684	93	-	-	-	-	-	**1 777**
Customer deposits	317 451	33 351	55 249	73 273	29 159	580	-	**509 063**
Subordinated debt	-	-	-	143	8 144	281	-	**8 568**
Deferred tax	-	-	-	-	-	-	439	**439**
Other liabilities	2 907	-	-	139	-	-	-	**3 046**
Total liabilities	**327 363**	**33 444**	**55 249**	**73 555**	**37 303**	**861**	**439**	**528 214**
Off-balance sheet items	35 834	3 484	720	198	-	-	-	**40 236**
Net liquidity	**(87 834)**	**(5 783)**	**(41 260)**	**(25 969)**	**97 271**	**35 399**	**46 906**	

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below presents the maturity profile of the Bank's financial liabilities by the remaining maturities: principal payment and/or interest payments under agreements. The amounts of the liabilities disclosed in the table are the contractual undiscounted cash flows.

Financial liabilities	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**5 years and over**	**Total**
As at 31 December 2011	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Due to the central bank and other banks	1 703	27	-	-	1 993	-	**3 723**
Derivatives financial instruments	(5 733)	125	(1)	(29)	-	-	**(5 638)**
- Contractual amounts payable	*940 585*	*3 691*	*30*	*3 833*	-	-	**948 139**
- Contractual amounts receivable	*(946 318)*	*(3 566)*	*(31)*	*(3 862)*	-	-	**(953 777)**
Customer deposits	358 923	30 326	55 190	72 756	12 627	233	**530 055**
Subordinated debt	-	-	-	-	14 573	10 172	**24 745**
Total undiscounted financial liabilities	**354 893**	**30 478**	**55 189**	**72 727**	**29 193**	**10 405**	**552 885**
Contingent liabilities	2 722						**2 722**
Commitments	9 270	1 130	20	-	-	-	**10 420**
Total	**11 992**	**1 130**	**20**	**-**	**-**	**-**	**13 142**
As at 31 December 2010							
Due to the central bank and other banks	5 235	-	-	-	-	-	**5 235**
Derivatives financial instruments	(396)	(29)	(40)	(12)	-	-	**(477)**
- Contractual amounts payable	*830 994*	*5 369*	*4 380*	*232*	-	-	**840 975**
- Contractual amounts receivable	*(831 390)*	*(5 398)*	*(4 420)*	*(244)*	-	-	**(841 452)**
Customer deposits	318 450	33 730	58 284	84 082	25 897	922	**521 365**
Subordinated debt	-	-	-	169	11 476	360	**12 005**
Total undiscounted financial liabilities	**323 289**	**33 701**	**58 244**	**84 239**	**37 373**	**1 282**	**538 128**
Contingent liabilities	3 807	-	-	-	-	-	**3 807**
Commitments	32 027	3 484	720	198	-	-	**36 429**
Total	**35 834**	**3 484**	**720**	**198**	**-**	**-**	**40 236**

The maturity profile of the Group's financial liabilities is not presented, as the only items the Bank's subsidiaries have is due to the Bank.

CREDIT RISK

Credit risk is the potential risk, which may cause losses for the Bank or the Group, if borrower or counterparty fails or refuses to meet its contractual obligations.

Both the Group and the Bank manage the overall credit risk, including country risk in accordance with the Financial Risk Management and Control Policy, Policy for the Country Risk Management and Credit Policy.

When managing credit risk Bank ensures its measurement assessment and supervision.

Credit risk monitoring system established by the Bank is based on the following key elements:

- **1st element – Availability of risk measurement method**. The Bank has developed and consistently applies methods for assessing creditworthiness of the Borrowers.
- **2nd element - Decision making procedure for granting a credit**. Decisions on granting a credit are made jointly and the limits of authority are distributed across various levels in accordance with respective competence levels.

- **3rd element – Diversification of the Credit Portfolio, i.e. establishment of limits and restrictions**. Setting limits and restrictions is regarded as a tool for minimization of credit risk and elimination of potential losses.
- **4th element. Monitoring of compliance to established limits and restrictions,**
- **5th element. Creation of adequate loan loss provisions** to cover losses that might appear in the course of credit transactions. Created provisions are regarded an instrument that would allow the Bank to cover future expected losses resulting from credit transaction risks; thus protecting the Bank financial stability from any negative impact.

The credit risk management practice includes the approved methods of the credit risk measurement of the borrowers, counter-parties or issuers as well as the regular assessment of the off-balance liabilities.

The Group and the Bank identify and control the credit risk by establishing the acceptable exposure limits for:

- individual borrowers and groups of interrelated counterparties;
- economic sectors;
- different types of exposures;
- types of collateral;
- unsecured credits;
- credits issued in the currency other than borrower's income.

The exposure limits are established in the Credit Policy and the Policy of Control over Large Exposures, both approved by the Council. Those limits are being regularly supervised and are revised annually, at least by the decision of the Management Board.

The credit risk is managed by the Management Board and the Credit Committee.

The Management Board approves the internal bank's regulations for implementation of Bank's Credit Policy, considers and accepts new credit exposures, approves the measures for mitigating the risk related to the credit portfolio, performs control over the Credit Committee.

The Credit Committee approves the exposure within its competence, analyses the quality of the credit portfolio or individual loan and in case of deterioration accepts the measures for mitigating the credit risk. The Board approves the Credit Committee's decisions when the exposure exceeds 5% of the 1st and 2nd tier capital.

The main assessment criterion for the possible lending is the creditworthiness of the customer. Prior to decision on any new credit exposure, the Bank and Group must obtain sufficient and reliable information to enable assessment of the risk profile of the borrower or counterparty.

The Credit Supervision Department is managing the credit risk on a daily basis. The Credit Supervision Department is responsible for Credit Policy implementation and supervision over its fulfilment.

The Credit Supervision Department also is in charge for exposure concentration analysis, for control over the set limits, for monitoring the loans portfolio, preparing the surveys on loan portfolio and their submission to the Management Board. All breaches revealed by the Credit Supervision Department are reported to the Management Board.

MAXIMUM EXPOSURE TO CREDIT RISK

The amount of the Group's maximum exposure to credit risk without taking into account of any collateral is represented by the carrying amount of each category of financial assets in the balance sheet and off-balance sheet items.

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit risk exposure relating to on-balance sheet assets	**451 284**	**528 492**	**489 057**	**491 907**
Loans and receivables to banks	97 033	90 674	115 560	115 500
Trading financial assets	35 157	35 157	24 821	24 821
Derivatives assets	6 173	6 173	2 198	2 198
Loans and receivables to customers	249 934	267 471	295 902	291 526
Available-for-sale financial assets	55 423	124 844	40 111	48 427
Prepaid corporate income tax	1 197	1 197	1 560	1 420
Other assets	6 367	2 976	8 905	8 015
Credit risk exposure relating to off-balance sheet items	**8 658**	**13 142**	**26 295**	**41 162**
Contingent liabilities	2 722	2 722	4 362	4 362
Commitments	5 936	10 420	21 933	36 800
Maximum exposure	**459 942**	**541 634**	**515 352**	**533 069**

Risk concentrations of the maximum exposure to credit risk

Concentration risk is managed by establishing the limits to the borrower or group of interrelated borrowers. During 2011the maximum exposure concentration to the borrower or group of interrelated borrowers according to FCMC regulations was limited up to 25% of Capital Tier1 and Tier 2.

In accordance with the Credit Policy the following limits and restrictions for the Group and the Bank were established:

-the maximum amount of the loan portfolio should not be more than 70% of the total assets and should not exceed the size of Capital Tier1 and Tier 2 more than 8 times.

-the portion of non-resident credits should not exceed 50% of the total Credit Portfolio.

-the maximum amount of credits into one economic segment is limited up to 45% of the total loan portfolio.

The Group's and Bank's financial assets are deposited in the following geographical regions:

At 31 December 2011 – Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**195 407**	**155 039**	**100 838**	**451 284**
Loans and receivables to banks	31	87 849	9 153	**97 033**
Trading financial assets	-	27 459	7 698	**35 157**
Derivatives assets	95	5 986	92	**6 173**
Loans and receivables to customers	159 582	25 448	64 904	**249 934**
Available-for-sale financial assets	29 504	7 582	18 337	**55 423**
Prepaid corporate income tax	1 197	-	-	**1 197**
Other assets	4 998	715	654	**6 367**
Credit risk exposure relating to off-balance sheet items	**6 218**	**131**	**2 309**	**8 658**
Total	**201 625**	**155 170**	**103 147**	**459 942**

At 31 December 2010 – Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**208 431**	**122 589**	**158 037**	**489 057**
Loans and receivables to banks	59	99 675	15 826	**115 560**
Trading financial assets	-	2 155	22 666	**24 821**
Derivatives assets	78	697	1 423	**2 198**
Loans and receivables to customers	169 069	19 471	107 362	**295 902**
Available-for-sale financial assets	30 916	184	9 011	**40 111**
Prepaid corporate income tax	1 420	-	140	**1 560**
Other assets	6 889	407	1 609	**8 905**
Credit risk exposure relating to off-balance sheet items	**13 507**	**225**	**12 563**	**26 295**
Total	**221 938**	**122 814**	**170 600**	**515 352**

At 31 December 2011 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**270 850**	**155 022**	**102 620**	**528 492**
Loans and receivables to banks	22	87 849	2 803	**90 674**
Trading financial assets	-	27 459	7 698	**35 157**
Derivatives assets	95	5 986	92	**6 173**
Loans and receivables to customers	168 808	25 448	73 215	**267 471**
Available-for-sale financial assets	98 925	7 582	18 337	**124 844**
Prepaid corporate income tax	1 197	-	-	**1 197**
Other assets	1 803	698	475	**2 976**
Credit risk exposure relating to off-balance sheet items	**6 369**	**131**	**6 642**	**13 142**
Total	**277 219**	**155 153**	**109 262**	**541 634**

At 31 December 2010 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**218 075**	**122 485**	**151 347**	**491 907**
Loans and receivables to banks	59	99 666	15 775	**115 500**
Trading financial assets	-	2 155	22 666	**24 821**
Derivatives assets	78	697	1 423	**2 198**
Loans and receivables to customers	170 404	19 471	101 651	**291 526**
Available-for-sale financial assets	39 320	96	9 011	**48 427**
Prepaid corporate income tax	1 420	-	-	**1 420**
Other assets	6 794	400	821	**8 015**
Credit risk exposure relating to off-balance sheet items	**14 731**	**225**	**26 206**	**41 162**
Total	**232 806**	**122 710**	**177 553**	**533 069**

An industry sector analysis of the Group's and Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as following:

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit risk exposure relating to on-balance sheet assets	**451 284**	**528 492**	**489 057**	**491 907**
Banks	101 652	95 293	135 972	135 913
Private individuals	29 995	25 788	40 922	36 908
Transport	32 732	41 294	98 334	97 895
Trade	22 539	20 079	29 382	25 802
Financial services	65 883	151 136	23 448	41 866
Processing industry	41 151	40 723	35 136	34 768
Building	7 345	3 695	5 932	620
Governments	72 091	72 091	33 093	33 005
Other	77 896	78 393	86 838	85 130
Credit risk exposure relating to off-balance sheet items	**8 658**	**13 142**	**26 295**	**41 162**
Total	**459 942**	**541 634**	**515 352**	**533 069**

Renegotiated loans

In accordance with the Credit Policy a "***renegotiated credit*** *" is a new credit* used to refinance the *old* one, with the following conditions:

- interest payments are made once a year;
- the Client participation share in the credit project is not required (in case when based on standard Bank's requirements the Client share participation is required);
- newly stipulated interest rate for the credit utilisation is considerably lower than standard rate;
- new credit maturity is considerably longer than the standard maturity for the similar Bank credits;
- past due not paid loan interest is capitalised (for credit card credits at the moment of renegotiation).

