AS "Citadele banka"

Annual report

for the year ended
31 December 2011

together with independent
auditors' report

Translation from Latvian original*

* This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Citadele

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Citadele Bank's activity in 2011 is characterized by stable development

2011 was the year of stable development for Citadele Bank: Citadele moved into profitability earlier than anticipated in the bank's restructuring plan; the level of profitability being higher than planned. The client deposit portfolio, excluding State aid, increased by 8%, compared to 2010, and the number of new clients increased by 34 thousands during the course of the year.

Following its initial six months losses in 2010; Citadele transformed itself into a profitable bank with a healthy loans-to-deposits ratio. Having redeemed its Euro bonds and repaid State deposits, Citadele has become a classic, deposit-funded bank, resulting in significantly reduced bank's dependence on State aid and the international financial markets. Citadele also achieved a notable increase of its brand awareness in Latvia during 2011.

Citadele started generating profit earlier than planned

Citadele Bank became profitable in the first half of 2011, earlier than anticipated in the bank's restructuring plan. Profits continued growing during the second half of the year, increasing from 182 thousand to 3.5 million Lats. This notable performance was achieved thanks to a significant increase in net interest income and strict cost control. In 2011 Citadele continued exercising caution in terms of asset quality assessment; resulting in net impairment charges of 8.0 million Lats (8.8 million Lats for the group).

As a result of profits generated during the course of the year, reductions in credit portfolio and cautious liquidity management, capital adequacy indicators improved in comparison to 2010; from 12.2% to 13.3% for the bank, and from 10.0% to 11.0% for the group. The bank's liquidity indicator hovered above 60% during the whole year and reached 72% at the end of the year as a result of the significant increase of deposits.

Citadele Bank's total assets were 1.4 billion Lats (1.6 billion Lats for the group) as of 31 December 2011. The Bank's loan portfolio was 626 million Lats (the group's – 717 million Lats) and capital and reserves were 85 million Lats (the group's - 81 million Lats) at the end of the year. Total customer deposits for the bank reached 1.1 billion Lats (the group's – 1.3 billion Lats) at the end of 2011.

According to data published by the Association of Commercial Banks of Latvia for December 2011, Citadele Bank was the largest local bank in Latvia, the fourth largest bank in Latvia in terms of customer deposits (10.2% market share), the sixth largest bank in terms of the amount of assets (6.9% market share) and the fifth largest in terms of loans issued (5.2% market share).

Successful customer deposit policy

Thanks to its successful deposit policy, which was implemented during 2011, and confidence displayed by clients of AS "Latvijas Krājbanka" to whom the bank disbursed compensations from Deposit Guarantee Fund, Citadele Bank was able to increase its deposit portfolio by 80 million Lats during 2011. The bank's total deposit portfolio, excluding State aid, increased by 8%, i.e. from 0.99 billion Lats in the end of 2010 to 1.07 billion Lats by the end of 2011. AB "Citadele bankas" (Lithuania) was equally successful in this regard – total deposits increased by 18 million Lats during the course of 2011. This resulted in improvement of Citadele Bank's loan to deposit ratio from 61% to 57% (from 62% to 54% for the group in total) during 2011.

Citadele pursued active corporate lending

In 2011 Citadele Bank signed loan agreements totalling 134 million Lats with retail clients and corporates, which accounted for 8.4% of the total of all transactions concluded in the Latvian banking sector. The largest part (115 million Lats) were funds granted for development of enterprises.

The majority of loans were split; 23% to agricultural enterprises, 18% businesses in the service sector, with another 15% going to transport companies, and 11% granted to manufacturing enterprises.

As a result of corporate loans issued in 2011, Citadele Bank facilitated the use of EU structural funding in Latvia. A significant number of businesses to whom Citadele issued loans to were companies needing this funding to implement projects co-funded by the EU.

A special emphasis in corporate lending was put on small and medium companies. The bank offers a wide range of funding and lending products to this type of companies for both everyday business activity and development.

The number of bank new clients increased by 34 thousand

34 thousand new clients chose Citadele Bank in Latvia in 2011; 93% of them in SME and retail customer segments, 6% as private asset management customers, and 1% – corporate services. The bank attracted more than 4'400 new clients in Lithuania and 580 in Estonia; this became possible thanks to active work in attracting clients and developing financial services tailored for clients' needs.

According to the data acquired by SKDS, a market and public research centre, in November 2011, Citadele ranked fourth in the Latvian banking sector in terms of the most frequently used banking services in Latvia.

Citadele Bank significantly increased its brand awareness in 2011

2011 was an important year for Citadele Bank in terms of strengthening trust in the bank's new brand and developing the bank into a company understood, accepted and supported by clients and partners in Latvia, the Baltic States and other countries as well.

Citadele achieved a significant increase of its brand awareness in Latvia during 2011. Data coming from a survey conducted by the market and public opinion research centre, SKDS, show that Citadele's brand awareness indices have almost doubled from its launch in August 2010 to November 2011. Citadele ranked four out of 29 banks in Latvia in terms of general brand awareness in November 2011. Citadele's advertisements were among the most noticed ones in 2011 – the research suggests that Citadele is fourth in the Latvian banking sector in terms of most noticed advertisements. The research suggests that Citadele Bank's security and stability index increased every quarter as well.

Citadele Bank - one of the most developed banks in the Baltic States in terms of diversity of the services

In 2011, Citadele Bank continued developing its three core business segments: services for retail customers and small and medium enterprises via branch office network, services for large enterprises and private wealth management.

Citadele Bank is one of the most developed banks in the Baltic States in terms of diversity of services. Highly professional personnel with extensive experience in finance, a varied range of services and high quality are key strengths of Citadele.

Having conducted an analysis of residents' and entrepreneurs' current needs, Citadele introduced several new and unique products to the market in 2011, including the launch of 'Win-win", an innovative payment card product. This payment card enables users to manage their everyday payments with two payment cards, simultaneously receiving discounts, advantages and opportunities offered by American Express and MasterCard as well as collecting bonus points for every purchase. In order to facilitate activity of the Latvian internal market, Citadele Bank started offering a new type of mortgage loan, which was a novelty for the Baltic States – the New Mortgage Loan. Unlike standard mortgage loans, the new product provides for discharging liabilities by handing over mortgaged real estate to the bank. The bank expanded its range of products for small and medium enterprises launching new financial instruments in the shape of European Investment Bank funding and Microloan. Completing the introduction of Citadele brand, the bank also started issuing Citadele payment cards in the 2011. The unique feature of Citadele payment card is that for the first time in Latvia residents have opportunities to receive discounts for groceries. Advantages offered by this card's loyalty program were expanded by attracting local petrol station networks thus supporting local oil traders.

In the first half of 2011 Citadele Bank and American Express announced the continuation of their partnership. Thus Citadele Bank maintained its exclusive rights to issue American Express® Cards and acquire merchants on to the American Express network in Latvia.

In 2011 Citadele started offering cash withdrawals at cash desks when shopping at stores with Citadele payment card.

In order to improve the quality of services on the internet and to make the online banking more convenient for clients, Citadele Bank introduced a new design of its online banking in 2011.

Citadele Bank in Latvia and Citadele Bankas, its subsidiary company in Lithuania, received an award from Deutsche Bank, one of the biggest banks in the world, for excellent quality of international money transfers in Euros.

Services provided by the bank's subsidiaries

IPAS "Citadele Asset Management", a subsidiary of the bank, is one of the leading asset management companies in the Baltic States. It offers asset management services to domestic and international clients – retail and corporate clients as well as investment funds. At the end of 2011 Citadele Asset Management (Latvia) had a total of 259 million Lats of assets under management.

Subsidiaries of IPAS "Citadele Asset Management" offer asset management services also in Lithuania and Ukraine. The company has representative offices in Russia, Kazakhstan and Belarus. Citadele's investment funds are registered for public trade in Latvia, Lithuania, Estonia, Switzerland, Germany and Sweden.

World Finance, the international financial magazine, announced Citadele Asset Management as a nominee for the annual award of World Finance Investment Management Awards 2011 as the most professional investment management company in the Baltic States.

Citadele Asset Management is among the leaders in providing long-term profitability in 2nd and 3rd tier pension plans. The company has also achieved excellent results in managing Eastern European Bonds Fund and Citadele Russian Equity Fund.

AS "Citadele atklātais pensiju fonds" administers private pension funds. In 2011 the company maintained its market share of 20.1% among open private pension funds in terms of pension plan asset value.

AAS "Citadele Life", another subsidiary of the bank, offers various insurance products including life insurance plans with savings. Citadele Life saw rapid growth among insurance companies in Latvia according to new underwritten premiums, thus increasing its share of the Latvian market from 2% to 9.7% in 2011. The company grew regardless of the fact that the amount of underwritten premiums slightly decreased in the market (by 3.6%) in 2011. The total amount of premiums underwritten by Citadele Life, comparing to 2010, has increased from 840 thousand to almost 4 million Lats.

SIA "Citadele līzings un faktorings", UAB "Citadele faktoringas ir lizingas" and **OU "Citadele Leasing & Factoring"**, subsidiaries of the bank, provide leasing services to retail clients and enterprises in the Baltic States; the Latvian subsidiary also offers factoring services to its Latvian clients.

Credit card users appreciate Citadele's products

With its long-term cooperation with American Express and by paying special attention to regular clients of credit cards, Citadele was able to secure a significant position in Latvia's credit card market. According to the data of Latvian Association of Commercial Banks as at 31 December 2011, Citadele was the second most popular bank among users of credit cards in Latvia.

Citadele Bank's issued American Express® Cards to retail and corporate clients ensures prestige and international recognition as well as prompt payments, advantageous offers and funding for everyday transactions, such as business trips and other corporate expenses. The average turnover of American Express credit cards increased in 2011: by 11% for American Express Platinum credit cards, Gold credit cards – by 3 % and American Express BLUE – 7 %.

Citadele Bank has issued a total of 306 thousand payment cards as of 31 December 2011 36% of which are credit cards (American Express, MasterCard, VISA).

In 2011 Citadele continues to strengthen its position in private capital management sector

2011 was successful for Citadele Banks private capital management business. Well diversified client basis and strong demand for personalized financial services substituted to the notable growth in the major financial performance indicators. Number of private capital management clients increased by 13% as a result of new clients commencing business with Citadele, while increase in segment's deposits exceeded 11%.

2011 was also very successful in terms of increase in number of American Express Platinum cards customers. Clients have regarded highly the benefits of the new loyalty program Platinum Collection. During the year the number of cards has increased by 11%, while the growth in number of transactions has exceeded 50%. 2011 has been one of the most successful years for Concierge service – compared to 2010, the number of client orders has doubled. and these services have become demanded by private capital management clients.

All in all,in 2011 in Private capital management segment has achieved the high targets set for the business growth, value and profitability.

Citadele develops encashment services

Citadele Bank is one of the biggest encashment services providers in Latvia. Monthly turnover for encashment services is tens of millions of Lats. An increasing number of clients who started doing business with Citadele in 2011 thus speaking volumes of trust toward the bank. In the end of the year encashment services were provided to more than 2'000 locations. Citadele Bank provides encashment services to banks, retail shop chains, several large State institutions, Latvian pharmacies as well as other companies.

Citadele Bank has high risk management standards

In terms of risk management the aim of Citadele Bank is to ensure low risk indices whilst simultaneously maintaining a diversified asset portfolio, a stable liquidity position, limited risks in financial markets and a low level of operational risk. The bank continued exercising a cautious approach towards assuming risks in 2011. This type of a risk management policy is determined by the bank's shareholders and the course of business adjusted as a result of intensification of crisis in Euro zone.

The bank's development policy provides for stable and sustainable development of the bank and its group by building long-term collaboration with clients. The bank's development strategy is in line with the speed of economic growth in the Baltic States. Lending to the economy is carried out observing actual economic needs and determining adequate prices for credit risk. In 2011 special attention was paid to managing liquidity risks. Considering the prognosis of risks of the Baltic States' economic growth and their overall impact on the financial sector, the bank's free resources were placed in low risk assets with high liquidity. Liquidity ratio, amount of funds in the accounts of correspondent banks as well as the highly liquid security portfolio serves as proof of good work and the bank's readiness to face challenges that might appear in 2012 as a result of crisis in Euro zone or other factors.

Significant development of models for assessing internal capital adequacy were carried out in 2011. The bank will continue working on improvement of risk and corporate management system by perfecting credit risk and operational risk systems in 2012. Considering the strategic role of servicing non-resident clients, the bank continues to maintain high standards for compliance risk management.

The bank launches a new efficiency improvement program

In 2011 Citadele Bank continued working on improving its efficiency. In order to make comprehensive use of its resources, the bank's management approved a new efficiency program to improve the bank's profitability. The program anticipates continuing these efficiency improvement projects and introducing additional changes in the following areas: further arrangement of application for and receipt of credit cards; improvements in executing new products; efficient management of cash balances; further automation of core business and support processes, and other activities.

This program will be continued during 2012 and will include the majority of the bank's support functions. In order to improve work efficiency, various processes will be automated, speeded up and simplified thus saving clients' and employees' time.

Citadele selected to disburse State guaranteed compensation to clients of "Latvijas Krājbanka"

In November 2011 Finance and Capital Market Commission (FCMC) recognised the bid submitted by Citadele Bank for disbursement of funds from Latvian Deposit Guarantee Fund to clients of "Latvijas Krājbanka". The bid the best among the received tenders. Thanks to its employees' highly professional work, Citadele was able to promptly start and successfully provide disbursement of State guaranteed compensation only a couple of days after concluding an agreement with FCMC. In December Citadele also started disbursing Lithuanian Deposit Guarantee Fund payments to retail customers who were clients of Snoras Bank Latvian branch office.

Thanks to our employees' professionalism and prompt activity, by 31 December more than 86 thousand clients of "Latvijas Krājbanka" had received compensation guaranteed by the Latvian State. During this period Citadele Bank disbursed 296.8 million lats or 88% of the total compensation sum to retail clients and enterprises. The biggest part of this sum (approximately 85%) was disbursed via wire transfer to clients' accounts at Citadele Bank or other banks.

Citadele repaid the biggest part of term deposit to the Latvian State and retired Euro bonds

In 2011, Citadele focused on repaying, as promptly as possible, funds invested in the bank's activity by the Latvian State. As a result of the bank's positive financial performance, Citadele repaid a total of 139.8 million Euros (98.3 million Lats) to the Ministry of Finance of the Republic of Latvia during 2011. In 2011 the bank paid 16 million Euros (11.2 million Lats) in interest for State aid, including interest for State term-deposits and the subordinated loan.

In May 2011, Citadele Bank completely redeemed Eurobonds worth 97.7 million Euros (par value). These Eurobonds were issued in 2006 and their maturity date was May 2011. Citadele successfully settled these long-term liabilities, decreasing dependence of the bank's business on State aid and the situation in international financial markets.

Citadele continues working and developing as a bank owned by State Joint Stock Company "Privatization Agency" and the European Bank for Reconstruction and Development

At the end of 2011 Latvian government adopted a resolution to suspend the sale of Citadele's shares and return to this matter, when the situation in international financial market improves and more advantageous market conditions set in. Consequently the State Joint Stock Company "Privatization Agency" and the European Bank for Reconstruction and Development will remain the owners of Citadele Bank.

Citadele Bank's vision is to become the most valuable local financial group in the Baltic States

2011 was a year of challenge for Citadele's employees. Successful development speaks volumes for the high professionalism of the bank's employees and excellent teamwork. In 2012 Citadele Bank will actively continue issuing loans and integrating in the Baltic market in order to become the most valuable local financial group in the Baltic States, being the most valuable bank for its shareholders, the best partner for its clients and the best employer.

The bank's management team will continue advisedly developing Citadele as a stable bank having long-term collaboration with clients and maintaining a conservative, but profitable structure of assets as its focal points. Citadele Bank plans to continue putting the biggest emphasis on offering clients attractive savings products. In 2012 Citadele will continue issuing loans to clients in the Baltic States paying special attention to small and medium enterprises, and facilitating utilisation of resources available from the EU structural funds. The bank will also continue working on introducing new products and services tailored to the latest needs of retail and business clientele.

Juris Jākobsons Chairman of the Management Board	Klāvs Vasks Chairman of the Council

Riga,
23 March 2012

Council of the Bank

Name	Position
Klāvs Vasks	Chairman of the Council
Juris Vaskāns	Deputy chairman of the Council
Ģirts Freibergs	Member of the Council
Laurence Philip Adams	Member of the Council
Geoffrey Richard Dunn	Member of the Council

Management Board of the Bank

Name	Position
Juris Jākobsons	Chairman of the Management Board, p.p.
Guntis Beļavskis	Member of the Management Board, p.p.
Valters Ābele	Member of the Management Board
Kaspars Cikmačs	Member of the Management Board
Philip Nigel Allard	Member of the Management Board

There were no changes in the Management of the Bank during the reporting year and until the signing of these financial statements.

