Joint Stock Company **Parex banka**

PAREX BANKA

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

MAXIMUM RECOVERY OF STATE AID

Table of Contents

Management Report....3

Management of the Bank....5

Statement of Responsibility of the Management....6

Statements of Income....7

Statements of Comprehensive Income....8

Balance Sheets....9

Statements of Changes in Equity....10

Statements of Cash Flows....11

Notes....12

Auditors' Report....69

AS Parex banka
Republikas laukums 2a, Riga,
LV-1522, Latvia

Phone: (371) 6 777 9100
Facsimile: (371) 6 777 9101

Registration number: 40003074590

Management Report

Dear Shareholders and Cooperation Partners,

The Management Board of Parex banka is pleased to report significant achievments toward its main goal of recovering funds invested by the state as a bailout facility. Within the short period that the restructured Parex banka has existed, the Bank has created a strong collection team to manage its portfolio of distressed assets on a highly professional basis, and achieved notable results especially in relation to several complex multimillion lats projects.

Since 1 August 2010, Parex banka has in total recovered more than 220 million lats, mainly by restructuring distressed loans and selling securities. It is important to note that due to its specific time strategy Parex banka has continuously and consistently managed to avoid forced sale of its assets.

Parex banka's activity is focused in three main directions during the accounting period – loan restructuring, debt recovery and real estate management. In 2011 the bank concluded several sophisticated loan restructuring transactions, which enabled Parex banka to recover the loans once granted by it.

In the future, Parex banka expects to continue to collect and recover significant monies from the distressed asset portfolio but it is prudent to note that the Management Board also expects that litigation and similar expenses are likely to increase which might lead to a lower level of net recovery.

However Parex banka's main achievement in 2011 was repayment of the State guaranteed international syndicated loan debt of 164 million lats. The bank repaid this sum without receiving additional aid from the State. This assisted with the protection of the interests of the State and tax payers, and completely settled Parex banka's prime substantial liabilities.

During the accounting period Parex banka prepared and implemented the large scale project to sell its subsidiary leasing companies in CIS countries. First results were achieved at the end of September 2011 when the bank exited from the Russian leasing market by entering into a beneficial agreement concerning the sale of its Russian subsidiaries, Parex Leasing and Extroleasing. The first payment already recovered more than 14.5 million US dollars or 7.5 million lats. Parex banka will continue receive payments from the gradual collection of the leasing company's problem asset portfolio until the end of 2013. Following the successful sale of the Parex banka leasing companies in Russia, a deal involving sale of Pareks Lizinq and Faktorinq in Azerbaijan was closed in October 2011. As a result of this deal the bank recovered an additional 3.4 million US dollars or 1.8 million lats.

On 22 November 2011 the Cabinet of Ministers approved the model for Parex banka's further activity which allows the bank's change of status. On 28 December 2011 Parex banka's extraordinary shareholder meeting approved the decision for the voluntary giving up of the banking license and authorised the bank's Board of Directors to start preparatory work for the successful change of the company's status.

It is important to emphasize that the decision on Parex banka's change of status is a natural and logical step because it has not provided banking services since 1 August 2010. After the bank's change in status it will continue working as a joint stock company – as a manager of distressed assets, mainly focusing on working the distressed assets, recovery of loan claims, and the sale of whilst ensuring asset value maintenance. The former structure of Parex banka's assets and liabilities, including clients' existing liabilities, will be preserved. The new activity model of Parex banka will be implemented after receiving a permission from the Finance and Capital Market Commission.

Parex banka's real estate portfolio has significantly increased – it exceeded over 800 objects at the end of reporting period. These are apartments and private buildings of various categories as well as a wide range of commercial premises in the Baltic States. By applying professional management of repossessed real estate, Parex banka expects to maintain or increase the value of these assets and sell them on beneficial conditions.

In 2011 the share capital of the Parex banka was increased by 39.8 million lats. At the end of August the share capital was increased by 20 million lats by issuing 20 million ordinary registered shares with voting rights, and nominal value 1 lat per share. The second increase of the share capital took place in late November when the capital was increased by 19.8 million lats. At the end of the reporting period the amount of Parex banka's share capital was 311'027'295 lats and it consisted of 250'883'439 registered shares with voting rights and 60'143'856 registered shares without voting rights.

In December 2011 Parex banka made an early repayment of deposit principal made by the State in the sum of 7 million lats to the Ministry of Finance one year before the original deadline.

In December 2011 Parex banka and the Latvian Privatization Agency filed a petition against Valērijs Kargins and Viktors Krasovickis, former shareholders of the bank, demanding compensation of damages to the Privatization Agency in the amount of more than 12 million lats, and collection of more than 82.7 million lats and default of 4.5 million lats in favour of Parex banka. The total sum of the claim equals nearly 100 million lats.

Most significant events after the accounting period

In February 2012 after more than 17 months of professionally hard and demanding work Parex banka recovered 27.8 million euros or 19.5 million lats by selling their right to claim toward department store «Универмаг Москва» and related companies. Thus the Bank has successfully recovered the remaining principal amount from the exposure in full.

On February 15, 2012 Parex banka repaid the deposits made by the State in the amount of 8 million lats to the Ministry of Finance. This sum included the principal amount of 5 million lats and 3 million lats of interest in respect of State aid.

15 March 2012, the Financial and Capital Market Commission (FCMC) supported Parex banka's request to voluntarily give up the credit institution licence, and took a favourable decision on the licence cancellation. Thus the last formalities that prevented from the status change are removed and according to the decision of the shareholders' meeting the company may now undertake all actions necessary.

Christopher John Gwilliam
Chairman of the Management Board

Solvita Deglava
Member of the Management Board

Jurijs Adamovičs
Member of the Management Board

Riga,
28 March 2012

Management of the Bank

Council of the Bank

Name	Position
Michael Joseph Bourke	Chairman of the Council
Sarmīte Jumīte	Deputy chairwoman of the Council
Vladimirs Loginovs	Member of the Council
Mary Ellen Collins	Member of the Council

Management Board of the Bank

Name	Position
Christopher John Gwilliam	Chairman of the Management Board, p.p.
Solvita Deglava	Member of the Management Board, p.p.
Jurijs Adamovičs	Member of the Management Board

Statement of Responsibility of the Management

The Management of AS Parex 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 7 to 68 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 4 presents fairly the financial results of the reporting year 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 Parex banka are 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.

Christopher John Gwilliam
Chairman of the Management Board

Solvita Deglava
Member of the Management Board

Jurijs Adamovičs
Member of the Management Board

Riga,
28 March 2012

Statements of Income

	Notes	LVL 000's 2011 Group	2010 Group	2011 Bank	2010 Bank
Interest income	3	11,412	71,621	10,821	64,248
Interest expense	3	(33,080)	(83,495)	(32,996)	(80,297)
Net interest expense		**(21,668)**	**(11,874)**	**(22,175)**	**(16,049)**
Commission and fee income	4	322	15,853	4	11,569
Commission and fee expense	4	(140)	(4,786)	(58)	(3,602)
Net commission and fee income / (expense)		**182**	**11,067**	**(54)**	**7,967**
Gain / (loss) on transactions with financial instruments, net	5	(4,117)	641	(4,244)	(316)
Other income	6	3,831	9,253	1,877	6,317
Other expense		(2,920)	(2,182)	(1,867)	(743)
Administrative expense	7,8	(11,169)	(41,306)	(7,801)	(30,427)
Amortisation and depreciation charge	18,19	(373)	(5,882)	(272)	(2,740)
Impairment charges and reversals, net	9	(33,641)	(108,826)	(35,468)	(115,731)
Profit/(loss) on disposal of assets held for sale, net	17	17	(12,148)	(178)	(11,192)
Gain on transfer of undertaking	10	-	12,270	-	-
Loss before taxation		**(69,858)**	**(148,987)**	**(70,182)**	**(162,914)**
Corporate income tax	11	(632)	(1,883)	(192)	(950)
Net loss for the year		**(70,490)**	**(150,870)**	**(70,374)**	**(163,864)**
Attributable to:					
Equity holders of the Bank		(70,490)	(150,870)	(70,374)	(163,864)
Minority interest		-	-	-	-

The notes on pages 12 to 68 are an integral part of these financial statements.

Statements of Comprehensive Income

	Notes	LVL 000's			
		2011	2010	2011	2010
		Group	Group	Bank	Bank
Net loss for the year		**(70,490)**	**(150,870)**	**(70,374)**	**(163,864)**
Other comprehensive income:					
*Fair value revaluation reserve: held-to-maturity securities**					
Amortisation		-	1,451	-	923
Deferred income tax charged directly to equity		-	89	-	(3)
Reclassification of securities to available for sale category**		-	1,648	-	1,648
Transferred to Citadele banka		-	3,002	-	3,002
Fair value revaluation reserve: available-for-sale securities					
Impairment of securities		-	1,100	-	1,100
Fair value revaluation reserve charged to statement of income		-	745	-	1,453
Change in fair value of available for sale securities		4,198	558	4,198	123
Deferred income tax charged directly to equity		-	(326)	-	(305)
Reclassification of securities from held to maturity category**		-	(1,648)	-	(1,648)
Transferred to Citadele banka		-	1,014	-	1,001
Other comprehensive income for the year		4,198	7,633	4,198	7,294
Total comprehensive loss for the year		**(66,292)**	**(143,237)**	**(66,176)**	**(156,570)**
Attributable to:					
Equity holders of the Bank		(66,292)	(143,237)	(66,176)	(156,570)
Minority interest		-	-	-	-

*The reserve is attributable to available-for-sale securities that were reclassified to held-to-maturity securities in 2008. The reserve is amortised to Income statement till the maturity of the securities.

**Upon transfer of undertaking certain securities were reclassified from held to maturity to available for sale category. For more details please see Note 2.

The notes on pages 12 to 68 are an integral part of these financial statements.

Balance Sheets

	Notes	LVL 000's			
		2011	2010	2011	2010
		Group	Group	Bank	Bank
Assets					
Cash and deposits with central banks	12	5	26,944	5	26,944
Balances due from credit institutions	13	25,623	67,687	25,475	65,837
Securities held for trading:					
- fixed income	15	-	821	-	821
- shares and other non-fixed income	16	31	305	31	305
Derivative financial instruments	27	-	122	-	122
Available-for-sale securities:					
- fixed income	15	4,436	59,410	4,436	59,410
Loans and receivables to customers	14	425,250	541,550	452,676	566,280
Held-to-maturity securities	15	24,318	24,208	24,318	41,365
Fixed assets	19	283	1,756	279	1,754
Goodwill and intangible assets	18	139	152	139	152
Investments in subsidiaries	17	-	-	62	60
Investment property	20	40,450	19,810	18,586	13,627
Other assets	21	15,642	49,321	9,511	12,604
Total assets		**536,177**	**792,086**	**535,518**	**789,281**
Liabilities					
Derivative financial instruments	27	1,688	2,002	1,688	2,002
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	23	13,295	178,615	13,295	178,615
- deposits from customers	24	26,714	495,865	26,714	495,875
- issued debt securities	22	428,028	-	428,028	-
Other liabilities		2,949	25,661	1,788	22,460
Subordinated liabilities	25	53,082	53,030	53,082	53,030
Total liabilities		**525,756**	**755,173**	**524,595**	**751,982**
Equity					
Paid-in share capital	26	311,027	271,227	311,027	271,227
Share premium		12,694	12,694	12,694	12,694
Fair value revaluation reserve – available-for-sale securities		(487)	(4,685)	(487)	(4,685)
Accumulated losses		(312,813)	(242,323)	(312,311)	(241,937)
Total shareholders' equity attributable to the shareholders of the Bank		**10,421**	**36,913**	**10,923**	**37,299**
Minority interest		-	-	-	-
Total equity		10,421	36,913	10,923	37,299
Total liabilities and equity		**536,177**	**792,086**	**535,518**	**789,281**

The notes on pages 12 to 68 are an integral part of these financial statements.

Statements of Changes in Equity

Group	LVL 000's				
	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2009*	**230,027**	**12,694**	**(12,318)**	**(91,453)**	**138,950**
Issue of new shares	41,200	-	-	-	41,200
Net loss for the period	-	-	-	(150,870)	(150,870)
Other comprehensive loss for the period	-	-	7,633	-	7,633
Balance as at 31 December 2010	**271,227**	**12,694**	**(4,685)**	**(242,323)**	**36,913**
Issue of new shares	39,800	-	-	-	39,800
Net loss for the period	-	-	-	(70,490)	(70,490)
Other comprehensive loss for the period	-	-	4,198	-	4,198
Balance as at 31 December 2011	**311,027**	**12,694**	**(487)**	**(312,813)**	**10,421**

Bank	LVL 000's				
	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2009*	**230,027**	**12,694**	**(11,979)**	**(78,073)**	**152,669**
Issue of new shares	41,200	-	-	-	41,200
Net loss for the period	-	-	-	(163,864)	(163,864)
Other comprehensive loss for the period	-	-	7,294	-	7,294
Balance as at 31 December 2010	**271,227**	**12,694**	**(4,685)**	**(241,937)**	**37,299**
Issue of new shares	39,800	-	-	-	39,800
Net loss for the period	-	-	-	(70,374)	(70,374)
Other comprehensive loss for the period	-	-	4,198	-	4,198
Balance as at 31 December 2011	**311,027**	**12,694**	**(487)**	**(312,311)**	**10,923**

*Before the transfer of undertaking

The notes on pages 12 to 68 are an integral part of these financial statements.