Prior to credit renegotiation the Bank should have reasonable assurance that the borrower's creditworthiness (forecasted cash flow) is sufficient for fulfilment of obligations under to the terms and conditions of the altered credit agreement:

- if the borrower is a legal entity such assurance is mainly based on the borrower's forecasted cash flow and its feasibility analysis,
- if the borrower is a private individual such assurance is mainly based on the customer's planned income,
- it is not permitted to make multiple amendments to the credit agreement (credit renegotiation) without performing the borrower cash flow analysis or analysis of feasibility of the financed project.

The decision on the loan restructuring is made by the authorized bodies of the Bank.

The amount of renegotiated loans as at December 31, 2011 is LVL'000 53 302 (2010: 10 258).

Collateral and other credit enhancements

The Bank considers the collateral as an element mitigating the credit risk. The acceptable types of collateral and the methods of evaluation are established in the Credit Policy and the Procedure for the Supervision over the Loans.

The main acceptable types of collateral are: the real estate mortgage, ship mortgage, commercial pledge of the assets of the companies, incl. fixed assets, inventory and accounts receivable.

The management controls the market value of the collateral, paying special attention to the real estate property and adjusting it accordance to the recent market prices.

The assessment of the real estate property is performed by the independent certified valuators. The Bank adjusts the market value made by the evaluators if considers that any substantial risk factors were omitted. Such adjusted market value is used in calculations of adequacy of collateral.

According the requirements of the Credit Policy the maximum portion of the credits with the similar type of collateral should be limited up to 45% of the loan portfolio (credits without collateral are not taken into consideration).

The portion of unsecured exposures should be limited up to 15% of the Credit Portfolio. The Bank considers the unsecured exposures (they mainly are the consumer loans, including cards), as a group of loans with the same purpose and similar credit risk, that has been analyzed, assessed and accepted while implementing the respective credit instrument.

Quality of credits and receivables

The Group and the Bank are constantly monitoring the creditworthiness of the borrowers, adequacy of the collateral and measurement of its fair value.

The Bank classifies the loans on the quarterly basis or every time when it receives the information about the substantial deterioration of the quality of any credit. The classification is made with the aim to assess the quality and risk grade of the issued credits and indemnities measurement of potential losses and creation of sufficient provisions as well.

The credit assessment is made by the Credit Committee and the Risk management Committee. Both committees in its assessments and estimations observe the principles of conservatism and discretion, i.e. not to decrease the amount of assets and earnings or not to increase the amount of liabilities and costs so that the financial report remains reliable.

The Credit Committee decides on non-recognition or derecognition of interest income from individually assessed loan; and non-recognition or derecognition of interest income from renegotiated loans.

The Risk Management Committee decides on making the provisions for impairment.

The special provisions in the financial reports are reflected as a result of the deterioration of the loan quality and /or impairment. The amount of losses caused by the impairment is reflected in the Income Statement for the reported period.

The assessment of the loan quality is made by assessing of each credit, i.e. individually, or collectively by pooling the loans with similar credit risk characteristics.

	31.12.2011		**31.12.2010**	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loans and receivables to customers				
Neither past due nor impaired	158 517	173 796	221 590	221 104
Past due but not impaired	32 158	35 235	57 981	54 649
Impaired	88 090	85 926	38 755	36 749
Gross amount	**278 765**	**294 957**	**318 326**	**312 502**
(Provisions)	(28 831)	(27 486)	(22 424)	(20 976)
Total net loans and receivables to customers	**249 934**	**267 471**	**295 902**	**291 526**

As at 31 December 2011 and 31 December 2010 other financial assets: loans and receivables to banks, available-for-sale financial assets, contingent liabilities and commitments have been classified as neither past due nor impaired.

Ageing analysis of past due but not impaired loans and receivables to customers

In order to detect possible impairment of overdue loans, the Bank applied its internal methodology. No loans from the category of "past due, but not impaired" (including unsecured consumer loans with the age interval over 180 days) demonstrated impairment when were examined in accordance with the internal methodology.

The table below represents the Group's and the Bank's analysis of past due but not impaired loans as at 31 December 2011:

Group	**Past due but not impaired**					
At 31 December 2011	**up to 30 days LVL'000**	**31 to 60 days LVL'000**	**61 to 90 days LVL'000**	**91 to 180 days LVL'000**	**More than 180 days LVL'000**	**Total LVL'000**
Mortgage loans	2 452	796	4 418	163	2 607	**10 436**
Industrial loans	6 525	485	2 584	-	4 422	**14 016**
Commercial loans	914	664	390	303	3 403	**5 674**
Consumer loans	837	59	11	60	49	**1 016**
Credit card	240	-	-	-	-	**240**
Finance leases	385	31	4	-	18	**438**
Other	13	82	-	-	243	**338**
Total	**11 366**	**2 117**	**7 407**	**526**	**10 742**	**32 158**

Bank	**Past due but not impaired**					
At 31 December 2011	**up to 30 days LVL'000**	**31 to 60 days LVL'000**	**61 to 90 days LVL'000**	**91 to 180 days LVL'000**	**More than 180 days LVL'000**	**Total LVL'000**
Mortgage loans	2 203	777	4 418	109	2 410	**9 917**
Industrial loans	9 927	485	2 584	-	4 422	**17 418**
Commercial loans	3 452	664	390	303	1 518	**6 327**
Consumer loans	834	59	11	60	13	**977**
Credit card	240	-	-	-	-	**240**
Finance leases	-	-	-	-	18	**18**
Other	13	82	-	-	243	**338**
Total	**16 669**	**2 067**	**7 403**	**472**	**8 624**	**35 235**

The table below represents the Group's and the Bank's analysis of past due but not impaired loans as at 31 December 2010:

Group	**Past due but not impaired**					
At 31 December 2010	**up to 30 days LVL'000**	**31 to 60 days LVL'000**	**61 to 90 days LVL'000**	**91 to 180 days LVL'000**	**More than 180 days LVL'000**	**Total LVL'000**
Mortgage loans	353	260	1 042	1 467	13 019	**16 141**
Industrial loans	5 213	3 519	2 700	-	10 309	**21 741**
Commercial loans	9 140	107	802	1 469	4 223	**15 741**
Consumer loans	1 313	437	46	127	158	**2 081**
Credit card	385	-	-	-	-	**385**
Finance leases	264	83	27	128	109	**611**
Other	115	-	-	-	1 166	**1 281**
Total	**16 783**	**4 406**	**4 617**	**3 191**	**28 984**	**57 981**

Bank	Past due but not impaired					
At 31 December 2010	up to 30 days LVL’000	31 to 60 days LVL’000	61 to 90 days LVL’000	91 to 180 days LVL’000	More than 180 days LVL’000	Total LVL’000
Mortgage loans	291	232	1 042	1 467	12 705	**15 737**
Industrial loans	5 213	3 519	2 700	-	10 309	**21 741**
Commercial loans	9 093	107	802	1 469	1 979	**13 450**
Consumer loans	1 305	424	30	124	138	**2 021**
Credit card	385	-	-	-	-	**385**
Finance leases	-	-	9	25	-	**34**
Other	115	-	-	-	1 166	**1 281**
Total	**16 402**	**4 282**	**4 583**	**3 085**	**26 297**	**54 649**

The detailed information on the provisions made against bad debts is in Note 16 “Impairment losses on financial assets”.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will adversely fluctuate due to changes in market variables such as interest rates, exchange rates and equity prices.

The Bank classifies exposures to market risk into either trading or non-trading portfolios. Bank’s subsidiaries do not have trading portfolios. Trading portfolio includes those positions arising from market-making transactions where the Bank acts as principal with clients or with the market and are managed by the Bank’s Resource division (the Treasury) according to the Investment Policy and the Internal Financial Risk Management and Control Policy within limits and restrictions set by the Management Board.

Market risks mainly arise from open positions (both trading and non-trading) in interest rate and foreign currency exchange rates. Interest rate risk and foreign exchange risk are managed and monitored by applying sensitivity analyses. The Group has no significant market risk concentration.

The Managing Board and the Assets and Liabilities Committee set the basic interest rate for deposits and loans for each currency group and period analyzing the maturity and interest rates of assets and liabilities, the net interest margin and liquidity in connection with currencies and directions of operations.

Interest rate risk

The following table demonstrates sensitivity of the Group’s income statement and equity to possible changes in interest rates, on the condition that all other variables are constant.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income (with equal effect on pre-tax profit) for one year, based on financial assets and financial liabilities (variable loan commitments are not included) categorised by the earlier of contractual re-pricing or maturity dates.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets held at 31 December 2011 and is based on the assumption that there are parallel shifts in the yield curve discounting future cash flows by amended interest rate. There is the same effect on sensitivity of equity of the Group as only the Bank has available-for-sale assets revaluing them through the equity.