The Management of AS Citadele Banka (hereinafter – the Bank) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 10 to 76 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2011 and 2010 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 3 to 7 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Citadele Banka is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Juris Jākobsons	Klāvs Vasks
Chairman of the Management Board	Chairman of the Council

Riga,
23 March 2012

AS Citadele banka
Statements of Income for the year ended 31 December 2011 and the 6 month period ended 31 December 2010

		LVL 000's			
	Notes	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010* Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010* Bank
Interest income	4	59,916	25,695	52,194	22,379
Interest expense	4	(32,689)	(26,366)	(30,619)	(24,852)
Net interest income / (expense)		27,227	(671)	21,575	(2,473)
Commission and fee income	5	25,737	11,201	19,434	8,290
Commission and fee expense	5	(7,126)	(3,422)	(5,759)	(2,898)
Net commission and fee income		18,611	7,779	13,675	5,392
Gain on transactions with financial instruments, net	6	7,151	2,504	5,569	1,770
Other income	7	5,944	3,754	5,568	2,742
Other expense		(1,259)	(2,227)	(909)	(2,153)
Administrative expense	8,9	(40,120)	(18,016)	(30,453)	(13,398)
Amortisation and depreciation charge	20,21	(5,313)	(3,299)	(1,812)	(1,167)
Impairment charges and reversals, net	10	(8,759)	(9,973)	(7,965)	(10,712)
Gain / (loss) on disposal of assets held for sale, net		(105)	857	-	-
Profit / (loss) before taxation		3,377	(19,292)	5,248	(19,999)
Corporate income tax	11	(1,482)	481	(1,708)	572
Net profit / (loss) for the period		1,895	(18,811)	3,540	(19,427)
Attributable to:					
Equity holders of the Bank		1,895	(18,811)	3,540	(19,427)
Minority interest		-	-	-	-
		1,895	(18,811)	3,540	(19,427)

** The Bank was registered as a joint stock company on 30 June 2010 and commenced its operations on 1 August 2010.*

The notes on pages 15 to 76 are an integral part of these financial statements.

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010* Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010* Bank
Net profit / (loss) for the period	1,895	(18,811)	3,540	(19,427)
Other comprehensive income:				
Fair value revaluation reserve: held-to-maturity securities				
Amortisation	1,061	363	679	357
Deferred income tax charged directly to equity	(58)	(38)	-	(35)
Fair value revaluation reserve: available-for-sale securities				
Impairment of securities	53	357	53	357
Fair value revaluation reserve charged to statement of income	(210)	493	221	595
Change in fair value of available-for-sale securities	(4,307)	3,472	(3,741)	3,247
Deferred income tax charged directly to equity	119	(78)	-	(51)
Other reserves				
Foreign exchange revaluation reserve	504	678	-	-
Other comprehensive income / (loss) for the period	(2,838)	5,247	(2,788)	4,470
Total comprehensive income / (loss) for the period	(943)	(13,564)	752	(14,957)
Attributable to:				
Equity holders of the Bank	(943)	(13,564)	752	(14,957)
Minority interest	-	-	-	-
	(943)	(13,564)	752	(14,957)

** The Bank was registered as a joint stock company on 30 June 2010 and commenced its operations on 1 August 2010.*

The notes on pages 15 to 76 are an integral part of these financial statements.

		LVL 000's			
	Notes	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Assets					
Cash and deposits with central banks	12	243,239	187,220	229,659	177,348
Balances due from credit institutions	13	225,739	219,624	196,397	211,608
Securities held for trading:					
- fixed income	16	161	140	-	4
- shares and other non-fixed income	17	34	34	-	-
Derivative financial instruments	30	3,483	2,670	3,542	2,716
Financial assets designated at fair value through profit and loss	18	6,381	3,318	-	-
Available-for-sale securities:					
- fixed income	16	156,065	187,524	93,828	143,498
- shares and other non-fixed income	17	8,531	9,467	8,461	9,429
Loans and receivables to customers	14,15	717,142	794,329	625,773	691,098
Held-to-maturity securities	16	126,361	127,572	118,442	117,280
Current income tax assets	11	246	195	-	-
Non-current assets and disposal groups classified as held for sale	22	1,185	3,289	118	-
Fixed assets	21	33,532	38,072	2,449	3,910
Goodwill and intangible assets	20	1,216	2,060	770	1,256
Investments in subsidiaries	19	-	-	44,195	43,839
Investment property		1,099	904	-	-
Deferred income tax assets	11	28,896	30,100	28,777	29,980
Other assets	23	6,987	5,991	4,664	3,936
Total assets		1,560,297	1,612,509	1,357,075	1,435,902
Liabilities					
Derivative financial instruments	30	820	644	1,810	702
Financial liabilities designated at fair value through profit and loss		4,426	1,484	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	25	47,470	70,559	71,768	82,175
- deposits from customers	26	1,317,971	1,294,335	1,099,258	1,117,274
- issued debt securities	24	20,925	91,485	20,997	91,557
- other financial liabilities		23,301	7,333	17,782	-
Current income tax liabilities	11	155	188	12	-
Deferred income tax liabilities	11	1	491	-	-
Other liabilities	27	12,196	12,728	8,708	8,919
Subordinated liabilities	28	51,948	51,235	51,948	51,235
Total liabilities		1,479,213	1,530,482	1,272,283	1,351,862
Equity					
Paid-in share capital	29	103,000	103,000	103,000	103,000
Reserves		(5,000)	(2,162)	(2,321)	467
Accumulated losses		(16,916)	(18,811)	(15,887)	(19,427)
Total shareholders' equity attributable to the shareholders of the Bank		81,084	82,027	84,792	84,040
Minority interest		-	-	-	-
Total equity		81,084	82,027	84,792	84,040
Total liabilities and equity		1,560,297	1,612,509	1,357,075	1,435,902

The notes on pages 15 to 76 are an integral part of these financial statements.

Changes in the Group's equity are as follows:

	LVL 000's						
	Attributable to equity holders of the Bank						
	Issued share capital	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Foreign exchange reserve	Restructuring reserve*	Accumulated losses	Total equity
Balance as at 30 June 2010	**4,000**	**-**	**-**	**-**	**-**	**-**	**4,000**
Issue of new shares	99,000	-	-	-	-	-	99,000
Restructuring (Note 2)	-	(2,031)	(1,985)	168	(3,561)	-	(7,409)
Net loss for the period	-	-	-	-	-	(18,811)	(18,811)
Other comprehensive income for the period	-	325	4,244	678	-	-	5,247
Balance as at 31 December 2010	**103,000**	**(1,706)**	**2,259**	**846**	**(3,561)**	**(18,811)**	**82,027**
Net profit for the period	-	-	-	-	-	1,895	1,895
Other comprehensive income / (loss) for the period	-	1,003	(4,345)	504	-	-	(2,838)
Balance as at 31 December 2011	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(16,916)**	**81,084**

* When determining the assets and liabilities that were eligible for the transfer of undertaking that took place on 1 August 2010, the composition of assets and liabilities were determined on the parent bank's, i.e. AS Parex Banka stand-alone accounts basis. Any differences in the value of investments in subsidiaries that were transferred to AS Citadele Banka and their net equity as at the date of the transfer, are treated as restructuring reserves in the consolidated financial statements of AS Citadele Banka.

Changes in the Bank's equity are as follows:

	LVL 000's				
	Attributable to equity holders of the Bank				
	Issued share capital	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Accumulated losses	Total equity
Balance as at 30 June 2010	**4,000**	**-**	**-**	**-**	**4,000**
Issue of new shares	99,000	-	-	-	99,000
Restructuring (Note 2)	-	(2,031)	(1,972)	-	(4,003)
Net loss for the period	-	-	-	(19,427)	(19,427)
Other comprehensive income for the period	-	322	4,148	-	4,470
Balance as at 31 December 2010	**103,000**	**(1,709)**	**2,176**	**(19,427)**	**84,040**
Net profit for the period	-	-	-	3,540	3,540
Other comprehensive income / (loss) for the period	-	679	(3,467)	-	(2,788)
Balance as at 31 December 2011	**103,000**	**(1,030)**	**(1,291)**	**(15,887)**	**84,792**

The notes on pages 15 to76 are an integral part of these financial statements.

	Notes	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
		LVL 000's			
Cash flows from operating activities					
Profit / (loss) before tax		3,377	(19,292)	5,248	(19,999)
Amortisation of intangible assets, depreciation of fixed assets and investment property		5,313	3,299	1,812	1,167
Change in impairment allowances and other provisions		8,759	21,165	7,965	21,904
Interest income		(59,916)	(25,695)	(52,194)	(22,379)
Interest expense		32,689	26,366	30,619	24,852
Other non-cash items		(4,408)	(223)	(3,251)	2,577
Cash generated before changes in assets and liabilities		**(14,186)**	**5,620**	**(9,801)**	**8,122**
Change in derivative financial instruments		(637)	(1,638)	282	(1,576)
(Increase)/ decrease in other assets		(1,630)	600	(1,709)	(1,034)
Increase in other liabilities		15,224	3,917	17,359	2,979
(Increase)/ decrease in trading investments		(142)	(73)	4	1
(Increase)/ decrease in balances due from credit institutions		12,812	(12,573)	12,431	4,645
(Increase) / decrease in loans and receivables to customers		72,766	62,364	62,613	51,705
Increase / (decrease) in balances due to credit institutions and central banks		(3,685)	(25,601)	9,260	(28,310)
Increase/ (decrease) in deposits from customers		26,265	61,234	(15,897)	52,942
Cash generated from operating activities before corporate income tax		**106,787**	**93,850**	**74,542**	**89,474**
Interest income received during the period		59,865	24,923	52,169	21,695
Interest expense paid during the period		(36,956)	(26,168)	(34,363)	(24,382)
Corporate income tax		(246)	(8)	(4)	-
Net cash flow generated from operating activities		**129,450**	**92,597**	**92,344**	**86,787**
Cash flows from investing activities					
(Purchase) of intangible and fixed assets		(831)	(930)	(454)	(520)
Proceeds from disposal of intangible and fixed assets		203	76	162	41
(Purchase) of held-to-maturity securities, net		1,211	(229)	(1,162)	-
(Purchase) of available-for-sale securities		(246,520)	(74,290)	(165,617)	(57,122)
Cash inflows from available-for-sale securities		279,517	23,610	216,861	13,034
Increase in cash and cash equivalents as a result of restructuring		-	206,217	-	186,977
Increase in cash and cash equivalents as a result of subsidiary acquisition		-	6,313	-	-
Acquisitions and investments in subsidiaries		-	-	(4,208)	-
Net cash flow from investing activities		**33,580**	**160,767**	**45,582**	**142,410**
Cash flows from financing activities					
Redemption/ repurchase of debt securities		(68,684)	(22,347)	(68,684)	(22,347)
Issue of new shares		-	99,000	-	99,000
Net cash flow from financing activities		**(68,684)**	**76,653**	**(68,684)**	**76,653**
Net cash flow for the period		**94,346**	**330,017**	**69,242**	**305,850**
Cash and cash equivalents at the beginning of the period		**334,017**	**4,000**	**309,850**	**4,000**
Cash and cash equivalents at the end of the period	33	**428,363**	**334,017**	**379,092**	**309,850**

In 2010 the Group as a result of subsidiary acquisition received LVL 155 million of loans and receivables, LVL 27 million of other assets that are not cash or cash equivalents, LVL 123 million of customer deposits and LVL 34 million of other liabilities that are not cash or cash equivalents.

The notes on pages 15 to 76 are an integral part of these financial statements.

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as at 31 December 2010 or for the 6 month period ended 31 December 2010, if not stated otherwise.

AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 23 March 2012. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make the decision on the approval of the financial statements.

NOTE 1. GENERAL INFORMATION

AS Citadele Banka (hereinafter – the Bank) was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2011, the Bank was operating a total of 41 (44) branches and client service centres in Riga and throughout Latvia. The Bank has 5 (7) foreign branches and client service centres – in Tallinn (Estonia), Narva (Estonia), Roosikrantsi (Estonia), Munich (Germany) and Stockholm (Sweden). The Bank owns directly and indirectly 23 (19) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. The ultimate controlling party of the Bank is Republic of Latvia.

The Group's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Bank offers its clients also trust management and private banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2011, the Group had 1,604 (1,762) full time employees and the Bank had 1,211 (1,329) full time employees.

NOTE 2. RESTRUCTURING

On 30 June 2010 AS Citadele Banka was registered in the commercial registry of the Republic of Latvia and on the same date it received banking licence from the Financial and Capital Market Commission (FCMC). AS Citadele Banka was established as a result of implementation of AS Parex Banka's restructuring plan, which was approved by the Cabinet of Ministers in the spring of 2010 and pursuant to which AS Citadele Banka was to take over from AS Parex Banka certain assets and liabilities and other items, i.e. an undertaking.

The transfer of undertaking from AS Parex Banka to AS Citadele Banka took place on 1 August 2010. The transfer of undertaking was performed under Article 59.2 of the Latvian Law on Credit Institutions (further also – CIL). Legal definition of undertaking is given in the same Article 59.2 of CIL. Transfer of undertaking is a civil law transaction between two parties: the transferor, AS Parex Banka, and the transferee, AS Citadele Banka, whereby the transferee acquires title to the transferred undertaking. The transferred undertaking, i.e. the components thereof, is agreed by both banks and defined in the agreement on transfer of undertaking, which was entered into on 28 July 2010.

The steps, which according to law need to be taken in order to execute transfer of undertaking of a credit institution differ from those needed to be taken when doing general reorganisation. The reason for that is that the transfer of credit institution's undertaking is not a type of general reorganisation of a credit institution and different provisions of legal enactments have to be applied and complied with when doing one or the other. One of the most distinct differences and features is the fact that a credit institution is entitled not to seek consent of any creditor or other party in order to transfer its undertaking. The only permission/approval, which needs to be received, is from Financial and Capital Markets Commission as stipulated by Article 59.2 of CIL.

Restructuring implications

The Bank's establishment and future operations are part of the restructuring plan of AS Parex Banka that was approved by European Commission (further EC). On 15 September 2010, EC adopted the decision *On the State Aid C 26/2009 (ex N 289/2009)* that the restructuring aid which Latvia implements for AS Parex Banka and AS Citadele Banka is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union. To comply with the aforementioned requirements, the Bank has undertaken certain commitments in relation to the future business operations. The commitments have been taken into account, when preparing the long-term business plan of the Bank. During 2011, the Bank has complied with the commitments.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2011. Listed below are those new or amended standards or interpretations which are relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

Improvements to International Financial Reporting Standards *(issued in May 2010; most of the amendments are effective for annual periods beginning on or after 1 January 2011).*

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

These amendments did not have a material effect on these financial statements.

The following new and amended IFRSs and interpretations became effective in 2011, but are not relevant for the Group's operations and did not have an impact on these financial statements:

- Amendment to IAS 32 - Classification of Rights Issues.
- Amendment to IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters.
- Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement.
- IFRIC 19, Extinguishing financial liabilities with equity instruments.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2011 or later periods and which are not relevant to the Group or are not yet endorsed by the EU:

- Disclosures - Transfers of Financial Assets - Amendments to IFRS 7(effective for annual periods beginning on or after 1 July 2011).
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).
- Deferred Tax: Recovery of Underlying Assets - Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).
- Employee benefits - Amendment to IAS 19 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).
- Financial statement presentation regarding other comprehensive income - Amendment to IAS 1 (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU).
- IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).
- IFRS 10, Consolidated financial statements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IFRS 11, Joint arrangements (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IFRS 12, Disclosures of interests in other entities (effective for annual periods beginning on or after 1

January 2013; not yet endorsed by the EU).
- IFRS 13, Fair value measurement (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IAS 27, Separate financial statements (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IAS 28, Associates and joint ventures (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- IFRIC 20, Stripping costs in the production phase of a surface mine, (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2014; not yet endorsed by the EU).
- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

The Group is in the process of evaluating the potential effect if any of these new standards and interpretations.

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union on a going concern basis. The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Latvia, Latvian lats ("LVL"). The accompanying financial statements are presented in thousands of Lats (LVL 000's).

c) Accounting for restructuring/ transfer of undertaking

When determining the assets and liabilities that were eligible for the transfer of undertaking that took place at the beginning of 1 August 2010, the composition of assets and the liabilities were determined on the parent bank's, i.e. AS Parex Banka stand-alone accounts basis. Any differences in the carrying value of investments in subsidiaries that were transferred to AS Citadele Banka and their net equity as at the date of transfer, are treated as restructuring reserves in the consolidated financial statements of AS Citadele Banka. Group's financial statements incorporate the transferred subsidiaries' results only from the date on which the restructuring between entities under common control occurred, i.e. 1 August 2010.

The carrying amount of net assets that were transferred to the Bank equalled zero. The transfer transaction was accounted using predecessor accounting i.e. the transferred assets and liabilities were initially recognised at their carrying amount as in the predecessor bank.

d) Basis of Consolidation

As at 31 December 2010, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the Group's subsidiaries is presented in Note 19.

The financial statements of AS Citadele Banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

e) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line “commission and fee income” or “commission and fee expense”, as appropriate.

Penalty income is recognised on cash-received basis.

f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group’s entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- 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 other comprehensive income.

g) Taxation

For the year ended 31 December 2011 corporate income tax is applied at the rate of 15% on taxable income generated by the Bank for the taxation period.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

h) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

All “regular way” purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category “financial assets/ liabilities at fair value through profit or loss”. Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain securities, which are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract term, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit and loss, potential accounting mismatch is avoided.

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the income statement’s line “Gain on transactions with financial instruments, net”.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held-to-maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated 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.

When available-for-sale assets are reclassified to held-to-maturity category, the fair value of the reclassified available-for-sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset’s maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

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 in any of the three preceding categories. The Group’s available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in other comprehensive income statement. The difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available-for-sale equity instruments are recognised in the income statement. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated income statement.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. All derivatives are classified as held-for-trading.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption “Derivative financial instruments”.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

Own credit risk in valuations of derivative liabilities

The Group’s own credit changes are reflected in valuations of such derivative liabilities, where the Group’s own credit risk would be considered by market participants and excludes derivatives for which it is established market practice not to include an entity-specific adjustment for own credit, also referred to as counterparty close out approach. This amount represents the estimated difference in the market value of identical obligations issued by a riskless intermediary, relative to the market value of those obligations issued by the Group, as judged from the perspective of the holders of those obligations. Own credit changes were calculated based on credit default swap spreads. At 31 December 2011 and 31 December 2010, there are no material adjustments arising from Group’s own credit assessment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of “loans and receivables” are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value plus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

i) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group’s balance sheet and are subject to the Group’s usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Where the Group is the transferee, the assets are not included in the Group’s balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

j) Derecognition of Financial Assets and Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

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

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

k) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative expenses.

l) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those of loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; or
  - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

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

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

m) Impairment of available-for-sale and held-to-maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

n) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting, which, in essence, involves recognizing identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable net assets acquired, the discount on acquisition is recognized in the income statement in the year of acquisition.

