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 2012 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,

2012 was a challenging year for the Bank and the Group which followed its decision to undertake a severe correction for previous five-year results to found a strong basis for sustainable growth in future.

Despite increased provisioning and write-offs, operating earnings was greatly driven by the core Group's businesses and exceeded last year result by impressive 12.4% with most contribution brought by growing Bank's commission income and trading income increased by respectively 20% and 36%.

Bank's 2012 profit before impairment and tax achieved LVL 10.4 million, which excluding the effect of one off transactions is the best historical result the Bank showed in post crisis period. The new priorities the Bank specified last year are distinctly reflected in annual figures - decrease of net interest income by 12.8% year-on-year while net fee and commissions and trade income increased by 20.2% and 36.2% respectively. During 2012, Bank continuing cost optimization cutting its administrative expenses by 11%.

During many years Norvik Bank sustains its market position being 9th biggest Latvian bank in term of assets and 8th biggest one in term of customers' deposits.

In accordance with the data of the Association of Latvian Commercial Banks Norvik Bank is stated within first five leading Latvian banks by number of active clients and by strong presence in the local market through retail network coverage.

Substantial net loss resulted from additional impairment losses the Bank has recognized in its balance sheet. These allowances put big burden on its capital and caused the capital adequacy ratio deterioration. In order absorb actual losses and strengthen the capital base, the Bank's current shareholders and new investors injected significant LVL 18.1 million in equity. By the capital enhancing plan incorporated in the Bank's 2013 budget, the Bank capital adequacy ratio will be significantly increased by the year end.

Having strong focus on superior quality of customer service Bank maintains stable deposit base and, accordingly, strong liquidity position with average liquidity ratio for the year 2012 close to 50%.

The Bank's international activity got rewarded by the BACEE Award for development of international banking cooperation, specifically for the outstanding achievements in the area of developing co-operation between Banks and financial institutions of the European Union, Central and Eastern Europe and the CIS countries.

Given yet continuing debt crisis in Eurozone and as a result still very slow pace of economy recovery the Bank's management put enhanced focus on commission and currency exchange business, balancing reasonable proportion of foreign and domestic customers.

Norvik Ieguldījumu Pārvaldes Sabiedrība, running the business of 2nd level pension fund management, continued to increase its market share that grew in terms of participants from 5.6% at end 2010 to 6.0% in 2011 and to 6.4% in 2012 and keeps 4.2% by value of assets under management. Total amount of assets under management at year end reached LVL 43.0 million comparing with LVL 36.1 million year before.

The Bank has met preconditions for further successful growth and development and ready to become even more trustworthy and accessible to its clients.

Chairman of the Supervisory Council A.Svirčenkovs	Chairwoman of the Management Board L. Saltuma

Riga, 28 March 2013

SUPERVISORY COUNCIL AND MANAGEMENT BOARD

Supervisory Council as at 31 December 2012

Name	Position	Date of initial appointment
A.Svirčenkovs	Chairman of the Supervisory Council	10/12/2012
N.Drozda	Deputy Chairwoman of the Supervisory Council	10/12/2012
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 H. Baldursson
- Deputy Chairwoman of the Supervisory Council B. Strupiša

During the reporting period the following persons were appointed:
- Chairman of the Supervisory Council A.Svirčenkovs
- Deputy Chairwoman of the Supervisory Council N.Drozda.

Management Board as at 31 December 2012

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

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

On behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council A.Svirčenkovs	Chairwoman of the Management Board L. Saltuma

Riga, 28 March 2013

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 2012 and the results of its operations and cash flows for the financial year ended 31 December 2012, as well as the financial position of the Bank as of 31 December 2012 and the results of its operations and cash flows for the financial year ended 31 December 2012.

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 2012 set out on pages 6 to 67. 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 A.Svirčenkovs	Chairwoman of the Management Board L. Saltuma

Riga, 28 March 2013

CONSOLIDATED AND SEPARATE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012		2011	
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest and similar revenue		16 590	14 777	21 186	18 162
Interest and similar expense		(8 097)	(8 151)	(10 799)	(10 565)
Net interest income	4	**8 493**	**6 626**	**10 387**	**7 597**
Fee and commission revenue		12 277	11 783	10 304	9 819
Fee and commission expense		(2 078)	(1 956)	(1 762)	(1 643)
Net fee and commission income	5	**10 199**	**9 827**	**8 542**	**8 176**
Dividend revenue		2	2	2	6 129
Net trading income	6	9 525	9 223	6 948	6 771
Profit/(loss) from financial assets designated at fair value through profit or loss, net	7	(13)	-	-	-
Net gain or (loss) from sales of available-for-sale financial assets	8	1 923	(278)	(507)	(507)
Other operating income	9	18 260	1 345	8 902	1 750
Other operating expense	9	(20 126)	(495)	(9 127)	(638)
Net operating income		**28 263**	**26 250**	**25 147**	**29 278**
Administrative expenses	10	(17 675)	(13 800)	(16 796)	(15 478)
Personnel expenses		*(10 307)*	*(8 290)*	*(9 199)*	*(8 472)*
Other expenses		*(7 368)*	*(5 510)*	*(7 597)*	*(7 006)*
Depreciation and amortization		(5 910)	(914)	(2 430)	(749)
Changes in fair value of investment property	21	(10 516)	(1 129)	459	844
Changes in fair value of biological assets	23	(1 805)	-	-	-
Profit/ (losses) before impairment charge and tax		**(7 643)**	**10 407**	**6 380**	**13 895**
Impairment of available for sale financial assets	18	-	(15 176)	-	(2 434)
Impairment loss on assets held for sale		(93)	(93)	-	-
Impairment loss on tangible fixed assets		(4 260)	(423)	(60)	(60)
Impairment losses on financial assets	17	(29 030)	(27 671)	(26 807)	(29 929)
Impairment charge		**(33 383)**	**(43 363)**	**(26 867)**	**(32 423)**
Net losses before tax		**(41 026)**	**(32 956)**	**(20 487)**	**(18 528)**
Corporate income tax	11	(98)	5	(611)	(315)
Loss for the year		**(41 124)**	**(32 951)**	**(21 098)**	**(18 843)**
Attributable to:					
Equity holders of the parent		**(41 052)**		**(21 084)**	
Minority interest		(72)		(14)	
Basic and Diluted Earnings per share (LVL)	31	*(0.70)*		*(0.37)*	

The accompanying notes on pages 13 to 67 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 6 to 67 were approved by the Supervisory Council and the Management Board on 28 March 2013 and signed on their behalf by:

Chairman of the Supervisory Council A.Svirčenkovs	Chairwoman of the Management Board L. Saltuma

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loss for the year	**(41 124)**	**(32 951)**	**(21 098)**	**(18 843)**
Revaluation reserve of foreign currency translation	311	-	727	-
Revaluation reserve of tangible fixed assets net of tax	343	343	137	69
Revaluation and impairment of available-for-sale financial assets net of tax	(1 068)	(3 299)	(1 369)	(1 441)
Total comprehensive income/ (losses)	**(41 538)**	**(35 907)**	**(21 603)**	**(20 215)**
Total comprehensive income/ (losses) attributable to non-controlling interests	(72)		(14)	
Total comprehensive income/ (losses) attributable to equity holders of the parent	(41 466)		(21 589)	

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Chairman of the Supervisory Council
A.Svirčenkovs

Chairwoman of the Management Board
L. Saltuma

CONSOLIDATED AND SEPARATE BALANCE SHEET AND OFF-BALANCE SHEET ITEMS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	31.12.2012 Group LVL’000	31.12.2012 Bank LVL’000	31.12.2011 Group LVL’000	31.12.2011 Bank LVL’000
Assets					
Cash and balances with the central bank	12	50 510	50 480	29 952	29 917
Loans to and receivables from banks	13	76 129	73 059	97 033	90 674
Trading financial assets	14	13 119	12 725	35 157	35 157
Derivatives financial instruments	15	11 620	11 620	6 173	6 173
Loans to and receivables from customers	16	178 917	220 598	249 934	267 471
Available-for-sale financial assets	18	52 806	130 784	55 423	139 462
Held-to-maturity financial assets	19	1 632	1 632	-	-
Prepaid corporate income tax		296	80	1 197	1 197
Investment property	21	61 528	10 404	34 546	11 533
Tangible fixed assets	22	53 200	11 799	75 989	12 366
Biological assets	23	7 724	-	-	-
Goodwill and other intangible assets	20	596	384	310	581
Assets held for sale		1 143	699	-	-
Other assets	24	9 821	3 176	6 490	3 099
Total assets		**519 041**	**527 440**	**592 204**	**597 630**
Liabilities					
Due to the central bank and other banks	26	1 449	1 449	3 527	3 527
Derivatives financial instruments	15	1 494	1 494	964	964
Customer deposits	27	460 867	464 524	518 981	521 732
Subordinated debt	28	19 391	19 391	17 819	17 819
Deferred tax liabilities	11	990	416	1 027	565
Other liabilities	29	13 436	8 025	6 426	3 128
Total liabilities		**497 627**	**495 299**	**548 744**	**547 735**
Equity attributable to equity holders of the Bank					
Share capital	30	65 569	65 569	57 390	57 390
Reserves		7	7	7	7
Revaluation reserve of tangible fixed assets net of tax		2 359	2 359	2 136	2 136
Revaluation reserve of available-for-sale financial assets net of tax		(2 730)	1 856	(1 662)	5 155
Revaluation reserve of foreign currency translation		1 030	-	719	-
Retained earnings		(5 478)	(4 699)	5 512	4 050
Losses for the year		(41 052)	(32 951)	(21 084)	(18 843)
Total equity attributable to equity holders of the Bank		**19 705**	**32 141**	**43 018**	**49 895**
Minority interest		**1 709**	**-**	**442**	**-**
Total equity		**21 414**	**32 141**	**43 460**	**49 895**
Total liabilities and equity		**519 041**	**527 440**	**592 204**	**597 630**
Commitments and contingencies					
Contingent liabilities		2 967	2 967	2 722	2 722
Commitments		6 651	10 405	5 936	10 420
Total commitments and contingencies	33	**9 618**	**13 372**	**8 658**	**13 142**

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Chairman of the Supervisory Council A.Svirčenkovs	Chairwoman of the Management Board L. Saltuma

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to shareholders of the Bank								
Group	**Share capital**	**Reserve**	**Revaluation reserve of tangible fixed assets net of tax**	**Revaluation reserve of available-for-sale financial assets net of tax**	**Revaluation reserve of foreign currency translation**	**Retained earnings**	**Total**	**Minority interest**	**Total Groups' equity**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
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	**-**	**-**	**137**	**(1 369)**	**727**	**(21 084)**	**(21 589)**	**(14)**	**(21 603)**
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 of available-for-sale financial assets net of tax	-	-	-	(1 068)	-	-	**(1 068)**	-	**(1 068)**
Revaluation reserve of tangible fixed assets net of tax	-	-	343	-	-	-	**343**	-	**343**
Foreign currency translation of foreign subsidiaries*	-	-	-	-	311	-	**311**	**-**	**311**
Loss for the year	**-**	**-**	**-**	**-**	**-**	(41 052)	**(41 052)**	(72)	**(41 124)**
Total comprehensive income for the year	**-**	**-**	**343**	**(1 068)**	**311**	**(41 052)**	**(41 466)**	**(72)**	**(41 538)**
Amortisation of revaluation reserve of tangible fixed assets net of tax	-	-	(120)	**-**	**-**	120	**-**	-	**-**
Other	-	-	-	**-**	**-**	22	**22**	-	**22**
Shareholder support (Note 30)	-	-	-	**-**	**-**	9 952	**9 952**	-	**9 952**
Increase of share capital	8 179	-	-	**-**	**-**	**-**	**8 179**	1 339	**9 518**
As at 31 December 2012	**65 569**	**7**	**2 359**	**(2 730)**	**1 030**	**(46 530)**	**19 705**	**1 709**	**21 414**