At 31 December 2011		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase/ decrease in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**0 to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
		LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
LVL	+200	(183)	(175)	(9)	(133)	(242)	(384)
USD	+150	(804)	(872)	(5)	-	(366)	(371)
EUR	+150	(42)	(192)	-	-	(492)	(492)

At 31 December 2010		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase/ decrease in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**0 to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
		LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
LVL	+200	387	397	(64)	(106)	(251)	(421)
USD	+150	(314)	(296)	(6)	(1)	(35)	(42)
EUR	+150	235	210	-	-	-	-

Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Policy of Control over Large Exposures and the Financial Risk Management and Control Policy govern foreign exchange risk control and management. These policies are based on meeting the restrictions of the net open position of each foreign currency and the total open position of foreign currencies, in compliance with the limits and stop losses set by the Management Board and with the requirements of the Latvian Financial and Capital Market Commission. In order to avoid losses arising from adverse changes in exchange rates, the Treasury continuously manages open positions and supervises compliance with the restrictions on foreign currency positions.

The sensitivity analysis for the Group's foreign exchange risk is presented in following tables:

As at 31 December 2011 - Group	**LVL**	**USD**	**EUR**	**Other currencies**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Assets					
Cash and due from the central bank	19 972	1 701	6 559	1 720	**29 952**
Loans and receivables to banks	8	87 225	5 793	4 007	**97 033**
Trading financial assets	-	34 002	1 155	-	**35 157**
Derivative financial instruments	6 173	-	-	-	**6 173**
Loans to customers and receivables	16 234	62 703	159 262	11 735	**249 934**
Available-for-sale financial assets	26 950	6 732	21 741	-	**55 423**
Prepaid corporate income tax	1 197	-	-	-	**1 197**
Investment property	31 645	-	-	2 901	**34 546**
Tangible fixed assets	32 983	38 355	4 423	228	**75 989**
Goodwill and other intangible assets	300	-	5	5	**310**
Other assets	2 727	1 540	1 565	658	**6 490**
Total assets	**138 189**	**232 258**	**200 503**	**21 254**	**592 204**

Liabilities and equity					
Due to the central bank and other banks	65	790	1 904	768	**3 527**
Derivative financial instruments	964	-	-	-	**964**
Customer deposits	67 664	239 009	187 618	24 690	**518 981**
Subordinated debt	-	658	17 077	84	**17 819**
Deferred tax liabilities	586	-	-	441	**1 027**
Other liabilities	2 331	1 835	1 760	500	**6 426**
Total liabilities	**71 610**	**242 292**	**208 359**	**26 483**	**548 744**
Share capital and reserves	46 916	-	(11 061)	7 163	**43 018**
Minority interest	-	-	442	-	**442**
Total liabilities and equity	**118 526**	**242 292**	**197 740**	**33 646**	**592 204**
Net balance sheet long/(short) position	**19 663**	**(10 034)**	**2 763**	**(12 392)**	
Spot foreign-exchange contracts long/(short) position	(1 399)	58 087	(79 149)	22 461	
Swap foreign-exchange contracts long/(short) position	1 494	(6 482)	23 270	(18 282)	
Forward foreign-exchange contracts long/(short) position	(562)	(3 441)	(653)	4 656	
Net open long/(short) currency position	**19 196**	**38 130**	**(53 769)**	**(3 557)**	
Currency open position in % from capital as of 31/12/2011		**76.80**	**108.29**		
As at 31 December 2010 - Group					
Net open long/(short) currency position	**(1 644)**	**6 595**	**(651)**	**(4 300)**	
Currency open position in % from capital as of 31/12/2010		**11.59**	**1.14**		

The table below indicates the currencies to which the Group had significant exposure at 31 December 2011 and at 31 December 2010 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate against the Lat, with all other variables held constant, on the income statement

	31.12.2011		**31.12.2010**	
Currency	**Change in currency rate %**	**Effect on income statement LVL`000**	**Change in currency rate %**	**Effect on income statement LVL`000**
USD	+5	1 907	+5	330
	(5)	(1 907)	(5)	(330)
EUR	+1	(538)	+1	(7)
	(1)	538	(1)	7

The sensitivity analysis for the Bank’s foreign exchange risk is presented in following tables:

As at 31 December 2011 - Bank	**LVL**	**USD**	**EUR**	**Other currencies**	**Total**
	LVL’000	**LVL’000**	**LVL’000**	**LVL’000**	**LVL’000**
Assets					
Cash and due from the central bank	19 966	1 685	6 546	1 720	**29 917**
Loans and receivables to banks	-	81 050	5 779	3 845	**90 674**
Trading financial assets	-	34 002	1 155	-	**35 157**
Derivative financial instruments	6 173	-	-	-	**6 173**
Loans to customers and receivables	16 234	68 283	171 583	11 371	**267 471**
Available-for-sale financial assets	36 269	6 732	81 843	-	**124 844**
Prepaid corporate income tax	1 197	-	-	-	**1 197**
Investment property	11 533	-	-	-	**11 533**
Investment in subsidiaries	9 672	-	-	-	**9 672**
Tangible fixed assets	12 366	-	-	-	**12 366**
Goodwill and other intangible assets	581	-	-	-	**581**
Other assets	2 473	194	106	326	**3 099**
Total assets	**116 464**	**191 946**	**267 012**	**17 262**	**592 684**

Liabilities and equity					
Due to the central bank and other banks	65	790	1 904	768	**3 527**
Derivative financial instruments	964	-	-	-	**964**
Customer deposits	68 207	239 598	189 237	24 690	**521 732**
Subordinated debt	-	658	17 077	84	**17 819**
Deferred tax liabilities	565	-	-	-	**565**
Other liabilities	1 998	492	533	105	**3 128**
Total liabilities	**71 799**	**241 538**	**208 751**	**25 647**	**547 735**
Share capital and reserves	44 949	-	-	-	**44 949**
Total liabilities and equity	**116 748**	**241 538**	**208 751**	**25 647**	**592 684**
Net balance sheet long/(short) position	**(284)**	**(49 592)**	**58 261**	**(8 385)**	
Spot foreign-exchange contracts long/(short) position	(1 399)	58 087	(79 149)	22 461	
Swap foreign-exchange contracts long/(short) position	1 494	(6 482)	23 270	(18 282)	
Forward foreign-exchange contracts long/(short) position	(562)	(3 441)	(653)	4 656	
Net open long/(short) currency position	**(751)**	**(1 428)**	**1 729**	**450**	
Currency open position in % from capital as of 31/12/2011		**2.85**	**3.45**		
As at 31 December 2010 - Bank					
Net open long/(short) currency position	**(414)**	**1 087**	**(47)**	**(626)**	
Currency open position in % from capital as of 31/12/2010		**2.17**	**0.09**		

As at 31 December 2011, the Bank's open position was 8.29% of the tier 1 and tier 2 of the capital (2010: 5.28%).

According to the Law on Credit Institutions of the Republic of Latvia the total open position should not exceed 20% of the capital amount, and the open position for every currency should not exceed 10 %; the internal limits set by the Board during the 2011 were stronger (17 % and 8% (except EUR) accordingly).

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2011 and at 31 December 2010 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis snows the effect of a reasonable possible movement of the currency rate against the Lat, with all other variables held constant, on the income statement.

	31.12.2011		**31.12.2010**	
Currency	**Change in currency rate %**	**Effect on income statement LVL`000**	**Change in currency rate %**	**Effect on income statement LVL`000**
USD	+5	71	+5	54
	(5)	(71)	(5)	(54)
EUR	+1	17	+1	-
	(1)	(17)	(1)	-

Operational risk

Operational risk is the risk of loss arising from the impact of inadequate or unsuccessful internal processes: personnel errors, systems failure, or external events. The Management Board and appropriate organizational units of the Group exercise supervision and control over the operational risk on the basis of the approved Operational Risk Management Policy. The operational risk is monitored and managed by the following methods: effective segregation of duties and accesses, authorisation and reconciliation; operational risk is daily monitored by the Back-Office and operational risk cases are registered in on-line database for the further analysis; direct reporting on operational risk cases to the Management Board, respective heads of department and product managers; regular internal control process reviews; regular inspections by Internal Audit, including regular IT systems inspections by IT system internal auditor.

4. NET INTEREST INCOME

	2011		2010	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Interest income	**21 186**	**18 162**	**23 488**	**21 509**
Loans and receivables to customers	16 186	13 783	17 456	15 497
Loans and receivables to banks	1 364	874	1 533	1 517
Available-for-sale securities	1 816	1 685	2 887	2 886
Trading securities	1 764	1 764	1 509	1 509
Other	56	56	103	100
Interest expense	**10 799**	**10 565**	**12 879**	**12 893**
Customer deposits	8 603	8 614	11 239	11 239
Deposits from banks	266	22	53	68
Subordinated debt	849	849	643	642
Payments in the Deposit Guarantee Fund	1 080	1 080	944	944
Other	1	-	-	-
Net interest income	**10 387**	**7 597**	**10 609**	**8 616**

As at 31 December 2011, interest income accrued on impaired loans to customers amounted to LVL’000 1 182 (2010: LVL’000 1 262).

5. NET FEE AND COMMISSION INCOME

	2011		2010	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Fee and commission income	**10 304**	**9 819**	**9 185**	**8 588**
Account services and money transfer fees	5 835	5 854	4 847	4 914
Commission for public utility payments	1 072	1 072	1 242	1 242
Payment cards	1 399	1 400	1 196	1 197
Brokerage services on securities	839	839	573	550
Asset management fees	525	52	736	94
Cash withdrawal	420	420	405	405
Commission on letters of credit and collection	45	45	48	48
Other	169	137	138	138
Fee and commission expense	**1 762**	**1 643**	**1 563**	**1 536**
Payment cards	951	951	803	803
Services of correspondent banks	518	518	581	578
Securities purchase and brokerage services	173	173	154	154
Other	120	1	25	1
Net fee and commission income	**8 542**	**8 176**	**7 622**	**7 052**

6. NET TRADING INCOME

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from trading financial assets, net	**(1 182)**	**(1 182)**	**475**	**475**
Bonds and other fixed income securities	***(1 193)***	***(1 193)***	***392***	***392***
Net trading profit/(loss)	(1 285)	(1 285)	(53)	(53)
Fair value adjustment	92	92	445	445
Shares and other non- fixed income securities	***11***	***11***	***83***	***83***
Net trading profit/(loss)	33	33	-	-
Fair value adjustment	(22)	(22)	83	83
Profit/(loss) from derivative instruments and foreign exchanges trading, net	**8 994**	**9 001**	**4 445**	**4 539**
Net trading profit/(loss)	3 986	3 993	4 428	4 522
Fair value adjustment	5 008	5 008	17	17
Profit/(loss) from revaluation of open position, net	**(864)**	**(1 048)**	**1 561**	**1 781**
Net trading income	**6 948**	**6 771**	**6 481**	**6 795**

7. NET GAIN OR LOSS FROM SALES OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	(507)	(507)	880	880
Total	**(507)**	**(507)**	**880**	**880**

These are the amounts transferred from equity to the income statement on the derecognition of available-for-sale financial instruments.