Following the initial recognition, in Group accounts the goodwill arising from the business combinations is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may be impaired.

o) Intangible Assets

Intangible assets comprise software. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Subsequent the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 7% to 50%. All intangible assets, except for goodwill, are with definite lives.

p) Fixed Assets

Fixed assets are recorded at historical cost less accumulated depreciation less any impairment losses. Fixed assets are periodically reviewed for impairment. If the recoverable value of a fixed asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	10% - 1%
Transport vehicles	20%
Other fixed assets	20% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

The Bank and the Group as of 1 January 2011 re-estimated the useful lives of certain depreciable assets. The estimated net decrease in the Bank's and Group's 2011 monthly depreciation expense is LVL 10 thousand and LVL 117 thousand, respectively. In the future periods the estimated effect diminishes due to fully depreciated assets.

q) Assets held for sale

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such assets are classified as held for sale, because they are acquired primarily for the purpose of selling them in the near term. Assets classified as held for sale are stated at the lower of their carrying amount of the outstanding debt and fair value less costs to sell of the tangible asset. At least at each reporting date, the Group assesses, whether the value of the repossessed assets is impaired. The impairment loss reduces carrying amount of the asset and is included in the income statement's line "Impairment charges and reversals, net".

r) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs. For subsequent measurements the group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group's fixed assets are applicable. Investment properties are periodically reviewed for impairment. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

t) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:
- commitment to extend loans and advances, credit card and overdraft facilities are recognized on drawdown; and
- financial guarantees and letters of credit are recognized when the related fee received as consideration is recognized.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *s)*.

u) Trust Activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes.

v) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

w) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

x) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

y) Staff costs and related contributions

The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia circa 73% of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

z) Events after the balance sheet date

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

aa) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities and estimating future periods' taxable profit in order to assess amount of deferred tax assets that can be utilised and, as such, recognised.

Impairment of loans
The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependant upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank's LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. LVL 0.9 million (2010: LVL 1.96 million).

Impairment of securities
The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2011, increase or decrease in credit spread delta by 200 basis points would result in no additional impairment for the Bank (2010: nil).

Deferred tax asset
The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset.

NOTE 4. INTEREST INCOME AND EXPENSE

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	53,896	23,469	48,312	20,847
- interest on loans and receivables to customers	*45,813*	*20,095*	*40,082*	*17,441*
- interest on balances due from credit institutions and central banks	*1,222*	*512*	*1,711*	*701*
- interest on held-to-maturity securities	*6,861*	*2,862*	*6,519*	*2,705*
- interest on available-for-sale securities	5,931	2,189	3,881	1,527
- interest on held for trading securities	15	10	1	5
- interest income on financial assets designated at fair value through profit or loss	74	27	-	-
Total interest income	**59,916**	**25,695**	**52,194**	**22,379**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(32,689)	(26,366)	(30,619)	(24,852)
- interest on deposits from customers	*(25,079)*	*(20,075)*	*(22,774)*	*(18,454)*
- interest on subordinated liabilities	*(4,449)*	*(3,761)*	*(4,449)*	*(3,761)*
- interest on issued debt securities	*(2,363)*	*(2,507)*	*(2,366)*	*(2,509)*
- interest on balances due to credit institutions and central banks	*(308)*	*(14)*	*(559)*	*(128)*
- other interest expense	*(490)*	*(9)*	*(471)*	-
Total interest expense	**(32,689)**	**(26,366)**	**(30,619)**	**(24,852)**
Net interest income / (expense)	**27,227**	**(671)**	**21,575**	**(2,473)**

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Interest income recognised on impaired assets	1,559	5,403	2,488	5,698

NOTE 5. COMMISSION AND FEE INCOME AND EXPENSE

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Commission and fee income:				
- transactions with settlement cards	11,377	5,357	10,363	4,862
- payment transfer fee	4,506	1,955	3,383	1,477
- custody, trust and asset management fees	4,420	1,920	606	260
- service fee for account maintenance	1,233	451	1,027	393
- cash disbursement/ transaction commission	1,091	436	744	283
- cash collection	796	348	796	348
- securities, financial instrument brokerage fees	773	277	436	204
- letters of credit and guarantees	478	127	340	66
- review of loan applications and collateral evaluation	437	69	417	64
- other fees	626	261	1,322	333
Total commission and fee income	**25,737**	**11,201**	**19,434**	**8,290**

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Commission and fee expense:				
- fees related to settlement card operations	(5,565)	(2,767)	(4,529)	(2,312)
- fees related to correspondent accounts	(994)	(431)	(869)	(384)
- brokerage and custodian fees:	(484)	(182)	(325)	(197)
- securities, financial instrument brokerage fees	*(266)*	*(140)*	*(192)*	*(163)*
- custody, trust and asset management fees	*(218)*	*(42)*	*(133)*	*(34)*
- other fees	(83)	(42)	(36)	(5)
Total commission and fee expense	**(7,126)**	**(3,422)**	**(5,759)**	**(2,898)**
Net commission and fee income	**18,611**	**7,779**	**13,675**	**5,392**

Commission and fee income and expense from financial instruments not at fair value through profit and loss, other than amounts included in determining the effective interest rate, can be specified as follows:

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Commission and fee income	25,737	11,201	19,434	8,290
Commission and fee expense	(7,126)	(3,422)	(5,759)	(2,898)

NOTE 6. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Gain from trading and revaluation of securities held for trading purposes, net	12	17	12	7
Gain / (loss) from disposal of available for sale securities, net	210	(493)	(221)	(595)
Gain on financial assets measured at amortised cost, net	355	275	-	-
Gain from foreign exchange trading and revaluation of open positions, net	7,732	3,888	6,231	3,346
Loss from trading and revaluation of other derivatives, net	(1,101)	(1,215)	(453)	(988)
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(57)	32	-	-
Gain on trading with financial instruments, net	**7,151**	**2,504**	**5,569**	**1,770**

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Net gain / (loss) on financial instruments not at fair value through profit or loss	565	(218)	(221)	(595)
Net gain on financial instruments at fair value through profit or loss	6,586	2,722	5,790	2,365
Total gain on financial instruments, net	**7,151**	**2,504**	**5,569**	**1,770**

NOTE 7. OTHER INCOME

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Penalties received	3,743	2,288	3,262	1,925
Dividends received	3	1	1,503	1
Other income	2,198	1,465	803	816
Total other operating income	**5,944**	**3,754**	**5,568**	**2,742**

NOTE 8. ADMINISTRATIVE EXPENSE

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Personnel expense	25,113	11,556	18,120	8,218
Rent, utilities, maintenance	3,705	1,522	4,511	2,106
IT equipment and software related expense	2,397	1,114	1,513	663
Non-refundable value added tax	2,312	701	1,873	495
Consulting and professional fees	1,278	572	584	224
Advertising, marketing and sponsorship	1,276	468	1,035	366
Communications (telephone, telex, etc.)	586	284	357	182
Office administration expense	503	322	380	269
Other administrative expense	2,950	1,477	2,080	875
Total administrative expense	**40,120**	**18,016**	**30,453**	**13,398**

NOTE 9. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expense. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Remuneration (incl. bonuses):				
- management	1,520	740	577	229
- other personnel	18,723	8,570	14,033	6,387
Total remuneration for work	**20,243**	**9,310**	**14,610**	**6,616**
Social security contributions:				
- management	321	154	139	55
- other personnel	4,549	2,092	3,371	1,547
Total social security contributions	**4,870**	**2,246**	**3,510**	**1,602**
Total personnel expense	**25,113**	**11,556**	**18,120**	**8,218**
Number of full time employees at the end of the period	1,604	1,762	1,211	1,329

NOTE 10. IMPAIRMENT OF ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

Total net impairment allowance charged to income statement:

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Loans – specifically assessed impairment	(7,986)	(10,446)	(4,049)	(9,259)
Loans – collectively assessed impairment	1,276	1,542	1,016	1,426
Available-for-sale securities	(53)	(357)	(53)	(357)
Due from credit institutions	-	-	-	-
Other financial and non-financial assets	(2,053)	(712)	(4,935)	(2,522)
Recovered write-offs	57	-	56	-
Total provision and reversals charged to the statement of income, net	**(8,759)**	**(9,973)**	**(7,965)**	**(10,712)**

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Total allowance for impairment at the beginning of the period, including:	**60,633**	**-**	**60,523**	**-**
- loans - specifically assessed impairment	46,905	-	53,203	-
- loans - collectively assessed impairment	13,728	-	7,320	-
Total allowance for impairment as a result of the restructuring, including:	**-**	**52,787**	**-**	**53,397**
- loans - specifically assessed impairment	-	37,514	-	44,651
- loans - collectively assessed impairment	-	15,273	-	8,746
Charge:	**18,921**	**14,188**	**16,642**	**12,415**
- loans - specifically assessed impairment	15,355	13,201	13,859	11,632
- loans - collectively assessed impairment	3,566	987	2,783	783
Release:	**(12,211)**	**(5,284)**	**(13,609)**	**(4,582)**
- loans - specifically assessed impairment	(7,369)	(2,755)	(9,810)	(2,373)
- loans - collectively assessed impairment	(4,842)	(2,529)	(3,799)	(2,209)
Provision charged to the statement of income, net, including:	**6,710**	**8,904**	**3,033**	**7,833**
- loans - specifically assessed impairment	7,986	10,446	4,049	9,259
- loans - collectively assessed impairment	(1,276)	(1,542)	(1,016)	(1,426)
Change of allowance due to write-offs, net	**(6,056)**	**(1,055)**	**(5,911)**	**(756)**
Effect of changes in currency exchange rates:	**(318)**	**(3)**	**(368)**	**49**
- loans - specifically assessed impairment	(342)	-	(369)	49
- loans - collectively assessed impairment	24	(3)	1	-
Total allowance for impairment at the end of the period, including:	**60,969**	**60,633**	**57,277**	**60,523**
- loans - specifically assessed impairment	48,493	46,905	50,972	53,203
- loans - collectively assessed impairment	12,476	13,728	6,305	7,320

An analysis of the change in impairment of other assets is presented as follows:

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Total allowance for impairment at the beginning of the period, including:	**24,186**	**-**	**20,371**	**-**
- available-for-sale securities	3,370	-	3,370	-
- due from credit institutions	535	-	535	-
- other non-financial assets	20,281	-	16,466	-
Total allowance for impairment as a result of the restructuring, including:	**-**	**24,247**	**-**	**17,497**
- available-for-sale securities	-	3,013	-	3,013
- due from credit institutions	-	540	-	540
- other non-financial assets	-	20,694	-	13,944
Charge:	**2,164**	**1,425**	**4,988**	**2,883**
- available-for-sale securities	53	357	53	357
- other non-financial assets	2,111	1,068	4,935	2,526
Release:	**(58)**	**(356)**	**-**	**(4)**
- other non-financial assets	(58)	(356)	-	(4)
Provision charged to the statement of income, net, including:	**2,106**	**1,069**	**4,988**	**2,879**
- available-for-sale securities	53	357	53	357
- other financial and non-financial assets	2,053	712	4,935	2,522
Change of allowance due to write-offs, net:	**(935)**	**(1,115)**	**-**	**-**
- other non-financial assets	(935)	(1,115)	-	-
Effect of changes in currency exchange rates:	**34**	**(15)**	**16**	**(5)**
- available-for-sale securities	9	-	9	-
- due from credit institutions	9	(5)	9	(5)
- other non-financial assets	16	(10)	(2)	-
Total allowance for impairment at the end of the period, including:	**25,391**	**24,186**	**25,375**	**20,371**
- available-for-sale securities	3,432	3,370	3,432	3,370
- due from credit institutions	544	535	544	535
- other non-financial assets	21,415	20,281	21,399	16,466

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Current corporate income tax	213	115	16	-
Deferred income tax	775	(858)	1,203	(840)
Tax withheld abroad	489	268	489	268
Prior year adjustments	5	(6)	-	-
Total corporate income tax expense	**1,482**	**(481)**	**1,708**	**(572)**

The reconciliation of the Bank's and the Group's pre-tax loss for the period to the corporate income tax expense for the period may be specified as follows:

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
Profit / (loss) before corporate income tax	3,377	(19,292)	5,248	(19,999)
Corporate income tax (at standard rate)*	**507**	**(2,894)**	**787**	**(3,000)**
Permanent differences, net	2,420	(1,120)	517	328
Prior year adjustments	5	(6)	-	-
Unrecognised deferred tax assets	(1,450)	3,539	404	2,100
Total effective corporate income tax	**1,482**	**(481)**	**1,708**	**(572)**

* standard rate for the period ended 31 December 2011 was 15% (2010: 15%).

The movements in deferred corporate income tax liability can be specified as follows:

	LVL 000's			
	01/01/2011-31/12/2011 Group	30/06/2010-31/12/2010 Group	01/01/2011-31/12/2011 Bank	30/06/2010-31/12/2010 Bank
As at the beginning of the year	(29,609)	-	(29,980)	-
Restructuring	-	(28,867)	-	(29,226)
Charge to statement of income	775	(858)	1,203	(840)
Charge to statement of comprehensive income**	(61)	116	-	86
Total deferred income tax (asset) at the end of the year, net	**(28,895)**	**(29,609)**	**(28,777)**	**(29,980)**

Deferred corporate income tax assets and liabilities can be specified as follows:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	1,166	1,028	173	278
Deferred tax assets:				
Vacation pay accrual	(283)	(249)	(176)	(237)
Revaluation of securities and derivatives**	(3)	(35)	(3)	(35)
Non-taxable impairment allowance	(7,003)	(8,366)	(4,459)	(5,703)
Unutilised tax losses	(32,514)	(33,179)	(26,817)	(26,383)
Net deferred corporate income tax (asset)	**(38,637)**	**(40,801)**	**(31,282)**	**(32,080)**
Unrecognised deferred tax asset	9,742	11,192	2,505	2,100
Recognised deferred corporate income tax (asset), net	**(28,895)**	**(29,609)**	**(28,777)**	**(29,980)**

** all changes in deferred tax liability that are charged directly to statement of comprehensive income are related to revaluation of securities.

Group's and Banks unutilised tax losses by expiry date can be specified as follows:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Expiry year:				
2011	-	310	-	-
2012	115	2,352	-	-
2013	392	1,258	-	-
2014	788	759	-	-
2015	283	-	-	-
2016	-	62,310	-	61,494
2017	-	60,014	-	55,976
2018	-	56,697	-	55,428
Undated ***	214,647	27,772	178,780	2,989
Total unutilised tax losses	**216,225**	**211,472**	**178,780**	**175,887**

*** On 15 December 2011 amendments permitting tax loss carry forward for infinite period were passed by Latvian government. These are applicable for tax loss from accounting periods starting in 2008 or later years; amendments are effective from 1 January 2012.

The movements in tax accounts of the Bank during 2011 can be specified as follows:

	LVL 000's			
	Balance as at 01/01/2011	Calculated in 2011	Paid in 2011	Balance as at 31/12/2011
Corporate income tax	-	(505)	493	(12)
including corporate income tax withheld abroad	*-*	*(489)*	*489*	*-*
Social security contributions	(418)	(5,118)	5,516	(20)
Personal income tax	(1)	(3,482)	3,473	(10)
Value added tax	(24)	(376)	393	(7)
Real estate tax	-	(61)	61	-
Total tax (payable)/ receivable	**(443)**	**(9,542)**	**9,936**	**(49)**

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year. The Group's management believes that there are no material tax liabilities that can arise as a result of such inspections in the future.

NOTE 12. CASH AND DEPOSITS WITH CENTRAL BANKS

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Cash	45,606	40,647	42,489	38,268
Deposits with the Bank of Latvia	177,680	106,472	177,680	106,472
Demand deposits with other central banks	19,953	40,101	9,490	32,608
Total cash and deposits with central banks	**243,239**	**187,220**	**229,659**	**177,348**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia. During the reporting year, the Bank was in compliance with these requirements.

Demand deposits with other central banks include balances with central banks of Lithuania, Estonia, Germany and Switzerland. As at 31 December 2011 and 31 December 2010, none of the amounts due from central banks were past due.

NOTE 13. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Due from credit institutions registered in OECD countries	185,905	155,673	158,298	127,670
Due from credit institutions registered in Latvia	29,766	57,932	29,059	54,576
Due from credit institutions registered in other non-OECD countries	10,612	6,554	9,584	29,897
Total gross balances due from credit institutions	**226,283**	**220,159**	**196,941**	**212,143**
Incl. impaired balances	*544*	*535*	*544*	*535*
Impairment allowance	(544)	(535)	(544)	(535)
Total net balances due from credit institutions	**225,739**	**219,624**	**196,397**	**211,608**

As at 31 December 2011, the Bank had inter-bank term deposits with 1 (2010: 4) Latvian credit institutions and 2 non-OECD region credit institutions (2010: 2) and nil (2010: 4) OECD region credit institutions. Term deposit balances comprised nil (2010: 100%), nil (2010: 35%) and 44% (2010: 54%) of total balances due from credit institutions registered in Latvia, OECD and non-OECD countries, respectively. As at 31 December 2011 and 2010, none of the non-impaired amounts due from credit institutions were past due.

The Bank's balances with its subsidiary AB Citadele Bankas (Lithuania) accounted for 7% (2010: 82%) of the total balances due from credit institutions registered in other non-OECD countries.