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

CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

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 2010 (as previously reported)	**56 290**	**7**	**2 134**	**(2 941)**	**3 476**	**58 966**
Change in accounting policy (Note 2)	-	-	-	9 537	-	**9 537**
As at 31 December 2010 (restated)	**56 290**	**7**	**2 134**	**6 596**	**3 476**	**68 503**
Revaluation of available-for-sale financial assets net of tax	-	-	-	(3 875)	-	**(3 875)**
Impairment loss recognised on available- for-sale financial assets net of tax	-	-	-	2 434	-	**2 434**
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**	**(1 441)**	**(18 843)**	**(20 215)**
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 (restated)	**57 390**	**7**	**2 136**	**5 155**	**(14 793)**	**49 895**
Revaluation of available-for-sale financial assets net of tax	-	-	-	(3 299)	-	**(3 299)**
Revaluation reserve of tangible fixed assets net of tax	-	-	343	-	-	**343**
Loss for the year					(32 951)	**(32 951)**
Total comprehensive income for the year	**-**	**-**	**343**	**(3 299)**	**(32 951)**	**(35 907)**
Amortisation of revaluation reserve of tangible fixed assets net of tax	**-**	**-**	(120)	**-**	120	**-**
Other	**-**	**-**	-	**-**	22	**22**
Shareholders support (Note 30)	-	-	-	-	9 952	**9 952**
Increase of share capital	8 179	-	-	-	-	**8 179**
As at 31 December 2012	**65 569**	**7**	**2 359**	**1 856**	**(37 650)**	**32 141**

The accompanying notes on pages 13 to 67 form an integral part of these consolidated and Bank Financial Statements.
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A.Svirčenkovs

Chairwoman of the Management Board
L. Saltuma

CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

		2012		2011	
		Group	Bank	Group	Bank
	Note	LVL'000	LVL'000	LVL'000	LVL'000
Cash flow from operations					
Loss before corporate income tax		(41 026)	(32 956)	(20 487)	(18 528)
Depreciation of intangible and tangible fixed assets and write off		29 092	951	3 277	892
Increase in provisions for impairments losses on financial investments		22 417	27 976	13 163	30 136
Impairment of tangible fixed assets		4 260	423	-	60
Impairment losses of assets held for sale		93	93	-	-
Impairment losses of available-for-sale financial assets		-	15 176	-	2 434
Dividend (income)		-	-	-	(6 127)
Loss/(profit) from foreign exchange revaluation	6	(6 845)	(6 558)	864	1 048
Non-realised (profit)/loss from investment property	21	10 516	1 129	(459)	(844)
Operating cash flow before changes in operating assets and liabilities		**18 507**	**6 234**	**(3 642)**	**9 071**
Decrease/(increase) in loans and receivables to banks		(5 691)	(2 979)	(871)	(871)
Decrease/(increase) in trading financial assets		22 038	22 432	(10 336)	(10 336)
Decrease/(increase) in derivatives financial assets		(5 447)	(5 447)	(3 975)	(3 975)
Decrease/(increase) in loans and receivables to customers		13 068	15 567	27 561	5 559
Decrease/(increase) in assets held for sale		(1 236)	(792)	-	-
Decrease/(increase) in other assets		(3 604)	828	1 471	3 516
Increase/(decrease) in due to banks		(2 078)	(2 078)	(1 794)	(1 794)
Increase/(decrease) in customer deposits		(58 114)	(57 208)	11 077	12 669
Increase/(decrease) in derivatives financial liabilities		530	530	(813)	(813)
Increase/(decrease) in other liabilities		7 010	4 897	3 179	82
Cash provided by (used in) operating activities		**(15 017)**	**(18 016)**	**21 857**	**13 108**
Corporate income tax (paid)		(409)	-	(288)	-
Net cash provided by (used in) operating activities		**(15,426)**	**(18 016)**	**21 569**	**13 108**
Cash flow from investing activities					
Acquisition of intangible and tangible fixed assets		(18 129)	(206)	(70 622)	(423)
Sale of intangible and tangible fixed assets		9 725	-	2 247	-
Increase in held-to-maturity financial assets		(1 632)	(1 632)	-	-
Acquisition of investment property		-	-	(17 943)	(5 489)
Sale of investment property		969	-	-	-
Dividend income from subsidiary		-	-	-	6 127
Decrease/(increase) in available-for-sale financial assets		1 549	3 514	(16 681)	(99 766)
Net cash provided by (used in) investing activities		**(7 518)**	**1 676**	**(102 999)**	**(99 551)**
Cash flow from financing activities					
Increase in share capital		8 179	8 179	1 510	1 100
Increase in subordinated debt net		1 572	1 572	9 251	9 251
Net cash provided by financing activities		**9 751**	**9 751**	**10 761**	**10 351**
Net decrease in cash and cash equivalents		**(13 193)**	**(6 589)**	**(70 669)**	**(76 092)**
Cash and cash equivalents at the beginning of the period		124 696	118 302	195 502	195 442
Effect of exchange changes on cash and cash equivalents		7 156	6 558	(137)	(1 048)
Cash and cash equivalents at the end of the period	32	**118 659**	**118 271**	**124 696**	**118 302**

Operating cash flows from interest and dividends

	2012		2011	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest paid	6 547	6 600	9 360	8 936
Interest received	13 951	12 289	15 619	14 521
Dividend received	2	2	2	2

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Chairman of the Supervisory Council
A.Svirčenkovs

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, 73 accounting groups 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 including investments in subsidiaries 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 2012 are consistent with those followed in the preparation of the Group`s and Bank`s annual financial statements for the year ended 31 December 2011 except for the change in accounting policy for investments in subsidiaries.

During 2012 the Bank decided to change accounting method for investments in subsidiaries from cost less impairment to the method allowed under IAS 39 "Financial instruments: recognition and measurement". Therefore, as investments in subsidiaries have been reclassified to available for sale investments and accounted at fair value. Gain or loss due to fair value changes is recognised in other comprehensive income, except for impairment losses. When there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from revaluation reserve to profit or loss.

Management takes view that the new policy provides reliable and more relevant information to the users of the financial statements on the values of its investments in subsidiaries compared to historical cost method.

The new policy has been applied retrospectively and it had effect on the Bank's financial statements for the previous years. The comparative balances for the Bank have been restated as follows:

	31.12.2011		31.12.2010	
	Before changes	After changes	Before changes	After changes
Available-for-sale- financial assets	124 844	139 462	48 427	61 738
Investment in subsidiaries	9 672	-	3 774	-
Total assets	592 684	597 630	587 180	596 717
Revaluation reserve of Available-for-sale- financial assets, net of tax	209	5 155	(2 941)	6 596
Total equity	44 949	49 895	58 966	68 503
Total liabilities and equity	592 684	597 630	587 180	596 717

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The new accounting policy does not have effect on the Group's consolidated financial statements.

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 IFRS 7 "Financial Instruments: Disclosures"** - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

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:

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 1 "Presentation of financial statements"** -Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 "Employee Benefits"** - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 "Financial instruments: presentation"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (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, controlled either directly by the Bank or through Bank's investment funds ("the Group"):

- CJSC NORVIK UNIVERSAL CREDIT ORGANISATION (Armenia) and its subsidiary company CJSC IKSOV;
- JSC NORVIK IEGULDĪJUMU PĀRVALDES SABIEDRĪBA and its subsidiary company ACCOUNTING LAB LLC;
- NORVIK TECHNOLOGY LLC;
- LEGAL CONSULTING LLC;
- IPS NORVIK ALTERNATIVE INVESTMENTS JSC;
- NORVIK LĪZINGS LLC;
- NORVIK APDROŠINĀŠANAS BROKERIS LLC;
- PRESES NAMS BALTIC LLC;
- PROSPECTUM LLC;
- LAT ESTATE LLC;
- LANORA LLC;
- MEŽA FONDS LLC;
- NORVIK IPS JSC CIF ŪDENS TRANSPORTA FONDS and its subsidiary companies ASTREA SHIPPING COMPANY LIMITED, KALLISTO SHIPPING COMPANY LIMITED, LARKO SHIPPING COMPANY LIMITED, SORDIC SHIPPING COMPANY LIMITED, FLASH SHIPPING, VIVA SHIPPING, GECKO SHIPPING COMPANY LIMITED;
- NORVIK IPS JSC CIF INFRASTRUKTŪRAS ĪPAŠUMU FONDS and its subsidiary companies KARAVELLA PROPERTY LLC , KARAVELLA LLC, CITY ESTATES LLC, RELOCATION LLC and SOLUM ESTATE 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, ULTIMATE CAPITAL LLC, TEHNO RU LLC, ПОЛИМЕРСИНТЕЗ LLC, ПОЛИМЕРСИНТЕЗ JSC;
- NORVIK IPS JSC CIF KOMERCĪPAŠUMU FONDS and its subsidiary companies MERKURS RIGANTE PLUSS LLC, EKO FORUMS PLUSS LLC, ALPI TRANS PLUSS LLC, NORVIK MANAGEMENT OÜ, ПОЛИМЕРСИНТЕЗ JSC;
- NORVIK IPS JSC CIF NĀKOTNES ĪPAŠUMU FONDS and its subsidiary companies MAGNUM ESTATE LLC, SERENITY LLC, RUBICON LLC, PALETES LLC, NORVIK PORT DEVELOPMENT LLC, TOP ESTATE LLC, ULTIMATE CAPITAL LLC, ПОЛИМЕРСИНТЕЗ LLC, ПОЛИМЕРСИНТЕЗ JSC;

- NORVIK IPS JSC CIF TRANSPORTA UZŅĒMUMU FONDS and its subsidiary companies CASSIOPEIA SHIPPING COMPANY LIMITED, VELA SKY SHIPPING COMPANY LIMITED, VOLANS SHIPPING COMPANY LIMITED;
- NORVIK IPS JSC CIF ENERĢĒTIKAS FONDS and its subsidiary companies BALTIJAS NAFTAS GRUPA LLC, BALTIJAS DEGVIELA LLC, BALTIJAS NAFTA LLC, BALTIJAS DEGVIELAS TRANSPORTS LLC;
- NORVIK IPS JSC CIF GLOBĀLAIS PĀRVADĀJUMU FONDS and its subsidiary companies LINK SHIPPING LTD, FREA SHIPPING COMPANY LTD, ARG SHIPPING LLC;
- 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.

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.

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 2012 (2011: 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.

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.

(3) Business perspectives of the Group

The Bank's operating results for 2012 prove the Bank's ability to demonstrate good operational performance despite changing external economic environment. In accordance with the new development strategy, which has been worked out by the Bank's shareholders and management, the current losses are planned to be compensated by operating earnings for next 3-5 years.

The Bank's shareholders and management are certain about correctness of the business model chosen in 2011 which implies gradual shifting from commercial lending to further development of commission business and believe the change has already started to bring the first results. It is planned that in 2013-2015 the Bank will continue implementation of the new model by making respective changes in asset volume and structure and taking further steps for raising existing capital base.

Comparative figures of 2012 vs 2011 show that net operating income of the Bank superseded 2011 year results for 13,4% or LVL 3,1mln (dividend income recognized in 2011 excluded for comparability purposes). This growth was based on development of commission and currency exchange business that historically was the Bank's niche in servicing foreign customers from abroad. The ratio of net profit before impairment to share capital is at high 16% level, that given the Bank's sound ability to generate good operating income, increases level of comfort to the Bank's shareholders about their investment return in long-term perspective.

The Bank's administrative expenses in 2012 were lower by 11% or LVL 1,7 mln. Net profit before impairments, investment property value changes and tax in 2012 achieved LVL 11,5 mln to be compared with LVL 6,9 mln in 2011 (dividend income recognized in 2011 excluded for comparability purposes).

In 2012 the Bank re-assessed the recoverable amounts of its assets in accordance with the current market. The re-assessment caused pre-expected drop in the Bank's and Group's equity due to increased provisions and write-offs. The Bank's performance has been negatively influenced primary by the saturating real estate market and stagnation in the shipping industry.