8. OTHER OPERATING INCOME AND EXPENSES

Other operating income was as follows:	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Income from ships (freight)	6 242	-	-	-
Penalties	933	855	1 158	1 041
Rent of investment property	682	566	344	344
Rent of premises	49	56	87	87
Other	996	273	249	204
Total	**8 902**	**1 750**	**1 838**	**1 676**

Other operating expenses were as follows:	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Expenses from ships (freight)	5 910	-	-	-
Sale of assets	2 429	-	18	-
Expenses from credit operations	509	509	538	538
Membership fees	147	125	127	106
Other	132	4	336	32
Total	**9 127**	**638**	**1 019**	**676**

9. ADMINISTRATIVE EXPENSES

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Personnel expense	**9 199**	**8 472**	**8 991**	**8 110**
Personnel remuneration	6 603	6 180	6 650	5 951
Supervisory Council and Management Board remuneration	843	652	662	590
Social security contributions	1 753	1 640	1 679	1 569
Other expense	**7 597**	**7 006**	**7 006**	**6 660**
Professional services	1 684	1 610	1 531	1 500
Computer repair and communications	1 038	1 009	980	1 072
Rent	968	1 378	1 441	1 335
Public utilities and maintenance	699	695	598	604
Advertising	644	527	670	517
Value added tax	351	340	514	510
Business trip	233	229	236	230
Security	189	186	181	177
Real estate tax	78	72	70	67
Write-off of leasehold improvement	-	-	11	11
Other administrative expenses	1 713	960	774	637
Total	**16 796**	**15 478**	**15 997**	**14 770**

During the 2011 the average number of employees by the Group and the Bank was 1 009, 11 Supervisory Council and 25 Management Board members and 610 employees, 5 Supervisory Council and 4 Management Board members, respectively.

The average number of employees by the Group and the Bank in 2010 was 697, 21 Supervisory Council and 20 Management Board members and 632 employees, 6 Supervisory Council and 4 Management Board members, respectively.

10. CORPORATE INCOME TAX

a) Components of corporate income tax	2011		2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Corporate income tax expense for the year	357	-	174	-
Corporate income tax paid abroad	305	305	248	248
Recalculation for previous year	-	-	(202)	(202)
Change in deferred tax liability	(51)	10	(353)	(289)
Total	**611**	**315**	**(133)**	**(243)**

b) Reconciliation of accounting profit to tax charge	2011		2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
(Loss) Profit before taxation	**(20 487)**	**(18 528)**	**(1 233)**	**21**
Expected corporate income tax	(3 073)	(2 779)	(185)	3
Tax effect of:				
(Untaxed income)/non-deductible expense	1 273	2 789	(72)	(292)
Effect of different tax rates on income tax paid abroad/ lost allowance for tax paid abroad	305	305	248	248
Effect of different tax rates of subsidiaries operating in other jurisdictions	1 844	-	78	-
Recalculation for previous year	-	-	(202)	(202)
Not recognised deferred tax assets	310	-	-	-
Other	(48)	-		-
Total	**611**	**315**	**(133)**	**(243)**

Expected corporate income tax has been calculated in accordance to Latvian income tax rate in 2011.
Effect of different tax rates of subsidiaries operating in other jurisdictions appeared due to 20% income tax rate in Armenia.

c) Reconciliation of prior year deferred tax balance with that of current period is as follows:	2011		2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Deferred tax liability at the beginning of year	610	62	891	351
Deferred tax liability increase (decrease) for the year	(51)	10	(353)	(289)
Deferred tax liability from merger with subsidiary company	116	116	-	-
Foreign exchange	(25)	-	72	-
Deferred tax liability at the year end	**650**	**188**	**610**	**62**
Deferred tax, recognised directly in equity at the beginning of year	377	377	178	178
Deferred tax increase for the year, net	-	-	199	199
Deferred tax, recognised directly in equity at the year end	**377**	**377**	**377**	**377**
Total	**1 027**	**565**	**987**	**439**

d) The deferred tax included in the balance sheet and changes recorded in the income statement are as follows:

	2011		2010	
Group	**Deferred tax asset LVL’000**	**Deferred tax liability LVL’000**	**Deferred tax asset LVL’000**	**Deferred tax liability LVL’000**
Loans to customers	-	(433)	-	(534)
Depreciation and amortisation	-	(160)	-	(93)
Change in fair value of investment property	(4)	(521)	-	(377)
Tax loss carry-forwards	407	-	378	-
Accruals for vacations	76		21	-
Other	-	(15)	4	(9)
Total mutual off setting of asset/(liability)	**479**	**(1 129)**	**403**	**(1 013)**
Net deferred tax asset/(liability)	**-**	**(650)**	**-**	**(610)**
Deferred tax, recognised directly in equity	**-**	**(377)**	**-**	**(377)**
Total	**-**	**(1 027)**	**-**	**(987)**

	2011		2010	
Bank	**Deferred tax assets LVL’000**	**Deferred tax liability LVL’000**	**Deferred tax assets LVL’000**	**Deferred tax liability LVL’000**
Depreciation and amortisation	-	(159)	-	(84)
Change in fair value of investment property	-	(506)	-	(377)
Tax loss carry-forwards	407	-	378	-
Accruals for vacations	70	-	21	-
Other	-	-	-	-
Total mutual off setting of asset/(liability)	**477**	**(665)**	**399**	**(461)**
Net deferred tax asset/(liability)	**-**	**(188)**	**-**	**(62)**
Deferred tax, recognised directly in equity	**-**	**(377)**	**-**	**(377)**
Total	**-**	**(565)**	**-**	**(439)**

11. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2011		31.12.2010	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Cash	8 043	8 008	6 985	6 985
Due from the central bank	21 909	21 909	74 375	74 375
Total	**29 952**	**29 917**	**81 360**	**81 360**

Balances with the Bank of Latvia represent funds held in the Bank’s clearing account. In accordance with the regulations set by the Bank of Latvia, the Bank’s average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base, as at the end of each month. As at 31 December 2011 and 2010 the amount of the statutory reserve of the Bank was LVL'000 27 499 and LVL'000 23 895, respectively.

12. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2011		31.12.2010	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Demand placements with:	**46 253**	**44 796**	**93 726**	**93 717**
Banks of the Republic of Latvia	31	22	59	59
Banks of the OECD countries	42 033	42 033	82 383	82 374
Banks of other countries	4 189	2 741	11 284	11 284
Loans to and receivables from:	**50 780**	**45 878**	**21 834**	**21 783**
Banks of the Republic of Latvia	-	-	-	-
Banks of the OECD countries	45 816	45 816	17 292	17 292
Banks of other countries	4 964	62	4 542	4 491
Total	**97 033**	**90 674**	**115 560**	**115 500**

Group has received securities at fair value LVL’000 12 366 at 31 December 2011 (at 31 December 2010: LVL’000 14 389) as collateral for Barclay Bank PLC reverse repo deals and the Group is permitted to sell or re-pledge them. As at 31 December 2011 received securities have not been sold or re-pledged. (at 31 December 2010: LVL’000 nil).

In 2011 Bank has LVL’000 6 567 pledged for Forex deals, in 2010: LVL’000 7 528.

In 2011 Bank’s average interest rates are: LVL 0.35%, USD 0.32%, EUR 0.68%; in 2010: LVL 3.72%, USD 0.28%, EUR 1.75%.

13. TRADING FINANCIAL ASSETS

	31.12.2011		31.12.2010	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Trading bonds and other fixed income securities	**35 104**	**35 104**	**24 087**	**24 087**
OECD country bonds	27 459	27 459	2 155	2 155
Other country bonds	7 645	7 645	21 932	21 932
Trading shares and other non- fixed income securities	**53**	**53**	**734**	**734**
Other country shares	53	53	734	734
Total	**35 157**	**35 157**	**24 821**	**24 821**

14. DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents the fair value of the Group’s and Bank’s derivatives held for trading. Derivatives financial instruments are accounted as assets or liabilities, together with their notional amounts. The notional amounts are the gross amount of a derivative’s underlying assets and are calculated based on FCMC regulation on calculation of capital adequacy. The notional amounts indicate the volume of transactions outstanding at the year end.

	31.12.2011			31.12.2010		
	Assets LVL’000	Liabilities LVL’000	Notional amount LVL’000	Assets LVL’000	Liabilities LVL’000	Notional amount LVL’000
Foreign exchange contracts						
Swaps	6 111	796	176 604	2 132	1 755	467 353
Forwards	62	168	11 919	66	22	10 533
	6 173	**964**	**188 523**	**2 198**	**1 777**	**477 886**

15. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net loans to:	**236 082**	**253 619**	**284 413**	**280 037**
Private companies	221 341	241 837	257 603	255 887
Individuals	43 572	39 268	49 234	45 126
Allowance for impairment losses (Note 16)	(28 831)	(27 486)	(22 424)	(20 976)
Receivables from:	**13 852**	**13 852**	**11 489**	**11 489**
Finance companies	12 875	12 875	8 623	8 623
Private companies	977	977	2 866	2 866
Total loans to and receivables from customers, net	**249 934**	**267 471**	**295 902**	**291 526**
Geographical segmentation of loans and receivables				
Net loans to:	**236 082**	**253 619**	**284 413**	**280 037**
Residents of Latvia	183 049	190 998	190 694	190 711
Residents of OECD countries	19 044	19 044	9 776	9 776
Residents of the other countries	62 820	71 063	106 367	100 526
Allowance for impairment losses (Note 16)	(28 831)	(27 486)	(22 424)	(20 976)
Receivables from:	**13 852**	**13 852**	**11 489**	**11 489**
Residents of Latvia	4	4	10	10
Residents of OECD countries	8 456	8 456	9 782	9 782
Residents of the other countries	5 392	5 392	1 697	1 697
Total loans to and receivables from customers	**249 934**	**267 471**	**295 902**	**291 526**

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Analysis of loans by type				
Mortgage loans	60 871	64 670	70 824	67 540
Industrial loans	67 865	73 795	107 503	107 503
Commercial loans	63 661	73 609	74 773	75 942
Consumer loans	9 566	9 202	13 432	13 182
Credit card balances	6 242	6 242	7 285	7 285
Reverse Repo transactions	12 798	12 798	3 140	3 140
Finance leases	1 866	90	2 309	298
Other	13 213	13 213	5 147	5 147
Net loans to customers	**236 082**	**253 619**	**284 413**	**280 037**

During 2011 the Group repossessed collateral for a number of its non performing loans. Therefore, net loans to customers have decreased by 17% comparing to the previous year end.