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Correspondent accounts (nostro)	68,908	65,809	59,053	62,383
Overnight deposits	132,669	26,773	133,281	34,704
Total demand deposits	**201,577**	**92,582**	**192,334**	**97,087**
Term deposits with credit institutions:				
due within 1 month	15,249	106,496	4,063	89,345
due within 1-3 months	8,039	6,800	-	12,720
due within 3-6 months	-	246	-	-
due within 6-12 months	335	201	-	-
due within 1-5 years	267	13,034	-	12,456
Over 5 years and undated	816	800	544	535
Total term deposits	**24,706**	**127,577**	**4,607**	**115,056**
Total gross balances due from credit institutions	**226,283**	**220,159**	**196,941**	**212,143**
Impairment allowance	(544)	(535)	(544)	(535)
Total net balances due from credit institutions	**225,739**	**219,624**	**196,397**	**211,608**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively.

NOTE 14. LOANS AND RECEIVABLES TO CUSTOMERS

The following table represents the current classes of the Group's loans:

	Group, LVL 000's 31/12/2011			Group, LVL 000's 31/12/2010		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	626,904	1,674	628,578	649,225	6,162	655,387
Utilised credit lines	41,873	40,373	82,246	62,086	12,720	74,806
Finance leases	40,624	-	40,624	50,471	-	50,471
Debit balances on payment cards	62,123	61,292	123,415	75,187	64,816	140,003
Overdraft facilities	460	7,369	7,829	12,988	7,935	20,923
Loans under reverse repurchase agreements	-	-	-	596	-	596
Factoring	378	-	378	304	-	304
Due from investment and brokerage firms	5,749	-	5,749	4,105	-	4,105
Total loans and receivables to customers	**778,111**	**110,708**	**888,819**	**854,962**	**91,633**	**946,595**
Impairment allowance	(60,969)	-	(60,969)	(60,633)	-	(60,633)
Total net loans and receivables to customers	**717,142**	**110,708**	**827,850**	**794,329**	**91,633**	**885,962**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

The following table represents the current classes of the Bank's loans:

	Bank, LVL 000's			Bank, LVL 000's		
	31/12/2011			31/12/2010		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	551,243	1,054	552,297	560,114	5,965	566,079
Utilised credit lines	70,732	66,304	137,036	107,751	44,571	152,322
Finance leases	-	-	-	15	-	15
Debit balances on payment cards	55,076	53,097	108,173	66,583	54,573	121,156
Overdraft facilities	334	6,412	6,746	13,100	7,940	21,040
Due from investment and brokerage firms	5,665	-	5,665	4,058	-	4,058
Total loans and receivables to customers	**683,050**	**126,867**	**809,917**	**751,621**	**113,049**	**864,670**
Impairment allowance	(57,277)	-	(57,277)	(60,523)	-	(60,523)
Total net loans and receivables to customers	**625,773**	**126,867**	**752,640**	**691,098**	**113,049**	**804,147**

Loans and advances by customer profile may be specified as follows:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Private individuals	366,027	417,441	255,746	293,813
Privately held companies	373,847	386,000	394,822	415,493
State owned enterprises	17,515	22,745	16,254	18,814
Municipality owned enterprises	7,495	13,450	6,934	12,741
Public and religious institutions	10,180	11,739	6,671	7,767
Local municipalities	3,033	3,585	2,620	2,991
Government	14	2	3	2
Total gross loans and receivables to customers	**778,111**	**854,962**	**683,050**	**751,621**
Impairment allowance	(60,969)	(60,633)	(57,277)	(60,523)
Total net loans and receivables to customers	**717,142**	**794,329**	**625,773**	**691,098**

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Transport and communications	91,360	124,208	79,534	109,348
Real estate purchase and management	112,620	108,337	153,604	146,984
Trade	57,049	65,409	42,754	49,529
Hotels, restaurants	25,920	40,214	23,645	38,025
Manufacturing	34,374	24,622	29,223	20,982
Construction	13,384	13,837	9,230	9,620
Financial intermediation	10,428	11,401	44,196	58,285
Agriculture and forestry	27,415	10,805	18,175	2,148
Electricity, gas and water supply	8,600	3,650	7,972	3,008
Other industries	30,934	35,038	18,971	19,879
Total gross loans and receivables to corporate customers	**412,084**	**437,521**	**427,304**	**457,808**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Latvian residents	490,470	479,977	537,490	533,202
OECD region residents	49,679	53,861	44,966	49,987
Non-OECD region residents	237,962	321,124	100,594	168,432
Total gross loans and receivables to customers	**778,111**	**854,962**	**683,050**	**751,621**
Impairment allowance	(60,969)	(60,633)	(57,277)	(60,523)
Total net loans and receivables to customers	**717,142**	**794,329**	**625,773**	**691,098**

NOTE 15. LEASES

The following table represents finance leases analysed by type of assets:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Transport vehicles	31,660	41,236	-	15
Manufacturing equipment	2,080	4,426	-	-
Real estate	691	1,067	-	-
Other	6,193	3,742	-	-
Total present value of finance lease payments, excluding impairment	**40,624**	**50,471**	**-**	**15**
Impairment allowance	(7,008)	(6,432)	-	-
Net present value of finance lease payments	**33,616**	**44,039**	**-**	**15**

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Gross investment in finance leases receivable:				
within 1 year	11,351	10,869	-	12
later than 1 year and no later than in 5 years	31,852	41,617	-	3
later than in 5 years	713	1,970	-	-
Total gross investment in finance leases	**43,916**	**54,456**	**-**	**15**
Unearned finance income receivable:				
within 1 year	922	668	-	-
later than 1 year and no later than in 5 years	2,333	3,220	-	-
later than in 5 years	37	97	-	-
Total	**3,292**	**3,985**	**-**	**-**
Present value of minimum lease payments receivable:				
within 1 year	10,429	10,201	-	12
later than 1 year and no later than in 5 years	29,519	38,397	-	3
later than in 5 years	676	1,873	-	-
Total	**40,624**	**50,471**	**-**	**15**

NOTE 16. FIXED INCOME SECURITIES

The Group's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2011				31/12/2010			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	118,690	69,027	97	187,814	117,688	119,622	63	237,373
Municipality bonds	479	744	-	1,223	1,726	721	-	2,447
Credit institution bonds	1,798	48,665	64	50,527	854	33,937	73	34,864
Corporate bonds	582	17,017	-	17,599	1,345	19,055	4	20,404
Other financial institution bonds	4,812	20,612	-	25,424	5,959	14,189	-	20,148
Total net fixed income securities	**126,361**	**156,065**	**161**	**282,587**	**127,572**	**187,524**	**140**	**315,236**

The above table represents a maximum credit risk exposure to the Group.

The Bank's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2011				31/12/2010			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	118,442	38,815	-	157,257	117,280	98,539	-	215,819
Municipality bonds	-	-	-	-	-	721	-	721
Credit institution bonds	-	33,689	-	33,689	-	22,160	-	22,160
Corporate bonds	-	16,282	-	16,282	-	18,705	4	18,709
Other financial institution bonds	-	5,042	-	5,042	-	3,373	-	3,373
Total net fixed income securities	**118,442**	**93,828**	**-**	**212,270**	**117,280**	**143,498**	**4**	**260,782**

The above table represents a maximum credit risk exposure to the Bank.

As at 31 December 2011, there are no Group's and Bank's securities on which payments are past due or which were restructured during the reporting period (2010: LVL nil).

As at 31 December 2011, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to LVL 3,985 thousand (2010: LVL 4,175 thousand).

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Government bonds:				
Latvia	142,700	171,705	142,665	171,705
OECD	16,588	48,043	10,025	44,114
Non-OECD	28,526	17,625	4,567	-
Total government bonds	**187,814**	**237,373**	**157,257**	**215,819**
Municipality bonds:				
OECD	744	-	-	-
Non-OECD	479	2,447	-	721
Total municipality bonds	**1,223**	**2,447**	**-**	**721**
Credit institution bonds:				
Latvia	2,755	4,145	2,714	2,824
OECD	44,049	28,011	30,975	18,631
Non-OECD	3,723	2,708	-	705
Total credit institution bonds	**50,527**	**34,864**	**33,689**	**22,160**
Corporate bonds (OECD and non-OECD)	17,599	20,404	16,282	18,709
Other financial institution bonds (OECD and non-OECD)	25,424	20,148	5,042	3,373
Total net fixed income securities	**282,587**	**315,236**	**212,270**	**260,782**

All fixed income securities as at 31 December 2011 and 31 December 2010 are listed.

NOTE 17. SHARES AND OTHER NON-FIXED INCOME SECURITIES

The following table provides the split of the Group's and Bank's shares and other non-fixed income securities:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Latvian entities' equity shares:				
listed	-	24	-	-
Total Latvian entities' equity shares	-	24	-	-
Foreign entities' equity shares:				
listed	56	-	-	-
unlisted	149	68	135	54
Total foreign entities' equity shares	205	68	135	54
Mutual investment funds	8,360	9,409	8,326	9,375
Total shares and other non-fixed income securities	**8,565**	**9,501**	**8,461**	**9,429**

The Group possess limited information on the structure of investments in managed funds, which are managed on the behalf of investors by other financial institutions. As such, these investments are not analysed by their ultimate issuer. Investments in funds, where the Group does not possess sufficient information on portfolios' composition between fixed income securities and shares are classified as investments in shares and other non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due.

NOTE 18. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

The Group's financial assets designated at fair value through profit and loss are further split as follows:

	LVL 000's	
	31/12/2011 Group	31/12/2010 Group
Government bonds	1,367	1,351
Corporate bonds	126	132
Credit institution bonds	73	-
Mutual investment funds	4,815	1,835
Total financial assets designated at fair value through profit and loss	**6,381**	**3,318**

NOTE 19. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank's investments in subsidiaries may be specified as follows:

	LVL 000's	
	2011	2010
Balance at the beginning of the period	**43,839**	**-**
Restructuring	-	15,233
Establishment of new subsidiaries	8	
Equity investments in existing subsidiaries	4,200	-
Acquisitions of new subsidiary - Citadele Bankas AB	-	30,809
Impairment	(3,852)	(2,203)
Balance as at 31 December	**44,195**	**43,839**

On September 2011, the Bank established four subsidiary companies: SIA Hortus Commercial, SIA Hortus Land, SIA Hortus TC, and SIA Hortus Residental. The purpose of the established subsidiaries is to ensure more effective management of the repossessed assets.

In December 2011 the Bank paid up share capital increase of SIA Citadele līzings un faktorings amounting to LVL 4,200 thousand. During 2011, for this investment additional impairment of LVL 3,702 thousand was recognized.

In 2011, the management of the Bank concluded that there is an evidence of impairment of investment in the Bank's subsidiary SIA Citadele Express Kredīts. As a result an additional impairment amounting to LVL 150 thousand was recognized. In 2010 impairment amounting to LVL 400 thousand was recognized on this investment.

On 1 August 2010 AS Citadele Bank purchased AB Citadele Bankas (Lithuania) from AS Parex Bank. Both AS Citadele Bank and AS Parex Bank were under common control by Privatisation Agency. Impairment allowance in the amount of LVL 1,803 thousand was established in Bank's statements, attributable to the investment in this subsidiary. The transaction was accounted for using predecessor accounting method.

As at 31 December 2011 and 2010 the Bank held the following investments in subsidiaries:

			31/12/2011			As at 31/12/2010			Carrying value LVL 000's	
Company	Country of registration	Business profile	Share capital LVL 000's	The Bank's share (%)	% of total voting rights	Share capital LVL 000's	The Bank's share (%)	% of total voting rights	31/12/2011	31/12/2010
AB Citadele bankas	Lithuania	Banking	58,100	100.0	100.0	58,100	100.0	100.0	29,006	29,006
AP Anlage & Privatbank AG	Switzerland	Banking	5,630	100.0	100.0	5,630	100.0	100.0	9,702	9,702
AS Citadele Atklātais Pensiju Fonds	Latvia	Pension fund	450	100.0	100.0	450	100.0	100.0	454	454
IPAS Citadele Asset Management	Latvia	Finance	4,150	100.0	100.0	4,150	100.0	100.0	4,151	4,151
ZAO Parex Asset Management	Russia	Finance	458	100.0	100.0	458	100.0	100.0	-	-
OOO Citadele Asset Management Ukraina	Ukraine	Finance	621	100.0	100.0	621	100.0	100.0	-	-
UAB Citadele Investiciju Valdymas	Lithuania	Finance	727	100.0	100.0	727	100.0	100.0	-	-
OU Citadele Leasing & Factoring	Estonia	Finance	351	100.0	100.0	351	100.0	100.0	313	313
UAB Citadele faktoringas ir lizingas	Lithuania	Finance	305	100.0	100.0	305	100.0	100.0	-	-
SIA Rīgas Pirmā Garāža	Latvia	Misc.*	352	100.0	100.0	352	100.0	100.0	-	-
SIA Citadele Express Kredīts	Latvia	Leasing	31	100.0	100.0	31	100.0	100.0	63	213
SIA E&P Baltic Properties	Latvia	Finance	20	50.0	50.0	20	50.0	50.0	-	-
SIA Citadele Līzings un Faktorings	Latvia	Leasing	13,600	100.0	100.0	9,400	100.0	100.0	498	-
AAS Citadele Life	Latvia	Life insurance	3,000	100.0	100.0	3,000	100.0	100.0	-	-
Calenia Investments Limited	Cyprus	Misc.*	-	100.0	100.0	-	100.0	100.0	-	-
OOO Citadele Investments Ukraine	Ukraine	Finance	44	100.0	100.0	44	100.0	100.0	-	-
SIA RPG Interjers	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	-	-
SIA Hortus Commercial	Latvia	Misc.*	2	100.0	100.0	-	-	-	2	-
SIA Hortus Land	Latvia	Misc.*	2	100.0	100.0	-	-	-	2	-
SIA Hortus TC	Latvia	Misc.*	2	100.0	100.0	-	-	-	2	-
SIA Hortus Residental	Latvia	Misc.*	2	100.0	100.0	-	-	-	2	-
OAO Parex Ukrainian Equity Fund	Ukraine	Finance	-	100.0	100.0	-	100.0	100.0	-	-
SIA PR Speciālie Projekti	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	-	-
Total investments in subsidiaries									**44,195**	**43,839**

* Misc. – the companies are providing various support services

NOTE 20. INTANGIBLE ASSETS

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Software	464	604	315	405
Other intangible assets	286	615	2	23
Total intangible assets excluding advances	750	1,219	317	428
Advances for intangible assets	466	841	453	828
Total net book value of intangible assets	**1,216**	**2,060**	**770**	**1,256**

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2011 and 2010 can be specified as follows:

	LVL 000's			
	Goodwill from acquisition of subsidiaries	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost				
As at 30 June 2010	**-**	**-**	**-**	**-**
Restructuring	131	8,818	2,448	11,397
Additions	-	131	-	131
Disposals	-	(45)	(26)	(71)
Impairment	(131)	-	-	(131)
As at 31 December 2010	**-**	**8,904**	**2,422**	**11,326**
Additions	-	192	5	197
Disposals	-	(28)	-	(28)
As at 31 December 2011	**-**	**9,068**	**2,427**	**11,495**
Accumulated amortisation				
As at 30 June 2010	**-**	**-**	**-**	**-**
Restructuring	-	8,126	1,700	9,826
Charge for the year	-	219	132	351
Reversal due to disposals	-	(45)	(25)	(70)
As at 31 December 2010	**-**	**8,300**	**1,807**	**10,107**
Charge for the year	-	350	313	663
Reversal due to disposals	-	(25)	-	(25)
As at 31 December 2011	**-**	**8,625**	**2,120**	**10,745**
Net book value				
As at 30 June 2010	**-**	**-**	**-**	**-**
As at 31 December 2010	**-**	**604**	**615**	**1,219**
As at 31 December 2011	**-**	**443**	**307**	**750**

NOTE 21. FIXED ASSETS

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Leasehold improvements	606	1,296	606	1,296
Land and buildings	28,442	30,204	701	679
Transport vehicles	495	912	96	281
Other fixed assets	3,929	5,606	989	1,601
Total fixed assets excluding advances	33,472	38,018	2,392	3,857
Advances for fixed assets	60	54	57	53
Total net book value of fixed assets	**33,532**	**38,072**	**2,449**	**3,910**

The following changes in the Group's fixed assets excluding advances for fixed assets took place during the year ended 31 December 2011 and 2010:

	LVL 000's					
	Leasehold improve-ments	Land and buildings	Transport vehicles	Other fixed assets	Constru ction in progress	Total fixed assets excluding advances
Historical cost						
As at 30 June 2010	**-**	**-**	**-**	**-**	**-**	**-**
Restructuring	3,654	35,253	2,706	25,827	-	67,440
Additions	17	8	359	339	-	723
Disposals	(4)	-	(525)	(1,082)	-	(1,611)
As at 31 December 2010	**3,667**	**35,261**	**2,540**	**25,084**	**-**	**66,552**
Additions	30	54	167	379	4	634
Disposals	(190)	-	(1,034)	(1,443)	-	(2,667)
Transfers	(30)	30	-	-	-	-
As at 31 December 2011	**3,477**	**35,345**	**1,673**	**24,020**	**4**	**64,519**
Accumulated depreciation and impairment						
As at 30 June 2010	**-**	**-**	**-**	**-**	**-**	**-**
Restructuring	2,011	3,751	1,887	19,389	-	27,038
Charge for the year	364	1,306	179	1,091	-	2,940
Reversal due to disposals	(4)	-	(438)	(1,002)	-	(1,444)
As at 31 December 2010	**2,371**	**5,057**	**1,628**	**19,478**	**-**	**28,534**
Charge for the year	552	1,855	245	1,979	-	4,631
Reversal due to disposals	(152)	-	(695)	(1,362)	-	(2,209)
Impairment charge	100	(9)	-	-	-	91
As at 31 December 2011	**2,871**	**6,903**	**1,178**	**20,095**	**-**	**31,047**
Net book value (incl. impairment allowance)						
As at 30 June 2010	**-**	**-**	**-**	**-**	**-**	**-**
As at 31 December 2010	**1,296**	**30,204**	**912**	**5,606**	**-**	**38,018**
As at 31 December 2011	**606**	**28,442**	**495**	**3,925**	**4**	**33,472**
Impairment allowance						
As at 30 June 2010	**-**	**-**	**-**	**-**	**-**	**-**
Restructuring	-	(17,915)	-	-	-	(17,915)
As at 31 December 2010	**-**	**(17,915)**	**-**	**-**	**-**	**(17,915)**
As at 31 December 2011	**(100)**	**(17,906)**	**-**	**-**	**-**	**(18,006)**