As the end of the reporting year Bank's capital adequacy ratio decreased to 8.34% and Group's ratio was 6.33% (see Note 36).The Bank's and Group's capital adequacy ratio has decreased as compared to 31 December 2011 primarily due to the impairment losses on assets arising from the Group's lending and investing activities performed in the earlier years.

The management and shareholders understand that the Bank's and Group's ability to restrain further impairment losses is a highly important precondition for the Bank and Group to restore and maintain sufficient capital adequacy levels in the forthcoming periods to be able to continue operate as going concern.

The management has taken significant steps to minimise any further losses and to minimise effect of uncertainties which might negatively affect loan and investment portfolio performance such as developments in real estate market, shipping industry, alternative energy sector (See notes 3, 16, 17, 18, 21, 22).

In 2012 the Bank achieved good effectiveness in problematic consumer loan recovery by redesigning respective working processes and keeping optimal balance between internal and outsourced resources involved. As a result, significant part of the recovery was obtained from the debts with long-term overdue.

In 2012 the Bank noticeably slowed down its lending activities and started steady divestment from the repossessed properties it had to take over in crisis years. The Bank believes it has a good capacity to finish the divestment process in the way the most beneficial to the Bank.

It is planned, that in 2013 the Bank will be focused on decreasing its exposures in repossessed assets and sustaining organic growth of business and good operating results.

In 2012 and the first quarter of 2013 the Bank continued to successfully implement its plan of capital strengthening, resulted in LVL 19.5 mln amount of new contribution:

- during 2012 share capital was increased by LVL 8.2 mln. within XVIII share issue made by new investors and current shareholders:

- at the end of 2012 net assets worth LVL 9.9 mln were contributed by a new investor by overtaking impairment losses on several investments;
- at the date of issuing of this report the current shareholders have additionally paid in share capital in the amount of LVL 1.4 mln.

The Bank’s target is to reach capital adequacy ratio of 12 % and keep it growing to at least 13% by the end of 2016. The Bank plans to improve the ratio by additional contributions from current and new investors, maintaining high level of operating profit level and implementing further changes in asset structure.

During 2012 the Bank passed comprehensive audit with special focus on quality of assets, risk management and internal control carried out by the Financial and Capital Market Commission (“FCMC”). The recommendations made regarding asset quality have been implemented in full and reflected in these financial statements. Regulator ensures the Bank’s supervision in accordance to its internal rules and procedures. The Bank continues to be closely monitored by FCMC.

The Bank’s ability to maintain stable deposit base and sufficient liquidity position is essential for the Bank’s operations. The Bank continues to focus on deposit base maintenance and organic growth.

Given the Bank’s strong intention of having risk aversion approach, the liquidity ratio is aimed to be at 50%. The Bank expects continuous growth of deposits while keeping traditionally excellent level of service recognised by both customers and business partners.

Based on the above assumptions the Bank’ and Group’s financial statements are being prepared on the going concern basis and do not include any adjustments which would be necessary if the application of this principle would not be appropriate.

For the year 2013 the Bank plans to maintain volume of operational profit before impairments above 10 million lats and reach positive net profit results.

(4) 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 2012	**Bank of Latvia exchange rates as of 31 December 2011**
EUR	0.702804	0.702804
USD	0.531000	0.544000

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.

(5) 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) and 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 investments in funds and investments in subsidiaries.

Available-for-sale financial assets are initially recorded at their fair value (including expenses on purchase of the assets). The Group recognizes purchase or sale of available-for-sale financial assets using settlement date accounting. Subsequently assets 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, net asset value calculation, valuation performed by certified valuator).

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.

(6) 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 21 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.

(7) 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.

(8) Assets held for sale

Assets held for sale relate to foreclosed properties and equipment held for sale. These assets are carried at the lower of book value and net realisable value. The changes in the asset value are recorded in the profit or loss.

(9) 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.

(10) 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.

(11) 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.

(12) 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 carries out the monitoring of the risk management system and the capital adequacy assessment process.

Credit Committee

The Credit Committee responsible for the approval of the exposure within its competence and loan 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. it is charged with liquidity, funding and deposits pricing, foreign exchange risks and foreign exchange operations, interest rate risks, cash management, as well as the Bank's securities portfolios' management.

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 4% of borrowings (at the end of 2012). 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:

	2012	**2011**
	%	**%**
31 December	39.79	49.05
Average during the period	48.83	58.57
Highest	58.57	71.50
Lowest	36.66	41.95

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 contractual maturity. 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".

Group As at 31 December 2012	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	50 510	-	-	-	-	-	-	**50 510**
Loans and receivables to banks	54 682	2 713	4 675	-	-	-	14 059	**76 129**
Trading financial assets	12 440	-	-	-	466	213	-	**13 119**
Derivative financial instruments	11 611	9	-	-	-	-	-	**11 620**
Loans and receivables to customers	17 602	11 101	10 130	18 351	83 399	24 112	14 222	**178 917**
Available-for-sale financial assets	40 107	-	-	-	-	12 699	-	**52 806**
Held-to-maturity financial assets	-	1 460	59	113	-	-	-	**1 632**
Prepaid corporate income tax	-	-	-	-	296	-	-	**296**
Investment property	-	-	-	-	-	-	61 528	**61 528**
Tangible fixed assets	-	-	-	-	-	-	53 200	**53 200**
Biological assets	-	-	-	-	-	-	7 724	**7 724**
Goodwill and other intangible assets	-	-	-	-	-	-	596	**596**
Assets held for sale	-	-	-	1 143	-	-	-	**1 143**
Other assets	8 087	1 174	17	30	63	-	450	**9 821**
Total assets	**195 039**	**16 457**	**14 881**	**19 637**	**84 224**	**37 024**	**151 779**	**519 041**
Liabilities								
Due to the central bank and other banks	219	-	-	-	1 230	-	-	**1 449**
Derivative financial instruments	1 479	15	-	-	-	-	-	**1 494**
Customer deposits	372 574	21 099	35 844	23 083	7 990	277	-	**460 867**
Subordinated debt	-	-	-	6 285	13 036	70	-	**19 391**
Deferred tax	-	-	-	-	-	-	990	**990**
Other liabilities	9 986	1 989	148	654	129	-	530	**13 436**
Total liabilities	**384 258**	**23 103**	**35 992**	**30 022**	**22 385**	**347**	**1 520**	**497 627**
Off-balance sheet items	7 060	75	1 757	-	-	-	-	**8 892**
Net liquidity	**(196 279)**	**(6 721)**	**(22 868)**	**(10 385)**	**61 839**	**36 677**	**150 259**	

Group	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	Other	Total
As at 31 December 2011	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**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**	

Bank **As at 31 December 2012**	**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	50 480	-	-	-	-	-	-	**50 480**
Loans and receivables to banks	54 324	-	4 676	-	-	-	14 059	**73 059**
Trading financial assets	12 440	-	-	-	72	213	-	**12 725**
Derivative financial instruments	11 611	9	-	-	-	-	-	**11 620**
Loans and receivables to customers	17 376	10 735	28 916	15 058	95 673	37 380	15 460	**220 598**
Available-for-sale financial assets	40 107	-	-	-	-	90 677	-	**130 784**
Held-to-maturity financial assets	-	1 460	59	113	-	-	-	**1 632**
Prepaid corporate income tax	-	-	-	-	80	-	-	**80**
Investment property	-	-	-	-	-	-	10 404	**10 404**
Tangible fixed assets	-	-	-	-	-	-	11 799	**11 799**
Goodwill and other intangible assets	-	-	-	-	-	-	384	**384**
Assets held for sale	-	-	-	699	-	-	-	**699**
Other assets	3 050	-	-	-	-	-	126	**3 176**
Total assets	**189 388**	**12 204**	**33 651**	**15 870**	**95 825**	**128 270**	**52 232**	**527 440**
Liabilities								
Due to the central bank and other banks	219	-	-	-	1 230	-	-	**1 449**
Derivative financial instruments	1 479	15	-	-	-	-	-	**1 494**
Customer deposits	375 584	21 181	35 926	23 155	8 402	276	-	**464 524**
Subordinated debt	-	-	-	6 285	13 036	70	-	**19 391**
Deferred tax	-	-	-	-	-	-	416	**416**
Other liabilities	7 558	-	-	467	-	-	-	**8 025**
Total liabilities	**384 840**	**21 196**	**35 926**	**29 907**	**22 668**	**346**	**416**	**495 299**
Off-balance sheet items	10 754	103	1 781	8	-	-	-	**12 646**
Net liquidity	**(206 206)**	**(9 095)**	**(4 056)**	**(14 045)**	**73 157**	**127 924**	**51 816**	

Bank As at 31 December 2011	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	-	-	94 727	-	**139 462**
Prepaid corporate income tax	-	-	-	-	1 197	-	-	**1 197**
Investment property	-	-	-	-	-	-	11 533	**11 533**
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**	**119 013**	**45 356**	**597 630**
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**	**107 167**	**44 791**	

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 2012	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Due to the central bank and other banks	217	-	-	101	1 338	-	**1 656**
Derivative financial instruments	(9 404)	5	-	-	-	-	**(9 399)**
- Contractual amounts payable	*852 342*	*6 386*	-	-	-	-	**858 728**
- Contractual amounts receivable	*(861 746)*	*(6 381)*	-	-	-	-	**(868 127)**
Customer deposits	380 512	21 718	36 703	25 091	7 617	1 006	**472 647**
Subordinated debt	-	-	-	8 956	17 462	90	**26 508**
Total undiscounted financial liabilities	**371 325**	**21 723**	**36 703**	**34 148**	**26 417**	**1 096**	**491 412**
Contingent liabilities	2 967	-	-	-	-	-	**2 967**
Commitments	8 513	103	1 781	8	-	-	**10 405**
Total	**11 480**	**103**	**1 781**	**8**	**-**	**-**	**13 372**
As at 31 December 2011							
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**

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:

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

- 3. 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.
- 4. element. Monitoring of compliance to established limits and restrictions,
- 5. element. Creation of adequate loan loss provisions to cover losses that might appear in the course of loan transactions. Created provisions are regarded an instrument that would allow the Bank to cover future expected losses resulting from loan 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 loans;
- loans 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 loan exposures, approves the measures for mitigating the risk related to the loan portfolio, performs control over the Credit Committee.

The Credit Committee approves the exposure within its competence, analyses the quality of the loan 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 loan 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 and Investment Supervision Department is managing the credit risk on a daily basis. The Credit and Investment Supervision Department is responsible for Credit Policy implementation and supervision over its fulfilment.

The Credit and Investment 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 and Investment Supervision Department are reported to the Credit Committee and 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.

	31.12.2012		31.12.2011	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Credit risk exposure relating to on-balance sheet assets	**345 392**	**454 152**	**451 284**	**543 110**
Loans and receivables to banks	76 129	73 059	97 033	90 674
Trading financial assets	13 119	12 725	35 157	35 157
Derivative assets	11 620	11 620	6 173	6 173
Loans and receivables to customers	178 917	220 598	249 934	267 471
Available-for-sale financial assets	52 806	130 784	55 423	139 462
Held-to-maturity financial assets	1 632	1 632	-	-
Prepaid corporate income tax	296	80	1 197	1 197
Assets held for sale	1 143	699	-	-
Other assets	9 730	2 955	6 367	2 976
Credit risk exposure relating to off-balance sheet items	**9 618**	**13 372**	**8 658**	**13 142**
Contingent liabilities	2 967	2 967	2 722	2 722
Commitments	6 651	10 405	5 936	10 420
Maximum exposure	**355 010**	**467 524**	**459 942**	**556 252**

Risk concentrations of the maximum exposure to credit risk

According to the Credit Policy, the following limits and restrictions are established for the Group and the Bank:

- 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 loans should not exceed 50% of the total loan portfolio.
- the maximum amount of loans into one economic segment is limited up to 33% of the total loan portfolio.