The Group has received securities at fair value LVL'000 16 326 (at 31 December 2010: LVL'000 5 108) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2011 they have not been sold or repledged (at 31 December 2010: LVL'000 nil).

Bank's average interest rates are: LVL 25.59%, USD 4.84%, EUR 4.39%; in 2010: LVL 27.68%, USD 5.55%, EUR 4.73%.

Finance leases	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Gross investments	**2 028**	**102**	**2 495**	**327**
Within 1 year	994	29	1 043	200
From 1 year to 5 years	936	73	1 440	127
More than 5 years	98	-	12	-
Unearned income	**162**	**12**	**186**	**29**
Within 1 year	70	4	84	16
From 1 year to 5 years	86	8	102	13
More than 5 years	6	-	-	-
Present value of minimum lease payments	**1 866**	**90**	**2 309**	**298**
Within 1 year	924	25	959	184
From 1 year to 5 years	850	65	1 338	114
More than 5 years	92	-	12	-

16. IMPAIRMENT LOSSES ON ASSETS

The following table presents an analysis of the change in allowance account for impairment. The Group attributes the allowance for impairment losses completely to the financial assets.

Group	At 31 December 2010 LVL'000	Increase in allowance LVL'000	Written off LVL'000	Released from allowance LVL'000	Foreign exchange LVL'000	At 31 December 2011 LVL'000
Industrial loans	765	7 900	(4 331)	(119)	(41)	**4 174**
Commercial loans	140	8 920	(4 770)	(9)	15	**4 296**
Consumer loans	10 685	1 327	(36)	(877)	-	**11 099**
Credit cards	1 969	204	(44)	(163)	2	**1 968**
Finance leasing	1 376	99	(63)	-	-	**1 412**
Mortgage loans	7 412	2 728	(479)	(4 004)	(1)	**5 656**
Other loans	77	623	(476)	-	2	**226**
Other provisions	11	1 499	(1 211)	-	24	**323**
Total	**22 435**	**23 300**	**(11 410)**	**(5 172)**	**1**	**29 154**

Group At 31 December, 2011	Individual impairment LVL'000	Collective impairment LVL'000	Total LVL'000	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL'000
Industrial loans	4 159	15	**4 174**	**17 455**
Commercial loans	4 187	109	**4 296**	**15 900**
Consumer loans	11 051	48	**11 099**	**15 715**
Credit cards	1 966	2	**1 968**	**3 943**
Finance leasing	1 382	30	**1 412**	**1 833**
Mortgage loans	5 620	36	**5 656**	**27 214**
Other loans	226	-	**226**	**1 289**
Other provisions	321	2	**323**	**430**
Total	**28 912**	**242**	**29 154**	**83 779**

Group	At 31 December 2009 LVL’000	Increase in allowance LVL’000	Written off LVL’000	Released from allowance LVL’000	Foreign exchange LVL’000	At 31 December 2010 LVL’000
Industrial loans	824	2 525	(2 161)	(451)	28	**765**
Commercial loans	342	76	(120)	(177)	19	**140**
Consumer loans	7 167	4 380	(98)	(774)	10	**10 685**
Credit cards	1 595	770	(141)	(257)	2	**1 969**
Finance leasing	1 147	244	(6)	(9)	-	**1 376**
Factoring	32	73	(105)	-	-	**-**
Mortgage loans	4 941	4 006	(854)	(688)	7	**7 412**
Other loans	19	65	-	(7)	-	**77**
Other provisions	121	3	(126)	-	13	**11**
Total	**16 188**	**12 142**	**(3 611)**	**(2 363)**	**79**	**22 435**

Group At 31 December, 2010	Individual impairment LVL’000	Collective impairment LVL’000	Total LVL’000	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL’000
Industrial loans	750	15	**765**	**2 625**
Commercial loans	35	105	**140**	**42**
Consumer loans	10 438	247	**10 685**	**15 565**
Credit cards	1 930	39	**1 969**	**4 041**
Finance leasing	1 346	30	**1 376**	**2 014**
Mortgage loans	3 038	4 374	**7 412**	**11 996**
Other loans	77	-	**77**	**347**
Other provisions	11	-	**11**	**11**
Total	**17 625**	**4 810**	**22 435**	**36 641**

Group	2011 LVL’000	2010 LVL’000
Result from impairment losses	**(26 807)**	**(9 462)**
Increase in allowance (loans)	(23 300)	(12 142)
Increase in allowance (other)	(111)	-
Impairment losses charged to income statement (repossession of collateral)	(8 775)	
Released from allowance (loans)	5 172	2 363
Released from allowance (other)	-	44
Recovery of previously written-off assets	207	273

The following table presents an analysis of the change in allowance account for impairment. The Bank's attributes the allowance for impairment losses completely to the financial investments.

Bank	**At 31 December 2010 LVL'000**	**Increase in allowance LVL'000**	**Written off LVL'000**	**Released from allowance LVL'000**	**Foreign exchange LVL'000**	**At 31 December 2011 LVL'000**
Industrial loans	765	7 935	(4 331)	(119)	(41)	**4 209**
Commercial loans	50	9 046	(4 770)	(9)	19	**4 366**
Consumer loans	10 678	1 356	(64)	(877)	-	**11 093**
Credit cards	1 969	204	(44)	(163)	2	**1 968**
Finance leasing	57	31	(54)	-	-	**34**
Mortgage loans	7 380	2 695	(451)	(4 004)	-	**5 620**
Other loans	77	623	(476)	-	2	**226**
Other provisions	9	1 496	(1 209)	-	22	**318**
Total	**20 985**	**23 386**	**(11 399)**	**(5 172)**	**4**	**27 804**

Bank At 31 December, 2011	**Individual impairment LVL'000**	**Collective impairment LVL'000**	**Total LVL'000**	**Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL'000**
Industrial loans	4 194	15	**4 209**	**17 455**
Commercial loans	4 321	15	**4 336**	**19 332**
Consumer loans	11 051	42	**11 093**	**15 715**
Credit cards	1 966	2	**1 968**	**3 943**
Finance leasing	4	30	**34**	**4**
Mortgage loans	5 620	-	**5 620**	**27 214**
Other loans	226	-	**226**	**1 289**
Other provisions	318	-	**318**	**428**
Total	**27 700**	**104**	**27 804**	**85 380**

Bank	**At 31 December 2009 LVL'000**	**Increase in allowance LVL'000**	**Written off LVL'000**	**Released from allowance LVL'000**	**Foreign exchange LVL'000**	**At 31 December 2010 LVL'000**
Industrial loans	824	2 525	(2 161)	(451)	28	**765**
Commercial loans	192	76	(120)	(103)	5	**50**
Consumer loans	7 122	4 380	(89)	(735)	-	**10 678**
Credit cards	1 595	770	(141)	(257)	2	**1 969**
Finance leasing	42	30	(6)	(9)	-	**57**
Factoring	32	73	(105)	-	-	**-**
Mortgage loans	4 878	4 006	(854)	(652)	2	**7 380**
Other loans	19	65	-	(7)	-	**77**
Other provisions	120	2	(126)	-	13	**9**
Total	**14 824**	**11 927**	**(3 602)**	**(2 214)**	**50**	**20 985**

Bank At 31 December, 2010	Individual impairment LVL’000	Collective impairment LVL’000	Total LVL’000	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL’000
Industrial loans	750	15	**765**	**2 625**
Commercial loans	35	15	**50**	**42**
Consumer loans	10 438	240	**10 678**	**15 565**
Credit cards	1 930	39	**1 969**	**4 041**
Finance leasing	27	30	**57**	**54**
Mortgage loans	3 038	4 342	**7 380**	**11 996**
Other loans	77	-	**77**	**347**
Other provisions	9	-	**9**	**9**
Total	**16 304**	**4 681**	**20 985**	**34 679**

Bank	2011 LVL’000	2010 LVL’000
Result from impairment losses	**(29 929)**	**(9 470)**
Increase from impairment (loans)	(23 386)	(11 927)
Released from impairment (loans)	5 172	2 214
Impairment losses charged to income statement (repossession of collateral)	(11 922)	
Released from impairment (other)	-	44
Recovery of previously written-off assets	207	199

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	**44 735**	**44 735**	**33 085**	**32 997**
Latvian bonds	29 504	29 504	30 916	30 916
OECD country bonds	7 582	7 582	184	96
Other country bonds	7 649	7 649	1 985	1 985
Shares and other non-fixed income securities	**10 688**	**80 109**	**7 026**	**15 430**
LR country funds	-	69 421	-	8 404
EU country funds	10 688	10 688	7 026	7 026
Total	**55 423**	**124 844**	**40 111**	**48 427**

During the year 2011 the Bank through closed investment funds registered in the Republic of Latvia by JSC „NORVIK Ieguldījumu pārvaldes sabiedrība" overtook collateral for a number of problematic loans. According to IAS 27 „Consolidated and Separate Financial Statements" the funds are consolidated in the Group financial statements.

During the year 2011 the Bank recognised impairment losses on real estate investment fund operating in Latvian in the amount of LVL'000 2 334.

18. INVESTMENT IN SUBSIDIARIES

As at 31 December 2011 and 2010 the Bank had the following investment in the subsidiaries:

Company	Country and address of registration	Business profile	Cost as at 31 December 2011 LVL'000	Cost as at 31 December 2010 LVL'000	Share capital as at 31 December 2011 LVL'000	Bank's share capital as at 31 December 2011 %
JSC "NORVIK Ieguldījumu pārvaldes sabiedrība"	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	877	877	755	100
JSC "NORVIK" Universal Credit Organization"	Armenia, Yerevan, Khanjyan str. 41	Finance	7 916	1 945	8 306	100
"NORVIK Līzings" Ltd.	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	700	700	700	100
"NORVIK TECHNOLOGY" Ltd.	Latvia, Riga, E.Birznieka-Upīša str. 21	IT technologies	-	100	100	100
JSC "NORVIK Alternative Investments"	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	177	150	200	100
"Legal Consulting" Ltd.	Latvia, Riga, E.Birznieka-Upīša str. 21	Legal services	2	2	2	100
Total			**9 672**	**3 774**		

In February 2011, the Bank has increased the investment in JSC "NORVIK" Universal Credit Organization (Armenia) by LVL `000 3 324, and in April 2011 by LVL `000 2 648, as result of which the investment in this subsidiary company now amounts to LVL`000 7 916.