The following changes in the Bank's fixed assets excluding advances for fixed assets took place during the year ended 31 December 2011 and 2010:

	LVL 000's				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding prepayments
Historical cost					
As at 30 June 2010	**-**	**-**	**-**	**-**	**-**
Restructuring	3,654	814	1,581	18,443	24,492
Additions	17	-	-	241	258
Disposals	(4)	-	(142)	(498)	(644)
As at 31 December 2010	**3,667**	**814**	**1,439**	**18,186**	**24,106**
Additions	30	9	-	253	292
Disposals	(190)	-	(398)	(1,196)	(1,784)
Transfers	(30)	30	-	-	-
As at 31 December 2011	**3,477**	**853**	**1,041**	**17,243**	**22,614**
Accumulated depreciation and impairment					
As at 30 June 2010	**-**	**-**	**-**	**-**	**-**
Restructuring	2,011	129	1,227	16,517	19,884
Charge for the year	364	6	73	566	1,009
Reversal due to disposals	(4)	-	(142)	(498)	(644)
As at 31 December 2010	**2,371**	**135**	**1,158**	**16,585**	**20,249**
Charge for the year	552	17	132	838	1,539
Reversal due to disposals	(152)	-	(345)	(1,169)	(1,666)
Impairment charge	100	-	-	-	100
As at 31 December 2011	**2,871**	**152**	**945**	**16,254**	**20,222**
Net book value (incl. impairment allowance)					
As at 30 June 2010	**-**	**-**	**-**	**-**	**-**
As at 31 December 2010	**1,296**	**679**	**281**	**1,601**	**3,857**
As at 31 December 2011	**606**	**701**	**96**	**989**	**2,392**
Impairment allowance					
As at 30 June 2010	**-**	**-**	**-**	**-**	**-**
As at 31 December 2010	**-**	**-**	**-**	**-**	**-**
As at 31 December 2011	**(100)**	**-**	**-**	**-**	**(100)**

NOTE 22. NON-CURRENT ASSETS HELD FOR SALE

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Transport vehicles	2,347	4,827	-	-
Real estate	118	-	118	-
Other	135	-	-	-
Total gross non-current assets held for sale	**2,600**	**4,827**	**118**	**-**
Impairment allowance	(1,415)	(1,538)	**-**	**-**
Total net non-current assets held for sale	**1,185**	**3,289**	**118**	**-**

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Net carrying amount at the beginning of the period	**3,289**	**-**	**-**	**-**
Restructuring - initial carrying amount	-	6,425	-	-
Restructuring - impairment allowance	-	(2,256)	-	-
Restructuring - net carrying amount	**-**	**4,169**	**-**	**-**
Impairment charges	(737)	(338)	-	-
Impairment reversals	-	352	-	-
Decrease of impairment allowance due to disposals	867	703	-	-
Net impairment charge to income statements	**130**	**717**	**-**	**-**
Increase of initial carrying amount due to additions	720	1,212	118	-
Decrease of initial carrying amount due to disposals	(2,959)	(2,809)	-	-
Net change in initial carrying amount	**(2,239)**	**(1,597)**	**118**	**-**
Effect of changes in currency exchange rates	**5**	**-**	**-**	**-**
Initial carrying amount as at the end of the year	**2,600**	**4,828**	**118**	**-**
Impairment allowance at the end of the year	**(1,415)**	**(1,539)**	**-**	**-**
Net carrying amount at the end of the year	**1,185**	**3,289**	**118**	**-**

NOTE 23. OTHER ASSETS

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Money in transit	2,161	1,970	2,159	1,957
Prepayments	863	779	627	610
Accrued income *	931	773	137	142
Other assets *	4,400	3,080	2,613	1,553
Total gross other assets	**8,355**	**6,602**	**5,536**	**4,262**
Impairment allowance	(1,368)	(611)	(872)	(326)
Total net other assets	**6,987**	**5,991**	**4,664**	**3,936**

* As at 31 December 2011, included in the Group's and Bank's other assets and accrued income are assets amounting to LVL 1,267 thousand (2010: LVL 902 thousand) and LVL nil (2010: LVL nil), respectively, which are delayed. The Group has recognized LVL 478 thousand (2010: LVL 267 thousand) impairment allowance on these balances. Additionally, as at 31 December 2011, the Group's and the Bank's other assets amounts that are not delayed but impaired amount to LVL 891 thousand (2010: LVL 344 thousand) and LVL 872 thousand (2010: LVL 326 thousand), respectively.

NOTE 24. ISSUED DEBT SECURITIES

As at 31 December 2011 and 2010, the Bank had the following outstanding debt issues:

					Debt outstanding (LVL 000's)	
Issue date	Issue amount	Coupon	Payment, frequency	Maturity	31/12/2011	31/12/2010
May, 2007	EUR 200 million	5.625%	Annual	May, 2011	-	70,573
February and June, 2010	EUR 29.3 million	5%	Semi annual	February, 2012	20,997	20,984
				Total	**20,997**	**91,557**

NOTE 25. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Due to credit institutions registered in OECD countries	1,447	8,318	17,949	16,830
Due to credit institutions registered in Latvia	39,844	57,664	38,190	56,557
Due to credit institutions registered in other non-OECD countries	6,179	4,577	15,629	8,788
Total balances due to credit institutions and central banks	**47,470**	**70,559**	**71,768**	**82,175**

The following table presents the Group's and Bank's balances due to credit institutions and central banks according to maturity profile:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Balances on demand	39,258	58,668	37,972	58,216
Overnight deposits	-	-	8,992	8,434
Total balances repayable on demand	**39,258**	**58,668**	**46,964**	**66,650**
Loans from credit institutions:				
due within 1 month	7,185	4,862	12,621	4,711
due within 1-3 months	-	7,029	10,005	10,199
due within 3-6 months	-	-	654	615
due within 6-12 months	1,027	-	1,524	-
Total loans from credit institutions	**8,212**	**11,891**	**24,804**	**15,525**
Total due to credit institutions	**47,470**	**70,559**	**71,768**	**82,175**

NOTE 26. DEPOSITS FROM CUSTOMERS

The following table presents deposits from customers according to customer profile:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Privately held companies	579,261	526,916	443,640	436,166
Private individuals	529,258	436,484	456,788	353,354
State owned enterprises	109,843	88,835	109,750	88,648
Financial institutions	48,988	37,314	40,393	37,311
Government	36,585	173,684	35,920	171,707
Municipalities	8,775	26,240	8,754	26,229
Public and religious institutions	5,261	4,862	4,013	3,859
Total deposits from customers	**1,317,971**	**1,294,335**	**1,099,258**	**1,117,274**

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Demand deposits	676,277	516,872	527,727	416,633
Term deposits:				
due within 1 month	133,390	169,440	113,685	149,798
due within 1-3 months	186,701	163,546	171,110	144,016
due within 3-6 months	97,610	141,754	85,459	120,632
due within 6-12 months	200,555	152,419	179,936	138,317
due within 1-5 years	22,780	149,826	20,740	147,448
due in more than 5 years	658	478	601	430
Total term deposits	641,694	777,463	571,531	700,641
Total deposits from customers	**1,317,971**	**1,294,335**	**1,099,258**	**1,117,274**

Financing support from the Ministry of Finance

According to EU restructuring plan a certain amount of State support was transferred to the Bank. Ministry of Finance of Latvia has made a number of deposits on a secured basis, receiving part of Bank's loan portfolio as collateral (please refer to Note 32 for details on assets pledged). As at 31 December 2011, the financing support received from the Ministry of Finance amounted to LVL 33,250 thousand (2010: LVL 131,000 thousand). Subsequent to the balance sheet date the Bank has repaid all outstanding State support deposit. The payment was made ahead of the schedule. Please refer to Note 37 for more information.

NOTE 27. OTHER LIABILITIES

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Accrued expense	4,991	4,817	4,191	3,984
Suspense liabilities	1,696	1,663	1,696	1,663
Amounts due to suppliers	992	1,176	1,403	801
Provisions for other liabilities	286	319	-	-
Deferred income	68	31	-	-
Other liabilities	4,163	4,722	1,418	2,471
Total other liabilities	**12,196**	**12,728**	**8,708**	**8,919**

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not yet transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

NOTE 28. SUBORDINATED DEBT

The following table represents the details of Bank's and Group's subordinated capital:

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised cost LVL 000's 31/12/2011	Amortised cost LVL 000's 31/12/2010
Privatisation Agency	Latvia	EUR	53,128	8.812%	22/05/2009	21/05/2016	38,656	38,008
Privatisation Agency	Latvia	EUR	11,205	8.812%	02/08/2010	08/08/2016	8,156	8,128
EBRD	UK	EUR	7,195	8.812%	11/09/2009	08/08/2016	5,136	5,099
						Total	**51,948**	**51,235**

NOTE 29. ISSUED SHARE CAPITAL

As at 31 December 2011, the Bank's registered and paid-in share capital was LVL 103,000 thousand (2010: LVL 103,000 thousand). In accordance with the Bank's statutes, the share capital consists of 103,000 thousand ordinary shares with voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2011, they all were issued and fully paid. As at 31 December 2011 and 2010, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2011 and 2010.

As at 31 December 2011, the Bank had 2 (2010: 2) shareholders. The respective shareholdings as at 31 December 2011 and 31 December 2011 may be specified as follows:

	31/12/2010 and 31/12/2011		
	Paid-in share capital (LVL)	% of total paid-in capital	% of total voting rights
Privatisation Agency	77,249,999	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	25,750,001	25% plus 1 share	25% plus 1 share
Total	**103,000,000**	**100.00**	**100.00**

NOTE 30. OFF-BALANCE SHEET ITEMS

Memorandum items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2011 and 2010.

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Contingent liabilities:				
Outstanding guarantees	20,192	9,893	17,286	6,706
Outstanding letters of credit	1,178	235	1,021	18
Total contingent liabilities	**21,370**	**10,128**	**18,307**	**6,724**
Financial commitments:				
Loans granted, not fully drawn down	9,043	6,162	7,467	5,965
Unutilised credit lines and overdraft facilities	40,373	20,655	66,303	52,511
Credit card commitments	61,292	64,816	53,097	54,573
Bank placement commitments	15,001	-	15,001	-
Total financial commitments	**125,709**	**91,633**	**141,868**	**113,049**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

The Group:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2011	31/12/2010	31/12/2011		31/12/2010	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	132,677	20,122	737	(483)	144	(359)
Forwards	6,873	54,492	209	(249)	88	(66)
Swaps	251,968	457,053	2,537	(88)	2,378	(193)
Total foreign exchange contracts	**391,518**	**531,667**	**3,483**	**(820)**	**2,610**	**(618)**
Other financial instruments:						
Other derivatives	-	7,028	-	-	60	(26)
Total other financial instruments	**-**	**7,028**	**-**	**-**	**60**	**(26)**
Derivative financial instruments	**391,518**	**538,695**	**3,483**	**(820)**	**2,670**	**(644)**

The Bank:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2011	31/12/2010	31/12/2011		31/12/2010	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	132,949	9,430	737	(483)	144	(363)
Forwards	44,145	77,337	233	(310)	147	(58)
Swaps	285,248	465,898	2,572	(1,017)	2,365	(255)
Total foreign exchange contracts	**462,342**	**552,665**	**3,542**	**(1,810)**	**2,656**	**(676)**
Other financial instruments:						
Other derivatives	-	7,028	-	-	60	(26)
Total other financial instruments	**-**	**7,028**	**-**	**-**	**60**	**(26)**
Derivative financial instruments	**462,342**	**559,693**	**3,542**	**(1,810)**	**2,716**	**(702)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2011, more than 54% (2010: 92%) of the fair value assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2011, none (2010: nil) of the payments receivable arising out of derivative transactions was past due.

NOTE 31. FUNDS UNDER TRUST MANAGEMENT

The table below provides analysis of the fair value of funds managed on behalf of customers by investment type:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Fixed income securities:				
Government bonds	34,353	41,909	-	-
Credit institution bonds	32,053	41,626	-	-
Corporate bonds	33,349	38,062	-	-
Foreign municipality bonds	776	1,711	-	-
Other financial institution bonds	4,924	4,307	-	-
Total investments in fixed income securities	**105,455**	**127,615**	**-**	**-**
Other investments:				
Mutual investment funds	100,307	78,087	36,327	-
Deposits with credit institutions	55,367	59,714	53	-
Shares	21,410	38,937	-	1
Real estate	19,773	19,273	-	-
Loans to corporate entities	39,533	2,955	36,589	774
Other	33,081	32,194	-	-
Total other investments	**269,471**	**231,160**	**72,969**	**775**
Total assets under trust management agreements	**374,926**	**358,775**	**72,969**	**775**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Pension Plans	129,774	122,777	-	-
Insurance companies, investment and pension funds	69,328	113,426	-	-
Other companies	118,185	65,505	72,969	774
Private individuals	57,639	57,067	-	1
Total liabilities under trust management agreements	**374,926**	**358,775**	**72,969**	**775**

NOTE 32. FINANCIAL ASSETS PLEDGED

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Due from credit institutions*	23,930	25,839	23,930	25,839
Held for trading securities	-	*3,174*	-	*3,174*
Available-for-sale securities	-	*4,764*	-	*4,764*
Total securities pledged	-	7,938	-	7,938
Loans to customers	155,363	178,804	155,363	178,804
Total financial assets pledged	**179,293**	**212,581**	**179,293**	**212,581**
Due to credit institutions and central banks	-	7,028	-	7,028
Deposits from Ministry of Finance	32,748	131,000	32,748	131,000
Total liabilities secured by pledged financial assets	**32,748**	**138,028**	**32,748**	**138,028**

* The amount consists of several placements to secure various Bank's transactions in the ordinary course of business.

The Bank has concluded several agreements with Ministry of Finance of Latvia, whereby it pledged part of the loan portfolio as a security to the financing received. The respective pledges are registered with Commercial Register. Please refer to Note 26 for more detailed information on deposits received from the Ministry of Finance.

Furthermore, as at 31 December 2011 the Bank and the Group had part of the loan portfolio pledged as collateral to Ministry of Finance of Latvia to receive a guarantee. The guarantee was issued as a security to European Investment Bank's financing with carrying value amounting to LVL 17.8 million (2010: nil). The respective pledges are registered with Commercial Register.

NOTE 33. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2011 and 31 December 2010:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Cash and demand deposits with central banks	243,239	187,220	229,659	177,348
Deposits with other credit institutions*	224,382	205,465	196,397	199,152
Demand deposits due to other credit institutions	(39,258)	(58,668)	(46,964)	(66,650)
Total cash and cash equivalents	**428,363**	**334,017**	**379,092**	**309,850**

* Deposits include term facilities with initial agreement term of 3 months or less.

NOTE 34. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in a number of legal proceedings related to its customers in Latvia and abroad.

The management of the Bank believes that any legal proceedings pending as at 31 December 2011 will not result in material losses for the Group.

NOTE 35. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, state and municipal institutions, members of the Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group's companies/ Bank and their related companies are stated in one line, accordingly.

The Bank of Latvia is not considered as related party as it is operating as an independent institution according to special law.

The following table present the outstanding balances and terms of the Group's transactions with counterparties, which were related parties as at 31 December 2011 and 2010.

	Amount in LVL 000's 31/12/2011	Interest income/ expense 01/01/2011-31/12/2011	Amount in LVL 000's 31/12/2010	Interest income/ expense 30/06/2010-31/12/2010
Credit exposure to related parties				
Securities:	142,666	8,290	171,705	3,488
Latvian treasury bills and government bonds	*142,666*	*8,290*	*171,705*	*3,488*
Loans and receivables:	3,208	87	3,637	35
Management	*583*	*17*	*646*	*7*
Municipality institutions and municipality controlled companies	*2,625*	*70*	*2,991*	*28*
Derivatives – assets:	8	-	-	-
State institutions and state controlled companies	*8*	-	-	-
Financial commitments and outstanding guarantees:	3,223		4,226	
Management	*51*		*46*	
State institutions and state controlled companies	*3,162*		*3,170*	
Municipality institutions and municipality controlled companies	*10*		*1,010*	
Total credit exposure to related parties	**149,105**		**179,568**	
Due to related parties:	133,678	10,223	247,953	10,188
Deposits from Ministry of Finance	*33,250*	*5,044*	*131,000*	*5,581*
Subordinated loans from shareholder	*51,948*	*4,440*	*51,235*	*3,766*
Management	*436*	*4*	*530*	*10*
State institutions and state controlled companies	*31,223*	*664*	*39,230*	*767*
Municipality institutions and municipality controlled companies	*16,821*	*71*	*25,958*	*64*
Total amounts due to related parties	**133,678**		**247,953**	

No Group's exposures with related parties as at 31 December 2011 or for the year then ended were impaired (2010: nil).

The following table presents the outstanding balances and terms of the Bank's transactions with counterparties, which were related parties as at 31 December 2011 and 2010.