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

At 31 December 2012 – Group	Latvia LVL’000	OECD countries LVL’000	Other countries LVL’000	Total LVL’000
Credit risk exposure relating to on-balance sheet assets	**131 839**	**110 025**	**103 528**	**345 392**
Loans and receivables to banks	1 279	68 977	5 873	**76 129**
Trading financial assets	303	151	12 665	**13 119**
Derivative assets	71	9 019	2 530	**11 620**
Loans and receivables to customers	112 036	13 770	53 111	**178 917**
Available-for-sale financial assets	9 391	15 992	27 423	**52 806**
Held-to-maturity financial assets	-	1 632	-	**1 632**
Prepaid corporate income tax	80	-	216	**296**
Assets held for sale	699	-	444	**1 143**
Other assets	7 980	484	1 266	**9 730**
Credit risk exposure relating to off-balance sheet items	**7 135**	**178**	**2 305**	**9 618**
Total	**138 974**	**110 203**	**105 833**	**355 010**

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**
Derivative 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 2012 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**236 219**	**109 873**	**108 060**	**454 152**
Loans and receivables to banks	1 046	68 976	3 037	**73 059**
Trading financial assets	303	-	12 422	**12 725**
Derivative assets	71	9 019	2 530	**11 620**
Loans and receivables to customers	153 657	13 770	53 171	**220 598**
Available-for-sale financial assets	78 109	15 992	36 683	**130 784**
Held-to-maturity financial assets	-	1 632	-	**1 632**
Prepaid corporate income tax	80	-	-	**80**
Assets held for sale	699	-	-	**699**
Other assets	2 254	484	217	**2 955**
Credit risk exposure relating to off-balance sheet items	**7 577**	**178**	**5 617**	**13 372**
Total	**243 796**	**110 051**	**113 677**	**467 524**

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	**276 227**	**155 022**	**111 861**	**543 110**
Loans and receivables to banks	22	87 849	2 803	**90 674**
Trading financial assets	-	27 459	7 698	**35 157**
Derivative 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	104 302	7 582	27 578	**139 462**
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	**282 596**	**155 153**	**118 503**	**556 252**

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:

	31.12.2012		31.12.2011	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Credit risk exposure relating to on-balance sheet assets	**345 392**	**454 152**	**451 284**	**543 110**
Banks	87 067	83 997	101 652	95 293
Private individuals	25 043	16 403	29 995	25 788
Transport	21 057	24 416	32 732	41 294
Trade	12 482	17 940	22 539	20 079
Financial services	51 200	142 761	65 883	165 632
Processing industry	44 409	57 088	41 151	40 723
Building	18 614	12 588	7 345	3 695
Governments	37 456	37 063	72 091	72 091
Other	48 064	61 896	77 896	78 515
Credit risk exposure relating to off-balance sheet items	**9 618**	**13 372**	**8 658**	**13 142**
Total	**355 010**	**467 524**	**459 942**	**556 252**

Renegotiated loans

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

- interest payments are made once a year;
- the Client participation share in the loan 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 loan utilisation is considerably lower than standard rate;
- new loan maturity is considerably longer than the standard maturity for the similar Bank loans;
- past due not paid loan interest is capitalised (for credit card loans at the moment of renegotiation).

Prior to loan 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 loan 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 loan agreement (loan 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 31 December 2012 is LVL'000 68 332 (2011: LVL'000 53 302).

Collateral and other loan 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 to the requirements of the Credit Policy the maximum portion of the loans with the similar type of collateral should be limited up to 45% of the loan portfolio (loans 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 loan instrument.

Quality of loans 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 loan. The classification is made with the aim to assess the quality and risk grade of the issued loans and indemnities measurement of potential losses and creation of sufficient provisions as well.

The loan 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 loan, i.e. individually, or collectively by pooling the loans with similar credit risk characteristics.

	31.12.2012		**31.12.2011**	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loans and receivables to customers				
Neither past due nor impaired	101 793	122 611	158 517	173 796
Past due but not impaired	40 867	37 974	32 158	35 235
Impaired	75 192	103 902	88 090	85 926
Gross amount	**217 852**	**264 487**	**278 765**	**294 957**
(Provisions)	(38 935)	(43 889)	(28 831)	(27 486)
Total net loans and receivables to customers	**178 917**	**220 598**	**249 934**	**267 471**

As of 31 December 2012 and 31 December 2011 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 2012:

Group At 31 December 2012	Past due but not impaired 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	1 512	107	225	135	2 806	**4 785**
Industrial loans	223	3	205	25 552	868	**26 851**
Commercial loans	531	198	472	3 771	2 651	**7 623**
Consumer loans	722	17	32	30	26	**827**
Credit card	268	-	-	-	-	**268**
Finance leases	261	10	6	-	6	**283**
Other	-	77	-	-	153	**230**
Total	**3 517**	**412**	**940**	**29 488**	**6 510**	**40 867**

Bank At 31 December 2012	Past due but not impaired 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	1 258	93	214	19	2 580	**4 164**
Industrial loans	223	3	205	25 552	868	**26 851**
Commercial loans	531	198	472	3 771	669	**5 641**
Consumer loans	722	17	32	30	13	**814**
Credit card	268	-	-	-	-	**268**
Finance leases	-	-	-	-	6	**6**
Other	-	77	-	-	153	**230**
Total	**3 002**	**388**	**923**	**29 372**	**4 289**	**37 974**

The past due and not impaired category includes loans in the amount of LVL'000 28 988 issued to clients operating in alternative energy sector. As of 31 December 2012 the total Bank's exposure to alternative energy sector amounts to LVL'000 41 415. The Bank is continuing its active work on solving the past due matter and improving the quality of the respective loans, which were issued to energy sector and which demonstrate certain impairment indicators based on overdue events and disputes raised by debtors. Based on the efforts being made the management is certain that it will be able to recover the exposure in full, therefore, no impairment losses are recognised as of 31 December 2012.

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 At 31 December 2011	Past due but not impaired 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 detailed information on the provisions made against bad debts is in Note 17 “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 methods employed in interest rate risk sensitivity analysis have remained unchanged compared to the year 2011.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets held as of 31 December 2012 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.

Possible parallel interest rate shift in basis points has been set to 100 bps for all currencies - LVL (200bp in 2011), USD (150bp in 2011), and EUR (150bp in 2011). The reason is that the Bank believes that there will be no dramatic increases in the interest rates for the major currencies, given the current situation of stagnation at historical lows.

At 31 December 2012		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase/ decrease in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**Up 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	100	(62)	(126)	-	-	-	-
USD	100	(1 545)	(1 550)	(10)	(5)	(284)	(299)
EUR	100	(45)	(216)	(9)	-	(289)	(298)
LVL	(100)	62	126	-	-	-	-
USD	(100)	1 545	1 550	10	5	284	299
EUR	(100)	45	216	9	-	289	298

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**	**Up 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)

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 methods employed in currency risk sensitivity analysis have remained unchanged compared to year 2011.

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

As at 31 December 2012 - 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	19 697	2 370	25 650	2 793	**50 510**
Loans and receivables to banks	923	63 414	7 663	4 129	**76 129**
Trading financial assets	-	11 497	1 622	-	**13 119**
Derivative financial instruments	11 620	-	-	-	**11 620**
Loans to customers and receivables	10 734	44 334	114 716	9 133	**178 917**
Available-for-sale financial assets	-	17 994	34 812	-	**52 806**
Held-to-maturity financial assets	-	1 146	486	-	**1 632**
Prepaid corporate income tax	80	-	-	216	**296**
Investment property	48 350			13 178	**61 528**
Tangible fixed assets	23 631	29 308	1	260	**53 200**
Biological assets	7 724	-	-	-	**7 724**
Goodwill and other intangible assets	581	-	4	11	**596**
Assets held for sale	699	-	-	444	**1 143**
Other assets	4 500	988	1 650	2 683	**9 821**
Total assets	**128 539**	**171 051**	**186 604**	**32 847**	**519 041**
Liabilities and equity					
Due to the central bank and other banks	-	103	1 318	28	**1 449**
Derivative financial instruments	1 494	-	-	-	**1 494**
Customer deposits	50 902	252 063	141 400	16 502	**460 867**
Subordinated debt	-	1 299	18 007	85	**19 391**
Deferred tax liabilities	461	-	-	529	**990**
Other liabilities	4 756	1 130	6 176	1 374	**13 436**
Total liabilities	**57 613**	**254 595**	**166 901**	**18 518**	**497 627**
Share capital and reserves	16 099	1 453	2 090	63	**19 705**
Minority interest	379	334	-	996	**1 709**
Total liabilities and equity	**74 091**	**256 382**	**168 991**	**19 577**	**519 041**
Net balance sheet long/(short) position	**54 448**	**(85 331)**	**17 613**	**13 270**	
Spot foreign-exchange contracts long/(short) position	(6 866)	150 777	(86 549)	(57 362)	
Swap foreign-exchange contracts long/(short) position	(8 542)	(19 166)	(29 398)	57 106	
Forward foreign-exchange contracts long/(short) position	20	(17 264)	13 811	3 433	
Net open long/(short) currency position	**39 060**	**29 016**	**(84 523)**	**16 447**	
Currency open position in % from capital as of 31/12/2012		**100.50**	**292.74**		
As at 31 December 2011 - Group					
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**		

The table below indicates the currencies to which the Group had significant exposure at 31 December 2012 and at 31 December 2011 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

Possible currency rate fluctuations have been set to 7% (5% in 2011) for USD and 1% (1% in 2011) for EUR. The reason for an increase in the possible fluctuation for the USD – the Bank believes it to be a safe proxy for the future, given the fact that it was the approximate EURUSD volatility for the year 2012.

	31.12.2012		31.12.2011	
Currency	**Change in currency rate %**	**Effect on income statement LVL`000**	**Change in currency rate %**	**Effect on income statement LVL`000**
USD	+7	2 031	+5	1 907
	(7)	(2 031)	(5)	(1 907)
EUR	+1	(845)	+1	(538)
	(1)	845	(1)	538

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

As at 31 December 2012 - 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	19 692	2 366	25 649	2 773	**50 480**
Loans and receivables to banks	793	60 683	7 562	4 021	**73 059**
Trading financial assets	-	11 497	1 228	-	**12 725**
Derivative financial instruments	11 620	-	-	-	**11 620**
Loans to customers and receivables	19 687	46 041	147 385	7 485	**220 598**
Available-for-sale financial assets	32 823	17 994	79 967	-	**130 784**
Held-to-maturity financial assets	-	1 146	486	-	**1 632**
Prepaid corporate income tax	80	-	-	-	**80**
Investment property	10 404	-	-	-	**10 404**
Tangible fixed assets	11 799	-	-	-	**11 799**
Goodwill and other intangible assets	384	-	-	-	**384**
Assets held for sale	699	-	-	-	**699**
Other assets	2 071	273	274	558	**3 176**
Total assets	**110 052**	**140 000**	**262 551**	**14 837**	**527 440**
Liabilities and equity					
Due to the central bank and other banks	-	103	1 318	28	**1 449**
Derivative financial instruments	1 494	-	-	-	**1 494**
Customer deposits	51 658	253 455	142 543	16 868	**464 524**
Subordinated debt	-	1 299	18 007	85	**19 391**
Deferred tax liabilities	416	-	-	-	**416**
Other liabilities	2 963	218	4 675	169	**8 025**
Total liabilities	**56 531**	**255 075**	**166 543**	**17 150**	**495 299**
Share capital and reserves	32 141	-	-	-	**32 141**
Total liabilities and equity	**88 672**	**255 075**	**166 543**	**17 150**	**527 440**
Net balance sheet long/(short) position	**21 380**	**(115 075)**	**96 008**	**(2 313)**	
Spot foreign-exchange contracts long/(short) position	(6 866)	150 777	(86 549)	(57 362)	
Swap foreign-exchange contracts long/(short) position	(8 542)	(19 166)	(29 398)	57 106	
Forward foreign-exchange contracts long/(short) position	20	(17 264)	13 811	3 433	
Net open long/(short) currency position	**5 992**	**(728)**	**(6 128)**	**864**	
Currency open position in % from capital as of 31/12/2012		**1.98**	**16.68**		
As at 31 December 2011 - Bank					
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 of 31 December 2012 the Bank's open position was 17.94% of the tier 1 and tier 2 of the capital (2011: 8.29%).