During the reporting period the Bank received dividends from JSC "NORVIK" Universal Credit Organization in the amount of LVL'000 6 127.

During July 2011 the Bank acquired remaining 25% of IPS „Norvik Alternative Investments" from the minority shareholder thus becoming the sole shareholder of this company.

In March 2011 the Bank acquired 100% shares of a company "S 108" Ltd. (Latvia). The main activity of "S 108" Ltd. is real estate renting to the Bank and other Group entities. In December 2011 "S 108" Ltd. was merged with the Bank. As a result the real estate owned by "S 108" Ltd in the amount of LVL'000 8 970, the liabilities to „DNB banka" JSC in the amount of LVL'000 1 777, other assets, liabilities and retained earnings were recognised in the Bank's balance sheet. Merger was performed in order to optimise the structure of the Group's expenses.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	31.12.2011		31.12.2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Goodwill	286	-	286	-
Other intangible assets	24	581	224	785
Net book value of other intangible assets	**310**	**581**	**510**	**785**

The following table shows the changes in the Group's and Bank's intangible assets for the year ended 31 December 2011 and 31 December 2010:

Group

LVL `000	**Goodwill**	**Other intangible assets**	**Total**
Historical cost			
At 31 December 2010	**286**	**1 425**	**1 711**
Additions	-	112	**112**
Disposals	-	(78)	**(78)**
At 31 December 2011	**286**	**1 459**	**1 745**
Amortisation			
At 31 December 2010	**-**	**1 201**	**1 201**
Charge	-	310	**310**
Disposals	-	(77)	**(77)**
Foreign exchange	**-**	**1**	**1**
At 31 December 2011	**-**	**1 435**	**1 435**
Net book value			
At 31 December 2010	**286**	**224**	**510**
At 31 December 2011	**286**	**24**	**310**

Group LVL `000	Goodwill	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost				
At 31 December 2009	**286**	**1 679**	**32**	**1 997**
Additions	-	137	61	**198**
Disposals	-	(393)	(93)	**(486)**
Foreign exchange	-	2	-	**2**
At 31 December 2010	**286**	**1 425**	**-**	**1 711**
Amortisation				
At 31 December 2009	**-**	**1 199**	**-**	**1 199**
Charge	-	355	-	**355**
Disposals	-	(354)	-	**(354)**
Foreign exchange	-	1	-	**1**
At 31 December 2010	**-**	**1 201**	**-**	**1 201**
Net book value				
At 31 December 2009	**286**	**480**	**32**	**798**
At 31 December 2010	**286**	**224**	**-**	**510**

Goodwill acquired through business combination with indefinite lives has been allocated for impairment testing to one individual cash-generating unit – Investment Funds Management.

Bank LVL`000	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost			
At 31 December 2010	**2 026**	**-**	**2 026**
Additions	85	7	92
Disposals	(53)	(7)	(60)
At 31 December 2011	**2 058**	**-**	**2 058**
Amortisation			
At 31 December 2010	**1 241**	**-**	**1 241**
Charge	289	-	289
Disposals	(53)	-	(53)
At 31 December 2011	**1 477**	**-**	**1 477**
Net book value			
At 31 December 2010	**785**	**-**	**785**
At 31 December 2011	**581**	**-**	**581**

Bank **LVL`000**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost			
At 31 December 2009	**2 052**	**32**	**2 084**
Additions	296	61	357
Disposals	(322)	(93)	(415)
At 31 December 2010	**2 026**	**-**	**2 026**
Amortisation			
At 31 December 2009	**1 225**	**-**	**1 225**
Charge	338	-	338
Disposals	(322)	-	(322)
At 31 December 2010	**1 241**	**-**	**1 241**
Net book value			
At 31 December 2009	**827**	**32**	**859**
At 31 December 2010	**785**	**-**	**785**

20. INVESTMENT PROPERTY

The following table shows the movement in the Group’s and Bank’s investment property for the period ended 31 December 2011:

	Group **LVL’000**	**Bank** **LVL’000**
As at 31 December 2009	**6 402**	**4 367**
Reclassification	523	**-**
Additions	9 727	-
Net change in fair value	(1 211)	833
Foreign exchange	330	-
As at 31 December 2010	**15 771**	**5 200**
Reclassification	469	**-**
Additions	17 943	5 489
Net change in fair value	459	844
Foreign exchange	(96)	-
As at 31 December 2011	**34 546**	**11 533**

Group’s investment property is stated at fair value. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction at the date of valuation.

The valuation of Group’s investment properties were performed by certified independent appraisers of the licensed companies. Based on the investment property object (type of asset, location, number of market transactions) various valuation methods were used – market evidence of transaction prices for similar properties, income method or discounted cash flow method, or a mix of the methods with respective weights assigned to each of them. Due to limited number of transactions in the market, there are significant uncertainties related to valuation of the investment objects as at the balance sheet date. Net change in fair value is recognised in the Income Statement in position "Changes in fair value of investment property".

During the year 2011 the number of investment property objects have increased significantly. The main reasons are as follows:
- 2 industrial investment objects consisting of the land and manufacturing premises located in the Latvia have been added to the portfolio;
- JSC „NORVIK Ieguldījumu pārvaldes sabiedrība” has established funds (the Bank is 100% investor) investing in various investment objects including land, agricultural land and buildings

Rental income from investment property earned by the Group / Bank amounted to LVL’000 574 (31.12.2010: LVL’000 344) / LVL’000 567 (31.12.2010: LVL’000 344). Direct operating expenses (including real estate tax) arising from investment property that generated rental income during the period by the Group / Bank amounted to LVL’000 165 (31.12.2010: LVL’000 121) / LVL’000 164 (31.12.2010: LVL’000 121). Direct operating expenses (including real estate tax) arising from investment property that did not generated rental income during the period by the Group amounted to LVL’000 35 (31.12.2010: LVL’000 2).

21. TANGIBLE FIXED ASSETS

During 2011 the Group and the Bank had significant changes in the tangible fixed assets. The most significant additions are as follows:

- In March 2011 the Bank acquired 100% shares of a company “S 108” Ltd. (Latvia). The main activity of “S 108” Ltd. is real estate renting to the Bank and other Group entities. The Bank’s head office is located in the building owned by “S 108” Ltd. In December 2011 “S 108” Ltd. was merged with the Bank. As a result the real estate owned by “S 108” Ltd in the amount of LVL’000 8 970 were recognised in the Bank’s balance sheet.

- as a result of the Bank’s investments in the funds controlled by the Bank the Group recognised in the balance sheet ships in the amount of LVL’000 42 661, buildings in the amount of LVL’000 3 514 and prepayments for wind generators in the amount of LVL’000 16 783. The assets are held for own use.

	31.12.2011		**31.12.2010**	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Lands and buildings	15 258	11 744	2 900	2 900
Vehicles, including ships	42 932	140	192	166
Office equipment and other fixed assets	764	479	584	559
Prepayments for tangible fixed assets	16 807	3	9	9
Leasehold improvements	228	-	230	7
Net book value of tangible fixed assets	**75 989**	**12 366**	**3 915**	**3 641**

The following table shows the changes in the Bank’s tangible fixed assets for the year ended 31 December 2011:

LVL’000	**Land and Buildings**	**Vehicles**	**Office equipment and other fixed assets**	**Prepayments for tangible fixed assets**	**Leasehold improvements**	**Total**
Historical cost						
At 31 December 2010	**5 500**	**402**	**3 838**	**9**	**7**	**9 756**
Additions	8 970	18	203	110		**9 301**
Revaluation	80	-	-	-	-	**80**
Disposals	-	(19)	(104)	(116)	(7)	(246)
At 31 December 2011	**14 550**	**401**	**3 937**	**3**	**-**	**18 891**
Depreciation						
At 31 December 2010	**2 600**	**236**	**3 279**	**-**	**-**	**6 115**
Charge	146	43	271	-	-	**460**
Impairment loss	60	-	-	-	-	**60**
Disposals	-	(18)	(92)	**-**	-	**(110)**
At 31 December 2011	**2 806**	**261**	**3 458**	**-**	**-**	**6 525**
Net book value						
At 31 December 2010	**2 900**	**166**	**559**	**9**	**7**	**3 641**
At 31 December 2011	**11 744**	**140**	**479**	**3**	**-**	**12 366**

LVL’000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At 31 December 2009	**2 980**	**388**	**3 938**	**17**	**18**	**7 341**
Additions	10	14	130	66	-	220
Revaluation	2 510	-	-	-	-	2 510
Disposals	-	-	(230)	(74)	(11)	(315)
At 31 December 2010	**5 500**	**402**	**3 838**	**9**	**7**	**9 756**
Depreciation						
At 31 December 2009	**2 460**	**188**	**3 084**	**-**	**-**	**5 732**
Charge	140	48	391	-	-	**579**
Disposals	-	-	(196)	**-**	-	**(196)**
At 31 December 2010	**2 600**	**236**	**3 279**	**-**	**-**	**6 115**
Net book value						
At 31 December 2009	**520**	**200**	**854**	**17**	**18**	**1 609**
At 31 December 2010	**2 900**	**166**	**559**	**9**	**7**	**3 641**

22. OTHER ASSETS

	31.12.2011		31.12.2010	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Deferred expenses	995	703	245	237
Spot deals	958	958	1 033	1 033
VAT	254	233	1 122	903
Accrued income	258	213	242	194
Cards transactions	81	81	239	239
Property and equipment held for sale	-	-	586	-
Other receivables	3 944	911	6 168	5 922
Total	**6 490**	**3 099**	**9 635**	**8 528**

23. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2011		31.12.2010	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Managed trust assets	**3 232**	**3 232**	**6 213**	**6 213**
Loans	3 232	3 232	5 598	5 598
Due from credit institutions	-	-	615	615
Managed trust liabilities	**3 232**	**3 232**	**6 213**	**6 213**
Private companies	-	-	4 076	4 076
Credit institutions	3 232	3 232	1 605	1 605
Individuals	-	-	532	532

The financial statements disclose assets and liabilities held by the Bank on behalf of clients and registered in the name of the Bank. The Group does not carry credit, interest rate or any other risk associated with these managed assets. The Bank receives commission fee for rendering of trust services to clients.

24. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits	**1 723**	**1 723**	**2 821**	**2 821**
Banks registered in Latvia	1 079	1 079	291	291
Banks registered in other countries	644	644	2 530	2 530
Term deposits	**1 804**	**1 804**	**2 500**	**2 500**
Banks registered in Latvia	1 804	1 804	2 500	2 500
Total	**3 527**	**3 527**	**5 321**	**5 321**

Bank's average interest rate for LVL 0.28%, USD 0.01%, EUR 2.60%, in 2010: LVL 0.90%, USD 1.15%, EUR 0.46%.

25. CUSTOMER DEPOSITS

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Current accounts	**313 716**	**315 540**	**238 388**	**238 931**
Private companies	250 629	252 453	198 557	199 100
Individuals	62 482	62 482	39 170	39 170
Public organizations	358	358	242	242
Government companies	196	196	402	402
Local government	51	51	17	17
Fixed-term deposits	**205 265**	**206 192**	**269 516**	**270 132**
Private companies	96 366	97 293	142 239	142 855
Individuals	100 567	100 567	107 859	107 859
Government companies	8 199	8 199	18 375	18 375
Public organizations	133	133	42	42
Local government	-	-	1 001	1 001
Total	**518 981**	**521 732**	**507 904**	**509 063**
Geographical segmentation of customer deposits				
Current accounts	**313 716**	**315 540**	**238 388**	**238 931**
Residents of Latvia	51 780	53 603	52 866	53 308
Residents of OECD countries	45 089	45 089	39 305	39 305
Residents of the other countries	216 847	216 848	146 217	146 318
Fixed-term deposits	**205 265**	**206 192**	**269 516**	**270 132**
Residents of Latvia	108 460	109 386	135 905	136 521
Residents of OECD countries	8 231	8 231	21 613	21 613
Residents of the other countries	88 574	88 575	111 998	111 998
Total	**518 981**	**521 732**	**507 904**	**509 063**

Bank's average interest rates are: LVL 2.07%, USD 0.77%, EUR is 2.38%; in 2010: LVL 4.81%, USD 1.11%, EUR is 3.00%.

26. SUBORDINATED DEBT

As at 31 December 2011 and 2010 the Bank’s depositors with more than 10% of the subordinated debt amount were as follows:

	Maturity	Interest rate (%)	Currency	31.12.2011 LVL’000	31.12.2010 LVL’000
“Raiffeisen Zentralbank Oesterreich AG” (Austria)	2013	9	EUR	5 170	5 170
“Ice-Balt Invest Ehf.” (Iceland)	2013	9	EUR	-	949
“NEW OST INVESTMENTS LIMITED” (United Kingdom)	2017	7	EUR	4 920	-
Other persons	2013-2017	3.85-9	EUR,USD, GBP	7 729	2 449
Total				**17 819**	**8 568**

27. OTHER LIABILITIES

	31.12.2011		31.12.2010	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Accrued expenses	901	795	851	851
Spot deals	719	719	993	993
Accruals for vacations	531	464	139	139
Payments collected on behalf of public utilities services providers	197	197	244	244
Suspense amounts	109	109	176	176
Cards transactions	83	83	7	8
Deferred income	79	14	25	25
Other	3 807	747	812	610
Total	**6 426**	**3 128**	**3 247**	**3 046**

Suspense amounts represent payments received by the Bank where the beneficiary is not clearly identified and are cleared after year-end. Based on cooperation agreements *Payments collected on behalf of public utilities services providers* are transferred to providers after year end.

28. SHARE CAPITAL

	31.12.2011		31.12.2010	
	Quantity`000	LVL `000	Quantity`000	LVL `000
Registered and paid – in share capital	**57 390**	**57 390**	**56 290**	**56 290**

On 18 February 2011 at the Shareholder’s special Meeting of the Bank, it was decided to increase the share capital by issuing 1 100 000 new registered voting shares with a nominal value of 1 LVL each. As at 31 December 2011, all issued shares are fully paid and the Bank’s paid-in capital amounts to LVL`000 57 390 (as at 31 December 2010: LVL`000 56 290).

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

	31.12.2011			31.12.2010		
	Number of shares	% of total shares	Paid up share capital LVL'000	Number of shares	% of total shares	Paid up share capital LVL'000
"Straumborg Ehf."(Iceland)	28 778 560	50.15	28 779	28 778 560	51.13	28 778
J. Šapurovs	11 347 190	19.77	11 347	11 129 726	19.77	11 130
A. Svirčenkovs	11 347 218	19.77	11 347	11 129 698	19.77	11 130
Other (individually less than 10%)	5 917 313	10.31	5 917	5 252 297	9.33	5 252
Total	**57 390 281**	**100.00**	**57 390**	**56 290 281**	**100.00**	**56 290**

Please see information on changes in ownership subsequent to the year end in the Note 36.

29. EARNINGS PER SHARE

Earnings per share are based on net profit attributable to ordinary equity holders of the parent divided by the weighted average number of issued shares. As of 31 December 2011 and 2010 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2011	Group 31.12.2010
Net profit (LVL'000)	(21 084)	(1 092)
Weighted average number of ordinary shares	57 101	56 290
Earnings per share (LVL)	**(0.37)**	**(0.02)**

30. CASH AND CASH EQUIVALENTS

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash and balances due on demand from the Bank of Latvia	29 952	29 917	81 360	81 360
Balances due from other banks with original maturity of 3 months or less	94 744	88 385	114 142	114 082
Total	**124 696**	**118 302**	**195 502**	**195 442**

31. COMMITMENTS AND CONTINGENCIES

	31.12.2011		31.12.2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Contingent liabilities	**2 722**	**2 722**	**4 362**	**4 362**
Guarantees	2 668	2 668	4 309	4 309
Other	54	54	53	53
Commitments	**5 936**	**10 420**	**21 933**	**36 800**
Unused credit lines	5 883	10 367	21 933	36 800
Letters of credit	53	53	-	-
Total off-balance sheet items gross	**8 658**	**13 142**	**26 295**	**41 162**

In the ordinary course of business the Group gives loan commitments, guarantees and letters of credit. The main purpose of these instruments is to ensure the availability of necessary funds for the clients. Guarantees and letters of credit that include irrevocable liabilities - the ones that the Bank will have to pay in the event of failure by the clients to meet their obligations to third parties - are assigned the same risk as for loans. Letters of credit in accordance with which the Bank has the right on behalf of the client to accept invoices from third parties are secured with goods being transported.

Unused part of credit lines is viewed as an obligation arising from credit lines. As regards the credit risk the Bank is potentially exposed to losses arising also from obligations under unused credit lines.

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows a comparison by class of the Group's and Bank's carrying values and fair values of the financial instruments that are carried in the financial statements.

	31.12.2011.			31.12.2010.		
Group	**Carrying value LVL'000**	**Fair value LVL'000**	**Difference LVL'000**	**Carrying value LVL'000**	**Fair value LVL'000**	**Difference LVL'000**
Financial assets						
Cash and balances with the central bank	29 952	29 952	-	81 360	81 360	-
Loans and receivables to banks	97 033	97 096	63	115 560	115 549	(11)
Trading financial assets	35 157	35 157	-	24 821	24 821	-
Derivative financial instruments	6 173	6 173	-	2 198	2 198	-
Loans to customer and receivables	249 934	247 857	(2 077)	295 902	300 479	4 577
Available-for-sale financial assets	55 423	55 423	-	40 111	40 111	-
Financial liabilities						
Due to the central bank and other banks	3 527	3 477	50	5 321	5 321	-
Derivative financial instruments	964	964	-	1 777	1 777	-
Customer deposits	518 981	519 100	(119)	507 904	509 008	(1 104)
Subordinated debt	17 819	17 819	-	8 568	8 568	-
Total difference			**(2 083)**			**3 462**

	31.12.2011.			31.12.2010.		
Bank	**Carrying value LVL'000**	**Fair value LVL'000**	**Difference LVL'000**	**Carrying value LVL'000**	**Fair value LVL'000**	**Difference LVL'000**
Financial assets						
Cash and balances with the central bank	29 917	29 917	-	81 360	81 360	-
Loans and receivables to banks	90 674	90 737	63	115 500	115 489	(11)
Trading financial assets	35 157	35 157	-	24 821	24 821	-
Derivative financial instruments	6 173	6 173	-	2 198	2 198	-
Loans to customer and receivables	267 471	266 417	(1 054)	291 526	296 103	4 577
Available-for-sale financial assets	124 844	124 844	-	48 427	48 427	-
Financial liabilities						
Due to the central bank and other banks	3 527	3 477	50	5 321	5 321	-
Derivative financial instruments	964	964	-	1 777	1 777	-
Customer deposits	521 732	521 851	(119)	509 063	510 167	(1 104)
Subordinated debt	17 819	17 819	-	8 568	8 568	-
Total difference			**(1 060)**			**3 462**

The following describes the methodologies and assumptions used to determine fair value for those financial instruments which are not recorded at fair value in the financial statements:

- For financial assets and liabilities that have a short term maturity (such as overdrafts money market deals with maturity less than 3 months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits current accounts without a specific maturity and subordinated debts with special conditions which permit for such debts to be eligible as tier 2 capital.
- The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated as the present value of future cash flows by discounting contractual cash flows using current rates at which similar loans (or attracted deposits) would be transacted by the Group with borrowers with similar credit ratings and/or collateral and for the same remaining maturities.
- No future loan losses adjustments related to future probable loan renegotiating or early repayment considered.

The fair values included in the tables above were calculated for disclosure purposes only. The valuation techniques and assumptions described above provide a measurement of fair value of the Bank's and Group's financial instruments accounted for at amortized cost. However, because other institutions may use different methods and assumptions for their fair value estimation such fair value disclosures cannot necessarily be compared from one financial institution to another.

33. FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following table shows an analysis of the Group's and Bank's financial instruments recorded at fair value between those whose fair value is based on quoted market prices those involving valuation techniques where all the model inputs are observable in the market and those where the valuation techniques involves the use of non-market observable inputs.