	Gross amount in LVL 000's 31/12/2011	Interest income/ expense 01/01/2011-31/12/2011	Gross amount in LVL 000's 31/12/2010	Interest income/ expense 30/06/2010-31/12/2010
Credit exposure to related parties				
Securities:	142,666	8,290	171,705	3,488
Latvian treasury bills and government bonds	*142,666*	*8,290*	*171,705*	*3,488*
Loans and receivables:	78,026	3,688	133,856	1,533
Management	*35*	*3*	*160*	*2*
Municipality institutions and municipality controlled companies	*2,625*	*70*	*2,991*	*28*
Subsidiaries	*75,366*	*3,615*	*130,705*	*1,503*
Derivatives – assets:	94	-	71	-
Subsidiaries	*86*	-	*71*	-
State institutions and state controlled companies	*8*	-	-	-
Financial commitments and outstanding guarantees:	30,566		37,221	
Management	*51*		*46*	
State institutions and state controlled companies	*3,162*		*3,170*	
Municipality institutions and municipality controlled companies	*10*		*1,010*	
Subsidiaries	*27,343*		*32,995*	
Total credit exposure to related parties	**251,352**		**342,853**	
Due to related parties:	163,424	10,473	269,353	10,321
Deposits from Ministry of Finance	*33,250*	*5,044*	*131,000*	*5,581*
Subordinated loans from shareholders	*51,948*	*4,440*	*51,235*	*3,766*
Management	*203*	*1*	*216*	*12*
State institutions and state controlled companies	*31,223*	*664*	*39,230*	*767*
Municipality institutions and municipality controlled companies	*16,821*	*71*	*25,958*	*64*
Subsidiaries	*29,979*	*253*	*21,714*	*131*
Derivatives – liabilities:	999	-	71	-
Subsidiaries	*999*	-	*71*	-
Total amounts due to related parties	**164,423**		**269,424**	

In the year ended 31 December 2011 the Bank's net impairment charges on loans and receivables from subsidiaries amounted to a release of LVL 3,148 thousand (2010: recognized net impairment allowance of LVL 2,352 thousand). As at 31 December 2011 the total impairment allowance recognized on loans and receivables from subsidiaries was LVL 13,262 thousand (2010: LVL 16,410 thousand). No other Bank's exposures with related parties as at 31 December 2011 or for the year period then ended were impaired (2010: nil).

NOTE 36 RISK MANAGEMENT

Risk management polices
Risk management principles are set out in Group's Risk and Capital Management Policy (as approved by the Supervisory Board and Management Board). The Group adheres to the following key risk management principles:

- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group' business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group's employee about the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by independent units – Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) Credit risk

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The group is exposed to credit risk in its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent units of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes analysis of the industry, the company, and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board.

After the loan is issued, customer's financial position is monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group's related parties, an industry limit, limit by customer type, loan product and type of collateral.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

The tables below provide details of the Group's loan portfolio delinquencies:

	Group, LVL 000's								
	31/12/2011								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	505,534	40,271	27,583	42,923	-	460	74	569	617,414
Not delayed - impaired	45,361	-	486	-	-	-	-	5,180	51,027
Total not delayed loans	**550,895**	**40,271**	**28,069**	**42,923**	**-**	**460**	**74**	**5,749**	**668,441**
Past due loans - not impaired									
Delayed days:									
=< 29	26,130	55	4,579	1,019	-	-	-	-	31,783
30-59	7,041	41	551	436	-	-	-	-	8,069
60-89	3,208	-	87	302	-	-	-	-	3,597
90 and more	8,788	-	132	2,976	-	-	63	-	11,959
Total past due loans - not impaired	**45,167**	**96**	**5,349**	**4,733**	**-**	**-**	**63**	**-**	**55,408**
Total past due loans - impaired	**30,842**	**1,506**	**7,206**	**14,467**	**-**	**-**	**241**	**-**	**54,262**
Total gross loans and receivables to customers	**626,904**	**41,873**	**40,624**	**62,123**	**-**	**460**	**378**	**5,749**	**778,111**
Impairment allowance	(34,855)	(302)	(7,008)	(17,966)	-	-	(294)	(544)	(60,969)
Total net loans and receivables to customers	**592,049**	**41,571**	**33,616**	**44,157**	**-**	**460**	**84**	**5,205**	**717,142**

	Group, LVL 000's								
	31/12/2010								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	529,233	58,635	32,257	50,601	596	12,140	11	3,552	687,025
Not delayed - impaired	18,953	-	460	-	-	-	4	-	19,417
Total not delayed loans	**548,186**	**58,635**	**32,717**	**50,601**	**596**	**12,140**	**15**	**3,552**	**706,442**
Past due loans - not impaired									
Delayed days:									
=< 29	35,377	606	7,336	1,033	-	-	-	-	44,352
30-59	14,980	-	2,480	576	-	-	-	-	18,036
60-89	4,339	-	194	484	-	-	-	-	5,017
90 and more	19,825	2,408	313	3,807	-	25	-	-	26,378
Total past due loans - not impaired	**74,521**	**3,014**	**10,323**	**5,900**	**-**	**25**	**-**	**-**	**93,783**
Total past due loans - impaired	**26,518**	**437**	**7,431**	**18,686**	**-**	**823**	**289**	**553**	**54,737**
Total gross loans and receivables to customers	**649,225**	**62,086**	**50,471**	**75,187**	**596**	**12,988**	**304**	**4,105**	**854,962**
Impairment allowance	(29,319)	(1,297)	(6,432)	(21,749)	-	(951)	(292)	(593)	(60,633)
Total net loans and receivables to customers	**619,906**	**60,789**	**44,039**	**53,438**	**596**	**12,037**	**12**	**3,512**	**794,329**

The tables below provide details of the Bank's loan portfolio delinquencies:

Bank, LVL 000's
31/12/2011

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	405,363	69,209	-	38,931	-	334	-	485	514,322
Not delayed - impaired	91,733	-	-	-	-	-	-	5,180	96,913
Total not delayed loans	**497,096**	**69,209**	**-**	**38,931**	**-**	**334**	**-**	**5,665**	**611,235**
Past due loans - not impaired									
Delayed days:									
=< 29	19,190	55	-	535	-	-	-	-	19,780
30-59	4,833	-	-	369	-	-	-	-	5,202
60-89	2,406	-	-	260	-	-	-	-	2,666
90 and more	4,467	-	-	512	-	-	-	-	4,979
Total past due loans - not impaired	**30,896**	**55**	**-**	**1,676**	-	**-**	**-**	-	**32,627**
Total past due loans - impaired	**23,251**	**1,468**	**-**	**14,469**	-	**-**	**-**	**-**	**39,188**
Total gross loans and receivables to customers	**551,243**	**70,732**	**-**	**55,076**	**-**	**334**	**-**	**5,665**	**683,050**
Impairment allowance	(40,971)	(264)	-	(15,498)	-	-	-	(544)	(57,277)
Total net loans and receivables to customers	**510,272**	**70,468**	**-**	**39,578**	**-**	**334**	**-**	**5,121**	**625,773**

	Bank, LVL 000's								
	31/12/2010								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	414,088	61,563	10	45,060	-	12,252	-	3,505	536,478
Not delayed - impaired	63,963	43,720	-	-	-	-	-	-	107,683
Total not delayed loans	**478,051**	**105,283**	**10**	**45,060**	**-**	**12,252**	**-**	**3,505**	**644,161**
Past due loans - not impaired									
Delayed days:									
=< 29	26,880	60	5	610	-	-	-	-	27,555
30-59	13,772	-	-	463	-	-	-	-	14,235
60-89	3,993	-	-	399	-	-	-	-	4,392
90 and more	15,893	2,408	-	1,365	-	25	-	-	19,691
Total past due loans - not impaired	**60,538**	**2,468**	**5**	**2,837**	-	**25**	**-**	-	**65,873**
Total past due loans - impaired	**21,525**	**-**	**-**	**18,686**	-	**823**	**-**	**553**	**41,587**
Total gross loans and receivables to customers	**560,114**	**107,751**	**15**	**66,583**	**-**	**13,100**	**-**	**4,058**	**751,621**
Impairment allowance	(35,449)	(4,193)	-	(19,337)	-	(951)	-	(593)	(60,523)
Total net loans and receivables to customers	**524,665**	**103,558**	**15**	**47,246**	**-**	**12,149**	**-**	**3,465**	**691,098**

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Outstanding specific impairment as at 30/06/2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Restructuring	14,097	847	4,779	16,595	452	239	505	37,514
Impairment charge for the reported period - specific	8,730	190	1,819	2,091	370	1	-	13,201
Release of previously established impairment allowance - specific	(2,391)	(45)	(319)	-	-	-	-	(2,755)
Impairment charged to the statement of income, net	**6,339**	**145**	**1,500**	**2,091**	**370**	**1**	**-**	**10,446**
Change of impairment allowance due to write-offs, net	(25)	(787)	(243)	-	-	-	-	(1,055)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(8)	39	(80)	-	1	-	48	-
Outstanding specific impairment as at 31/12/2010	**20,403**	**244**	**5,956**	**18,686**	**823**	**240**	**553**	**46,905**
Impairment charge for the reported period - specific	12,807	7	1,400	1,140	-	1	-	15,355
Release of previously established impairment allowance - specific	(5,697)	(244)	(601)	(4)	(823)	-	-	(7,369)
Impairment charged to the statement of income, net	**7,110**	**(237)**	**799**	**1,136**	**(823)**	**1**	**-**	**7,986**
Change of impairment allowance due to write-offs, net	(700)	-	-	(5,356)	-	-	-	(6,056)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(359)	18	8	-	-	-	(9)	(342)
Outstanding specific impairment as at 31/12/2011	**26,454**	**25**	**6,763**	**14,466**	**-**	**241**	**544**	**48,493**

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Outstanding specific impairment as at 30/06/2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Restructuring	26,306	793		16,595	452		505	44,651
Impairment charge for the reported period - specific	6,819	2,352	-	2,091	370	-	-	11,632
Release of previously established impairment allowance - specific	(2,373)	-	-	-	-	-	-	(2,373)
Impairment charged to the statement of income, net	**4,446**	**2,352**	**-**	**2,091**	**370**	**-**	**-**	**9,259**
Change of impairment allowance due to write-offs, net	(756)	-	-	-	-	-	-	(756)
Increase/ (decrease) in impairment allowance due to currency fluctuations	-	-	-	-	1	-	48	49
Outstanding specific impairment as at 31/12/2010	**29,996**	**3,145**	**-**	**18,686**	**823**	**-**	**553**	**53,203**
Impairment charge for the reported period - specific	12,719	-	-	1,140	-	-	-	13,859
Release of previously established impairment allowance - specific	(5,838)	(3,145)	-	(4)	(823)	-	-	(9,810)
Impairment charged to the statement of income, net	**6,881**	**(3,145)**	**-**	**1,136**	**(823)**	**-**	**-**	**4,049**
Change of impairment allowance due to write-offs, net	(555)	-	-	(5,356)	-	-	-	(5,911)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(360)	-	-	-	-	-	(9)	(369)
Outstanding specific impairment as at 31/12/2011	**35,962**	**-**	**-**	**14,466**	**-**	**-**	**544**	**50,972**

In the table bellow estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

	Group, LVL 000's							
	31/12/2011				31/12/2010			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	248,942	574,606	343,108	216,770	307,204	617,144	312,702	197,884
Utilised credit lines	22,109	55,744	19,461	12,730	24,903	82,681	35,886	17,074
Finance leases	28,736	29,824	4,880	4,734	34,355	35,047	9,684	9,022
Debit balances on settlement cards	-	-	44,157	-	-	-	53,438	-
Loans under reverse repurchase agreement	-	-	-	-	-	-	596	-
Overdraft facilities	73	107	387	-	-	80	12,037	-
Factoring	-	-	84	74	-	-	12	-
Due from investment and brokerage firms	-	-	5,205	-	-	-	3,512	-
Total net loans	**299,860**	**660,281**	**417,282**	**234,308**	**366,462**	**734,952**	**427,867**	**223,980**

	Bank, LVL 000's							
	31/12/2011				31/12/2010			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	165,157	438,693	345,115	222,283	213,369	454,723	311,296	188,862
Utilised credit lines	19,323	50,505	51,145	12,112	23,482	79,781	80,076	16,600
Finance leases	-	-	-	-	-	-	15	-
Debit balances on settlement cards	-	-	39,578	-	-	-	47,246	-
Loans under reverse repurchase agreement	-	-	-	-	-	-	-	-
Overdraft facilities	-	-	334	-	-	-	12,149	-
Due from investment and brokerage firms	-	-	5,121	-	-	-	3,465	-
Total net loans	**184,480**	**489,198**	**441,293**	**234,395**	**236,851**	**534,504**	**454,247**	**205,462**

* As at 31 December 2011 carrying value of Bank's loans without collateral or with guarantees amount to LVL 111,439 thousand (2010: LVL 146,808 thousand). Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15). Loans under reverse repurchase agreements are secured with securities that can be sold in case of client's default.

The tables below provide details of the Group's and Bank's securities portfolio quality:

	Group, LVL 000's							
	31/12/2011				31/12/2010			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	-	25,416	-	25,416	-	66,091	-	66,091
AA	-	33,430	-	33,430	-	11,009	-	11,009
A	3,740	23,719	63	27,522	5,241	11,927	-	17,168
BBB/Baa	119,936	73,500	34	193,470	112,075	48,881	63	161,019
Other lower ratings	2,685	-	-	2,685	10,256	49,616	9	59,881
Not rated	-	-	64	64	-	-	68	68
Total net fixed income securities	**126,361**	**156,065**	**161**	**282,587**	**127,572**	**187,524**	**140**	**315,236**

	Bank, LVL 000's							
	31/12/2011				31/12/2010			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	-	10,805	-	10,805	-	59,167	-	59,167
AA	-	22,101	-	22,101	-	2,104	-	2,104
A	-	14,723	-	14,723	-	4,847	-	4,847
BBB/Baa	118,442	46,199	-	164,641	108,104	29,329	-	137,433
Other lower ratings	-	-	-	-	9,176	48,051	4	57,231
Total net fixed income securities	**118,442**	**93,828**	**-**	**212,270**	**117,280**	**143,498**	**4**	**260,782**

GEOGRAPHICAL PROFILE

The following tables provide an analysis of the Group's assets and liabilities, as well as memorandum items outstanding as at 31 December 2011 and 31 December 2010 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2011, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	201,007	10,608	28,652	-	2,972	243,239
Balances due from credit institutions	29,766	958	152,324	9,080	33,611	225,739
Securities held for trading	35	-	97	63	-	195
Financial assets designated at fair value through profit or loss	2,276	410	2,463	73	1,159	6,381
Available-for-sale securities	28,896	27,480	55,318	15,360	37,542	164,596
Loans and receivables to customers	442,669	144,563	47,493	50,183	32,234	717,142
Held-to-maturity securities	118,442	-	-	4,180	3,739	126,361
Derivative financial instruments	2,777	28	189	166	323	3,483
Other assets	67,125	4,750	621	441	224	73,161
Total assets	**892,993**	**188,797**	**287,157**	**79,546**	**111,804**	**1,560,297**
Liabilities						
Financial liabilities designated at fair value through profit or loss	1,985	-	20	2,421	-	4,426
Financial liabilities measured at amortised cost	757,313	97,456	211,481	69,004	326,361	1,461,615
Derivative financial instruments	177	1	171	63	408	820
Other liabilities	9,575	1,883	442	30	422	12,352
Total liabilities	**769,050**	**99,340**	**212,114**	**71,518**	**327,191**	**1,479,213**
Equity	81,084	-	-	-	-	81,084
Total liabilities and equity	**850,134**	**99,340**	**212,114**	**71,518**	**327,191**	**1,560,297**
Memorandum items						
Contingent liabilities	15,844	2,066	284	1,826	1,350	21,370
Financial commitments	103,875	11,281	950	9,115	488	125,709

	Group as at 31/12/2010, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	141,835	7,987	35,513	-	1,885	187,220
Balances due from credit institutions	55,483	356	106,821	5,676	51,288	219,624
Securities held for trading	170	-	4	-	-	174
Financial assets designated at fair value through profit or loss	1,796	408	1,113	-	1	3,318
Available-for-sale securities	60,868	16,170	73,910	17,095	28,948	196,991
Loans and receivables to customers	432,738	163,385	63,569	87,647	46,990	794,329
Held-to-maturity securities	117,280	-	179	3,786	6,327	127,572
Derivative financial instruments	2,249	26	57	25	313	2,670
Other assets	73,752	5,497	757	430	175	80,611
Total assets	**886,171**	**193,829**	**281,923**	**114,659**	**135,927**	**1,612,509**
Liabilities						
Financial liabilities designated at fair value through profit or loss	1,484	-	-	-	-	1,484
Financial liabilities measured at amortised cost	813,297	106,618	221,498	62,353	311,181	1,514,947
Derivative financial instruments	222	12	285	13	112	644
Other liabilities	10,652	1,337	386	17	1,015	13,407
Total liabilities	**825,655**	**107,967**	**222,169**	**62,383**	**312,308**	**1,530,482**
Equity	82,027	-	-	-	-	82,027
Total liabilities and equity	**907,682**	**107,967**	**222,169**	**62,383**	**312,308**	**1,612,509**
Memorandum items						
Contingent liabilities	3,254	2,561	114	2,882	1,317	10,128
Financial commitments	71,886	11,352	283	7,705	407	91,633

The following tables provide an analysis of the Bank's assets and liabilities, as well as memorandum items outstanding as at 31 December 2011 and 31 December 2010 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Bank as at 31/12/2011, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	201,007	-	28,652	-	-	229,659
Balances due from credit institutions	29,059	689	142,864	8,320	15,465	196,397
Available-for-sale securities	28,856	4,567	33,228	12,096	23,542	102,289
Loans and receivables to customers	482,948	17,310	43,691	49,923	31,901	625,773
Held-to-maturity securities	118,442	-	-	-	-	118,442
Derivative financial instruments	2,788	78	189	166	321	3,542
Other assets	41,757	29,006	488	18	9,704	80,973
Total assets	**904,857**	**51,650**	**249,112**	**70,523**	**80,933**	**1,357,075**
Liabilities						
Financial liabilities measured at amortised cost	756,349	16,072	160,184	59,059	270,089	1,261,753
Derivative financial instruments	169	998	171	63	409	1,810
Other liabilities	7,737	631	338	-	14	8,720
Total liabilities	**764,255**	**17,701**	**160,693**	**59,122**	**270,512**	**1,272,283**
Equity	84,792	-	-	-	-	84,792
Total liabilities and equity	**849,047**	**17,701**	**160,693**	**59,122**	**270,512**	**1,357,075**
Memorandum items						
Contingent liabilities	15,887	-	203	1,534	683	18,307
Financial commitments	122,309	7,904	2,053	9,114	488	141,868

	Bank as at 31/12/2010, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	141,835	-	35,513	-	-	177,348
Balances due from credit institutions	54,577	24,612	92,455	4,614	35,350	211,608
Securities held for trading	-	-	4	-	-	4
Available-for-sale securities	59,513	-	60,583	13,570	19,261	152,927
Loans and receivables to customers	476,343	24,061	60,653	87,539	42,502	691,098
Held-to-maturity securities	117,280	-	-	-	-	117,280
Derivative financial instruments	2,249	71	57	25	314	2,716
Other assets	82,646	-	180	10	85	82,921
Total assets	**934,443**	**48,744**	**249,445**	**105,758**	**97,512**	**1,435,902**
Liabilities						
Financial liabilities measured at amortised cost	814,555	9,223	202,676	50,938	264,849	1,342,241
Derivative financial instruments	221	71	285	13	112	702
Other liabilities	8,594	1	317	6	1	8,919
Total liabilities	**823,370**	**9,295**	**203,278**	**50,957**	**264,962**	**1,351,862**
Equity	84,040	-	-	-	-	84,040
Total liabilities and equity	**907,410**	**9,295**	**203,278**	**50,957**	**264,962**	**1,435,902**
Memorandum items						
Contingent liabilities	3,101	365	44	2,882	332	6,724
Financial commitments	97,951	6,708	283	7,704	403	113,049

b) Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. Market risk is managed by the Group's business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by Risk and Compliance Sector.