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 2012 were stronger (17 % and 8% (except EUR) accordingly).

The table below indicates the currencies to which the Bank had significant exposure as of 31 December 2012 and as of 31 December 2011 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis shows the effect of a reasonable possible movement of the currency rate against the Lat, with all other variables held constant, on the income statement.

	31.12.2012		31.12.2011	
Currency	**Change in currency rate %**	**Effect on income statement LVL`000**	**Change in currency rate %**	**Effect on income statement LVL`000**
USD	+7	(51)	+5	71
	(7)	51	(5)	(71)
EUR	+1	(61)	+1	17
	(1)	61	(1)	(17)

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

	2012		2011	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Interest income	**16 590**	**14 777**	**21 186**	**18 162**
Loans and receivables to customers	13 157	11 790	16 186	13 783
Loans and receivables to banks	967	536	1 364	874
Available-for-sale securities	1 413	1 413	1 816	1 685
Trading securities	973	958	1 764	1 764
Held-to-maturity financial assets	39	39	-	-
Other	41	41	56	56
Interest expense	**8 097**	**8 151**	**10 799**	**10 565**
Customer deposits	5 015	5 073	8 603	8 614
Deposits from banks	66	66	266	22
Subordinated debt	1 352	1 352	849	849
Payments in the Deposit Guarantee Fund	1 660	1 660	1 080	1 080
Other	4	-	1	-
Net interest income	**8 493**	**6 626**	**10 387**	**7 597**

As at 31 December 2012 interest income accrued on impaired loans to customers amounted to LVL’000 2 035 (2011: LVL’000 1 182).

5. NET FEE AND COMMISSION INCOME

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fee and commission income	**12 277**	**11 783**	**10 304**	**9 819**
Account services and money transfer fees	7 012	7 084	5 835	5 854
Commission for public utility payments	1 116	1 116	1 072	1 072
Payment cards	1 602	1 602	1 399	1 400
Brokerage services on securities	1 332	1 333	839	839
Asset management fees	473	18	525	52
Cash withdrawal	446	446	420	420
Commission on letters of credit and collection	36	36	45	45
Other	260	148	169	137
Fee and commission expense	**2 078**	**1 956**	**1 762**	**1 643**
Payment cards	1 071	1 071	951	951
Services of correspondent banks	598	597	518	518
Securities purchase and brokerage services	287	287	173	173
Other	122	1	120	1
Net fee and commission income	**10 199**	**9 827**	**8 542**	**8 176**

6. NET TRADING INCOME

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from trading financial assets net	**(71)**	**(76)**	**(1 182)**	**(1 182)**
Bonds and other fixed income securities	***(90)***	***(95)***	***(1 193)***	***(1 193)***
Net trading profit/(loss)	(305)	(305)	(1 285)	(1 285)
Fair value adjustment	215	210	92	92
Shares and other non- fixed income securities	***19***	***19***	***11***	***11***
Net trading profit/(loss)	-	-	33	33
Fair value adjustment	19	19	(22)	(22)
Profit/(loss) from derivative instruments and foreign exchanges trading net	**2 751**	**2 741**	**8 994**	**9 001**
Net trading profit/(loss)	(1 489)	(1 459)	3 986	3 993
Fair value adjustment	4 240	4 200	5 008	5 008
Profit/(loss) from revaluation of open position net	**6 845**	**6 558**	**(864)**	**(1 048)**
Net trading income	**9 525**	**9 223**	**6 948**	**6 771**

7. NET PROFIT OR LOSS FROM FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net realized profit/(loss)	(13)	-	-	-
Profit/(loss) from financial assets designated at fair value through profit or loss, net	**(13)**	**-**	**-**	**-**

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

	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	1 987	(214)	(507)	(507)
Non fixed income securities	(64)	(64)	-	-
Total	**1 923**	**(278)**	**(507)**	**(507)**

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

9. OTHER OPERATING INCOME AND EXPENSES

Other operating income was as follows:	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Income from ships (freight)	11 887	-	6 242	-
Rent of investment property	1 894	872	682	566
Typography	763	-	-	-
Hotel business	642	-	-	-
Penalties	286	98	933	855
Forestry	240	-	-	-
Rent of premises	68	99	49	56
Other	2 480	276	996	273
Total	**18 260**	**1 345**	**8 902**	**1 750**

Other operating expenses were as follows:	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Expenses from ships (freight)	12 742	-	5 910	-
Net loss of sale of ship and real estate	4 638	-	2 429	-
Expenses from credit operations	337	366	509	509
Membership fees	179	128	147	125
Other	2 230	1	132	4
Total	**20 126**	**495**	**9 127**	**638**

10. ADMINISTRATIVE EXPENSES

	2012		2011	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Personnel expense	**10 307**	**8 290**	**9 199**	**8 472**
Personnel remuneration	7 706	5 999	6 603	6 180
Supervisory Council and Management Board remuneration	764	684	843	652
Social security contributions	1 837	1 607	1 753	1 640
Other expense	**7 368**	**5 510**	**7 597**	**7 006**
Professional services	1 368	1 370	1 684	1 610
Computer repair and communications	992	943	1 038	1 009
Rent	689	583	968	1 378
Public utilities and maintenance	824	672	699	695
Advertising	406	220	644	527
Value added tax	427	424	351	340
Business trips	192	175	233	229
Security	211	194	189	186
Real estate tax	198	90	78	72
Other administrative expenses	2 061	839	1 713	960
Total	**17 675**	**13 800**	**16 796**	**15 478**

During the 2012 the average number of employees in the Group and the Bank was 1 120, 3 Supervisory Council and 5 Management Board members and 589 employees, 3 Supervisory Council and 5 Management Board members, respectively.

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

11. CORPORATE INCOME TAX

a) Components of corporate income tax	2012		2011	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Corporate income tax expense for the year	2	-	357	-
Corporate income tax paid abroad	183	183	305	305
Change in deferred tax liability	(87)	(188)	(51)	10
Total	**98**	**(5)**	**611**	**315**

b) Reconciliation of accounting profit to tax charge	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loss before taxation	**(41 026)**	**(32 956)**	**(20 487)**	**(18 528)**
Expected corporate income tax	(6 154)	(4 943)	(3 073)	(2 779)
Tax effect of:				
(Untaxed income)/non-deductible expense	3 373	3 688	1 273	2 789
Effect of different tax rates on income tax paid abroad/ lost allowance for tax paid abroad	183	183	305	305
Effect of different tax rates of subsidiaries operating in other jurisdictions	988	-	1 844	-
Overtaken loses	(47)	-	-	-
Not recognised deferred tax assets	1 755	1 067	310	-
Other	-	-	(48)	-
Total	98	**(5)**	**611**	**315**

Expected corporate income tax has been calculated in accordance to Latvian income tax rate in 2012.
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:	2012		2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Deferred tax liability at the beginning of year	650	188	610	62
Deferred tax liability increase (decrease) for the year	(87)	(188)	(51)	10
Acquisition of subsidiary	44	-	116	116
Foreign exchange	(33)	-	(25)	-
Deferred tax liability at the year end	**574**	**-**	**650**	**188**
Deferred tax recognised directly in equity at the beginning of year	377	377	377	377
Deferred tax increase for the year net	39	39	-	-
Deferred tax recognised directly in equity at the year end	**416**	**416**	**377**	**377**
Total	**990**	**416**	**1 027**	**565**

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

	2012		2011	
Group	**Deferred tax asset LVL'000**	**Deferred tax liability LVL'000**	**Deferred tax asset LVL'000**	**Deferred tax liability LVL'000**
Loans to customers	-	(589)	-	(433)
Depreciation and amortisation	3	(223)	-	(160)
Change in fair value of investment property	-	(446)	(4)	(521)
Tax loss carry-forwards	1 413	-	407	-
Accruals for vacations	85	-	76	-
Changes in not recognised deferred tax assets	-	(791)	-	-
Other	2	(28)	-	(15)
Total mutual off setting of asset/(liability)	**1 503**	**(2 077)**	**479**	**(1 129)**
Net deferred tax asset/(liability)	**-**	**(574)**	**-**	**(650)**
Deferred tax recognised directly in equity	**-**	**(416)**	**-**	**(377)**
Total	**-**	**(990)**	**-**	**(1 027)**

Bank	2012		2011	
	Deferred tax assets LVL’000	Deferred tax liability LVL’000	Deferred tax assets LVL’000	Deferred tax liability LVL’000
Depreciation and amortisation	-	(179)	-	(159)
Change in fair value of investment property	-	(446)	-	(506)
Tax loss carry-forwards	1 346	-	407	--
Accruals for vacations	70	-	70	--
Changes in not recognised deferred tax assets	-	(791)	-	-
Other	-	-	-	--
Total mutual off setting of asset/(liability)	**1 416**	**(1 416)**	**477**	**(665)**
Net deferred tax asset/(liability)	**-**	**-**	**-**	**(188)**
Deferred tax recognised directly in equity	**-**	**(416)**	**-**	**(377)**
Total	**-**	**(416)**	**-**	**(565)**

12. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2012		31.12.2011	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Cash	9 947	9 917	8 043	8 008
Due from the central bank	40 563	40 563	21 909	21 909
Total	**50 510**	**50 480**	**29 952**	**29 917**

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 2012 the amount of the statutory reserve of the Bank was LVL'000 19 050 (31.12.2011: LVL'000 27 499). Bank is compliant with this regulation.

13. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2012		31.12.2011	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Demand placements with:	**54 854**	**54 497**	**46 253**	**44 796**
Banks of the Republic of Latvia	621	435	31	22
Banks of the OECD countries	51 026	51 025	42 033	42 033
Banks of other countries	3 207	3 037	4 189	2 741
Loans to and receivables from:	**21 275**	**18 562**	**50 780**	**45 878**
Banks of the Republic of Latvia	658	611	-	-
Banks of the OECD countries	17 951	17 951	45 816	45 816
Banks of other countries	2 666	-	4 964	62
Total	**76 129**	**73 059**	**97 033**	**90 674**

The Bank has received securities at fair value LVL’000 nil at 31 December 2012 (31.12.2011: LVL’000 12 366) as collateral for reverse repo deals. The Bank was permitted to sell or re-pledge them. As at 31 December 2012 the Bank has LVL’000 13 101 pledged for Forex deals (31.12.2011: LVL’000 6 567) ; LVL’000 645 pledged for guaranties (31.12.2011: LVL’000 nil); LVL’000 314 pledged for POS-terminal payments (31.12.2011: LVL’000 nil).
In 2012 the Bank’s average nominal interest rates are: LVL 0.22%,USD 0.23% , EUR 0.27%; in 2011: LVL 0.35%, USD 0.32%, EUR 0.68%.

14. TRADING FINANCIAL ASSETS

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Trading bonds and other fixed income securities	**13 047**	**12 653**	**35 104**	**35 104**
Republic of Latvia bonds	303	303	-	-
OECD country bonds	151	-	27 459	27 459
Other country bonds	12 593	12 350	7 645	7 645
Trading shares and other non- fixed income securities	**72**	**72**	**53**	**53**
Other country shares	72	72	53	53
Total	**13 119**	**12 725**	**35 157**	**35 157**

15. 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.