Statements of Cash Flows

	Notes	LVL 000's			
		2011	2010	2011	2010
		Group	Group	Bank	Bank
Cash flows from operating activities					
Loss before tax		(69,858)	(148,987)	(70,182)	(162,914)
Amortisation of intangible assets, depreciation of fixed assets		373	5,882	272	2,740
Interest expense		24,809	28,285	24,809	28,285
Change in impairment allowances and other provisions		39,934	112,193	33,362	118,832
Other non-cash items		(309)	(5,509)	(184)	300
Cash generated before changes in assets and liabilities		**(5,051)**	**(8,136)**	**(11,923)**	**(12,757)**
Change in derivative financial instruments		(192)	2,468	(192)	2,402
Decrease /(increase) in other assets		1,357	(3,583)	2,210	(9,681)
(Decrease)/ increase in other liabilities		(15,583)	23,194	(13,545)	28,120
Decrease in trading investments		821	2,116	821	1,784
Decrease in balances due from credit institutions		-	1,569	-	129,948
Decrease in loans and receivables from customers		75,088	96,869	77,566	17,615
Increase/ (decrease) in balances due to credit institutions		7,232	(40,172)	7,217	(47,507)
(Decrease)/ increase in deposits from customers		(17,380)	100,966	(17,380)	80,865
Cash generated from operating activities before corporate income tax		**46,292**	**175,291**	**44,774**	**190,789**
Corporate income tax paid		(632)	(1,908)	(192)	(75)
Net cash flows from operating activities		**45,660**	**173,383**	**44,582**	**190,714**
Cash flows from investing activities					
Purchase of intangible and fixed assets		(91)	(546)	(89)	(379)
Proceeds from disposal of subsidiaries		8,870	2,925	8,868	2,798
Acquisitions and investments in subsidiaries		-	-	-	(9,200)
Sale of available-for-sale securities, net		61,138	70,719	63,918	93,114
Net cash flow from investing activities		**69,917**	**73,098**	**72,697**	**86,333**
Cash flows from financing activities					
Paid in share capital		39,800	9,700	39,800	9,700
Repayment of syndicated loan		(169,044)	(219,684)	(169,044)	(219,684)
Repayment of Ministry of Finance deposits		(47,416)	(9,700)	(47,416)	(9,700)
Net cash flow from financing activities		**(176,660)**	**(219,684)**	**(176,660)**	**(219,684)**
Transferred to Citadele banka		-	(314,902)	-	(303,411)
Net cash flow for the year		**(61,083)**	**(288,105)**	**(59,381)**	**(246,048)**
Cash and cash equivalents at the beginning of the year	**29**	**86,671**	**374,776**	**84,821**	**330,869**
Cash and cash equivalents at the end of the year	**29**	**25,588**	**86,671**	**25,440**	**84,821**

The notes on pages 12 to 68 are an integral part of these financial statements.

Notes

Figures in parenthesis represent amounts as at 31 December 2010 or for year ended 31 December 2010, if not stated otherwise. 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.

AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 28 March 2012. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decision on approval of the financial statements.

NOTE 1. GENERAL INFORMATION

AS Parex banka (hereinafter – the Bank) was registered as a joint stock company on 14 May 1992. The Bank commenced its operations in June 1992. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1522. The Bank is parent company of the Group.

Until 1 August, 2010 the Bank's main areas of operation included accepting deposits from customers, granting short-term and long-term loans to local municipalities, corporate customers, private individuals and other credit institutions, issuing and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Bank offered its clients also trust management and investment banking services, performed local and international payments, as well as provided a wide range of other financial services.

On 28 July 2010, Parex and AS Citadele banka signed the agreement on the transfer of undertaking. On 1 August 2010 the actual transfer of undertaking took place, whereby certain Parex Banka's assets, liabilities as well as agreements were transferred to AS Citadele Banka. The Bank has developed a long-term strategy with respect to management of the asset pool left after the transfer of undertaking to AS Citadele banka. After the transfer date, the primary objective of Parex banka is to manage the residual assets portfolio by maximising its returns. The Bank does not attract new customers and does not provide full range of banking services any more.

After the transfer of undertaking the primary objective of Parex bank is to manage the residual assets portfolio by maximising its returns. The activities are carried out in accordance with the decision On the State Aid C 26/2009 (ex N 289/2009) approved by the European Commission.

As at 31 December 2011, the Bank had 130 (109) employees and the Group had 159 (271) employees.

The financial statements have been prepared on a going concern basis. The Bank is operating in line with the EC restructuring plan to achieve the objectives outlined there within the approved time frame till the end of 2017. After the transfer of undertaking on 01 August 2010 the Bank's liabilities have been restructured to match its assets maturities structure and ensure that Bank's ability to continue as going concern. The Bank does not have any delayed liabilities and it is foreseeable that the Bank will be able to settle its liabilities on time also in the future.

NOTE 2. 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.

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).

`Separate financial statements` - IAS 27 (revised 2011), (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

`Associates and joint ventures`- IAS 28 (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)

Amendments to IAS 1 - Offsetting Financial Assets and Financial Liabilities - (effective for annual periods beginning on or after 1 January 2014; not yet endorsed by the EU).

Amendments to IFRS 7 - Disclosures—Offsetting Financial Assets and Financial Liabilities - (effective for annual periods beginning on or after 1 January 2013; not yet endorsed by the EU).

Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, 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.

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).

Basis of Consolidation

As at 31 December 2011 and 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 less impairment provision if any. More detailed information on the group's subsidiaries is presented in Note 17.

The financial statements of AS Parex 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. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss.

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Income and Expense Recognition

Interest income and expense items are recognised on an accruals basis using the effective interest rate, after adjustment for recoverability.

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.

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. 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).

Taxation

For the year ended 31 December 2011 corporate income tax is applied at the rate of 15% (2010: 15%) on taxable income generated by the Bank for the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is assessed using the balance sheet liability method. The deferred corporate income tax is determined based on the tax rates that are expected to apply when the temporary differences reverse based on tax rates enacted or substantively enacted by the balance sheet date. The principal temporary differences arise from tax losses carried forward, differing rates of accounting and tax depreciation on the fixed assets, revaluation of securities, as well as the treatment of collective impairment allowances and vacation pay reserve.

The deferred corporate income tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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. All other purchases or sales are recognised as derivative instruments until settlement occurs.

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.

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.

Upon transfer of undertaking the Bank reclassified certain securities from held to maturity category to available for sale category. The reclassification of held to maturity securities was done in accordance with the IAS 39 paragraph 9, which specifies the exceptional circumstances where reclassification from the held to maturity portfolio is allowed without tainting the portfolio. Restructuring of the Bank is an isolated event that is beyond entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

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 income statement.

Derivative Financial Instruments

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

Subsequent to initial recognition, outstanding derivative contracts are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under respective assets and liabilities.

Gains or losses from changes in the fair value of outstanding derivative contracts, which are not designated as hedging instruments, are recognised in the statement of income as they arise.

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 statement 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 from 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.

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.

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.

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 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 in administrative expenses.

Impairment of loans and receivables to customers

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 the 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.

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.

Intangible Assets

Intangible assets comprise software. The cost of intangible assets 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 are with definite lives.

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	2%
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. 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.

Investment properties

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value and are not subject to amortization. Market value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Assets and liabilities 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 and fair value less costs to sell. 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".

Disposal groups, which is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction, are classified in the balance sheet as 'other assets' and 'other liabilities'. Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

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 loans and receivables.

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.

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.

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.

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.

Impairment of loans

The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependent 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 8.1 million (2010: LVL 11.2 million). 5% increase in collateral realisation values would result in LVL 8 million (2010: LVL 4 million) decrease in the Bank's specific impairment level, whereas 5% decrease in the respective values would result in LVL 9 million (2010: LVL 12 million) increase in the Bank's specific impairment level.

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.

Deferred tax asset

As a result of transfer of undertaking, most of the performing assets have been transferred to AS Citadele banka, and in 2010 the management's forecasts indicate that the Bank will not be able to generate taxable profits in foreseeable future and therefore deferred tax asset is not recognised.

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 73% (2010: 65%) 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.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Management board of the Bank as its chief operating decision maker.

Transfer of undertaking accounting

The bank used predecessor method as basis for accounting for the transfer of undertaking.

The assets and liabilities to be transferred were measured in accordance with applicable IFRSs immediately before the classification as "non-current assets held for distribution" (IFRS 5).

After classification of transferable net assets as a "disposal group" these were measured at the lower of the carrying value and fair value less costs to sell.

The carrying amount of net assets that were transferred to AS Citadele banka equalled zero. Since the carrying value of net assets was zero and any possible impairment could not reduce the value of net assets below zero, the fair value less costs to sell of the net assets to be transferred to AS Citadele banka equalled to the carrying amount of those net assets.

As the "disposal group" is determined at the stand alone level, any differences arising on the consolidated level are accounted for as profit or loss from the transfer in the statement of income under heading "Gain on transfer of undertaking".

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.

NOTE 3. INTEREST INCOME AND EXPENSE

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	10,535	65,958	8,706	59,291
- interest on loans and receivables to customers	*9,151*	*56,442*	*7,334*	*46,427*
- interest on balances due from credit institutions and central banks	*224*	*990*	*212*	*2,484*
- interest on held-to-maturity securities	*1,160*	*8,526*	*1,160*	*10,380*
- interest income on financial assets designated at fair value through profit or loss	-	22	-	-
- interest on held for trading securities	-	106	-	106
- interest on available-for-sale securities	877	5,535	2,115	4,851
Total interest income	**11,412**	**71,621**	**10,821**	**64,248**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(33,080)	(83,495)	(32,996)	(80,297)
- interest on deposits from customers	*(25,804)*	*(56,001)*	*(25,804)*	*(52,946)*
- interest on balances due to credit institutions and central banks	*(3,490)*	*(14,618)*	*(3,490)*	*(14,752)*
- interest on issued debt securities	*(207)*	*(3,640)*	*(207)*	*(3,379)*
- interest on subordinated liabilities	*(3,579)*	*(9,220)*	*(3,495)*	*(9,220)*
- interest on other financial liabilities	*-*	*(16)*	*-*	*-*
Total interest expense	**(33,080)**	**(83,495)**	**(32,996)**	**(80,297)**
Net interest income	**(21,668)**	**(11,874)**	**(22,175)**	**(16,049)**

NOTE 4. COMMISSION AND FEE INCOME AND EXPENSE

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Commission and fee income:				
- transactions with settlement cards	-	7,523	-	6,924
- payment transfer fee	-	2,737	-	2,135
- custody, trust and asset management fees	-	2,132	-	2
- securities, financial instrument brokerage fees	-	771	-	720
- cash disbursement/ transaction commission	-	632	-	490
- cash collection	-	456	-	456
- service fee for account maintenance	-	396	-	310
- letters of credit and guarantees	-	150	-	97
- review of loan applications and collateral evaluation	-	125	-	117
- other fees	322	931	4	318
Total commission and fee income	**322**	**15,853**	**4**	**11,569**

	2011 Group	2010 Group	2011 Bank	2010 Bank
	LVL 000's			
Commission and fee expense:				
- fees related to settlement card operations	(4)	(3,576)	(4)	(2,681)
- fees related to correspondent accounts	(40)	(727)	(8)	(572)
- brokerage and custodian fees	(8)	(284)	(8)	(345)
-commission and interest expenses on guarantees	(3)	-	-	-
- other fees	(85)	(199)	(38)	(4)
Total commission and fee expense	**(140)**	**(4,786)**	**(58)**	**(3,602)**
Net commission and fee income	**182**	**11,067**	**(54)**	**7,967**

NOTE 5. GAIN / (LOSS) ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	2011 Group	2010 Group	2011 Bank	2010 Bank
	LVL 000's			
Gain / (loss) on trading and revaluation of securities held for trading purposes, net	(209)	72	(209)	74
Loss from disposal of available for sale securities, net	(3,662)	(411)	(3,662)	(1,119)
Gain on financial assets measured at amortised cost, net	-	270	-	-
Gain / (loss) from foreign exchange trading and revaluation of open positions, net	(246)	1,905	(373)	1,826
Loss from trading and revaluation of other derivatives, net	-	(1,195)	-	(1,097)
Gain / (loss) on trading with financial instruments, net	**(4,117)**	**641**	**(4,244)**	**(316)**

	2011 Group	2010 Group	2011 Bank	2010 Bank
	LVL 000's			
Loss on financial instruments not at fair value through profit or loss	(3,662)	(141)	(3,662)	(1,119)
Net gain/ (loss) on financial instruments at fair value through profit or loss	(455)	782	(582)	803
Total gain/ (loss) on financial instruments, net	**(4,117)**	**641**	**(4,244)**	**(316)**

NOTE 6. OTHER OPERATING INCOME

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Penalties received	592	5,826	6	3,868
Dividends received	-	4	-	1,360
Other income	3,239	3,423	1,871	1,089
Total other operating income	**3,831**	**9,253**	**1,877**	**6,317**

NOTE 7. ADMINISTRATIVE EXPENSE

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Personnel expense	6,526	24,345	4,063	16,464
Consulting and professional fees	1,525	4,507	1,597	4,140
Rent, utilities, maintenance	993	3,377	733	3,957
IT expenses	279	1,716	244	1,050
Communication and marketing	36	1,447	31	1,318
Communications (telephone, telex)	88	613	19	324
Transport expenses	175	467	109	305
Travel	117	455	42	282
Office administration expenses	89	444	36	286
Insurance	71	349	50	223
Security	83	184	25	120
FCMC financing expenses	123	296	123	296
Financial stability fee	247	-	247	-
Other administrative expense	210	1,186	156	623
Taxes (real estate tax and other except value added tax and corporate income tax)	61	247	-	20
Non-refundable VAT	546	1,530	326	1,019
Expenses related to investment properties	-	143	-	-
Total administrative expense	**11,169**	**41,306**	**7,801**	**30,427**