To manage market risk, the Group sets individual limits to issuers and financial instruments, as well as products exposed to market risk. To assess position risk the Group uses sensitivity analysis and scenario analysis, which identifies and quantifies negative impact of adverse events on portfolio of the Group taking into consideration regional, sector and credit rating profile.

c) Equity price risk

Equity price risk is the risk that the Group will incur a loss due to changes in equity prices. Equity price risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee. Further the decisions so made are approved by the Bank's Management Board.

To assess equity price risk, the Group applies the scenario analysis "flight-to-quality" which refers to a fear of investors of global systemic failure when investors start selling assets they consider to be overly risky and substituting them with more dependable ones. According to the Bank's equity price risk assessment as at 31 December 2011, in the event that all equity (also including investments in investment funds) prices drop by 10% for equities in OECD countries, 20% – Baltic countries and CIS countries and 15% – other equities, revaluation loss charged directly to the equity would increase by approximately LVL 0.7 million (2010: LVL 1.1 million) and an impairment loss of LVL 0.8 million (2010: LVL 0.4 million) would be recognized in the income statement.

d) Interest rate risk

Interest rate risk is related to the negative impact of interest rate changes on the Group's income and economic value.

Interest rate risk management in the Group is carried out in accordance with the Group's Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable interest rate risk level and the Group's internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement, management and reporting are responsibilities of Treasury Division. Interest rate risk management in the Group is coordinated by the Risk and Compliance Sector.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. The Group sets limits for impact of interest rate shock on economic value, net interest income and revaluation reserve. Based on the market analysis and the Group's financing structure, ALCO sets customer deposit interest rates.

The following table represents the impact of a parallel change in all interest rates by 1.0% on Group's and Bank's pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity:

Scenario: +1%	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Pre-tax profit / (loss)	2,800	(1,829)	1,774	(1,699)
Securities fair value revaluation reserve	(3,493)	(1,620)	(1,397)	(1,620)
Total pre-tax effect on equity	**(693)**	**(3,449)**	**377**	**(3,319)**
Estimated net effect on equity	**(589)**	**(2,932)**	**320**	**(2,821)**
Scenario: -1%				
Pre-tax profit / (loss)	(2,802)	2,001	(1,775)	1,864
Securities fair value revaluation reserve	3,570	1,710	1,474	1,710
Total pre-tax effect on equity	**768**	**3,711**	**(301)**	**3,574**
Estimated net effect on equity	**653**	**3,154**	**(256)**	**3,038**

The following table represents the impact of a 2.0% parallel change in all interest rates by currencies on Bank's pre-tax profit and available-for-sale securities' fair value revaluation reserve in equity:

	LVL 000's							
Scenario: +2%	31/12/2011				31/12/2010			
	LVL	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
Pre-tax profit/ (loss)	(4,284)	377	100	422	(6,903)	2,357	478	823
Securities fair value revaluation reserve	(947)	(1,157)	(598)	(21)	(1,039)	(1,446)	(672)	-
Total pre-tax effect on equity	**(5,231)**	**(780)**	**(498)**	**401**	**(7,942)**	**911**	**(194)**	**823**
Estimated net effect on equity	**(4,446)**	**(663)**	**(423)**	**341**	**(6,751)**	**774**	**(165)**	**700**
Scenario: -2%								
Pre-tax profit/ (loss)	4,749	(344)	(106)	(448)	7,654	(2,385)	(497)	(866)
Securities fair value revaluation reserve	1,031	1,311	668	22	1,084	1,679	755	-
Total pre-tax effect on equity	**5,780**	**967**	**562**	**(426)**	**8,738**	**(706)**	**258**	**(866)**
Estimated net effect on equity	**4,913**	**822**	**478**	**(362)**	**7,427**	**(600)**	**219**	**(736)**

e) Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. In assessing its currency risk the Group also makes use of several widely applied methodologies: value at risk, expected shortfall and scenario analysis. In the event of exchange rates for the following currencies in which the Group and the Bank has open positions adversely change as per scenario bellow, the potential total decrease in the Group's and Bank's profit would amount to approximately:

	Group LVL 000's							
	31/12/2011				31/12/2010			
Scenario:	USD	CHF	RUR	Total for all currencies	USD	CHF	RUR	Total for all currencies
2% adverse change	124	178	3	945	49	232	3	1,702
5% adverse change	310	445	9	2,363	122	581	7	4,254

	Bank LVL 000's							
	31/12/2011				31/12/2010			
Scenario:	USD	CHF	RUR	Total for all currencies	USD	CHF	RUR	Total for all currencies
2% adverse change	59	1	2	596	80	2	2	369
5% adverse change	147	2	4	1,489	199	6	6	923

In 2011 and 2010 the Bank was in compliance with currency position limits.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2011 and 2010 by currency profile:

	Group as at 31/12/2011, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	199,512	6,513	21,202	3,170	9,188	1,008	2,646	243,239
Balances due from credit institutions	14,390	127,324	71,778	320	132	8,296	3,499	225,739
Securities held for trading	34	-	98	-	-	63	-	195
Financial assets designated at fair value through profit or loss	165	2,942	3,256	-	-	-	18	6,381
Available-for-sale securities	26,436	35,504	76,483	9,309	13,514	-	3,350	164,596
Loans and receivables to customers	62,017	81,178	534,060	2,782	36,632	459	14	717,142
Held-to-maturity securities	118,442	6,103	1,816	-	-	-	-	126,361
Derivative financial instruments	3,437	19	-	-	27	-	-	3,483
Other assets	66,100	637	1,652	265	3,902	54	551	73,161
Total assets	**490,533**	**260,220**	**710,345**	**15,846**	**63,395**	**9,880**	**10,078**	**1,560,297**
Liabilities								
Financial liabilities designated at fair value through profit or loss	626	2,610	1,190	-	-	-	-	4,426
Financial liabilities measured at amortised cost	361,700	331,198	616,039	11,280	67,491	30,330	43,577	1,461,615
Derivative financial instruments	725	-	25	1	69	-	-	820
Other liabilities	7,546	1,297	1,274	34	945	99	1,157	12,352
Total liabilities	**370,597**	**335,105**	**618,528**	**11,315**	**68,505**	**30,429**	**44,734**	**1,479,213**
Equity	81,084	-	-	-	-	-	-	81,084
Total liabilities and equity	**451,681**	**335,105**	**618,528**	**11,315**	**68,505**	**30,429**	**44,734**	**1,560,297**
Net long/ (short) position for balance sheet items	38,852	(74,885)	91,817	4,531	(5,110)	(20,549)	(34,656)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	970	407	(1,789)	464	-	(911)	851	(8)
Forward foreign exchange contracts	810	1,111	(2,835)	866	(1)	-	-	(49)
Swap exchange contracts	(69,246)	79,561	(94,440)	3,031	23,385	21,630	38,740	2,661
Net long/ (short) positions on foreign exchange	*(67,466)*	*81,079*	*(99,064)*	*4,361*	*23,384*	*20,719*	*39,591*	*2,604*
Net long/ (short) position as at 31 December 2011	**(28,614)**	**6,194**	**(7,247)**	**8,892**	**18,274**	**170**	**4,935**	**2,604**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	-	0.544	0.702804	0.577	0.204	0.017	-	-

As at 31 December 2011 and 31 December 2010 LVL and LTL currencies are pegged to the EUR at a fixed rate.

	Group as at 31/12/2010, LVL 000's								
	LVL	USD	EUR	CHF	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	126,322	4,633	12,521	2,303	31,624	6,691	470	2,656	187,220
Balances due from credit institutions	13,274	67,881	129,500	708	101	144	4,620	3,396	219,624
Securities held for trading	-	-	106	-	-	-	68	-	174
Financial assets designated at fair value through profit or loss	137	373	2,808	-	-	-	-	-	3,318
Available-for-sale securities	56,876	26,184	94,779	8,073	-	7,861	-	3,218	196,991
Loans and receivables to customers	64,711	138,058	526,751	3,933	18,381	41,428	877	190	794,329
Held-to-maturity securities	117,280	6,545	3,747	-	-	-	-	-	127,572
Derivative financial instruments	2,585	18	42	-	-	25	-	-	2,670
Other assets	72,413	179	1,076	105	482	5,505	95	756	80,611
Total assets	**453,598**	**243,871**	**771,330**	**15,122**	**50,588**	**61,654**	**6,130**	**10,216**	**1,612,509**
Liabilities									
Financial liabilities designated at fair value through profit or loss	566	226	692	-	-	-	-	-	1,484
Financial liabilities measured at amortised cost	283,522	293,406	739,998	4,477	50,184	71,471	17,650	54,239	1,514,947
Derivative financial instruments	606	-	26	-	-	12	-	-	644
Other liabilities	8,463	1,253	1,212	1,012	119	997	99	252	13,407
Total liabilities	**293,157**	**294,885**	**741,928**	**5,489**	**50,303**	**72,480**	**17,749**	**54,491**	**1,530,482**
Equity	82,027	**-**	**-**	**-**	**-**	**-**	-	-	82,027
Total liabilities and equity	**375,184**	**294,885**	**741,928**	**5,489**	**50,303**	**72,480**	**17,749**	**54,491**	**1,612,509**
Net long/ (short) position for balance sheet items	78,414	(51,014)	29,402	9,633	285	(10,826)	(11,619)	(44,275)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	-	2,573	(9,517)	40	-	10,864	(4,216)	227	(29)
Forward foreign exchange contracts	4,255	4,836	(9,316)	274	-	-	4	-	53
Swap exchange contracts	(89,500)	41,167	(46,146)	1,674	4,546	25,243	15,964	49,013	1,961
Net long/ (short) positions on foreign exchange	*(85,245)*	*48,576*	*(64,979)*	*1,988*	*4,546*	*36,107*	*11,752*	*49,240*	*1,985*
Net long/ (short) position as at 31 December 2010	**(6,831)**	**(2,438)**	**(35,577)**	**11,621**	**4,831**	**25,281**	**133**	**4,965**	**1,985**
Exchange rates applied as at 31 December 2010 (LVL for 1 foreign currency unit)	-	0.535	0.702804	0.563	0.0449	0.203	0.0176	-	-

	Bank as at 31/12/2011, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	199,494	6,024	20,439	165	137	950	2,450	229,659
Balances due from credit institutions	13,750	109,112	63,738	32	637	8,261	867	196,397
Available-for-sale securities	26,436	17,495	54,549	-	731	-	3,078	102,289
Loans and receivables to customers	61,629	79,623	481,249	2,782	-	459	31	625,773
Held-to-maturity securities	118,442	-	-	-	-	-	-	118,442
Derivative financial instruments	3,523	19	-	-	-	-	-	3,542
Other assets	79,644	428	710	1	-	1	189	80,973
Total assets	**502,918**	**212,701**	**620,685**	**2,980**	**1,505**	**9,671**	**6,615**	**1,357,075**
Liabilities								
Financial liabilities measured at amortised cost	362,754	272,432	550,975	7,150	107	29,970	38,365	1,261,753
Derivative financial instruments	1,792	-	18	-	-	-	-	1,810
Other liabilities	6,313	1,132	407	3	3	85	777	8,720
Total liabilities	**370,859**	**273,564**	**551,400**	**7,153**	**110**	**30,055**	**39,142**	**1,272,283**
Equity	84,792	-	-	-	-	-	-	84,792
Total liabilities and equity	**455,651**	**273,564**	**551,400**	**7,153**	**110**	**30,055**	**39,142**	**1,357,075**
Net long/ (short) position for balance sheet items	47,267	(60,863)	69,285	(4,173)	1,395	(20,384)	(32,527)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	970	174	(1,587)	464	-	(911)	881	(9)
Forward foreign exchange contracts	2,918	1,110	9,112	866	(14,087)	-	-	(81)
Swap exchange contracts	(69,246)	56,647	(69,628)	2,800	23,385	21,380	36,435	1,773
Net long/ (short) positions on foreign exchange	*(65,358)*	*57,931*	*(62,103)*	*4,130*	*9,298*	*20,469*	*37,316*	*1,683*
Net long/ (short) position as at 31 December 2011	**(18,091)**	**(2,932)**	**7,182**	**(43)**	**10,693**	**85**	**4,789**	**1,683**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	-	0.544	0.702804	0.577	0.204	0.017	-	-

	Bank as at 31/12/2010, LVL 000's								
	LVL	USD	EUR	CHF	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	126,313	4,131	11,848	407	31,624	144	417	2,464	177,348
Balances due from credit institutions	12,456	52,559	136,134	200	87	4,083	4,545	1,544	211,608
Securities held for trading	-	-	4	-	-	-	-	-	4
Available-for-sale securities	56,876	12,065	80,792	-	-	-	-	3,194	152,927
Loans and receivables to customers	64,594	131,283	474,611	3,933	15,555	-	877	245	691,098
Held-to-maturity securities	117,280	-	-	-	-	-	-	-	117,280
Derivative financial instruments	2,656	18	42	-	-	-	-	-	2,716
Other assets	81,637	119	688	13	29	2	19	414	82,921
Total assets	**461,812**	**200,175**	**704,119**	**4,553**	**47,295**	**4,229**	**5,858**	**7,861**	**1,435,902**
Liabilities									
Financial liabilities measured at amortised cost	285,573	242,135	687,193	6,369	51,043	116	17,391	52,421	1,342,241
Derivative financial instruments	676	-	26	-	-	-	-	-	702
Other liabilities	6,885	1,086	527	3	75	3	90	250	8,919
Total liabilities	**293,134**	**243,221**	**687,746**	**6,372**	**51,118**	**119**	**17,481**	**52,671**	**1,351,862**
Equity	84,040	-	-	-	-	-	-	-	84,040
Total liabilities and equity	**377,174**	**243,221**	**687,746**	**6,372**	**51,118**	**119**	**17,481**	**52,671**	**1,435,902**
Net long/ (short) position for balance sheet items	84,638	(43,046)	16,373	(1,819)	(3,823)	4,110	(11,623)	(44,810)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	-	2,104	1,802	40	-	-	(4,216)	236	(34)
Forward foreign exchange contracts	4,255	5,304	14,815	274	-	(24,532)	4	-	120
Swap exchange contracts	(89,500)	31,662	(36,357)	1,618	4,546	25,243	15,718	48,958	1,888
Net long/ (short) positions on foreign exchange	*(85,245)*	*39,070*	*(19,740)*	*1,932*	*4,546*	*711*	*11,506*	*49,194*	*1,974*
Net long/ (short) position as at 31 December 2010	**(607)**	**(3,976)**	**(3,367)**	**113**	**723**	**4,821**	**(117)**	**4,384**	**1,974**
Exchange rates applied as at 31 December 2010 (LVL for 1 foreign currency unit)	-	0.535	0.702804	0.563	0.0449	0.203	0.0176	-	-

f) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable liquidity risk level, the Group's internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Daily liquidity management, as well as control is ensured by the Treasury department. Liquidity risk management and reporting in the Group is coordinated by the Risk and Compliance Sector.

The Bank evaluates liquidity risk by using scenario analysis. For this purpose several scenarios of Bank's operations under a variety of conditions are developed: gentle crisis (base case scenario), bank's crisis, general market crisis and a combined scenario. The Bank evaluates its liquidity position for each of the scenarios for a variety of periods (ranging from 1 week to 3 months). System of liquidity risk limits and early warning indicators has been implemented in the Bank. Bank also estimates costs it could suffer under conditions of prolonged liquidity crisis. In addition to scenarios analysis, the Bank also prepares yearly cash flows, which incorporate assumptions about the most likely flows of funds. For general assessment of asset and liability gaps the Bank regularly prepares and analyzes liquidity term structure.