	31.12.2012			31.12.2011		
	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000
Foreign exchange contracts						
Swaps	11 601	1 455	368 799	6 111	796	176 604
Forwards	19	39	24 817	62	168	11 919
	11 620	**1 494**	**393 616**	**6 173**	**964**	**188 523**

16. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net loans to:	**167 631**	**209 312**	**236 082**	**253 619**
Private companies	163 671	219 115	221 341	241 837
Individuals	42 895	34 086	43 572	39 268
Allowance for impairment losses (Note 17)	(38 935)	(43 889)	(28 831)	(27 486)
Receivables from:	**11 286**	**11 286**	**13 852**	**13 852**
Finance companies	10 485	10 485	12 875	12 875
Private companies	801	801	977	977
Total loans to and receivables from customers, net	**178 917**	**220 598**	**249 934**	**267 471**

Geographical segmentation of loans and receivables				
Net loans to:	**167 631**	**209 312**	**236 082**	**253 619**
Residents of Latvia	141 211	186 205	183 049	190 998
Residents of OECD countries	10 254	10 253	19 044	19 044
Residents of the other countries	55 101	56 743	62 820	71 063
Allowance for impairment losses (Note 17)	(38 935)	(43 889)	(28 831)	(27 486)
Receivables from:	**11 286**	**11 286**	**13 852**	**13 852**
Residents of Latvia	4	4	4	4
Residents of OECD countries	7 393	7 393	8 456	8 456
Residents of the other countries	3 889	3 889	5 392	5 392
Total loans to and receivables from customers	**178 917**	**220 598**	**249 934**	**267 471**

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Analysis of loans by type				
Mortgage loans	30 787	47 284	60 871	64 670
Industrial loans	72 537	89 601	67 865	73 795
Commercial loans	45 031	56 067	63 661	73 609
Consumer loans	5 852	4 205	9 566	9 202
Credit card balances	3 908	3 908	6 242	6 242
Reverse Repo transactions	3 406	3 406	12 798	12 798
Finance leases	1 493	107	1 866	90
Other	4 617	4 734	13 213	13 213
Net loans to customers	**167 631**	**209 312**	**236 082**	**253 619**

The Group has received securities at fair value LVL'000 5 848 (at 31 December 2011: LVL'000 16 326) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2012 they have not been sold or repledged (at 31 December 2011: LVL'000 nil).

In 2012 Bank has LVL'000 3 975 pledged for card transactions (at 31.12.2011: LVL '000 3 188); LVL'000 804 pledged for Forex deals (at 31.12.2011: LVL '000 980) .

During 2012 the Bank's average nominal interest rates were: LVL 15.76%, USD 5.50% , EUR 3.92%; in 2011: LVL 25.59%, USD 4.84%, EUR 4.39%.

Finance leases	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Gross investments	**1 581**	**113**	**2 028**	**102**
Within 1 year	850	10	994	29
From 1 year to 5 years	647	103	936	73
More than 5 years	84	-	98	-
Unearned income	**88**	**6**	**162**	**12**
Within 1 year	42	4	70	4
From 1 year to 5 years	42	2	86	8
More than 5 years	4	-	6	-
Present value of minimum lease payments	**1 493**	**107**	**1 866**	**90**
Within 1 year	808	6	924	25
From 1 year to 5 years	605	101	850	65
More than 5 years	80	-	92	-

17. 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 2011 LVL’000	Increase in allowance LVL’000	Written off LVL’000	Released from allowance LVL’000	Foreign exchange LVL’000	At 31 December 2012 LVL’000
Industrial loans	4 174	12 135	(5 713)	(799)	(26)	**9 771**
Commercial loans	4 296	6 772	(4 153)	(247)	(186)	**6 482**
Consumer loans	11 099	3 848	(109)	(709)	(1)	**14 128**
Credit cards	1 968	1 883	(62)	(152)	(1)	**3 636**
Finance leasing	1 412	12	(1 140)	(30)	(1)	**253**
Mortgage loans	5 656	2 874	(1 128)	(3 365)	(8)	**4 029**
Other loans	226	582	(171)	-	(1)	**636**
Other provisions	323	51	(46)	-	(8)	**320**
Total	**29 154**	**28 157**	**(12 522)**	**(5 302)**	**(232)**	**39 255**

Group At 31 December 2012	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	9 771	-	**9 771**	**24 463**
Commercial loans	6 409	73	**6 482**	**11 677**
Consumer loans	14 066	62	**14 128**	**14 817**
Credit cards	3 632	4	**3 636**	**3 677**
Finance leasing	253	-	**253**	**735**
Mortgage loans	3 959	70	**4 029**	**16 493**
Other loans	636	-	**636**	**1 062**
Other provisions	317	3	**320**	**424**
Total	**39 043**	**212**	**39 255**	**73 348**

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	2012 LVL'000	2011 LVL'000
Result from impairment losses	**(29 030)**	**(26 807)**
Increase in allowance (loans)	(28 157)	(23 300)
Increase in allowance (other)	-	(111)
Impairment losses charged to income statement (repossession of collateral)	(6 468)	(8 775)
Released from allowance (loans)	5 302	5 172
Recovery of previously written-off assets	304	207
Foreign exchange	(11)	-

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 2011 LVL'000	Increase in allowance LVL'000	Written off LVL'000	Released from allowance LVL'000	Foreign exchange LVL'000	At 31 December 2012 LVL'000
Industrial loans	4 209	13 220	(5 713)	(700)	(34)	**10 982**
Commercial loans	4 336	7 657	(4 153)	(198)	(187)	**7 455**
Consumer loans	11 093	3 782	(75)	(709)	-	**14 091**
Credit cards	1 968	1 883	(62)	(152)	(1)	**3 636**
Finance leasing	34	12	(16)	(30)	-	**-**
Mortgage loans	5 620	5 747	(1 128)	(3 147)	(3)	**7 089**
Other loans	226	582	(171)	-	(1)	**636**
Other provisions	318	29	(29)	-	(7)	**311**
Total	**27 804**	**32 912**	**(11 347)**	**(4 936)**	**(233)**	**44 200**

Bank At 31 December 2012	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	10 982	-	**10 982**	**28 681**
Commercial loans	7 455	-	**7 455**	**18 826**
Consumer loans	14 066	25	**14 091**	**14 817**
Credit cards	3 632	4	**3 636**	**3 677**
Mortgage loans	7 089	-	**7 089**	**35 918**
Other loans	636	-	**636**	**1 062**
Other provisions	311	-	**311**	**418**
Total	**44 171**	**29**	**44 200**	**103 399**

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	**4 336**
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	2012 LVL'000	2011 LVL'000
Result from impairment losses	**(27 671)**	**(29 929)**
Increase from impairment (loans)	(32 912)	(23 386)
Released from impairment (loans)	4 936	5 172
Impairment losses charged to income statement (repossession of collateral)	-	(11 922)
Recovery of previously written-off assets	305	207

The Bank has overtaken collateral for a number of loans. The overtaken assets are reflected in the Group’s balance sheet as of 31 December 2012 as follows: Investment property in the amount of LVL’000 37 946 (2011: LVL’000 20 113); tangible fixed assets in the amount of LVL’000 41 141 (2011: LVL’000 63 304), biological assets LVL’000 7 724 (2011:LVL’000 nil).

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2012		31.12.2011	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Bonds and other fixed income securities	**40 107**	**40 107**	**44 735**	**44 735**
Latvian bonds	9 391	9 391	29 504	29 504
OECD country bonds	15 992	15 992	7 582	7 582
Other country bonds	14 724	14 724	7 649	7 649
Shares and other non-fixed income securities	**12 699**	**67 224**	**10 688**	**80 109**
Funds registered in Latvia	-	54 525	-	69 421
Funds registered in EU countries	12 699	12 699	10 688	10 688
Investments in subsidiaries	**-**	**23 453**	**-**	**14 618**
Financial institutions (LR residents)	-	5 785	-	5 255
Financial institutions (Other country residents)	-	9 260	-	9 241
Private companies (LR residents)	-	8 408	-	122
Total	**52 806**	**130 784**	**55 423**	**139 462**

During 2012 the Bank recognised impairment losses regarding its investments in closed end investments funds in the amount of LVL’000 14 415 (2011: LVL’000 2 334). During 2012 the Bank recognised impairment losses regarding its investments in subsidiaries in the amount of LVL’000 761 (2011: LVL’000 100).

As at 31 December 2012 and 2011 the Bank had the following investments in the subsidiaries:

Company	Country and address of registration	Business profile	Balance value as at 31 December 2012	Balance value as at 31 December 2011	Bank’s share capital (%) as at 31 December 2012
AS “NORVIK Ieguldījumu pārvaldes sabiedrība”	E.Birznieka-Upīša Str. 21, Riga, Latvia	Financial services	5 669	5 137	100
AS “NORVIK” Universal Credit Organization”	Khanjyan Str. 41 Yerevan, Armenia	Financial services	9 260	9 241	100
”NORVIK Līzings” SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Financial services	-	-	100
“NORVIK TECHNOLOGY” SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	IT services	-	-	100
AS “NORVIK Alternative Investments”	E.Birznieka-Upīša Str. 21, Riga, Latvia	Financial services	116	118	100
“Legal Consulting” SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Legal services	129	122	100
„PRESES NAMS BALTIC” SIA	Jāņsili silakrogs, Ropažu region, Latvia	Printing services	5 664	-	89.9
„PROSPECTUM” SIA	Braslas Str. 22, Riga, Latvia	Real estate	21	-	100
„LANORA” SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Real estate	-	-	100
„LAT ESTATE” SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Real estate	-	-	100
"NORVIK APDROŠINĀŠANAS BROKERIS" SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Insurance brokerage services	-	-	100
"MEŽA FONDS" SIA	E.Birznieka-Upīša Str. 21, Riga, Latvia	Forestry	2 594	-	100
Total			**23 453**	**14 618**	

19. HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2012		31.12.2011	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Bonds and other fixed income securities				
OECD country bonds	1 632	1 632	-	-
Total	**1 632**	**1 632**	**-**	**-**

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	31.12.2012		31.12.2011	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Goodwill	286	-	286	-
Other intangible assets	292	366	24	581
Prepayment for other intangible assets	18	18	-	-
Net book value of other intangible assets	**596**	**384**	**310**	**581**

The following table shows the changes in the Group’s and Bank’s intangible assets for the year ended 31 December 2012 and 31 December 2011:

Group LVL `000	Goodwill	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost				
At 31 December 2011	**286**	**1 459**	**-**	**1 745**
Additions	-	156	26	**182**
Disposals	-	(54)	(8)	**(62)**
At 31 December 2012	**286**	**1 561**	**18**	**1865**
Amortisation				
At 31 December 2011	**-**	**1 435**		**1 435**
Charge/correction	-	(116)	-	**(116)**
Disposals	-	(50)	-	**(50)**
At 31 December 2012	**-**	**1 269**	**-**	**1 269**
Net book value				
At 31 December 2011	**286**	**24**	**-**	**310**
At 31 December 2012	**286**	**292**	**18**	**596**

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**

Goodwill acquired through business combination with indefinite life 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 2011	**2 058**	**-**	**2 058**
Additions	45	26	71
Disposals	(50)	(8)	(58)
At 31 December 2012	**2 053**	**18**	**2 071**
Amortisation			
At 31 December 2011	**1 477**	**-**	**1 477**
Charge	260	-	260
Disposals	(50)	-	(50)
At 31 December 2012	**1 687**	**-**	**1 687**
Net book value			
At 31 December 2011	**581**	**-**	**581**
At 31 December 2012	**366**	**18**	**384**

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**

21. INVESTMENT PROPERTY

The following table shows the movement in the Group’s and Bank’s investment property:

	Group LVL’000	Bank LVL’000
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**
Additions *	29 083	-
Sale	(2 328)	-
Net change in fair value	(10 516)	(1 129)
Contribution by new investor**	10 931	-
Foreign exchange	(188)	-
As at 31 December 2012	**61 528**	**10 404**

* Investment property acquired by overtaking collateral.
** The Bank and the Group has received support from its shareholders, whereby impairment losses related to several investments in entities controlled by the Group were taken over by a new investor of the Group. The settlement for the transaction was made primary by investment property contributed to the Group. See also Note 30.