NOTE 8. 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			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Remuneration (incl. bonuses):				
- management	695	1,705	464	615
- other personnel	4,688	18,061	2,898	12,684
Total remuneration for work	**5,383**	**19,766**	**3,362**	**13,299**
Social security contributions:				
- management	134	330	112	148
- other personnel	1,009	4,249	589	3,017
Total social security contributions	**1,143**	**4,579**	**701**	**3,165**
Total personnel expense	**6,526**	**24,345**	**4,063**	**16,464**
Average number of personnel during the year	236	1,905	115	1,060

NOTE 9. IMPAIRMENT OF ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

An analysis of the change in allowances for impairment of loans and receivables and provisions for off-balance sheet commitments is presented as follows:

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Total allowance for impairment at the beginning of the year, including:	**246,476**	**234,694**	**261,263**	**227,026**
- loans - specifically assessed impairment	214,738	187,902	229,525	187,193
- loans - collectively assessed impairment	31,738	46,607	31,738	39,648
- off-balance sheet commitments - specifically assessed impairment	-	185	-	185
Charge:	**61,292**	**110,898**	**64,255**	**115,311**
- loans - specifically assessed impairment	59,921	98,117	63,112	103,467
- loans - collectively assessed impairment	1,371	12,781	1,143	11,844
Release:	**(38,770)**	**(20,833)**	**(35,381)**	**(27,802)**
- loans - specifically assessed impairment	(32,183)	(8,588)	(29,015)	(16,609)
- loans - collectively assessed impairment	(6,587)	(12,060)	(6,366)	(11,008)
- off-balance sheet commitments - specifically assessed impairment	-	(185)	-	(185)
Provision charged to the statement of income, net, including:	**22,522**	**90,065**	**28,874**	**87,509**
- loans - specifically assessed impairment	27,738	89,529	34,097	86,858
- loans - collectively assessed impairment	(5,216)	721	(5,223)	836
- off-balance sheet commitments - specifically assessed impairment	-	(185)	-	(185)
Transfer:	**6,129**	**(6,198)**	**4,278**	**-**
- Impairment from collectively to specifically assessed impairment	3,918	-	4,278	-
- Impairment (specially assessed) (to)/from other financial and non-financial assets	2,211	(6,198)	-	-
Change of allowance due to write-offs, net	**-**	**-**	**(5,640)**	**-**
Transfer to Citadele banka on 1 August 2010	**-**	**(71,112)**	**-**	**(53,893)**
- loans - specifically assessed impairment	-	(55,839)	-	(45,147)
- loans - collectively assessed impairment	-	(15,273)	-	(8,746)
Effect of changes in currency exchange rates:	**1,603**	**(973)**	**1,333**	**621**
- loans - specifically assessed impairment	1,671	(656)	1,401	621
- loans - collectively assessed impairment	(68)	(317)	(68)	-
Total allowance for impairment at the end of the year, including:	**276,730**	**246,476**	**290,108**	**261,263**
- loans - specifically assessed impairment	250,283	214,738	263,661	229,525
- loans - collectively assessed impairment	26,447	31,738	26,447	31,738

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

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Total allowance for impairment at the beginning of the year, including:	**36,102**	**43,818**	**7,100**	**26,517**
- available-for-sale securities	-	442	-	442
- held-to-maturity securities	-	14,518	-	14,518
- due from credit institutions	-	344	-	344
- other financial and non-financial assets	36,102	28,514	7,100	11,213
Charge:	**16,412**	**26,778**	**9,247**	**31,897**
- held-to-maturity securities	3,646	866	7,213	6,994
- due from credit institutions	-	149	-	149
- other financial and non-financial assets	12,766	25,763	2,034	24,754
Charge from equity reserves due to impairment	**-**	**1,100**	**-**	**1,100**
- available-for-sale securities	-	1,100	-	1,100
Release:	**(5,293)**	**(9,117)**	**(2,653)**	**(4,775)**
- available-for-sale securities	(2,148)	(1,588)	(2,148)	(1,588)
- held-to-maturity securities	(132)	(3,161)	(303)	(3,179)
- other financial and non-financial assets	(3,013)	(4,368)	(202)	(8)
Provision charged to the statement of income, net, including:	**11,119**	**18,761**	**6,594**	**28,222**
- available-for-sale securities	(2,148)	(488)	(2,148)	(488)
- held-to-maturity securities	3,514	(2,295)	6,910	3,815
- due from credit institutions	-	149	-	149
- other financial and non-financial assets	9,753	21,395	1,832	24,746
Change of allowance due to write-offs, net:	**(25,914)**	**(11,696)**	**(9,746)**	**(17,881)**
- available-for-sale securities (write-off)	2,148	-	2,148	-
- held-to-maturity securities	(3,509)	(11,696)	(6,623)	(17,869)
- other financial and non-financial assets	(24,553)	-	(5,271)	(12)
Transfer:	**(2,211)**	**6,198**	**-**	-
- loans – specifically assessed impairment to /(from) other financial and non – financial assets	(2,211)	6,198	-	-
Transfer to Citadele banka on 1 August 2010	**-**	**(20,928)**	**-**	**(29,477)**
- due from credit institutions	-	(540)	-	(540)
- other financial and non-financial assets	-	(20,388)	-	(28,937)
Effect of changes in currency exchange rates:	**126**	**(51)**	**(156)**	**(281)**
- available-for-sale securities	-	46	-	46
- held-to-maturity securities	(5)	(527)	(287)	(464)
- due from credit institutions	-	47		47
- other financial and non-financial assets	131	383	131	90
Total allowance for impairment at the end of the year, including:	**19,222**	**36,102**	**3,792**	**7,100**
- other financial and non-financial assets	19,222	36,102	3,792	7,100

NOTE 10. TRANSFER OF UNDERTAKING

Gain on transfer of undertaking on Group level arises from the difference between the carrying value and the fair value of subsidiaries that were transferred to Citadele banka on the day of transfer less impairment provisions for loans to subsidiaries that were transferred to Citadele banka.

On 1 August 2010 following assets and liabilities were transferred or sold to AS Citadele banka:

	LVL 000's	
	31/07/2010 Group	31/07/2010 Bank
Assets		
Cash and deposits with central banks	149,594	136,919
Balances due from credit institutions	164,894	167,919
Securities held for trading:		
- fixed income securities	5	5
- shares and other non-fixed income securities	-	-
Derivative financial instruments	1,322	1,385
Financial assets designated at fair value through profit and loss	2,646	-
Available-for-sale securities:		
- fixed income securities	71,488	36,138
- shares and other non-fixed income securities	9,438	9,391
Loans and receivables to customers	862,466	748,921
Held-to-maturity securities	222,529	212,398
Current income tax assets	115	-
Assets held for sale	4,178	-
Fixed assets	44,409	7,681
Goodwill and intangible assets	2,925	525
Investments in subsidiaries	-	57,233
Investment property	951	-
Deferred income tax assets	29,358	29,226
Other assets	7,598	4,772
Total assets	**1,573,916**	**1,412,513**
Liabilities		
Derivative financial instruments	934	947
Financial liabilities designated at fair value through profit and loss	917	-
Financial liabilities measured at amortised cost:		
- balances due to credit institutions and central banks	128,901	135,589
- deposits from customers	1,268,790	1,099,783
- issued debt securities	110,830	110,863
- other financial liabilities	6,732	-
Current income tax liabilities	5	-
Deferred income tax liabilities	491	-
Other liabilities	9,315	5,901
Subordinated liabilities	51,300	51,306
Other reserves	(4,385)	(3,944)
Total liabilities	**1,573,830**	**1,400,445**
Net receivable as a result of the transfer		**12,068**

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Current corporate income tax	-	256	-	-
Deferred income tax	-	980	-	303
Tax withheld abroad	632	647	192	647
Total corporate income tax expense	**632**	**1,883**	**192**	**950**

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

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Loss before corporate income tax	(69,858)	(148,987)	(70,182)	(162,914)
Corporate income tax (at standard rate)*	**(10,479)**	**(22,348)**	**(10,527)**	**(24,437)**
Permanent differences, net	13,169	(13,137)	9,912	(8,965)
Unrecognised deferred tax assets	(2,058)	37,368	807	34,352
Total effective corporate income tax	**632**	**1,883**	**192**	**950**

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

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

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
As at 1 January	-	(30,646)	-	(28,801)
Charge to statement of income	-	980	-	303
Charge to statement of comprehensive income**	-	308	-	(728)
Transferred to Citadele banka	-	29,358	-	29,226
Total deferred income tax (asset) at the end of the year	-	-	-	-

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

	LVL 000's			
	2011 Group	2010 Group	2011 Bank	2010 Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	-	146	-	-
Other deferred tax liabilities	-	240	-	-
Deferred tax assets:				
Vacation pay accrual	(27)	(27)	(27)	(22)
Revaluation of securities and derivatives**	-	(73)	-	(73)
Non-taxable impairment allowance	(3,967)	(4,886)	(3,967)	(4,761)
Unutilised tax losses	(31,313)	(30,453)	(31,162)	(29,492)
Other deferred tax assets	(3)	(2,315)	(3)	(4)
Net deferred corporate income tax (asset)	**(35,310)**	**(37,368)**	**(35,159)**	**(34,352)**
Unrecognised deferred tax asset***	35,310	37,368	35,159	34,352
Recognised deferred corporate income tax (asset)	-	-	-	-

** all changes in deferred tax liability that are charged directly to statement of comprehensive income are related to revaluation of securities.
*** the Group does not recognise deferred tax asset in accordance with the policy described in Note 2

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

	Balance as at 31/12/2010	Calculated in 2011	Paid in 2011	Balance as at 31/12/2011
Corporate income tax	277	(474)	197	-
including corporate income tax withheld abroad	-	*(192)*	*192*	-
Social security contributions	(86)	(855)	944	3
Personal income tax	(556)	(342)	799	(99)
Value added tax	(186)	(108)	429	135
Real estate tax	-	(41)	41	-
Total tax (payable)/ receivable	**(551)**	**(1,820)**	**2,410**	**39**

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
Deposits with the Bank of Latvia	5	26,944	5	26,944
Total cash and deposits with central banks	**5**	**26,944**	**5**	**26,944**

As at 31 December 2011 and 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	1,432	-	1,431	-
Due from credit institutions registered in Latvia	22,525	66,566	22,385	64,728
Due from credit institutions registered in other non-OECD countries	1,666	1,121	1,659	1,109
Total balances due from credit institutions	**25,623**	**67,687**	**25,475**	**65,837**

As at 31 December 2011 and 2010, none of the amounts due from credit institutions were past due.

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

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Correspondent accounts (nostro)	23,695	59,739	23,547	57,889
Term deposits with credit institutions:				
due within 1 month	1,928	920	1,928	920
due within 1-3 months	-	7,028	-	7,028
Total balances due from credit institutions	**25,623**	**67,687**	**25,475**	**65,837**

The above balances represent a 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			31/12/2010		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total credit exposure
Regular loans	676,839	23	676,862	763,348	23	763,371
Utilised credit lines	19,121	124	19,245	18,439	112	18,551
Other	6,020	13	6,033	6,239	63	6,302
Total loans and receivables to customers	**701,980**	**160**	**702,140**	**788,026**	**198**	**788,224**
Impairment allowance	(276,730)	-	(276,730)	(246,476)	-	(246,476)
Total net loans and receivables to customers	**425,250**	**160**	**425,410**	**541,550**	**198**	**541,748**

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					
	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 credit exposure
Regular loans	678,974	23	678,997	776,428	23	776,451
Utilised credit lines	57,790	16,019	73,809	44,876	19,777	64,653
Other	6,020	13	6,033	6,239	63	6,302
Total loans and receivables to customers	**742,784**	**16,055**	**758,839**	**827,543**	**19,863**	**847,406**
Impairment allowance	(290,108)	-	(290,108)	(261,263)	-	(261,263)
Total net loans and receivables to customers	**452,676**	**16,055**	**468,731**	**566,280**	**19,863**	**586,143**

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
Privately held companies	497,720	557,795	538,524	597,312
Private individuals	204,260	230,231	204,260	230,231
Total gross loans and receivables to customers	**701,980**	**788,026**	**742,784**	**827,543**
Impairment allowance	(276,730)	(246,476)	(290,108)	(261,263)
Total net loans and receivables to customers	**425,250**	**541,550**	**452,676**	**566,280**

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
Real estate purchase and management	306,235	314,298	332,535	325,714
Electricity, gas and water supply	54,315	58,017	54,315	58,017
Trade	45,456	49,398	45,456	49,398
Manufacturing	35,837	34,545	35,837	34,545
Transport and communications	33,373	35,202	33,373	35,202
Financial intermediation	18,049	21,470	32,906	49,571
Construction	15,481	20,826	15,481	20,826
Hotels, restaurants	12,295	12,095	12,295	12,095
Other industries	180,939	242,175	180,586	242,175
Total gross loans and receivables to corporate customers	**701,980**	**788,026**	**742,784**	**827,543**

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	414,077	471,088	439,551	482,179
OECD region residents	41,320	43,067	41,320	43,391
Non-OECD region residents	246,583	273,871	261,913	301,973
Total gross loans and receivables	**701,980**	**788,026**	**742,784**	**827,543**
Impairment allowance	(276,730)	(246,476)	(290,108)	(261,263)
Total net loans and receivables	**425,250**	**541,550**	**452,676**	**566,280**

NOTE 15. 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
Municipality bonds	24,318	2,482	-	26,800	24,208	2,352	-	26,560
Credit institution bonds	-	-	-	-	-	48,248	821	49,069
Corporate bonds	-	148	-	148	-	6,091	-	6,091
Other financial institution bonds	-	1,806	-	1,806	-	2,719	-	2,719
Total fixed income securities	**24,318**	**4,436**	**-**	**28,754**	**24,208**	**59,410**	**821**	**84,439**

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

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
Municipality bonds	24,318	2,482	-	26,800	24,208	2,352	-	26,560
Credit institution bonds	-	-	-	-	-	48,248	821	49,069
Corporate bonds	-	148	-	148	-	6,091	-	6,091
Other financial institution bonds	-	1,806	-	1,806	17,157	2,719	-	19,876
Total fixed income securities	**24,318**	**4,436**	**-**	**28,754**	**41,365**	**59,410**	**821**	**101,596**

As at 31 December 2011, the carrying amount of the Group's and Bank's securities on which the payments are past due was LVL 2,134 thousand (2010: LVL 9,319 thousand). As at 31 December 2011, the carrying amount of securities, on which the payments were delayed for more than 12 months, amounted to LVL 421 thousand (2010: LVL 2,270 thousand).
As at 31 December 2011, the net carrying amount of securities, which were restructured during the year, amounted to LVL 1,356 thousand (2010: LVL 42 thousand).