As at 31 December 2011 - Group	**Quoted market**	**Valuation techniques – market observable inputs**	**Valuation techniques – non-market observable inputs**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets	**79 348**	**6 717**	**10 688**	**96 753**
Trading financial assets	35 157	-	-	**35 157**
Derivative financial instruments	-	6 173	-	**6 173**
Available-for-sale financial assets	44 191	544	10 688	**55 423**
Financial liabilities	**-**	**964**	**-**	**964**
Derivatives financial instruments	-	964	-	**964**

As at 31 December 2010 - Group	**Quoted market**	**Valuation techniques – market observable inputs**	**Valuation techniques – non-market observable inputs**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets	**57 371**	**2 733**	**7 026**	**67 130**
Trading financial assets	24 821	-	-	**24 821**
Derivative financial instruments	-	2 198	-	**2 198**
Available-for-sale financial assets	32 550	535	7 026	**40 111**
Financial liabilities	**-**	**1 777**	**-**	**1 777**
Derivatives financial instruments	-	1 777	-	**1 777**

As at 31 December 2011 - Bank	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	**79 348**	**6 717**	**80 109**	**166 174**
Trading financial assets	35 157	-	-	**35 157**
Derivative financial instruments	-	6 173	-	**6 173**
Available-for-sale financial assets	44 191	544	80 109	**124 844**
Financial liabilities	**-**	**964**	**-**	**964**
Derivatives financial instruments	-	964	-	**964**

As at 31 December 2010 - Bank	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	**57 283**	**2 733**	**15 430**	**75 446**
Trading financial assets	24 821	-	-	**24 821**
Derivative financial instruments	-	2 198	-	**2 198**
Available-for-sale financial assets	32 462	535	15 430	**48 427**
Financial liabilities	**-**	**1 777**	**-**	**1 777**
Derivatives financial instruments	-	1 777	-	**1 777**

The following table shows changes of non-market observable inputs during 2011 and 2010:

LVL'000	Group Non-market observable inputs	Bank Non-market observable inputs
At 31 December 2009	**10 425**	**10 425**
Acquisition	-	11 052
Selling	(4 719)	(4 719)
Net gain or loss from sales	1 778	1 778
Fair value adjustment	(458)	(3 106)
At 31 December 2010	**7 026**	**15 430**
Acquisition	4 218	74 972
Selling	-	-
Net gain or loss from sales	-	-
Fair value adjustment	(556)	(10 293)
At 31 December 2011	**10 688**	**80 109**

Changes in fair value are recognised in comprehensive income and equity in position "Revaluation reserve of available-for-sale financial assets net of tax". Net gain or loss from sales is recognised in Income Statement position "Net gain or loss from sales of available-for –sale financial assets".

34. CAPITAL ADEQUACY CALCULATION

The Group’s and Bank’s capital adequacy ratio as of 31 December 2011 has been calculated as follows:

ASSETS	Notional risk level %	Group Exposure LVL’000	Group Risk weighted assets LVL’000	Bank Exposure LVL’000	Bank Risk weighted assets LVL’000
Central governments or central banks	0%	59 848	-	59 848	-
	20%	2 277	456	2 277	456
	50%	3 516	1 758	3 516	1 758
Financial institutions	0%	10 724	-	10 724	-
	20%	84 909	16 982	78 550	15 710
	50%	-	-	-	-
	100%	2 751	2 751	2 751	2 751
Private companies and individuals	0%	19 575	-	19 575	-
	20%	2 552	510	2 552	510
	100%	185 296	185 296	215 159	215 159
Pool of retail exposure claims (MRD)	0%	10	-	10	-
	75%	7 051	5 288	7 051	5 288
Past due exposures	0%	3 002	-	3 002	-
	100%	16 828	16 828	16 574	16 574
	150%	15 773	23 660	13 395	20 093
Collective investment undertakings (CIU)	0%	-	-	399	-
	100%	10 688	10 688	79 710	79 710
Other items	0%	8 329	-	8 293	-
	100%	117 005	117 005	26 957	26 957
Total assets and risk weighted assets		**550 134**	**381 222**	**550 343**	**384 966**

OFF-BALANCE SHEET ITEMS	Notional risk level %	Exposure LVL’000	Risk weighted assets LVL’000	Exposure LVL’000	Risk weighted assets LVL’000
Items with 50% adjustment	75%	2 009	753	2 009	753
Items with 0% adjustment	100%	38	-	4 455	-
Items with 20% adjustment	100%	594	119	594	119
Items with 50% adjustment	100%	4 356	2 178	4 424	2 212
Items with 100% adjustment	100%	773	773	773	773
Items with 50% adjustment	150%	37	28	37	28
Secured items	0%	851	-	851	-
Total off-balance sheet items		**8 658**	**3 851**	**13 143**	**3 885**
Total assets and off-balance sheet items		**558 792**	**385 073**	**563 486**	**388 851**

	Group LVL’000	Bank LVL’000
Tier 1		
Paid in share capital	57 390	57 390
Reserve capital	7	7
Retained earnings for previous years	5 377	3 476
Minority interest	442	-
Revaluation reserve of available-for-sale financial assets	(1 662)	-
Revaluation reserve of foreign currency	-	-
Expected loss from loans	(1 307)	(1 307)
Retained earnings	(20 949)	(18 269)
Goodwill	(286)	-
Other intangible assets	(24)	(581)
Investment property revaluation (earnings)	(945)	(3 374)
Total tier 1	**38 043**	**37 342**

Tier 2		
Expected loss from loans	(1 307)	(1 307)
Subordinated capital	11 421	11 421
70% from tangible fixed assets revaluation earnings	1 494	1 494
45% from investment property revaluation earnings	-	1 139
Total tier 2	**11 608**	**12 747**
Total capital	**49 651**	**50 089**
Summary		
Credit risk capital	30 806	31 108
Market risks capital requirement	4 795	1 119
Operational risk	5 074	4 534
Capital requirement covered by capital (total capital)	**8 976**	**13 328**
Capital adequacy rate as of 31.12.2011	**9.77%**	**10.90%**
Capital adequacy rate as of 31.12.2010	**11.81%**	**10.62%**
Minimal capital adequacy ratio (%) 2011 and 2010	**8.00%**	**8.00%**

In 2011 the Capital adequacy ratio has decreased comparing to the last year due to significant impairment losses recognised during the year. Ability to maintain appropriate capital adequacy level is vital to ensure the Bank's operations in the future. The management of the Bank has developed a plan to increase the capital adequacy ratio during 2012. The plan includes capital increase in the amount of 15 million Lats. The subscription for the new capital has started in March 2012 (see Note 36).

35. RELATED PARTIES

Related parties are shareholders which have control or significant influence over the management policy of the Group members of the Supervisory Council and the Management Board senior level executives their immediate family members and undertakings over which they have a controlling interest as well as associated companies of the Group. Assets and liabilities in relation to related parties are as follows:

Group	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2011 Total LVL'000	31.12.2010 Total LVL'000
Assets		**4 470**	**113**	**4 583**	**15 092**
Loans and receivables net		**4 470**	**113**	**4 583**	**15 092**
Related undertakings and Individuals	2.33	3 624	86	**3 710**	**14 751**
Supervisory Council and Management Board	2.44	682	16	**698**	**220**
Other senior executives	2.37	164	11	**175**	**121**
Liabilities		**7 644**	**-**	**7 644**	**8 940**
Deposits		**5 079**	**-**	**5 079**	**8 157**
Related undertakings and Individuals	0.42	3 989	-	**3 989**	**4 577**
Supervisory Council and Management Board	1.22	501	-	**501**	**3 577**
Other senior executives	1.38	589	-	**589**	**3**
Subordinated debt		**2 565**	**-**	**2 565**	**783**
Related undertakings and Individuals	7.31	2 038	-	**2 038**	**-**
Supervisory Council and Management Board	7.00	527	-	**527**	**783**

Bank	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2011 Total LVL'000	31.12.2010 Total LVL'000
Assets		**36 427**	**4 633**	**41 060**	**41 487**
Loans and receivables net		**36 427**	**4 633**	**41 060**	**41 487**
Related undertakings and Individuals	2.33	3 624	86	**3 710**	**14 751**
Subsidiaries	2.82	32 648	4 520	**37 168**	**26 509**
Supervisory Council and Management Board	4.73	102	16	**118**	**220**
Other senior executives	0.69	53	11	**64**	**7**
Liabilities		**10 565**	**-**	**10 565**	**9 705**
Deposits		**8 000**	**-**	**8 000**	**8 922**
Related undertakings and Individuals	0.42	3 988	-	3 988	**4 577**
Subsidiaries	0.42	2 921	-	2 921	**764**
Supervisory Council and Management Board	0.84	501	-	501	**3 577**
Other senior executives	1.22	590	-	590	**4**
Subordinated debt		**2 565**	**-**	**2 565**	**783**
Related undertakings and Individuals	7.31	2 038	-	2 038	-
Supervisory Council and Management Board	7.00	527	-	527	**783**

As at 31 December 2011 the amount of the Bank's exposure transactions with related parties is LVL`000 3 884 or 7.32% of the sum tier 1 and tier 2 capital. According to the Law on Credit Institutions of the Republic of Latvia the total amount of exposure transactions with persons that are associated with the bank may not exceed 15 % of the sum tier 1 and tier 2 capital of the Bank.

Transactions between related parties are based on standard interest rates offered by the Bank. The following table present income and expense resulting from above-mentioned related parties transactions:

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest income	50	821	133	535
Interest expense	(295)	(320)	(177)	(205)
Net interest income	**(245)**	**501**	**(44)**	**330**

36. SUBSEQUENT EVENTS

During February 2012 there have been changes in structure of the shareholders. In accordance with signed share purchase agreement part of the shares of the Bank owned by „Straumborg Ehf." (Iceland) were sold to new investors. As a result ownership % of „Straumborg Ehf." has decreased from 50.15% to 19.82%. The new investors did not obtain substantial influence.

In March 2012 the Shareholders has announced subscription for new capital increase in the amount of 15 million Lats.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "Norvik Banka"

Report on the Financial Statements

We have audited the accompanying financial statements of JSC "Norvik Banka" (further "the Bank") and the consolidated financial statements of JSC "Norvik Banka" and it's subsidiaries (further "the Group") set out on pages 7 to 66, which comprise the Bank's and the Group's balance sheets as of 31 December 2011, income statements, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above give a true and fair view of the consolidated financial position of the Bank and the Group as of 31 December 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Report of the Chairman of the Supervisory Council and the Chairman of the Management Board for 2011 set out on pages 3 and 4 of the accompanying annual report for the year ended 31 December 2011 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2011.

Deloitte Audits Latvia SIA
Licence No. 43

Inguna Staša
Member of the Board
Certified auditor of Latvia
Certificate No. 145

Riga, Latvia
30 March 2012