As of 31.12.2012 the Investment property of the Group are composed of Office buildings in Latvia (LVL ‘000 8 069), Office building in Russia, Moscow (LVL ‘000 5 663), warehouses and shops (LVL ‘000 1 307), hotels and restaurants (LVL ‘000 3 533), Manufacturing facilities (LVL ‘000 17 667), fuel station and oil depot (LVL ‘000 8 643), land (LVL ‘000 12 159), unfinished construction (LVL ‘000 1 293), recreation buildings (LVL ‘000 431), apartments (LVL ‘000 2 763).

Group’s investment property is stated at fair value. 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. Fair value changes relate to market correction in real estate market.

Rental income from investment property earned by the Group / Bank amounted to LVL’000 1 894 (31.12.2011: LVL’000 682) / LVL’000 872 (31.12.2011: LVL’000 566). 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’000 644 (31.12.2011: LVL’000 165) / LVL’000 155 (31.12.2011: LVL’000 164). 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 41 (31.12.2011: LVL’000 35).

22. TANGIBLE FIXED ASSETS

	31.12.2012		31.12.2011	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Lands and buildings	19 237	11 326	15 258	11 744
Vehicles including ships	29 464	91	42 932	140
Office equipment and other fixed assets	4 226	380	764	479
Prepayments for tangible fixed assets	41	2	16 807	3
Leasehold improvements	232	-	228	-
Net book value of tangible fixed assets	**53 200**	**11 799**	**75 989**	**12 366**

Bank’s real estate that is included in tangible assets for value LVL’000 8 918 is pledged as collateral for credit

Group’s tangible fixed assets (Lands and buildings, Ships) are stated at fair value.
The valuation of Group’s tangibles fixed assets were performed by certified independent appraisers of the licensed companies. Based on the 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.

The following table shows the changes in the Bank’s tangible fixed assets for the year ended 31 December 2012:

	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Total
LVL’000					
Historical cost					
At 31 December 2011	**14 550**	**401**	**3 937**	**3**	**18 891**
Additions	-	-	116	19	**135**
Revaluation	404	-	-	-	**404**
Disposals	-	(31)	(51)	(20)	**(102)**
At 31 December 2012	**14 954**	**370**	**4 002**	**2**	**19 328**
Accumulated depreciation and impairment					
At 31 December 2011	**2 806**	**261**	**3 458**	**-**	**6 525**
Charge	399	42	213	-	**654**
Impairment loss	423	-	-	-	**423**
Disposals	-	(24)	(49)	**-**	**(73)**
At 31 December 2012	**3 628**	**279**	**3 622**	**-**	**7 529**
Net book value					
At 31 December 2011	**11 744**	**140**	**479**	**3**	**12 366**
At 31 December 2012	**11 326**	**91**	**380**	**2**	**11 799**

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**
Accumulated depreciation and impairment						
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**

Revaluation reserve of tangible fixed assets included in equity and is not distributable to shareholders.

23. BIOLOGICAL ASSETS

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Biological assets (forest)	7 724	-	-	-
Net book value of biological assets	**7 724**	**-**	**-**	**-**

The following table shows the movement in the Group's biological assets for the period ended 31 December 2012:

	Group LVL'000
As at 31 December 2011	**-**
Additions	9 529
Net change in fair value	(1 805)
As at 31 December 2012	**7 724**

Biological assets reflected at fair value less cost of sale in accordance to IAS 41

Fair value of biological assets is estimated by Latvian experts applying Latvian University scientific data base regarding Latvian forests' wood stock and it's growing tempos. Forest is recognised at lowest of immediate fell and realisation at current market price less cost of sale and discounted cash flows assumed forest maintenance and gradual fell considering forest maturity and inflation adjustments.

Fair value changes for 1.8 million LVL is recognized as correction at the year end based on deterioration in demand caused by seasonality factor.

24. OTHER ASSETS

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Inventories	1 434	-	366	-
Deferred expenses	929	665	995	703
Spot deals	480	480	958	958
VAT	413	187	254	233
Accrued income	425	265	258	213
Cards transactions	261	261	81	81
Other receivables	5 879	1 318	3 578	911
Total	**9 821**	**3 176**	**6 490**	**3 099**

As at 31 December 2012 the Bank has LVL'000 66 pledged for communal and communication services.

25. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Managed trust assets	**2 622**	**2 622**	**3 232**	**3 232**
Loans	2 622	2 622	3 232	3 232
Managed trust liabilities	**2 622**	**2 622**	**3 232**	**3 232**
Private companies	2 622	2 622	3 232	3 232

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.

26. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits	**220**	**220**	**1 723**	**1 723**
Banks registered in Latvia	1	1	1 079	1 079
Banks registered in other countries	219	219	644	644
Term deposits	**1 229**	**1 229**	**1 804**	**1 804**
Banks registered in Latvia	1 229	1 229	1 804	1 804
Total	**1 449**	**1 449**	**3 527**	**3 527**

During 2012 the Bank's average nominal interest rate for LVL 0.28%, USD 0.00%, EUR 3.07%; in 2011: LVL 0.28%, USD 0.01%, EUR 2.60%.

27. CUSTOMER DEPOSITS

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Current accounts	**340 338**	**343 151**	**313 716**	**315 540**
Private companies	272 860	275 673	250 629	252 453
Individuals	66 898	66 898	62 482	62 482
Public organizations	359	359	358	358
Government companies	172	172	196	196
Local government	49	49	51	51
Fixed-term deposits	**120 529**	**121 373**	**205 265**	**206 192**
Private companies	39 769	40 613	96 366	97 293
Individuals	80 615	80 615	100 567	100 567
Government companies	-	-	8 199	8 199
Public organizations	145	145	133	133
Local government	-	-	-	-
Total	**460 867**	**464 524**	**518 981**	**521 732**
Geographical segmentation of customer deposits				
Current accounts	**340 338**	**343 151**	**313 716**	**315 540**
Residents of Latvia	44 706	46 841	51 780	53 603
Residents of OECD countries	47 577	47 577	45 089	45 089
Residents of the other countries	248 055	248 733	216 847	216 848
Fixed-term deposits	**120 529**	**121 373**	**205 265**	**206 192**
Residents of Latvia	76 756	77 600	108 460	109 386
Residents of OECD countries	3 786	3 786	8 231	8 231
Residents of the other countries	39 987	39 987	88 574	88 575
Total	**460 867**	**464 524**	**518 981**	**521 732**

During 2012 the Bank's average nominal interest rates for term deposits are: LVL 1.53% USD 0.42% EUR 1.46%; in 2011: LVL 2.07%, USD 0.77%, EUR is 2.38%.

28. SUBORDINATED DEBT

As at 31 December 2012 and 2011 subordinated debt holders accounting individually more than 10% of total Bank's subordinated debt balance were as follows:

	Maturity	Interest rate (%)	Currency	31.12.2012 LVL'000	31.12.2011 LVL'000
“Raiffeisen Zentralbank Oesterreich AG” (Austria)	2013	9.00	EUR	5 170	5 170
“NEW OST INVESTMENTS LIMITED” (United Kingdom)	2017	7.00	EUR	4 920	4 920
Other persons	2013-2018	3.85-9.00	EUR USD GBP	9 301	7 729
Total				**19 391**	**17 819**

29. OTHER LIABILITIES

	31.12.2012		31.12.2011	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Liabilities for subsidiary purchase	4 400	4 400	-	-
Accrued expenses	1 289	911	901	795
Spot deals	938	938	719	719
Accruals for vacations	707	467	531	464
Payments collected on behalf of public utilities services providers	349	349	197	197
Suspense amounts	25	25	109	109
Cards transactions	2	2	83	83
Deferred income	85	10	79	14
Other	5 641	923	3 807	747
Total	**13 436**	**8 025**	**6 426**	**3 128**

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.

30. SHARE CAPITAL

	31.12.2012		31.12.2011	
	Quantity`000	LVL `000	Quantity`000	LVL `000
Registered and paid – in share capital	**65 569**	**65 569**	**57 390**	**57 390**

Voting rights correspond to number of registered shares.
During 2012 the share capital of the Bank was increased by LVL ‘000 8 179.
After the balance sheet date the share capital of the Bank was further increased by LVL’000 1 402 (Note 38).
As at 31 December 2012 and 2011 the Bank’s shareholders were as follows:

	31.12.2012			31.12.2011		
	Number of shares	% of total shares	Paid up share capital LVL’000	Number of shares	% of total shares	Paid up share capital LVL’000
J. Šapurovs	16 048 552	24.48	16 049	11 347 218	19.77	11 347
“Straumborg Ehf.”(Iceland)	11 372 087	17.34	11 372	28 778 560	50.15	28 779
A. Svirčenkovs	11 347 190	17.31	11 347	11 347 190	19.77	11 347
Other (individually less than 10%)	26 800 760	40.87	26 801	5 917 313	10.31	5 917
Total	**65 568 589**	**100.00**	**65 569**	**57 390 281**	**100.00**	**57 390**

During 2012 part of the shares of the Bank owned by „Straumborg Ehf.” (Iceland) were sold to new investors. As a result „Straumborg Ehf.” ownership has decreased from 50.15% to 17.34% as of 31 December 2012. None of the new investors obtained substantial influence (i.e. 10% or more of share capital).

At the end of 2012 the Bank and the Group has received support from its shareholders, whereby impairment losses related to several investments in entities controlled by the Group were taken over by a new investor of the Group. The settlement for the transaction was made primarily by the investment property contributed to the Group (Note 21). The net assets value acquired in the transaction amounts to LVL'000 9 952.

31. 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 2012 and 2011 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2012	Group 31.12.2011
Net loss (LVL'000)	(41 052)	(21 084)
Weighted average number of ordinary shares ('000)	58 753	57 101
Earnings per share (LVL)	**(0.70)**	**(0.37)**

32. CASH AND CASH EQUIVALENTS

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash and balances due on demand from the Bank of Latvia	50 510	50 480	29 952	29 917
Balances due from other banks with original maturity of 3 months or less	68 149	67 791	94 744	88 385
Total	**118 659**	**118 271**	**124 696**	**118 302**

33. COMMITMENTS AND CONTINGENCIES

	31.12.2012		31.12.2011	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Contingent liabilities	**2 967**	**2 967**	**2 722**	**2 722**
Guarantees	2 914	2 914	2 668	2 668
Other	53	53	54	54
Commitments	**6 651**	**10 405**	**5 936**	**10 420**
Unused credit lines	5 776	9 530	5 883	10 367
Letters of credit	875	875	53	53
Total off-balance sheet items gross	**9 618**	**13 372**	**8 658**	**13 142**

In the ordinary course of business the Group provides 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.

34. 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.

Group	31.12.2012. Carrying value LVL'000	31.12.2012. Fair value LVL'000	31.12.2012. Difference LVL'000	31.12.2011. Carrying value LVL'000	31.12.2011. Fair value LVL'000	31.12.2011. Difference LVL'000
Financial assets						
Cash and balances with the central bank	50 510	50 510	-	29 952	29 952	-
Loans and receivables to banks	76 129	76 141	12	97 033	97 096	63
Trading financial assets	13 119	13 119	-	35 157	35 157	-
Derivative financial instruments	11 620	11 620	-	6 173	6 173	-
Loans to customer and receivables	178 917	179 899	982	249 934	247 857	(2 077)
Available-for-sale financial assets	52 806	52 806	-	55 423	55 423	-
Held-to-maturity financial assets	1 632	1 625	(7)	-	-	-
Financial liabilities						
Due to the central bank and other banks	1 449	1 449	-	3 527	3 477	50
Derivative financial instruments	1 494	1 494	-	964	964	-
Customer deposits	460 867	461 350	(483)	518 981	519 100	(119)
Subordinated debt	19 391	19 391	-	17 819	17 819	-
Total difference			**504**			**(2 083)**

Bank	31.12.2012. Carrying value LVL'000	31.12.2012. Fair value LVL'000	31.12.2012. Difference LVL'000	31.12.2011. Carrying value LVL'000	31.12.2011. Fair value LVL'000	31.12.2011. Difference LVL'000
Financial assets						
Cash and balances with the central bank	50 480	50 480	-	29 917	29 917	-
Loans and receivables to banks	73 059	73 071	12	90 674	90 737	63
Trading financial assets	12 725	12 725	-	35 157	35 157	-
Derivative financial instruments	11 620	11 620	-	6 173	6 173	-
Loans to customer and receivables	220 598	224 163	3 565	267 471	266 417	(1 054)
Available-for-sale financial assets	130 784	130 784	-	139 462	139 462	-
Held-to-maturity financial assets	1 632	1 625	(7)	-	-	-
Financial liabilities						
Due to the central bank and other banks	1 449	1 441	8	3 527	3 477	50
Derivative financial instruments	1 494	1 494	-	964	964	-
Customer deposits	464 524	464 995	(471)	521 732	521 851	(119)
Subordinated debt	19 391	19 391	-	17 819	17 819	-
Total difference			**3 107**			**(1 060)**

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.