	Group, LVL 000's					
	31/12/2011			31/12/2010		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Municipality bonds:						
Non-OECD	26,800	-	26,800	26,559	-	26,559
Total municipality bonds	**26,800**	**-**	**26,800**	**26,559**	**-**	**26,559**
Credit institution bonds:						
Latvia	-	-	-	893	-	893
OECD	-	-	-	29,046	-	29,046
Non-OECD	-	-	-	19,130	-	19,130
Total credit institution bonds	**-**	**-**	**-**	**49,069**	**-**	**49,069**
Corporate bonds	148	-	148	6,091	-	6,091
Other financial institution bonds	-	1,806	1,806	2,720	-	2,720
Total fixed income securities	**26,948**	**1,806**	**28,754**	**84,439**	**-**	**84,439**

	Bank, LVL 000's					
	31/12/2011			31/12/2010		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Municipality bonds:						
Non-OECD	26,800	-	26,800	26,559	-	26,559
Total municipality bonds	**26,800**	**-**	**26,800**	**26,559**	**-**	**26,559**
Credit institution bonds:						
Latvia				893	-	893
OECD	-	-	-	29,046	-	29,046
Non-OECD	-	-	-	19,130	-	19,130
Total credit institution bonds	**-**	**-**	**-**	**49,069**	**-**	**49,069**
Corporate bonds	148	-	148	6,091	-	6,091
Other financial institution bonds	-	1,806	1,806	2,720	17,157	19,877
Total fixed income securities	**26,948**	**1,806**	**28,754**	**84,439**	**17,157**	**101,596**

NOTE 16. SHARES AND OTHER NON-FIXED INCOME SECURITIES

The following table provides the classification of the Group's shares and other non-fixed income securities between available for sale and fair value through profit and loss (where all securities are held for trading) portfolio:

	LVL 000's					
	31/12/2011			31/12/2010		
	Available for sale	Held for trading	Total	Available for sale	Held for trading	Total
Equity shares:						
in Latvian corporate entities	-	-	-	-	82	82
in OECD financial entities	-	-	-	-	190	190
in OECD corporate entities	-	31	31	-	33	33
Total shares and other non-fixed income securities	**-**	**31**	**31**	**-**	**305**	**305**

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Latvian entities' equity shares - listed	-	82	-	82
Foreign entities' equity shares:				
listed	31	33	31	33
unlisted	-	190	-	190
Total foreign entities' equity shares	31	223	31	223
Total shares and other non-fixed income securities	**31**	**305**	**31**	**305**

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 17. 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 as at 1 January	**60**	**72,725**
Equity investments in the existing subsidiaries	4	9,200
Sale of subsidiaries	-	(11)
Reclassified to held for sale	-	(198)
Transferred or sold to Citadele banka	-	(57,233)
Liquidation	(2)	-
Impairment	-	(24,423)
Balance as at 31 December	**62**	**60**

In 2010 SIA NIF established three subsidiaries – SIA NIF Projekts 1, SIA NIF Projekts 2, SIA NIF Projekts 3.

In August 2010, upon transfer of undertaking, the Bank has transferred part of its subsidiaries and other related companies to Citadele banka.

On 1 August 2010 the Bank sold its investment in subsidiary AS Parex Bankas at net book value. Due to new circumstances affecting the sales price were discovered after the sales transaction took place the parties accepted the decrease in the sales price by LVL 11,192 thousand, which was settled on 31 December 2011.

In 2011 three more subsidiaries were established - SIA NIF Projekts 4, SIA NIF Projekts 5, SIA NIF Projekts 6.

In 2011 the Bank sold 3 subsidiaries – OOO Extroleasing, OOO Parex Leasing in Russia and OOO Parex Leasing and Factoring in Azarbaijan as part of the strategy to exit leasing business in CIS countries. The Bank sold OOO Extroleasing and OOO Parex Leasing and Factoring completely, while it still retains 35% of the shareholding in OOO Parex Leasing, in order to ensure cash flows from the sale of problematic asset portfolio.

Analysis of the result of the sales transaction is as follows:

	LVL 000's	
	2011 Group	2011 Bank
Consideration received - cash	8,870	8,870
Fair value of net assets sold	(8,853)	(9,048)
Gain / (loss) on disposal of assets held for sale	**17**	**(178)**

The assets and liabilities of disposed subsidiaries consisted mainly of leasing portfolio and financing from the parent.

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

Company	Country of registration	Business profile	As at 31/12/2011 Share capital in LVL 000's	As at 31/12/2011 The Bank's share (%)	As at 31/12/2011 % of total voting rights	As at 31/12/2010 Share capital in LVL 000's	As at 31/12/2010 The Bank's share (%)	As at 31/12/2010 % of total voting rights	Investment carrying value LVL 000's 31/12/2011	Investment carrying value LVL 000's 31/12/2010
SIA Parex Private Banking	Latvia	REM*	180	100.0	100.0	180	100.0	100.0	8	10
OOO Laska Lizing	Ukraine	Leasing	65	100.0	100.0	65	100.0	100.0	-	-
OOO Ekspress Lizing	Russia	Leasing	57	100.0	100.0	57	100.0	100.0	-	-
OOO Parex Leasing & Factoring	Georgia	Leasing	24	100.0	100.0	24	100.0	100.0	-	-
Regalite Holdings Limited	Cyprus	Finance	6	100.0	100.0	6	100.0	100.0	-	-
OOO Parex Leasing & Factoring	Azerbaijan	Leasing	-	0.0	0.0	30	100.0	100.0	-	-
OOO Parex Leasing	Russia	Leasing	113	35.0	35.0	113	100.0	100.0	-	-
OOO Extroleasing	Russia	Leasing	-	0.0	0.0	164	100.0	100.0	-	-
UAB NIF Lietuva	Lithuania	REM*	2	100.0	100.0	2	100.0	100.0	-	-
OU NIF Eesti	Estonia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF	Latvia	REM*	50	100.0	100.0	50	100.0	100.0	50	50
SIA NIF Dzīvojamie Īpašumi	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Komercīpašumi	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Zemes Īpašumi	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 1	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 2	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 3	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 4	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 5	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	2	-
SIA NIF Projekts 6	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	2	-
Total investments in subsidiaries									**62**	**60**

** REM - real estate management*

NOTE 18. INTANGIBLE ASSETS

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2011 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 31 December 2009*	**1,404**	**9,012**	**2,162**	**12,578**
Additions	-	10	287	297
Disposals	-	-	(1)	(1)
Transfer to Citadele banka	(1,404)	(8,818)	(2,448)	(12,670)
Transfer to assets held-for-sale	-	(38)	-	(38)
2010 adjustment	-	42	-	42
As at 31 December 2010	**-**	**208**	**-**	**208**
Additions	-	51	-	51
Disposals	-	-	-	-
As at 31 December 2011	**-**	**259**	**-**	**259**
Accumulated amortisation				
As at 31 December 2009*	**-**	**8,055**	**1,242**	**9,297**
Charge for the year	-	85	459	544
Reversal due to disposals	-	-	(1)	(1)
Transfer to Citadele banka	-	(8,126)	(1,700)	(9,826)
2010 adjustment	-	35	-	35
As at 31 December 2010	**-**	**49**	**-**	**49**
Charge for the year	-	71	-	71
As at 31 December 2011	**-**	**120**	**-**	**120**
Net book value				
As at 31 December 2009*	**1,404**	**957**	**920**	**3,281**
As at 31 December 2010	**-**	**159**	**-**	**159**
As at 31 December 2011	**-**	**139**	**-**	**139**

*Before the transfer of undertaking

NOTE 19. FIXED ASSETS

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Leasehold improvements	96	160	96	160
Land and buildings	-	1,293	-	1,293
Other fixed assets	172	289	168	287
Construction in progress	-	-	-	-
Total fixed assets excluding advances	268	1,742	264	1,740
Advances for fixed assets	15	14	15	14
Total net book value of fixed assets	**283**	**1,756**	**279**	**1,754**

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

	LVL 000's				
	Leasehold improve-ments	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding advances
Historical cost					
As at 31 December 2009*	**5,834**	**40,248**	**4,908**	**36,402**	**87,392**
Additions	6	-	20	68	94
Disposals	(1,198)	(2,271)	(1,595)	(8,290)	(13,354)
Transfer to Citadele banka	(3,654)	(35,253)	(2,706)	(25,950)	(67,563)
Transfer to assets held-for-sale	-	(1,063)	(337)	(428)	(1,828)
2010 adjustment	(801)			248	(553)
As at 31 December 2010	**187**	**1,661**	**290**	**2,050**	**4,188**
Additions	-	-	-	57	57
Disposals	-	(1,661)	(290)	(196)	(2,147)
As at 31 December 2011	**187**	**-**	**-**	**1,911**	**2,098**
Accumulated depreciation					
As at 31 December 2009*	**2,814**	**2,447**	**2,910**	**27,549**	**35,720**
Charge for the year	962	1,868	476	2,020	5,326
Reversal due to disposals	(937)	(196)	(1,044)	(8,219)	(10,396)
Transfer to Citadele banka	(2,011)	(3,751)	(1,887)	(19,389)	(27,038)
Transfer to assets held-for-sale	-	-	(165)	(325)	(490)
2010 adjustment	(801)	-	-	125	(676)
As at 31 December 2010	**27**	**368**	**290**	**1,761**	**2,446**
Charge for the year	64	-	-	130	194
Reversal due to disposals	-	(368)	(290)	(152)	(810)
As at 31 December 2011	**91**	**-**	**-**	**1,739**	**1,830**
Net book value					
As at 31 December 2009*	**3,020**	**37,801**	**1,998**	**8,853**	**51,672**
As at 31 December 2010	**160**	**1,293**	**-**	**289**	**1,742**
As at 31 December 2011	**96**	**-**	**-**	**172**	**268**
Impairment allowance					
As at 31 December 2009*	**-**	**(17,802)**	**-**	**-**	**(17,802)**
As at 31 December 2010	**-**	**-**	**-**	**-**	**-**
As at 31 December 2011	**-**	**-**	**-**	**-**	**-**

*Before the transfer of undertaking

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

	LVL 000's				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding prepayments
Historical cost					
As at 31 December 2009*	**5,832**	**4,575**	**3,020**	**28,369**	**41,796**
Additions	6	-	-	37	43
Disposals	(1,197)	(2,271)	(1,440)	(8,263)	(13,171)
Transferred to Citadele banka	(4,454)	(814)	(1,580)	(18,629)	(25,477)
2010 adjustment				248	248
As at 31 December 2010	**187**	**1,490**	**-**	**1,762**	**3,439**
Additions	-	-	-	37	37
Disposals	-	(1,490)	-	(196)	(1,686)
As at 31 December 2011	**187**	**-**	**-**	**1,603**	**1,790**
Accumulated depreciation					
As at 31 December 2009*	**2,812**	**448**	**1,949**	**24,865**	**30,074**
Charge for the year	962	62	177	1,281	2,482
Reversal due to disposals	(941)	(11)	(921)	(8,207)	(10,080)
Transferred to Citadele banka	(2,806)	(302)	(1,205)	(16,607)	(20,920)
2010 adjustment				125	125
As at 31 December 2010	**27**	**197**	**-**	**1,457**	**1,681**
Charge for the year	64	-	-	130	194
Reversal due to disposals	-	(197)	-	(152)	(349)
As at 31 December 2011	**91**	**-**	**-**	**1,435**	**1,526**
Net book value					
As at 31 December 2009*	**3,020**	**4,127**	**1,071**	**3,504**	**11,722**
As at 31 December 2010	**160**	**1,293**	**-**	**305**	**1,758**
As at 31 December 2011	**96**	**-**	**-**	**168**	**264**

*Before the transfer of undertaking

NOTE 20. INVESTMENT PROPERTY

Changes in the Bank's investment property may be specified as follows:

	LVL 000's	
	Group	Bank
Balance as at 1 January 2011	**19,810**	**13,627**
Additions	25,501	7,403
Disposals	(1,719)	(994)
Revaluation	(1,198)	(1,450)
Reclassification to other assets	(1,944)	-
Balance as at 31 December 2011	**40,450**	**18,586**

In 2011 the Bank recognised LVL 522 thousand as income from investment properties (2010: LVL 419 thousand) and LVL 479 thousand as expense from investment properties (2010: LVL 387 thousand) in the Statement of Income.