In 2011 and 2010 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

Year	*High*	*Low*	*Average*	*Year-end*
2011	79%	61%	68%	72%
2010	88%	76%	81%	80%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2011

	Group as at 31/12/2011, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	232,631	-	-	-	-	10,608	243,239
Balances due from credit institutions	216,826	8,039	-	335	267	272	225,739
Securities held for trading	34	-	-	-	126	35	195
Financial assets designated at fair value through profit or loss	-	-	368	172	4,618	1,223	6,381
Available-for-sale securities	3,581	10,209	5,581	20,412	105,531	19,282	164,596
Loans and receivables to customers	17,650	15,553	37,308	54,258	421,070	171,303	717,142
Held-to-maturity securities	1	-	1,198	1,137	114,875	9,150	126,361
Derivative financial instruments	2,640	57	786	-	-	-	3,483
Other assets	5,752	256	95	755	639	65,664	73,161
Total assets	**479,115**	**34,114**	**45,336**	**77,069**	**647,126**	**277,537**	**1,560,297**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	3,824	602	4,426
Financial liabilities measured at amortised cost	856,189	207,739	97,767	201,731	96,833	1,356	1,461,615
Derivative financial instruments	480	103	237	-	-	-	820
Other liabilities	9,781	260	133	98	833	1,247	12,352
Total liabilities	**866,450**	**208,102**	**98,137**	**201,829**	**101,490**	**3,205**	**1,479,213**
Equity	-	-	-	-	-	81,084	81,084
Total liabilities and equity	**866,450**	**208,102**	**98,137**	**201,829**	**101,490**	**84,289**	**1,560,297**
Net balance sheet position – long/ (short)	(387,335)	(173,988)	(52,801)	(124,760)	545,636	193,248	-
Memorandum items							
Contingent liabilities	21,370	-	-	-	-	-	21,370
Financial commitments	125,709	-	-	-	-	-	125,709

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2011

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2011:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	-	-	-	-	3,824	602	4,426
Financial liabilities measured at amortised cost	857,494	212,110	101,356	206,880	115,956	1,312	1,495,108
Memorandum items							
Contingent liabilities	21,370	-	-	-	-	-	21,370
Financial commitments	125,709	-	-	-	-	-	125,709

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2010

	Group as at 31/12/2010, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	179,233	-	-	-	-	7,987	187,220
Balances due from credit institutions	199,078	6,800	246	201	13,034	265	219,624
Securities held for trading	34	-	-	-	136	4	174
Financial assets designated at fair value through profit or loss	-	-	-	-	1,483	1,835	3,318
Available-for-sale securities	5,228	10,830	43,891	59,901	54,267	22,874	196,991
Loans and receivables to customers	30,428	14,501	31,329	32,444	408,853	276,774	794,329
Held-to-maturity securities	-	1,374	180	4,288	111,947	9,783	127,572
Derivative financial instruments	2,618	14	36	2	-	-	2,670
Other assets	5,099	391	2,283	207	141	72,490	80,611
Total assets	**421,718**	**33,910**	**77,965**	**97,043**	**589,861**	**392,012**	**1,612,509**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	1,484	-	1,484
Financial liabilities measured at amortised cost	749,926	170,607	212,482	152,730	174,219	54,983	1,514,947
Derivative financial instruments	627	13	-	4	-	-	644
Other liabilities	10,859	625	134	19	667	1,103	13,407
Total liabilities	**761,412**	**171,245**	**212,616**	**152,753**	**176,370**	**56,086**	**1,530,482**
Equity	-	-	-	-	-	82,027	82,027
Total liabilities and equity	**761,412**	**171,245**	**212,616**	**152,753**	**176,370**	**138,113**	**1,612,509**
Net balance sheet position – long/ (short)	(339,694)	(137,335)	(134,651)	(55,710)	413,491	253,899	-
Memorandum items							
Contingent liabilities	10,128	-	-	-	-	-	10,128
Financial commitments	91,633	-	-	-	-	-	91,633

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2010

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2010:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	-	-	-	-	1,484	-	1,484
Financial liabilities measured at amortised cost	750,127	173,710	217,863	158,255	205,984	61,473	1,567,412
Memorandum items							
Contingent liabilities	10,128	-	-	-	-	-	10,128
Financial commitments	91,633	-	-	-	-	-	91,633

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2011

	Bank as at 31/12/2011, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	229,659	-	-	-	-	-	229,659
Balances due from credit institutions	196,397	-	-	-	-	-	196,397
Available-for-sale securities	1,404	6,412	735	13,036	69,889	10,813	102,289
Loans and receivables to customers	10,346	48,979	35,459	46,668	366,551	117,770	625,773
Held-to-maturity securities	-	-	-	-	109,292	9,150	118,442
Derivative financial instruments	2,701	47	794	-	-	-	3,542
Other assets	4,612	3	7	49	11	76,291	80,973
Total assets	**445,119**	**55,441**	**36,995**	**59,753**	**545,743**	**214,024**	**1,357,075**
Liabilities							
Financial liabilities measured at amortised cost	700,997	202,112	86,113	181,460	90,470	601	1,261,753
Derivative financial instruments	1,259	314	237	-	-	-	1,810
Other liabilities	8,720	-	-	-	-	-	8,720
Total liabilities	**710,976**	**202,426**	**86,350**	**181,460**	**90,470**	**601**	**1,272,283**
Equity	-	-	-	-	-	84,792	84,792
Total liabilities and equity	**710,976**	**202,426**	**86,350**	**181,460**	**90,470**	**85,393**	**1,357,075**
Net balance sheet position – long/ (short)	(265,857)	(146,985)	(49,355)	(121,707)	455,273	128,631	-
Memorandum items							
Contingent liabilities	18,307	-	-	-	-	-	18,307
Financial commitments	141,868	-	-	-	-	-	141,868

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2011

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	702,136	206,294	89,483	185,920	109,159	-	1,292,992
Memorandum items							
Contingent liabilities	18,307	-	-	-	-	-	18,307
Financial commitments	141,868	-	-	-	-	-	141,868

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2010

	Bank as at 31/12/2010, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	177,348	-	-	-	-	-	177,348
Balances due from credit institutions	186,432	12,720	-	-	12,456	-	211,608
Securities held for trading	-	-	-	-	4	-	4
Available-for-sale securities	3,653	8,900	39,142	50,883	28,879	21,470	152,927
Loans and receivables to customers	23,950	46,157	27,825	22,593	352,909	217,664	691,098
Held-to-maturity securities	-	-	-	-	108,103	9,177	117,280
Derivative financial instruments	2,684	8	22	2	-	-	2,716
Other assets	3,826	10	36	50	14	78,985	82,921
Total assets	**397,893**	**67,795**	**67,025**	**73,528**	**502,365**	**327,296**	**1,435,902**
Liabilities							
Financial liabilities measured at amortised cost	637,792	154,215	191,820	138,317	168,432	51,665	1,342,241
Derivative financial instruments	693	6	-	3	-	-	702
Other liabilities	8,919	-	-	-	-	-	8,919
Total liabilities	**647,404**	**154,221**	**191,820**	**138,320**	**168,432**	**51,665**	**1,351,862**
Equity	-	-	-	-	-	84,040	84,040
Total liabilities and equity	**647,404**	**154,221**	**191,820**	**138,320**	**168,432**	**135,705**	**1,435,902**
Net balance sheet position – long/ (short)	(249,511)	(86,426)	(124,795)	(64,792)	333,933	191,591	-
Memorandum items							
Contingent liabilities	6,724	-	-	-	-	-	6,724
Financial commitments	113,049	-	-	-	-	-	113,049

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2010

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	637,792	156,781	196,744	143,246	199,521	57,832	1,391,916
Memorandum items							
Contingent liabilities	6,724	-	-	-	-	-	6,724
Financial commitments	113,049	-	-	-	-	-	113,049

Group's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Group's derivatives settled on a gross basis as at 31 December 2011.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(440)	(86)	(237)	-	-	-	(763)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,160)	(212)	-	-	-	-	(8,372)
inflow	8,167	222	-	-	-	-	8,389

Group's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Group's derivatives settled on a gross basis as at 31 December 2010.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(606)	(6)	-	(3)	-	-	(615)
Interest rate derivatives	-	(5)	(1)	-	-	-	(6)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(4,488)	-	-	(1)	-	-	(4,489)
inflow	4,528	-	-	1	-	-	4,529
Other derivatives:							
outflow	-	-	-	-	(20)	-	(20)
inflow	-	-	-	-	42	-	42

Bank's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Bank's derivatives settled on a gross basis as at 31 December 2011.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(1,218)	(314)	(237)	-	-	-	(1,769)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,448)	-	-	-	-	-	(8,448)
inflow	8,453	-	-	-	-	-	8,453

Bank's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Bank's derivatives settled on a gross basis as at 31 December 2010.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(664)	(6)	-	(3)	-	-	(673)
Interest rate derivatives	-	(5)	(1)	-	-	-	(6)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(4,697)	-	-	-	-	-	(4,697)
inflow	4,734	-	-	-	-	-	4,734
Other derivatives:							
outflow	-	-	-	-	(20)	-	(20)
inflow	-	-	-	-	42	-	42

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in many cases, particularly in respect of loans and receivables to customers, the Group intends to realise assets through collection over time. Users of these financial statements are therefore advised to use caution when using this data to evaluate the Group's financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks
The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions/ Balances due to credit institutions and central banks
The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to short-term maturity profiles.

Loans and receivables to customers
The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by LVL 8.6 million (2010: LVL 8.6 million).

Held to maturity securities
Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Customer deposits
The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by LVL 0.2 million (2010: LVL 0.5 million).

Issued debt
The value of issued debt is determined using either valuation models employing observable or non-observable market inputs or quotes of market participants.

Subordinated liabilities
The value of subordinated liabilities approximates the carrying amount.

Fair value hierarchy

Quoted market prices (Level 1)
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2011.

	Carrying value	Fair value	Fair value hierarchy level
Cash and demand deposits with central banks	243,239	243,239	n/a
Balances due from credit institution	225,739	225,740	n/a
Held-for-trading securities	195	195	Level 1
Financial assets designated at fair value through profit or loss	6,381	6,381	Level 1
Derivatives	3,483	3,483	Level 2
Available-for-sale securities	164,596	164,596	Level 1
Loans and receivables to customers	717,142	704,473	n/a
Held to maturity securities	126,361	129,485	n/a
Total financial assets	**1,487,136**	**1,477,595**	
Derivatives	820	820	Level 2
Financial liabilities designated at fair value through profit or loss	4,426	4,426	Level 1
Financial liabilities measured at amortised cost:			
Balances due to credit institutions and central banks	47,470	47,482	n/a
Customer deposits	1,317,971	1,316,418	n/a
Issued debt	20,925	20,928	n/a
Subordinated liabilities	51,948	51,948	n/a
Other financial liabilities	23,301	23,817	n/a
Total financial liabilities	**1,466,861**	**1,465,839**	

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2010.

	Carrying value	Fair value	Fair value hierarchy level
Cash and demand deposits with central banks	187,220	187,220	n/a
Balances due from credit institution	219,624	219,624	n/a
Held-for-trading securities	174	174	Level 1
Financial assets designated at fair value through profit or loss	3,318	3,318	Level 1
Derivatives	2,670	2,670	Level 2
Available-for-sale securities	196,991	196,991	Level 1
Loans and receivables to customers	794,329	770,655	n/a
Held to maturity securities	127,572	130,207	n/a
Total financial assets	**1,531,898**	**1,510,859**	
Derivatives	644	644	Level 2
Financial liabilities designated at fair value through profit or loss	1,484	1,484	Level 1
Financial liabilities measured at amortised cost:			
Balances due to credit institutions and central banks	70,559	70,559	n/a
Customer deposits	1,294,335	1,289,083	n/a
Issued debt	91,485	91,351	n/a
Subordinated liabilities	51,235	51,235	n/a
Other financial liabilities	7,333	9,047	n/a
Total financial liabilities	**1,517,075**	**1,513,403**	

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2011.

	Carrying value	Fair value	Fair value hierarchy level
Cash and demand deposits with central banks	229,659	229,659	n/a
Balances due from credit institution	196,397	196,397	n/a
Derivatives	3,542	3,542	Level 2
Available-for-sale securities	102,289	102,289	Level 1
Loans and receivables to customers	625,773	612,274	n/a
Held to maturity securities	118,442	122,002	n/a
Total financial assets	**1,276,102**	**1,266,163**	
Derivatives	1,810	1,810	Level 2
Financial liabilities measured at amortised cost:			
Balances due to credit institutions and central banks	71,768	71,768	n/a
Customer deposits	1,099,258	1,097,557	n/a
Issued debt	20,997	21,000	n/a
Subordinated liabilities	51,948	51,948	n/a
Other financial liabilities	17,782	17,782	n/a
Total financial liabilities	**1,263,563**	**1,261,865**	

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2010.

	Carrying value	Fair value	Fair value hierarchy level
Cash and demand deposits with central banks	177,348	177,348	n/a
Balances due from credit institution	211,608	211,608	n/a
Held-for-trading securities	4	4	Level 1
Derivatives	2,716	2,716	Level 2
Available-for-sale securities	152,927	152,927	Level 1
Loans and receivables to customers	691,098	667,743	n/a
Held to maturity securities	117,280	119,152	n/a
Total financial assets	**1,352,981**	**1,331,498**	
Derivatives	702	702	Level 2
Financial liabilities measured at amortised cost:			
Balances due to credit institutions and central banks	82,175	82,175	n/a
Customer deposits	1,117,274	1,111,351	n/a
Issued debt	91,557	91,423	n/a
Subordinated liabilities	51,235	51,235	n/a
Total financial liabilities	**1,342,943**	**1,336,886**	

g) Operational risk

The Group defines operational risk as the risk of losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues, as well as unmanageable risks or risks with unquantifiable impact, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk – the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;
- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Defining the limits of the acceptable losses;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- "Four-eye-principle" and segregation of duties;
- Business continuity planning;
- Risk assessment within product development;
- Insurance;
- Investments in appropriate data processing and information protection technologies.

h) Capital management

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8% of risk weighted assets. In second half of 2011, for the first time ever FCMC calculated Bank's capital adequacy ratio, based on FCMC internal policies and guidelines. From now on, the calculation will be performed once a year. The results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be 9.2%. The increase in ratio is related to the non-resident business of the Bank. At the same time, FCMC's guidelines stipulate that well capitalised banks should have at least 10% minimum capital adequacy ratio. As a result, FCMC expects that, during the 12 months period that will end as at 30 September 2012, the Bank will maintain the capital adequacy ratio above 10%. As at 31 December 2011 the Bank's actual capital adequacy ratio was 13.3%, thus the management believes that the aforementioned guidelines of FCMC will be met.

Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity.

The Capital Requirements Directive (CRD), which implements Basel II capital regulations in the EU, came into full force on 1 January 2008. In Latvia the directive was implemented through FCMC regulations. Among the options provided in the regulations, the Bank and Group has chosen to use standardized approach in credit risk calculations and basic indicators approach in calculating operational risk charge.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements.

The Bank implements the internal capital adequacy assessment process (ICAAP) by estimating individual capital charges for every significant risk type inherent to the Bank. The internal modelling takes account of a greater number of risks than is provided for in minimum capital requirements (e.g. interest rate risk in the banking book, concentration risk, reputation risk etc). Furthermore, to ensure sustainability even at times of distress, the Bank plans its capital adequacy strategy under assumptions of the adverse macroeconomic scenario.

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel II* framework) can be disclosed as follows:

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Tier 1				
- paid-in share capital	103,000	103,000	103,000	103,000
- audited retained earnings/ (accumulated loss) (not subject to dividend distribution)	(16,901)	(18,807)	(15,886)	(19,427)
Less				
- intangible assets	(1,172)	(2,001)	(770)	(1,256)
- negative securities fair value revaluation reserve	(2,789)	-	(2,321)	-
- restructuring reserve	(3,389)	(3,389)	-	-
- Investments in subsidiaries – insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 1	**77,249**	**77,303**	**82,523**	**80,817**
Tier 2				
- subordinated debt	50,270	50,270	50,270	50,270
- amortisation of subordinated debt	(10,054)	-	(10,054)	-
- positive securities fair value revaluation reserve	-	553	-	467
- Tier 2 excess over 50% from Tier 1	(841)	(11,422)	-	(9,579)
- investments in subsidiaries – insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 2	**37,875**	**37,901**	**38,716**	**39,658**
Equity to be utilised in the capital adequacy ratio	**115,124**	**115,204**	**121,239**	**120,475**
Credit risk and counterparty risk capital charge by regulatory asset classes:				
Central governments and banks	497	443	29	57
Municipalities	112	184	41	125
Government institutions	9	19	9	19
Credit institutions	7,009	7,388	7,071	8,826
Companies	33,784	33,593	35,078	34,865
Assets qualifying for "retail" definition	5,624	6,651	3,970	4,431
Qualifying residential mortgage loans	7,745	8,211	5,715	5,989
Assets qualifying for "past due" definition	1,293	3,017	990	2,655
Covered bonds	109	113	109	113
Investment funds	666	750	666	750
Other assets	12,876	16,137	8,698	10,948
Other risk capital charges:				
Foreign currency open positions subject to capital charge	3,143	3,756	1,860	635
Fixed income securities position risk capital charge	144	168	144	168
Commodities risk capital charge	60	-	60	-
Operational risk capital charge	10,624	11,604	8,364	9,390
Total capital charges	**83,695**	**92,034**	**72,804**	**78,971**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	**11.0%**	**10.0%**	**13.3%**	**12.2%**

* AAS Citadele Life is not included in consolidation group for capital adequacy purposes. The investment value directly reduces the equity eligible for the capital adequacy ratio calculation purposes.

NOTE 37. EVENTS AFTER THE BALANCE SHEET DATE

Early repayment of Ministry of Finance deposit

On 15 February 2012 the Bank repaid EUR 46.6 million to the Ministry of Finance ahead of the schedule. Thus Citadele has repaid the whole amount of state support deposits due to the Ministry of Finance of the Republic of Latvia.

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Citadele banka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Citadele banka and its subsidiaries (the "Group") and financial statements of AS Citadele banka (the "Bank") on pages 10 to 76, which comprise the balance sheets as of 31 December 2011 and the statements of income and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 3 to 7 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2011.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ahmed Abu Sharkh
Chairman of the Board

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
23 March 2012

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.