35. 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 2012 - Group	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	**53 226**	**11 620**	**12 699**	**77 545**
Trading financial assets	13 119	-	-	**13 119**
Derivative financial instruments	-	11 620	-	**11 620**
Available-for-sale financial assets	40 107	-	12 699	**52 806**
Financial liabilities	**-**	**1 494**	**-**	**1 494**
Derivative financial instruments	-	1 494	-	**1 494**

As at 31 December 2011 - Group	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**	**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**
Derivative financial instruments	-	964	-	**964**

As at 31 December 2012 - 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	**52 832**	**11 620**	**90 677**	**155 129**
Trading financial assets	12 725	-	-	**12 725**
Derivative financial instruments	-	11 620	-	**11 620**
Available-for-sale financial assets	40 107	-	90 677	**130 784**
Financial liabilities	**-**	**1 494**	**-**	**1 494**
Derivative financial instruments	-	1 494	-	**1 494**

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**	**94 727**	**180 792**
Trading financial assets	35 157	-	-	**35 157**
Derivative financial instruments	-	6 173	-	**6 173**
Available-for-sale financial assets	44 191	544	94 727	**139 462**
Financial liabilities	**-**	**964**	**-**	**964**
Derivatives financial instruments	-	964	-	**964**

The following table shows changes of non-market observable inputs during 2012 and 2011:

LVL'000	Group Non-market observable inputs	Bank Non-market observable inputs
At 31 December 2010	**7 026**	**28 741**
Acquisition	4 218	80 970
Fair value adjustment	(556)	(14 984)
At 31 December 2011	**10 688**	**94 727**
Acquisition	4 430	26 890
Sell	-	(20 190)
Net gain or loss from sales	-	111
Fair value adjustment	(2 419)	(10 861)
At 31 December 2012	**12 699**	**90 677**

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".

36. CAPITAL ADEQUACY CALCULATION

The Group's and Bank's capital adequacy ratio as of 31 December 2012 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%	60 207	-	60 207	-
	20%	7 336	1 467	7 336	1 467
	50%	6 351	3 176	6 351	3 175
	100%	1 566	1 566	1 566	1 566
Public sector entities	0%	-	-	-	-
	20%	-	-	-	-
	50%	-	-	-	-
	100%	902	902	902	902
Financial institutions	0%	-	-	-	-
	20%	68 692	13 738	68 334	13 667
	50%	470	235	470	235
	100%	12 182	12 182	9 469	9 469
Private companies and individuals	0%	-	-	-	-
	20%	-	-	-	-
	100%	112 774	112 774	153 220	153 220
	150%	1 280	1 920	1 280	1 920
Pool of retail exposure claims (MRD)	0%	-	-	-	-
	75%	6 119	4 589	6 119	4 589
Past due exposures	0%	-	-	-	-
	100%	15 733	15 733	15 471	15 471
	150%	34 723	52 084	36 220	54 331
Collective investment undertakings (CIU)	0%	-	-	-	-
	100%	7 912	7 912	62 436	62 436
Other items	0%	10 396	-	10 366	-
	20%	-	-	-	-
	100%	132 839	132 839	48 609	48 609
	150%	-	-	-	-
Total assets and risk weighted assets		**479 482**	**361 117**	**488 356**	**371 057**

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 100% adjustment	20%	53	11	53	11
Items with 50% adjustment	50%	21	5	21	5
Items with 50% adjustment	75%	1 722	645	1 721	645
Items with 0% adjustment	100%	-	-	3 798	-
Items with 20% adjustment	100%	-	-	-	-
Items with 50% adjustment	100%	5 090	2 545	5 047	2 524
Items with 100% adjustment	100%	1 093	1 093	1 093	1 093
Items with 50% adjustment	150%	39	29	39	29
Secured items	0%	1 600	-	1 600	-
Total off-balance sheet items		**9 618**	**4 328**	**13 372**	**4 307**
Total assets and off-balance sheet items		**489 100**	**365 445**	**501 728**	**375 364**

	Group LVL'000	Bank LVL'000
Tier 1		
Paid in share capital	65 569	65 569
Reserve capital	7	7
Retained earnings	(5 478)	(4 699)
Minority interest	1 709	-
Revaluation reserve of available-for-sale financial assets	(2 730)	-
Revaluation reserve of foreign currency	-	-
Expected loss from loans	(38)	(38)
Loss of the year	(41 052)	(32 951)
Goodwill	(286)	-
Other intangible assets	(310)	(384)
Investment property revaluation (earnings)	-	(2 246)
Total tier 1	**17 391**	**25 258**
Tier 2		
Expected loss from loans	(38)	(38)
Subordinated capital	9 315	9 315
70% from tangible fixed assets revaluation earnings	1 053	1 053
45% from investment property revaluation earnings	1 152	1 152
Total tier 2	**11 482**	**11 482**
Total capital	**28 873**	**36 740**
Summary		
Credit risk capital	29 236	30 029
Market risks capital requirement	2 217	1 425
Operational risk	5 038	3 805
Capital requirement covered by capital (total capital)	**(7 618)**	**1 481**
Capital adequacy rate as of 31.12.2012	**6.33%**	**8.34%**
Capital adequacy rate as of 31.12.2011	**9.77%**	**10.78%**
Minimal capital adequacy ratio (%) 2012 and 2011	**8.00%**	**8.00%**

Since FCMC applies increased capital requirements to the banks involved in non-resident deposit servicing, the capital adequacy ratio for the Bank is set at the level of 12%. At present, the Bank undertakes specific measures to achieve the targeted ratio.

37. 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	31.12.2012 Total LVL'000	31.12.2011 Total LVL'000
Assets		**2 180**	**31**	**2 211**	**4 583**
Loans and receivables net		**2 180**	**31**	**2 211**	**4 583**
Related undertakings and individuals	2.21	1 475	12	**1 487**	**3 710**
Supervisory Council and Management Board	1.91	599	15	**614**	**698**
Other senior executives	3.24	106	4	**110**	**175**
Liabilities		**3 620**	**-**	**3 620**	**7 644**
Deposits		**1 336**	**-**	**1 336**	**5 079**
Related undertakings and Individuals	1.88	1 280	-	**1 280**	**3 989**

Supervisory Council and Management Board	1.44	48	-	**48**	**501**
Other senior executives	0.00	8	-	**8**	**589**
Subordinated debt		**2 284**	**-**	**2 284**	**2 565**
Related undertakings and Individuals	7.00	1 406	-	**1 406**	**2 038**
Supervisory Council and Management Board	7.00	527	-	**527**	**527**
Other senior executives	6.54	351	-	**351**	-

Bank	**Average interest rate** %	**Amount** LVL'000	**Off-balance sheet items** LVL'000	**31.12.2012 Total** LVL'000	**31.12.2011 Total** LVL'000
Assets		**73 107**	**3 953**	**77 060**	**41 060**
Loans and receivables net		**73 107**	**3 953**	**77 060**	**41 060**
Related undertakings and Individuals	2.21	1 475	12	**1 487**	**3 710**
Subsidiaries	3.25	71 579	3 922	**75 501**	**37 168**
Supervisory Council and Management Board	1.25	53	15	**68**	**118**
Other senior executives	12.00	-	4	**4**	**64**
Liabilities		**11 183**	**-**	**11 183**	**10 565**
Deposits		**8 899**	**-**	**8 899**	**8 000**
Related undertakings and Individuals	1.88	1 280	-	**1 280**	**3 988**
Subsidiaries	0.06	7 563	-	**7 563**	**2 921**
Supervisory Council and Management Board	1.44	48	-	**48**	**501**
Other senior executives	0.00	8	-	**8**	**590**
Subordinated debt		**2 284**	**-**	**2 284**	**2 565**
Related undertakings and Individuals	7.00	1 406	-	**1 406**	**2 038**
Supervisory Council and Management Board	7.00	527	-	**527**	**527**
Other senior executives	6.54	351	-	**351**	**-**

As at 31 December 2012 the amount of the Bank's exposure transactions with related parties is LVL`000 1 640 or 4.34% 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:

	2012		**2011**	
	Group LVL'000	**Bank** LVL'000	**Group** LVL'000	**Bank** LVL'000
Interest income	114	2 053	50	821
Interest expense	(201)	(215)	(295)	(320)
Net interest income	**(87)**	**1 838**	**(245)**	**501**

38. SUBSEQUENT EVENTS

As of the date of issuing these financial statements the Bank closed new share emission. As a result share capital of the Bank subsequent to the balance sheet date was increased by LVL'000 1 402 (Note 30).

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Deloitte.

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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 6 to 67, which comprise the Bank's and the Group's balance sheets as of 31 December 2012, 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 in 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. Except as described in the Basis for qualified opinion paragraphs, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

(a) As disclosed in the note 30 the Bank and the Group has received support from its shareholders in the amount of 9 952 thousand Lats, whereby impairment losses related to several investments in entities controlled by the Group were taken over by a new investor of the Group. The settlement for the transaction was made primary by investment property contributed to the Group. The transaction is recognised in the Bank's and the Group's balance sheet as of 31 December 2012 and the excess of value obtained in this transaction have been recognised directly in the Bank's and Group's equity. During the audit we were unable to obtain sufficient appropriate audit evidence that all the risks and rewards incident to ownership of the mentioned investment property were transferred to the Bank and the Group in 2012 as execution of the transaction continued and registration of the ownership rights in public registers was performed in 2013. Consequently, we were unable to determine whether recognition of the financial support in the balance sheet as of 31 December 2012 is appropriate.

(b) As disclosed in note 18 available for sale financial assets of the Bank include investments in a number of investment funds and subsidiaries. These financial assets are accounted at fair value and gain or loss due to fair value changes is recognised in comprehensive income, except for impairment losses. When there is objective evidence that such financial asset is impaired, the cumulative loss that has been recognised in other comprehensive income shall be reclassified from revaluation reserve to profit or loss. As of 31 December 2012 the Bank has recognised negative fair value revaluation reserve in respect of investments in funds and subsidiaries in the amount of 8 956 thousand Lats. We were unable to obtain sufficient appropriate audit evidence to determine whether adjustments due to reclassification of impairment loss from revaluation reserve to income statement were necessary as of 31 December 2012. The possible adjustments would have impact on the Bank's net loss for the reporting year; however, they would not affect the Bank's equity position as of 31 December 2012.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion (a) the financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

In our opinion, except for the possible effect of the matters described in the Basis for Qualified Opinion (a) and (b) the financial statements referred to above give a true and fair view of the financial position of the Bank as of 31 December 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Emphasis of matter

Without further qualifying our opinion we draw attention to Note 2 "Summary of significant accounting principles" section 3 "Business perspectives of the Group" in the financial statements which discloses the Group's and the Bank's assumptions about their ability to continue as going concern. The going concern is dependent on the Bank's and Group's ability to restrain further impairment losses and meet regulatory capital adequacy requirements.

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 2012 set out on pages 3 of the accompanying annual report for the year ended 31 December 2012 and have not identified any material inconsistencies between the historical financial information contained in the management report and the financial statements for 2012.

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

Riga, Latvia
28 March 2013