NOTE 21. OTHER ASSETS

Other assets comprise accrued income, prepaid expenses, non-current assets and disposal groups held for sale, money in transit, other assets.

NOTE 22. 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	-	170,232	-	170,232
Due to credit institutions registered in Latvia	13,295	8,383	13,295	8,383
Total balances due to credit institutions and central banks	**13,295**	**178,615**	**13,295**	**178,615**

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
Loans from credit institutions:				
due within 1 month	13,295	10,990	13,295	10,990
due within 1-3 months	-	2,109	-	2,109
due within 3-6 months	-	165,516	-	165,516
Total due to credit institutions	**13,295**	**178,615**	**13,295**	**178,615**

Repayment of the syndicated loans

As at 31 December 2010, the Bank had 2 syndicated loans outstanding, amounting to EUR 82.5 million and EUR 150 million (2009: EUR 192.5 million and EUR 350 million).

On 15 February 2010, the Bank repaid EUR 310 million to the syndicated lenders. EUR 165 million were repaid from the Bank's resources and EUR 145 million were provided by the State Treasury through placing a deposit with the Bank in the respective amount.

On 3 May 2011, the bank made the last syndicated loan payment of EUR 232.5 million, which was made with own funds, without drawing any money from the State budget.

NOTE 23. 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
Government	-	450,804	-	450,804
Private individuals	16,751	31,243	16,751	31,243
Privately held companies	9,963	13,759	9,963	13,769
Public and religious institutions	-	59	-	59
Total deposits from customers	**26,714**	**495,865**	**26,714**	**495,875**

On 1 December 2008, Financial and Capital Markets Commission and Cabinet of Ministers decided to impose restrictions on deposit withdrawals in AS Parex bank (Latvia), applicable to all customer deposits with the Bank as at the respective date. The restrictions do not apply to any funds received on the customers' accounts after the restrictions date, as well as state and municipalities' payments made by companies with number of employees exceeding 250. All corporate clients were only allowed to make business-purpose payments. The initial term of the restrictions ended on 1 July 2009 and was further prolonged to 1 December 2009, 1 July 2010, 31 December 2010 and 31 December 2011, thereafter. Nevertheless the restrictions have been softened since they were imposed.

After lifting of the restrictions on 2 January 2012 the Bank repaid deposits to its customers in amount of LVL 9,9 million. On 29 February 2012 the Bank transferred its customers deposits held in German branch in amount of LVL 16,7 million to Citadele banka. As a result, as of 29 February 2012 the Bank does not have any deposits from customers.

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
Demand deposits	12,471	18,768	12,471	18,778
Term deposits:				
due within 1 month	108	427	108	427
due within 1-3 months	241	7,481	241	7,481
due within 3-6 months	179	2,172	179	2,172
due within 6-12 months	961	28,967	961	28,967
due within 1-5 years	12,684	204,509	12,684	204,509
due in more than 5 years	70	233,541	70	233,541
Total term deposits	14,243	477,097	14,243	477,097
Total deposits from customers	**26,714**	**495,865**	**26,714**	**495,875**

Financing support from the Ministry of Finance

As a result of significant decrease in deposit base in October-November 2008, the Bank was forced to apply for the State support. State Treasury 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 28 for details on assets pledged). During 2011 and 2010 part of the Ministry on Finance deposits was repaid by the Bank. On 29 December 2011 deposits were converted into debt securities (for details see note 24).

NOTE 24. ISSUED DEBT SECURITIES

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

	LVL 000's			
	31/12/2011 Group	31/12/2010 Group	31/12/2011 Bank	31/12/2010 Bank
due within 1 month	-	-	-	-
due within 1-3 months	35,017	-	35,017	-
due within 3-6 months	-	-	-	-
due within 6-12 months	43,520	-	43,520	-
due within 1-5 years	169,084	-	169,084	-
due in more than 5 years	180,407	-	180,407	-
Total issued debt securities	**428,028**	**-**	**428,028**	**-**

The interest rates applicable to debt securities are 6 months Euribor rate + 4.05 % per annum for securities denominated in EUR and 6 months state bond issue rate (in case State Treasury has not issued 6 months state bonds, State Treasury quoted 6 months rate of Latvian lats) + 4.05% per annum for bonds denominated in LVL.

In February 2012 debt securities due for repayment within 3 months were partially repaid in amount of LVL 5.1 million and the repayment date for the remainder was prolonged for one year.

NOTE 25. SUBORDINATED DEBT

The following table represents the details of 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
Notes-private placement	UK	EUR	20,000	5.564%	28/12/2007	28/12/2017	13,247	13,204
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,501	7,502
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,501	7,502
Notes – public issue	n/a	EUR	5,050	11%	08/05/2008	08/05/2018	3,829	3,820
Private person	Latvia	EUR	15,000	12%	20/06/2008	14/05/2015	10,602	10,602
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,500
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,500
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,285	2,284
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,285	2,284
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Total							**53,082**	**53,030**

The Notes of EUR 20 million Subordinated Debt was attracted through private placement of subordinated notes. The notes were issued at discount and net proceeds amounted to EUR 18,672 thousand. The notes are to be redeemed at 100%. The Bank has the right to extend the term of the notes until 28 December 2022, in which case the Bank also has the right to redeem the notes after the original maturity date giving a notice within 30-60 days.

As at 31 December 2011, included in the subordinated debt are LVL 36 million (2010: LVL 36 million) attributable to the former related parties of the Bank. These transactions were entered into by previous executive management of the Bank. During 2011, the Bank recognised LVL 2.2 million (2010: LVL 3.1 million) interest expense on the aforementioned balance.

NOTE 26. ISSUED SHARE CAPITAL

As at 31 December 2011, the Bank's registered and paid-in share capital was LVL 311,027 thousand. In accordance with the Bank's statutes, the share capital consists of 250,883 thousand ordinary shares with voting rights and 60,144 thousand ordinary shares without 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, 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 61 (2010: 61) shareholders. The respective shareholdings as at 31 December 2011 and 2010 may be specified as follows:

	31/12/2011			31/12/2010		
	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights
Privatisation Agency	261,733	84.15	82.02	221,933	81.83	77.60
European Bank for Reconstruction and Development	39,632	12.74	15.80	39,632	14.61	19.68
Other	9,662	3.11	2.18	9,662	3.56	2.72
Total	**311,027**	**100.00**	**100.00**	**271,227**	**100.00**	**100.00**

Capital increases

On 23 February 2010, the Latvian Cabinet of Ministers approved an increase of LVL 31.5 million in the Bank's share capital. On 26 February 2010, the capital increase was carried out by Privatisation Agency from the corresponding funds received from State Treasury.

On 30 July 2010, EBRD sold 11.812.501 registered ordinary shares with voting rights to Privatisation Agency.

On 30 November 2010, the Latvian Cabinet of Ministers approved an increase of LVL 9.7 million in the Bank's share capital. On 30 December 2010, the capital increase was carried out by Privatisation Agency from the corresponding funds received from State Treasury.

On 26 August 2011 at Bank's Extra-Ordinary General Meeting of Shareholders was approved an increase of LVL 20 million in the Bank's share capital by issuing 20 million registered shares with voting rights with the nominal value of LVL 1 per share. 19 999 997 registered ordinary shares with voting rights were sold to Privatisation Agency and 3 registered ordinary shares with voting rights were sold to other shareholders.

On 28 November 2011 at Bank's Extra-Ordinary General Meeting of Shareholders was approved an increase of LVL 19.8 million in the Bank's share capital by issuing 19.8 million registered shares with voting rights with the nominal value of LVL 1 per share. 19 799 863 registered ordinary shares with voting rights were sold to Privatisation Agency and 137 registered ordinary shares with voting rights were sold to other shareholders.

NOTE 27. MEMORANDUM 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	885	885	2,399	2,618
Total contingent liabilities	**885**	**885**	**2,399**	**2,618**
Financial commitments:				
Loans granted, not fully drawn down	23	23	23	23
Unutilised credit lines and overdraft facilities	124	149	16,019	19,814
Credit card commitments	13	26	13	26
Total financial commitments	**160**	**198**	**16,055**	**19,863**

The following table presents the notional amounts and fair values of derivative financial instruments. 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:						
Swaps	114,185	206,559	-	(1,688)	122	(2,002)
Total foreign exchange contracts	**114,185**	**206,559**	**-**	**(1,688)**	**122**	**(2,002)**
Total derivative financial instruments	**114,185**	**206,559**	**-**	**(1,688)**	**122**	**(2,002)**

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:						
Swaps	114,185	206,559	-	(1,688)	122	(2,002)
Total foreign exchange contracts	**114,185**	**206,559**	**-**	**(1,688)**	**122**	**(2,002)**
Total derivative financial instruments	**114,185**	**206,559**	**-**	**(1,688)**	**122**	**(2,002)**

The Bank uses derivative foreign exchange instruments to manage its currency position. Before entering into derivative foreign currency agreement, the Bank assesses the counterparty's ability to meet the contractual provisions. As at 31 December 2011 and 2010, none of the payments receivable arising out of derivative transactions was past due.

NOTE 28. 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	25,623	7,028	25,475	7,028
Available-for-sale securities	4,436	8,135	4,436	8,135
Loans to customers	425,250	541,550	452,676	566,280
Total assets pledged	**455,309**	**556,713**	**482,587**	**581,443**
Due to credit institutions and central banks	-	9,136	-	9,136
Deposits from State Treasury	-	446,322	-	446,322
Debt securities	428,028	-	428,028	-
Total liabilities secured by pledged assets	**428,028**	**455,458**	**428,028**	**455,458**

As at 31 December 2010, the Bank has entered into several repo agreements with Bank of Latvia and European Central Bank, whereby it pledged part of its securities portfolio against the financing facilities received.

According to pledge agreements, concluded between the Bank and Ministry of Finance (represented by State Treasury) loan portfolio, funds and securities are pledged in favour of Ministry of Finance to secure financing received in the form of state aid from Ministry of Finance. The respective commercial pledge is registered with Commercial Register. Please refer to Note 24 for more detailed information on financing received from Ministry of Finance.

NOTE 29. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents 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
Cash and demand deposits with central banks	5	26,944	5	26,944
Deposits with other credit institutions*	25,599	59,739	25,451	57,889
Demand deposits due to other credit institutions	(16)	(12)	(16)	(12)
Total cash and cash equivalents	**25,588**	**86,671**	**25,440**	**84,821**

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

NOTE 30. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or is also involved in a number of legal proceedings related to its customers in Latvia and abroad, including CIS countries.

In July 2009, the State Revenue Service (SRS) has completed a tax audit of the Bank which covered the years of 2007 and 2008. The tax audit report assessed claims for additional taxes to be paid by the Bank. The Bank did not agree with the SRS audit team's assessment and has appealed to the General Director of the SRS. Subsequently, the decision for a part of additional taxes payable was withdrawn. In respect to the residual part of the decision, which remained unchanged and constitutes ca LVL 0.8 million in additional tax and ca LVL 0.8 million in penalties, the Bank appealed to the Administrative court. By decision of Administrative city court payment obligation for penalties is postponed till hearing in the court. By decision of Administrative district court additional tax in amount LVL 5 thousand was withdrawn, obligation to pay residual part was decided in hearing in Administrative court on 08 November 2011. In accordance with Administrative city court judgment, the Bank's appealed for annulment of the SRS decision was partially satisfied. However, the mentioned judgment was appealed by SRS, Bank and third party - former Bank shareholders V.Kargins and V.Krasovickis to the Administrative district court. Appeal hearing in the Administrative district court is stated for 21 May 2013. Law office Eversheds Bitāns represents the Bank in these proceedings.

On 10 February 2010 the Bank as respondent received AS „Latvijas Krajbanka" Claimant's Request for Arbitration submitted to London Court of International Arbitration (LCIA). According to the claim AS „Latvjas Krajbanka" demanded from the Bank repayment of EUR 2'000'000 termination fee supplemented with escrow account interest and penalty fee. Termination fee was withheld by the Bank in accordance with Share Purchase Agreement concluded in 24 April 2008 between the Bank as the seller and AS „Latvijas Krajbanka" as the purchaser regarding 100% shares of AP Anlage & Privatbank AG (SPA). With Final Award 19 October 2011 LCIA fully rejected AS „Latvijas Krajbanka" claim. LCIA resolved that the Bank has not violated its legal and contractual obligations and AS „Latvijas Krajbanka" had an obligation to pay termination fee caused by termination of SPA. LCIA obliged AS „Latvijas Krajbanka" reimburse to the Bank its arbitrational costs in amount of GBP 65'207 as well as legal and other costs in amount of EUR 97'6623. On 23 December 2011 Riga regional court adjudicated AS „Latvijas Krajbanka" as insolvent. Swiss law office „Lenz&Staehelin" represented the Bank in these proceedings.

On 9 March 2011 the Bank received an application dated 1 March 2011 from limited liability company Olimpija, registered in Russia. The application was addressed to the Moscow Court of Arbitration and claimed recovery of LVL 11,200,291 from the Bank on the basis of cession agreement concluded between Mr V.Kargins and Olimpija on 20 January 2011, by which Mr V.Kargins had transferred his right to the term deposits with the Bank. Olimpija claimed unilateral termination of the agreements and disbursement of funds.

On 24 May 2011 the case was heard at the Moscow Court of Arbitration – claim of Olimpija was not considered and the case was dismissed. The appeal by Olimpija was heard at the appeal instance on 21 July 2011 and was likewise dismissed. Decision, dated 24 October 2011, of the Moscow District Federal Court of Arbitration reversed rulings of 24 May 2011 and 21 July 2011 and the case was relegated to the Moscow Court of Arbitration for consideration on its merits. Bank filed an application to the Supreme Court of Arbitration of the Russian Federation on revision of the ruling dated 24 October 2011 under the supervision procedure. On 27 February 2012 the Supreme Court of Arbitration of the Russian Federation decided to have the case considered by the Presidium of the Supreme Court of Arbitration of the Russian Federation.

On 20 July 2011 the Bank filed a statement of claim to the Riga Regional Court pleading for invalidation of the cession agreement concluded between Olimpija and Mr V.Kargins, and securing the claim. On 26 July 2011 the Riga Regional Court satisfied the claim of the Bank and prohibited Mr V.Kargins and Olimpija from implementation of the cession agreement or use of it any other way or taking actions in order to exercise rights arising from the cession agreement. Hearing on the merits of the case at Riga Regional Court is scheduled for 20 November 2012. Law office Jukov, Hrenov and Partners represents the Bank in proceedings in Russia, but as regards proceedings in Latvia – it is law office Eversheds Bitāns.

The management of the Bank believes that any legal proceedings pending as at 31 December 2011 and 2010 will not result in material losses for the Group.

NOTE 31. 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.

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.

	Amount in LVL 000's 31/12/2011	Income/ expense 01/01/2011-31/12/2011	Amount in LVL 000's 31/12/2010	Income/ expense 01/01/2010-31/12/2010
Due from credit institutions:	26,204	669	56,061	104
Credit Institutions	*26,204*	*669*	*56,061*	*104*
Derivatives – assets:	-	-	122	-
Credit institutions	-	-	*122*	-
Total credit exposure to related parties	**26,204**	**669**	**56,183**	**104**
Due to related parties:	441,652	25,637	461,802	28,693
Deposits from Ministry of Finance	-	*24,809*	450,426	*28,285*
Issued Debt Securities	*428,028*	*207*	-	-
Credit institutions	*13,624*	*621*	*11,376*	*408*
Derivatives – liabilities:	1,688	-	2,001	-
Credit institutions	*1,688*	-	*2,001*	-
Total amounts due to related parties	**443,340**	**25,637**	**463,803**	**28,693**

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.

	Amount in LVL 000's 31/12/2011	Income/ expense 01/01/2011-31/12/2011	Amount in LVL 000's 31/12/2010	Income/ expense 01/01/2010-31/12/2010
Credit exposure to related parties				
Due from related parties:	26,204	669	56,061	104
Credit Institutions	*26,204*	*669*	*56,061*	*104*
Securities:	-	1,238	23,330	2,149
Subsidiaries	-	*1,238*	*23,330*	*2,149*
Loans and receivables:	41,157	1,415	39,517	5,952
Subsidiaries - banks	-	-	-	*1,684*
Subsidiaries - other	*41,157*	*1,415*	*39,517*	*4,268*
Derivatives – assets:	-	-	122	-
Credit institutions	-	-	*122*	-
Total credit exposure to related parties	**67,361**	**3,322**	**119,030**	**8,205**
Due to related parties:	441,670	25,914	461,802	28,762
Deposits from Ministry of Finance	-	*24,809*	*450,426*	*28,285*
Issued Debt Securities	*428,028*	*207*	-	-
Credit institutions	*13,624*	*621*	*11,376*	*408*
Subsidiaries - other	*18*	*277*	-	*69*
Derivatives – liabilities:	1,688	-	2,001	-
Credit institutions	*1,688*	-	*2,001*	-
Total amounts due to related parties	**443,358**	**25,914**	**463,803**	**28,762**

NOTE 32. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Management board of the Bank as its chief operating decision maker. Banking Latvia is a reportable operating segment whose operating results are regularly reviewed by the board. The Board reviews financial information prepared based on International Financial Reporting Standards.

The following table reconciles the management information with these financial statements as at 31 December 2011
LVL 000's:

	Baltic loans	CIS loans	Real Estate	Other	Total
Gross external revenue	**5,905**	**3,513**	**41**	**1,994**	**11,453**
External assets					
Loans	548,448	153,532	-	-	701,980
Investment properties	-	-	40,451	-	40,451
Other assets	-	-	-	89,698	89,698
Impairment	(237,179)	(39,551)	(1)	(19,221)	(295,952)
Total assets	**311,269**	**113,981**	**40,450**	**70,477**	**536,177**
External liabilities	-	-	-	525,756	525,756
Total liabilities	**-**	**-**	**-**	**525,756**	**525,756**

The following table reconciles the management information with these financial statements as at 31 December 2010 LVL 000's:

	Segment reported in the monthly report to the Management Board	***Other business units not consolidated in management reporting***					
	Banking - Latvia	***Banking - other countries***	***Asset management***	***Leasing***	***Other***	***Eliminations and consolidation adjustments***	***Group***
Total income from external customers *	67,406	8,183	2,313	9,533	14	-	87,449
Total income from internal customers *	8,411	22	9	25	-	(8,467)	-
Total segment revenue	*75,817*	*8,205*	*2,322*	*9,558*	*14*	*(8,467)*	*87,449*
Net interest income	16,049	1,570	117	3,064	(702)	(8,249)	11,849
Net commission income	7,967	652	2,073	354	(15)	36	11,067
(Loss)/ gains on transactions with financial instruments, net	(316)	1,650	21	646	(55)	(1,305)	641
Administrative expense	30,427	5,098	1,726	5,559	1,188	(663)	43,335
Other operating income/ (expense), net	5,574	487	(20)	2,338	2,611	(1,861)	9,129
Segment result	**(162,914)**	**(6,257)**	**226**	**(15,203)**	**(19,400)**	**(54,561)**	**(148,987)**
Segment assets	789,281	-	-	39,970	16,453	(53,618)	792,086
Segment liabilities	751,982	-	-	51,220	16,834	(64,863)	755,173
Depreciation and amortisation	2,740	386	39	342	2,375	-	5,882
Impairment charge, gross	142,780	5,132	260	16,250	17,915	(52,608)	129,729
No of employees at the end of the period	109	-	-	162	-	-	271

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.
** Income is defined as total of gross interest and commission and fee income*

NOTE 33. RISK MANAGEMENT

Since the transfer of undertaking on 1 August 2010 the Bank has limited possibility to manage certain risks, in particular, interest rate risk, country risk, to some extent credit risk and risk limits. Nevertheless the Bank is putting all the efforts to limit risks and has the following risk management policies.

Risk management polices

The Group's risk is managed according to principles set out in Group's Risk Management Policy. The Group adheres to the following key risk management principles:

- Undertaking an acceptable risk level is one of the Group's main functions in all areas of operation. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are, where possible, avoided, limited or hedged;
- The Group does not assume new 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;
- 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;
- The Group aims to ensure as low as possible risk exposure and low level of operational risk.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by an independent unit unrelated to customer servicing - Risk Management Division.

The Group is exposed to the following main risks: credit risk, liquidity risk, currency 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 losses from debtor's non-performance or default. The group is exposed to credit risk in to its lending and loan restructuring activities.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent Risk Management Division. 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. All decisions about loan restructuring or changes in loan agreements are made by the Credit Committee and further reviewed by the Bank's Management Board.

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 Management Division.

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

	Group, LVL 000's			
	31/12/2011			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	8,813	716	-	9,529
Not delayed - impaired	45,166	2,715	-	47,881
Total not delayed loans	**53,979**	**3,431**	**-**	**57,410**
Past due loans - not impaired				
Delayed days:				
=< 29	1,773	-	-	1,773
30-59	930	-	-	930
60-89	916	-	-	916
90 and more	149,978	5,251	280	155,509
Total past due loans - not impaired	**153,597**	**5,251**	**280**	**159,128**
Total past due loans - impaired	**469,263**	**10,439**	**5,740**	**485,442**
Total gross loans and receivables to customers	**676,839**	**19,121**	**6,020**	**701,980**
Impairment allowance	(262,302)	(9,434)	(4,994)	(276,730)
Total net loans and receivables to customers	**414,537**	**9,687**	**1,026**	**425,250**

Mostly, not-delayed loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. More than 88% are secured by real estate 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.

	Group, LVL 000's			
	31/12/2010			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	34,485	-	17	34,502
Not delayed - impaired	62,014	2,715	1,201	65,930
Total not delayed loans	**96,499**	**2,715**	**1,218**	**100,432**
Past due loans - not impaired				
Delayed days:				
=< 29	3,195	-	-	3,195
30-59	1,769	-	1	1,770
60-89	3,221	-	190	3,411
90 and more	301,267	4,723	397	306,387
Total past due loans - not impaired	**309,452**	**4,723**	**588**	**314,763**
Total past due loans - impaired	**357,398**	**11,000**	**4,433**	**372,831**
Total gross loans and receivables to customers	**763,349**	**18,438**	**6,239**	**788,026**
Impairment allowance	(234,363)	(6,878)	(5,235)	(246,476)
Total net loans and receivables to customers	**528,986**	**11,560**	**1,004**	**541,550**

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

	Bank, LVL 000's			
	31/12/2011			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	8,864	27,017	-	35,881
Not delayed - impaired	47,219	15,085	-	62,304
Total not delayed loans	**56,083**	**42,102**	**-**	**98,185**
Past due loans - not impaired				
Delayed days:				
=< 29	1,773	-	-	1,773
30-59	930	-	-	930
60-89	916	-	-	916
90 and more	149,978	5,251	280	155,509
Total past due loans - not impaired	**153,597**	**5,251**	**280**	**159,128**
Total past due loans - impaired	**469,292**	**10,439**	**5,740**	**485,471**
Total gross loans and receivables to customers	**678,972**	**57,792**	**6,020**	**742,784**
Impairment allowance	(263,625)	(21,490)	(4,993)	(290,108)
Total net loans and receivables to customers	**415,347**	**36,302**	**1,027**	**452,676**

	Bank, LVL 000's			
	31/12/2010			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	39,011	9,526	17	48,554
Not delayed - impaired	70,537	19,628	1,201	91,366
Total not delayed loans	**109,548**	**29,154**	**1,218**	**139,920**
Past due loans - not impaired				
Delayed days:				
=< 29	3,195	-	-	3,195
30-59	1,769	-	1	1,770
60-89	3,221	-	190	3,411
90 and more	301,267	4,723	397	306,387
Total past due loans - not impaired	**309,452**	**4,723**	**588**	**314,763**
Total past due loans - impaired	**357,428**	**10,999**	**4,433**	**372,860**
Total gross loans and receivables to customers	**776,428**	**44,876**	**6,239**	**827,543**
Impairment allowance	(237,467)	(18,561)	(5,235)	(261,263)
Total net loans and receivables to customers	**538,961**	**26,315**	**1,004**	**566,280**

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:
LVL 000's

	Regular loans	Utilised credit lines	Other	Total
Outstanding specific impairment as at 31/12/2010	**204,555**	**5,186**	**4,997**	**214,738**
Impairment charge for the reported period - specific	57,740	2,181	-	59,921
Release of previously established impairment allowance - specific	(32,165)	-	(18)	(32,183)
Impairment charged to the statement of income, net	**25,575**	**2,181**	**(18)**	**27,738**
Change of impairment allowance due to write-offs, net	-	-	-	-
Transfer from collectively to specially assessed impairment	3,918	-	-	3,918
To other assets	2,218	-	-	2,218
Increase in impairment allowance due to currency fluctuations	1,634	34	3	1,671
Outstanding specific impairment as at 31/12/2011	**237,900**	**7,401**	**4,982**	**250,283**

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:
LVL 000's

	Regular loans	Utilised credit lines	Other	Total
Outstanding specific impairment as at 31/12/2010	**207,661**	**16,867**	**4,997**	**229,525**
Impairment charge for the reported period - specific	60,611	2,501	-	63,112
Release of previously established impairment allowance - specific	(28,996)	-	(19)	(29,015)
Impairment charged to the statement of income, net	**31,615**	**2,501**	**(19)**	**34,097**
Change of impairment allowance due to write-offs, net	(5,640)	-	-	(5,640)
Transfer from collectively to specially assessed impairment	4,278	-	-	4,278
Increasein impairment allowance due to currency fluctuations	1,309	89	3	1,401
Outstanding specific impairment as at 31/12/2011	**239,223**	**19,457**	**4,981**	**263,661**

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	-	-	-	-	-	4,928	-	4,928
AA	-	-	-	-	-	1,378	-	1,378
A	-	-	-	-	-	8,325	-	8,325
BBB/Baa	-	-	-	-	-	35,419	-	35,419
Other lower ratings	-	-	-	-	-	188	-	188
Not rated	24,318	4,436	-	28,754	24,208	9,172	821	34,201
Total fixed income securities	**24,318**	**4,436**	**-**	**28,754**	**24,208**	**59,410**	**821**	**84,439**

	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	-	-	-	-	-	4,928	-	4,928
AA	-	-	-	-	-	1,378	-	1,378
A	-	-	-	-	-	8,325	-	8,325
BBB/Baa	-	-	-	-	-	35,419	-	35,419
Other lower ratings	-	-	-	-	-	188	-	188
Not rated	24,318	4,436	-	28,754	41,365	9,172	821	51,358
Total fixed income securities	**24,318**	**4,436**	**-**	**28,754**	**41,365**	**59,410**	**821**	**101,596**

GEOGRAPHICAL PROFILE

The following table provides an analysis of the Group's and Bank's assets and liabilities, as well as memorandum items outstanding as at 31 December 2011 and 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	5	-	-	-	-	5
Balances due from credit institutions	22,525	1,661	1,432	5	-	25,623
Securities held for trading	31	-	-	-	-	31
Available-for-sale securities	2,543	-	-	1,893	-	4,436
Loans and receivables to customers	215,676	62,981	32,613	97,025	16,955	425,250
Held-to-maturity securities	24,318	-	-	-	-	24,318
Other assets	46,029	523	528	7,833	1,601	56,514
Total assets	**311,127**	**65,165**	**34,573**	**106,756**	**18,556**	**536,177**
Liabilities						
Financial liabilities measured at amortised cost	494,410	-	12,108	1,716	12,885	521,119
Derivative financial instruments	1,688	-	-	-	-	1,688
Other liabilities	2,736	31	176	-	6	2,949
Total liabilities	**498,834**	**31**	**12,284**	**1,716**	**12,891**	**525,756**
Equity	10,421	-	-	-	-	10,421
Total liabilities and equity	**509,255**	**31**	**12,284**	**1,716**	**12,891**	**536,177**
Memorandum items						
Contingent liabilities	-	-	885	-	-	885
Financial commitments	159	-	-	-	1	160

	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	26,944	-	-	-	-	26,944
Balances due from credit institutions	57,334	12	10,342	2,000	-	69,688
Securities held for trading	903	-	-	-	223	1,126
Available-for-sale securities	2,469	-	28,985	25,208	2,748	59,410
Loans and receivables to customers	285,865	78,863	44,852	138,220	23,887	571,687
Held-to-maturity securities	24,208	-	-	-	-	24,208
Derivatives financial instruments	122	-	-	-	-	122
Other assets	35,690	2,497	556	149	9	38,901
Total assets	**433,535**	**81,372**	**84,735**	**165,577**	**26,867**	**792,086**
Liabilities						
Financial liabilities measured at amortised cost	521,416	-	206,093	-	-	727,509
Derivative financial instruments	2,002	-	-	-	-	2,002
Other liabilities	24,389	6	6	1,261	-	25,662
Total liabilities	**547,807**	**6**	**206,099**	**1,261**	-	**755,173**
Equity	36,913	-	-	-	-	36,913
Total liabilities and equity	**584,720**	**6**	**206,099**	**1,261**	-	**792,086**
Memorandum items						
Contingent liabilities	-	-	885	-	-	885
Financial commitments	-	147	38	12	1	198

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	5	-	-	-	-	5
Balances due from credit institutions	22,385	1,654	1,431	5	-	25,475
Securities held for trading	31	-	-	-	-	31
Available-for-sale securities	2,543	-	-	1,893	-	4,436
Loans and receivables to customers	241,517	63,440	33,372	97,392	16,955	452,676
Held-to-maturity securities	24,318	-	-	-	-	24,318
Other assets	27,980	29	528	-	40	28,577
Total assets	**318,779**	**65,123**	**35,331**	**99,290**	**16,995**	**535,518**
Liabilities						
Financial liabilities measured at amortised cost	494,410	-	12,108	1,716	12,885	521,119
Derivative financial instruments	1,688	-	-	-	-	1,688
Other liabilities	1,614	-	172	-	2	1,788
Total liabilities	**497,712**	**-**	**12,280**	**1,716**	**12,887**	**524,595**
Equity	10,923	-	-	-	-	10,923
Total liabilities and equity	**508,635**	**-**	**12,280**	**1,716**	**12,887**	**535,518**
Memorandum items						
Contingent liabilities	1,514	-	885	-	-	2,399
Financial commitments	15,115	939	-	-	1	16,055

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	26,944	-	-	-	-	26,944
Balances due from credit institutions	55,498	-	10,339	-	-	65,837
Securities held for trading	903	-	-	-	223	1,126
Available-for-sale securities	2,469	-	28,985	25,208	2,748	59,410
Loans and receivables to customers	296,956	79,187	44,860	121,390	23,887	566,280
Held-to-maturity securities	24,208	-	-	17,157	-	41,365
Derivatives financial instruments	122	-	-	-	-	122
Other assets	25,471	2,162	555	-	9	28,197
Total assets	**432,571**	**81,349**	**84,739**	**163,755**	**26,867**	**789,281**
Liabilities						
Financial liabilities measured at amortised cost	521,419	-	206,100	-	-	727,519
Derivative financial instruments	2,002	-	-	-	-	2,002
Other liabilities	22,461	-	-	-	-	22,461
Total liabilities	**545,882**	-	**206,100**	-	-	**751,982**
Equity	37,299	-	-	-	-	37,299
Total liabilities and equity	**583,181**	-	**206,100**	-	-	**789,281**
Memorandum items						
Contingent liabilities	1,733	-	885	-	-	2,618
Financial commitments	19,287	384	38	153	1	19,863

b) Interest rate risk

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

Interest rate risk measurement, management and reporting in the Group is coordinated by Finance Planning and Control Division and Risk Management Division. Bank's interest rate risk assessment and relevant decision making is carried out by the Bank's Management Board.

Taking into account the quality of Bank and Group loan portfolio, it is concluded that fluctuations in interest rates do not have material impact on income of the Bank or the Group, as relatively insignificant number of clients are paying interest on their loans. Moreover the amount of interest payments is dependent more on their individual ability to pay instead of the amount of their current liabilities. Hence the Bank and the Group does not prepare scenario analyses for the impact of changes in interest rates on the capital of the Bank or the Group.

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.

Fair value hierarchy

Quoted market prices
Financial instruments are valued using unadjusted quoted prices in active markets.

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

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 (based on quoted market prices) 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. The carrying value is a close representation of the fair value.

Balances due from and 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. 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. Since

the portfolio consists mostly of non-performing or restructured loans, the carrying amount is considered to be a close representation of the fair value.

Held to maturity securities
Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In 2011 the fair value is a close representation of the fair value, in 2010 the fair value adjustment was LVL 4,940 (decrease).

Customer deposits and issued debt
The fair value of customer deposits repayable on demand is their carrying amount. The issued debt represents State Treasury funds with variable interest rates, the carrying value of the deposit portfolio is a close approximation of the fair value of the portfolio.

Subordinated liabilities
Due to illiquidity of all the subordinated liabilities as at the end of year, it was assumed that the best estimate of fair value are the quotes of market participants provided for the listed debt instruments. The fair value is a close representation of the fair value.

There have been no significant movements between the levels in fair value hierarchy.

c) Currency risk

Currency risk is related to mismatch in foreign currency asset and liability positions that impact the Group's cash flow and financial results via fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Day-to-day currency risk monitoring, management and reporting is the responsibility of Risk Management Division and Finance Planning and Control Division. 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. To manage the currency risk, the Group and Bank use derivative financial instruments. To assess currency risk, the Group uses scenario analysis. In the event of exchange rates for all currencies in which the Group and the Bank has open positions adversely change by 1%, the potential total decrease in the Group's and Bank's pre-tax profit would amount to approximately LVL 51 thousand and LVL 15 thousand as at 31 December 2011 and LVL 0.3 million and LVL 0.4 million as at 31 December 2010, respectively.

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	UAH	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	5	-	-	-	-	-	-	5
Balances due from credit institutions	6,937	4,345	12,704	-	1,531	84	22	25,623
Securities held for trading	-	31		-	-	-	-	31
Available-for-sale securities	-	1,217	3,056	-	-	163	-	4,436
Loans and receivables to customers	4,910	70,167	325,229	-	20,112	3	4,829	425,250
Held-to-maturity securities	-	-	24,318	-	-	-	-	24,318
Derivatives financial instruments	-	-	-	-	-	-	-	-
Other assets	45,929	3,164	1,791	4,715	576	249	90	56,514
Total assets	**57,781**	**78,924**	**367,098**	**4,715**	**22,219**	**499**	**4,941**	**536,177**
Liabilities								
Financial liabilities measured at amortised cost	33,919	3,296	483,850	-	-	44	10	521,119
Derivative financial instruments	1,688	-	-	-	-	-	-	1,688
Other liabilities	2,699	1	225	-	14	9	1	2,949
Total liabilities	**38,306**	**3,297**	**484,075**	**-**	**14**	**53**	**11**	**525,756**
Equity	10,421	-	-	-	-	-	-	10,421
Total liabilities and equity	**48,727**	**3,297**	**484,075**	**-**	**14**	**53**	**11**	**536,177**
Net long/ (short) position for balance sheet items	9,054	75,627	(116,977)	4,715	22,205	446	4,930	-
Off-balance sheet claims arising from foreign exchange								
Swap exchange contracts	69,246	(86,133)	44,939	(1)	(23,385)	-	(6,322)	(1,656)
Net long/ (short) positions on foreign exchange	69,246	(86,133)	44,939	(1)	(23,385)	-	(6,322)	(1,656)
Net long/ (short) position as at 31 December 2011	**78,300**	**(10,506)**	**(72,038)**	**4,714**	**(1,180)**	**446**	**(1,392)**	**(1,656)**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	-	0.544	0.702804	0.0677	0.204	0.017	-	-

	Group as at 31/12/2010, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	26,944	-	-	-	-	-	-	-	26,944
Balances due from credit institutions	13,669	7,150	46,219	-	47	587	7	8	67,687
Securities held for trading	82	223	821	-	-	-	-	-	1,126
Available-for-sale securities	-	33,125	26,138	-	-	-	-	147	59,410
Loans and receivables to customers	7,506	86,749	415,526	-	4,360	21,521	-	5,888	541,550
Held-to-maturity securities	-	-	24,208	-	-	-	-	-	24,208
Derivatives financial instruments	122	-	-	-	-	-	-	-	122
Other assets	27,202	16,036	5,180	5,622	-	343	15,430	1,226	71,039
Total assets	**75,525**	**143,283**	**518,092**	**5,622**	**4,407**	**22,451**	**15,437**	**7,269**	**792,086**
Liabilities									
Financial liabilities measured at amortised cost	132	5,338	668,936	-	45	29	-	-	674,480
Derivative financial instruments	2,002	-	-	-	-	-	-	-	2,002
Other liabilities	50,637	5	28,042	-	-	6	-	1	78,691
Total liabilities	**52,771**	**5,343**	**696,978**	**-**	**45**	**35**	**-**	**1**	**755,173**
Equity	36,913	-	-	-	-	-	-	-	36,913
Total liabilities and equity	**89,684**	**5,343**	**696,978**	**-**	**45**	**35**	**-**	**1**	**792,086**
Net long/ (short) position for balance sheet items	**(14,159)**	**137,940**	**(178,886)**	**5,622**	**4,362**	**22,416**	**15,437**	**7,268**	**-**
Off-balance sheet claims arising from foreign exchange									
Swap exchange contracts	88,500	(158,142)	118,059	(1)	(4,546)	(25,243)	(9,504)	(10,996)	(1,873)
Net long/ (short) positions on foreign exchange	88,500	(158,142)	118,059	(1)	(4,546)	(25,243)	(9,504)	(10,996)	(1,873)
Net long/ (short) position as at 31 December 2010	**74,341**	**(20,202)**	**(60,827)**	**5,621**	**(184)**	**(2,827)**	**5,933**	**(3,728)**	**(1,873)**
Exchange rates applied as at 31 December 2010 (LVL for 1 foreign currency unit)	-	0.535	0.702804	0.0672	0.0449	0.203	0.0176	-	-

	Bank as at 31/12/2011, LVL 000's							
	LVL	USD	EUR	UAH	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	5	-	-	-	-	-	-	5
Balances due from credit institutions	6,797	4,345	12,703	-	1,524	84	22	25,475
Securities held for trading	-	31	-	-	-	-	-	31
Available-for-sale securities	-	1,217	3,056	-	-	163	-	4,436
Loans and receivables to customers	30,751	70,941	325,989	-	20,112	54	4,829	452,676
Held-to-maturity securities	-	-	24,318	-	-	-	-	24,318
Other assets	27,881	10	517	-	82	-	87	28,577
Total assets	**65,434**	**76,544**	**366,583**	**-**	**21,718**	**301**	**4,938**	**535,518**
Liabilities								
Financial liabilities measured at amortised cost	33,919	3,296	483,850	-	-	44	10	521,119
Derivative financial instruments	1,688	-	-	-	-	-	-	1,688
Other liabilities	1,561	1	225	-	-	-	1	1,788
Total liabilities	**37,168**	**3,297**	**484,075**	**-**	**-**	**44**	**11**	**524,595**
Equity	10,923	-	-	-	-	-	-	10,923
Total liabilities and equity	**48,091**	**3,297**	**484,075**	**-**	**-**	**44**	**11**	**535,518**
Net long/ (short) position for balance sheet items	17,343	73,247	(117,492)	-	21,718	257	4,927	-
Off-balance sheet claims arising from foreign exchange								
Swap exchange contracts	69,246	(86,133)	44,939	(1)	(23,385)	-	(6,322)	(1,656)
Net long/ (short) positions on foreign exchange	69,246	(86,133)	44,939	(1)	(23,385)	-	(6,322)	(1,656)
Net long/ (short) position as at 31 December 2011	**86,589**	**(12,886)**	**(72,553)**	**(1)**	**(1,667)**	**257**	**(1,395)**	**(1,656)**
Exchange rates applied as at 31 December 2011(LVL for 1 foreign currency unit)	-	0.544	0.702804	0.0677	0.204	0.017	-	-

	Bank as at 31/12/2010, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	26,944	-	-	-	-	-	-	-	26,944
Balances due from credit institutions	11,833	7,150	46,219	-	45	575	7	8	65,837
Securities held for trading	82	223	821	-	-	-	-	-	1,126
Available-for-sale securities	-	33,125	26,138	-	-	-	-	147	59,410
Loans and receivables to customers	7,506	97,241	429,686	-	4,360	21,521	78	5,888	566,280
Held-to-maturity securities	-	6,111	24,272	-	-	-	10,982	-	41,365
Derivatives financial instruments	122	-	-	-	-	-	-	-	122
Other assets	24,922	2,179	197	553	-	27	-	319	28,197
Total assets	**71,409**	**146,029**	**527,333**	**553**	**4,405**	**22,123**	**11,067**	**6,362**	**789,281**
Liabilities									
Financial liabilities measured at amortised cost	132	5,344	668,940	-	45	29	-	-	674,490
Derivative financial instruments	2,002	-	-	-	-	-	-	-	2,002
Other liabilities	47,441	5	28,042	-	-	2	-	-	75,490
Total liabilities	**49,575**	**5,349**	**696,982**	**-**	**45**	**31**	**-**	**-**	**751,982**
Equity	37,299	-	-	-	-	-	-	-	37,299
Total liabilities and equity	**86,874**	**5,349**	**696,982**	**-**	**45**	**31**	**-**	**-**	**789,281**
Net long/ (short) position for balance sheet items	(15,465)	140,680	(169,649)	553	4,360	22,092	11,067	6,362	-
Off-balance sheet claims arising from foreign exchange									
Swap exchange contracts	88,500	(158,142)	118,059	(1)	(4,546)	(25,243)	(9,504)	(10,996)	(1,873)
Net long/ (short) positions on foreign exchange	88,500	(158,142)	118,059	(1)	(4,546)	(25,243)	(9,504)	(10,996)	(1,873)
Net long/ (short) position as at 31 December 2010	**73,035**	**(17,462)**	**(51,590)**	**552**	**(186)**	**(3,151)**	**1,563**	**(4,634)**	**(1,873)**
Exchange rates applied as at 31 December 2010 (LVL for 1 foreign currency unit)	-	0.535	0.702804	0.0672	0.0449	0.203	0.0176	-	-

d) 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.

Under ordinary circumstances the Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management, as well as liquidity risk measurement, monitoring and reporting is ensured by the Risk Management Division and Finance Planning and Control Division. Liquidity risk management in the Group is coordinated by the Risk Management Division and Finance Planning and Control Division. The main source of liquidity is the funding provided by the Ministry of Finance. In 2011 the Bank was in compliance with liquidity ratio requirements.

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

Year	*High*	*Low*	*Average*	*Year-end*
2011	352%	43 %	128 %	43%
2010	443%	45%	155%	443%

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	5	-	-	-	-	-	5
Balances due from credit institutions	25,623	-	-	-	-	-	25,623
Securities held for trading	-	-	-	-	31	-	31
Available-for-sale securities	-	-	-	-	1,955	2,481	4,436
Loans and receivables to customers	112,575	25,883	5,021	22,793	145,006	113,972	425,250
Held-to-maturity securities	-	-	-	-	-	24,318	24,318
Other assets	2,433	1,575	1	2,313	49,770	422	56,514
Total assets	**140,636**	**27,458**	**5,022**	**25,106**	**196,762**	**141,193**	**536,177**
Liabilities							
Financial liabilities measured at amortised cost	25,874	35,258	179	44,481	199,711	215,616	521,119
Other liabilities	2,889	1,729	19	-	-	-	4,637
Total liabilities	**28,763**	**36,987**	**198**	**44,481**	**199,711**	**215,616**	**525,756**
Equity	-	-	-	-	-	10,421	10,421
Total liabilities and equity	**28,763**	**36,987**	**198**	**44,481**	**199,711**	**226,037**	**536,177**
Net balance sheet position – long/ (short)	111,873	(9,529)	4,824	(19,375)	(2,949)	(84,844)	-
Memorandum items							
Contingent liabilities	885	-	-	-	-	-	885
Financial commitments	160	-	-	-	-	-	160

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 measured at amortised cost	26,057	38,501	1,402	62,535	278,888	226,263	633,646
Memorandum items							
Contingent liabilities	885	-	-	-	-	-	885
Financial commitments	160	-	-	-	-	-	160

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	26,944	-	-	-	-	-	26,944
Balances due from credit institutions	67,687	-	-	-	-	-	67,687
Securities held for trading	-	-	-	-	1,126	-	1,126
Available-for-sale securities	179	5,928	5,220	5,845	9,954	32,284	59,410
Loans and receivables to customers	119,346	15,356	10,209	62,546	167,973	166,120	541,550
Held-to-maturity securities	-	-	-	-	-	24,208	24,208
Derivatives financial instruments	122	-	-	-	-	-	122
Other assets	449	6,648	-	-	51,215	12,727	71,039
Total assets	**214,727**	**27,932**	**15,429**	**68,391**	**230,268**	**235,339**	**792,086**
Liabilities							
Financial liabilities measured at amortised cost	30,185	9,590	167,688	28,967	204,509	233,541	674,480
Derivative financial instruments	2,002	-	-	-	-	-	2,002
Other liabilities	147	3,355	-	11,192	6,819	57,178	78,691
Total liabilities	**32,334**	**12,945**	**167,688**	**40,159**	**211,328**	**290,719**	**755,173**
Equity	-	-	-	-	-	36,913	36,913
Total liabilities and equity	**32,334**	**12,945**	**167,688**	**39,889**	**211,328**	**327,632**	**792,086**
Net balance sheet position – long/ (short)	182,393	14,987	(152,259)	28,232	18,940	(92,293)	0
Memorandum items							
Contingent liabilities	885	-	-	-	-	-	885
Financial commitments	198	-	-	-	-	-	198

As described in Note 23, the FCMC has imposed certain drawdown restrictions on the customer deposits at the Bank. However, for the purposes of the disclosures in this note the deposits are classified in accordance with their contractual maturities. As at 31 December 2010, LVL 23 million (2009: LVL 280 million) of deposits qualified for the restrictions according to the FCMC's decision. The management of the Bank believes that the Bank's liquidity position is and will be such as to allow the Bank to operate on a going concern basis for a period of at least 12 months from the date of signing this financial report.

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 measured at amortised cost	1,863	19,593	169,156	42,024	303,350	291,842	827,828
Memorandum items							
Contingent liabilities	885	-	-	-	-	-	885
Financial commitments	198	-	-	-	-	-	198

As described in Note 23, FCMC has imposed certain drawdown restrictions on customer funds at the Bank. However, for the purposes of this analysis, it is assumed that no such restrictions exist.

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	5	-	-	-	-	-	5
Balances due from credit institutions	25,475	-	-	-	-	-	25,475
Securities held for trading	-	-	-	-	31	-	31
Available-for-sale securities	-	-	-	-	1,955	2,481	4,436
Loans and receivables to customers	112,575	25,883	5,388	23,552	171,306	113,972	452,676
Held-to-maturity securities	-	-	-	-	-	24,318	24,318
Other assets	-	-	-	-	28,159	418	28,577
Total assets	**138,055**	**25,883**	**5,388**	**23,552**	**201,451**	**141,189**	**535,518**
Liabilities							
Financial liabilities measured at amortised cost	25,874	35,258	179	44,481	199,711	215,616	521,119
Other liabilities	3,476	-	-	-	-	-	3,476
Total liabilities	**29,350**	**35,258**	**179**	**44,481**	**199,711**	**215,616**	**524,595**
Equity	-	-	-	-	-	10,923	10,923
Total liabilities and equity	**29,350**	**35,258**	**179**	**44,481**	**199,711**	**226,539**	**535,518**
Net balance sheet position – long/ (short)	108,705	(9,375)	5,209	(20,929)	1,740	(85,350)	-
Memorandum items							
Contingent liabilities	2,399	-	-	-	-	-	2,399
Financial commitments	160	15,895	-	-	-	-	16,055

Banks'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	26,057	38,501	1,402	62,535	278,888	226,263	633,646
Memorandum items							
Contingent liabilities	2,399	-	-	-	-	-	2,399
Financial commitments	160	15,895	-	-	-	-	16,055

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	26,944	-	-	-	-	-	26,944
Balances due from credit institutions	65,837	-	-	-	-	-	65,837
Securities held for trading	-	-	-	-	1,126	-	1,126
Available-for-sale securities	179	5,928	5,220	5,845	9,954	32,284	59,410
Loans and receivables to customers	119,346	15,356	10,209	62,546	167,973	190,850	566,280
Held-to-maturity securities	11,269	2,604	2,587	697	-	24,208	41,365
Derivatives financial instruments	122	-	-	-	-	-	122
Other assets	-	-	-	-	15,791	12,406	28,197
Total assets	**223,697**	**23,888**	**18,016**	**69,088**	**194,844**	**259,748**	**789,281**
Liabilities							
Financial liabilities measured at amortised cost	30,195	9,590	167,688	28,967	204,509	233,541	674,490
Derivative financial instruments	2,002	-	-	-	-	-	2,002
Other liabilities	-	-	-	11,192	7,400	56,898	75,490
Total liabilities	**32,197**	**9,590**	**167,688**	**40,159**	**211,909**	**290,439**	**751,982**
Equity	-	-	-	-	-	37,299	37,299
Total liabilities and equity	**32,197**	**9,590**	**167,688**	**40,159**	**211,909**	**327,738**	**789,281**
Net balance sheet position – long/ (short)	191,500	14,298	(149,672)	28,929	(17,065)	(67,990)	-
Memorandum items							
Contingent liabilities	2,618	-	-	-	-	-	2,618
Financial commitments	19,863	-	-	-	-	-	19,863

Banks'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	1,961	19,593	169,156	42,024	303,350	291,842	827,926
Memorandum items							
Contingent liabilities	2,618	-	-	-	-	-	2,618
Financial commitments	19,863	-	-	-	-	-	19,863

As described in Note 23, FCMC has imposed certain drawdown restrictions on customer funds at the Bank. However, for the purposes of this analysis, it is assumed that no such restrictions exist.

e) Operational risk

Operational risk is the risk of suffering 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 undertake / accept operational risks with unquantifiable impact that are concurrently unmanageable (it is impossible to prevent such risks or provide for their consequences – e.g. non-compliance with legal regulations etc.), 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:

- 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;
- 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;
- Insurance;
- Investments in appropriate data processing and information protection technologies.

f) Capital management

Capital adequacy refers to the sufficiency of the Group’s capital resources to cover the credit risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission (FCMC), the bank regulator, in 2011 gave the Bank waiver from the requirement to maintain its capital adequacy ratio above 8% of its risk weighted assets.

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	311,027	271,227	311,027	271,227
- share premium	12,694	12,694	12,694	12,694
- audited retained earnings/ (accumulated loss) (not subject to dividend distribution)*	(312,813)	(242,343)	(312,311)	(241,937)
Less				
- negative fair value revaluation reserve	(487)	(4,685)	(487)	(4,685)
- intangible assets	(139)	(152)	(139)	(152)
- additional equity charge in accordance with FCMC requirements (50% from total)	(164)	(164)	(164)	(164)
Total Tier 1	**10,118**	**36,577**	**10,620**	**36,983**
Tier 2				
- subordinated debt – total	45,772	49,310	45,772	49,310
- subordinated debt – excess over 50% from Tier 1	(40,631)	(25,334)	(40,334)	(25,141)
- additional equity charge in accordance with FCMC requirements (50% from total)	(164)	(164)	(164)	(164)
Total Tier 2	**4,977**	**23,812**	**5,274**	**24,005**
Equity to be utilised in the capital adequacy ratio	**15,095**	**60,389**	**15,894**	**60,988**
Credit risk and counterparty risk capital charge by regulatory asset classes:				
Municipalities	425	425	429	425
Credit institutions	408	3,343	426	3,070
Companies	5,060	6,791	6,970	9,873
Assets falling under "retail" definition	1	12	1	12
Qualifying residential mortgage loans	136	237	136	237
Assets falling under "past due" definition	42,684	45,763	43,217	47,780
Covered bonds	-	3	-	3
Other assets	1,375	5,535	2,112	3,487
Other risk capital charges:				
Foreign currency open positions subject to capital charge	906	1,321	539	759
Fixed income securities position risk capital charge	3	69	4	69
Equity instruments' position risk capital charge	-	37	-	37
Total capital charges	**50,998**	**63,536**	**53,834**	**65,752**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	**2.37%**	**7.60%**	**2.36%**	**7.42%**

NOTE 34. EVENTS AFTER THE BALANCE SHEET DATE

After lifting of the restrictions on 2 January 2012 the Bank repaid deposits to its customers in amount of LVL 9,9 million. On 29 February 2012 the Bank transferred its customers deposits held in German branch in amount of LVL 16,7 million to Citadele banka. As a result, as of 29 February 2012 the Bank does not have any deposits from customers.

In February 2012, the Bank has repaid the deposits made by the State in the amount of 8 million Lats to the Ministry of Finance earlier than anticipated in the restructuring plan. The repaid sum included principal sum of 5 million Lats and 3 million Lats of interest for using State aid.

On 15 March 2012, the Financial and Capital Market Commission (FCMC) supported *Parex banka's* request to voluntarily give up the credit institution licence, and took a favourable decision on the licence cancellation.

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Parex banka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Parex banka and its subsidiaries (the Group) and the financial statements of AS Parex banka (the Bank) on pages 7 to 68 which comprise the balance sheets as of 31 December 2011, the income statements 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.

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

PricewaterhouseCoopers SIA, Kr. Valdemara iela 19, Riga LV-1010, Latvia
T: +371 6709 4400, F:+371 6783 0055, www.pwc.lv

Opinion

In our opinion, the financial statements give a true and fair view of the financial positions of the Group and the Bank as of 31 December 2011, and of their financial performance and their 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 4 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
28 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.