20
RIETUMU
BANK

RIETUMU

20

RIETUMU

BANK

CONTENTS

REPORT OF COUNCIL AND BOARD OF DIRECTORS

/ For Rietumu Bank and the Rietumu Bank Group, 2011 was a very successful and promising year from an operational, financial and strategic point of view. The Group has continued to enhance its reputation as one of the best managed and stable financial institutions in the Baltic States. The Group has developed into one of the largest privately owned banking groups in the Baltic States offering a comprehensive range of banking products and services for corporate customers and high net worth individuals. The Group has extensive experience in the EU and the CIS countries. The Group sees itself as a bridge between East and West as many of its customers operate in Latvia, the Baltic States, Western Europe, Russia and other CIS countries. The Group has positioned itself to understand business environments in both Western and Eastern Europe.

/ Financial results of the Bank and the Group continued to improve with profit after tax significantly increasing in comparison with 2010 for both the Bank and Group. The Group's return on assets and return on equity also improved significantly. One of the cornerstones of our development has always been conservatism and safety and we achieved this year's financial results while maintaining a very liquid balance sheet with relatively high capital ratios. Total assets have increased funded by customer deposits which have grown significantly during 2011 proving underlying confidence depositors hold in the Bank as well the competiveness of the Bank's products.

/ The Group considers that relationship banking is one of the keys to its success. Customers receive an individual and tailor-made approach to decision making, exceptional professionalism, integrity and confidentiality. All customers have access to the Bank remotely though internet banking, phone banking, private bankers and regional managers and 24 h customer support service. In 2011, the Group again focused on improving its service to clients with personalized solutions as well as improvements in the IT infrastructure. The second part of the new iRietumu multi channel remote banking platform was launched in 2011. This platform streamlines all communication between customers and the Bank resulting in much better quality of service.

/ In part customer deposit growth was also driven by the Group's expansion of the network of representative offices in the markets where our customers are active. In Russia, the Group now has representative offices in Moscow, St. Petersburg, Rostov-on-Don, Yekaterinburg, Kazan, Samara, Novosibirsk, Perm and Vladivostok. In addition, the Group has representative offices in Almaty, Paris, Yerevan, Minsk, Kiev, Dnepropetrovsk, Bucharest and Baku.

/ In 2011, as before, the Group focused its lending on medium sized projects in Latvia as well as in the Baltic States, Russia and CIS countries. The Group lends to customers both through the Bank as well as wholesale leasing subsidiaries in Russia and Belarus. The Group's lending is split between corporate lending in Latvia, private lending, international lending and trade finance. In 2011, much of the focus and success has been on the finance of international trade supporting raw materials that are exported from CIS countries as well as consumer goods that are imported into these countries. The wholesale leasing subsidiaries in Russia and Belarus had successful years despite the devaluation of the Belorussian Rouble. Wholesale lending to consumer finance and other non-related companies has also expanded.

/ Another key component to the relationship with our customer has been in the areas of wealth protection, asset management and brokerage. In 2011 these businesses continued to be very successful and offering customers opportunities for trading on global markets and a comprehensive range of asset management services. Despite the deterioration of the economic outlook of the Euro zone, the Group successfully launched a new fixed income fund through RB Asset Management.

/ The Group also has a wide range of credit cards including the exclusive World Signia card which features exceptional functionality coupled with concierge service in various languages. In 2011, the Group introduced E-commerce services to for its corporate customers allowing for payments with credit and debit cards though the internet. The bank also obtained cross-border acquiring licenses for Europe from VISA Europe and MasterCard Worldwide and is now able to acquire Merchants all over Europe.

/ In 2011, Rietumu Charity Fund continued to support charity and arts patronage, with the focus on supporting projects in medical and child care, and social sphere. In addition, the Bank launched a cultural events support program to celebrate its 20th anniversary in 2012.

/ Operating Results of the Group

/ Group total assets increased in 2011 to LVL 1,396 m compared to LVL 1,126 m in 2010. This growth is due to a significant increase in customer balances during this period. Customer deposits increased by 27% to LVL 1,232 m compared to LVL 970 m in 2010 reaching record levels.

/ Group loans and advances to customers grew to LVL 569 m or by 13.6% when compared to LVL 501 m in 2010. Group impairment losses have reduced by 47.3% from LVL 15.5 m in 2010 to LVL 8.2 m in 2011. A significant reduction has also occurred in the net carrying value of overdue loans for the Group from LVL 112 m as of the end of 2010 to LVL 58 m for the end of 2011.

/ The Group's policy of keeping high liquid ratios did not change in 2011 and excess funding was invested primarily into short term money market instruments as well as liquid investment grade sovereign and corporate bonds.

/ Group's net profit after tax has increased by 40.0% to LVL 9.8 m compared to LVL 6.8 m in 2010. Interest income increased primarily due to the bank increasing its holdings in financial instruments at fair value trough P&L. Commission income growth was 30% which exceeded the growth in customer deposits. The major contributors to commission income are money transfers, payment card income, asset management and brokerage income which account for 80% of the total commission income. Foreign exchange income which consists mainly from client transactions increased to LVL 10.8 from LVL 8.2 m in 2010.

/ The Group's total shareholders' equity remained unchanged at LVL 141 m with group capital adequacy of 16.79% (2010 16.38%). There was a significant increase in subordinated tier II deposits and at the end of 2011 the Bank had LVL 45.2 m (2010 LVL 13.4 m) subordinated deposits. While the increase in subordinated deposits is significant the Group still maintains a relatively high level of tier I capital when compared to total subordinated deposits.

/ At year end (LVL '000)	**2011**	2010	2009	2008
Total assets	1,396,150	1,126,118	969,931	1,202,592
Loans and receivables from customers	568,795	500,536	454,020	561,954
Due to customers	1,231,508	969,947	664,405	652,038
Total shareholder's equity	141,442	140,651	132,821	131,860
/ For the year (LVL '000)				
Net profit before tax	12,318	10,699	10,477	21,813
Net profit after tax	9,827	6,842	7,986	18,801
Operating income	51,103	51,618	54,313	68,295
/ Ratios				
Earnings per share (LVL)				
After tax	0.10	0.07	0.08	0.91
Before tax	0.12	0.11	0.10	1.04
Dividend per share (LVL)	0.01	0.01	1.03	0.23
/ Return on equity				
Before tax	8.73%	7.82%	7.92%	17.23%
After tax	6.97%	5.00%	6.03%	14.85%
/ Return on assets				
Before tax	0.98%	1.02%	0.96%	1.80%
After tax	0.78%	0.65%	0.74%	1.55%
Capital adequacy ratio	16.79%	16.38%	17.38%	14.62%
Profit margin	24.10%	20.73%	19.29%	31.94%
Loan portfolio to total assets ratio	40.74%	44.45%	46.81%	46.73%
Number of employees	1,029	1,017	736	787

/ Operating Results of the Group

/ At year end (LVL'000)	2011	2010	2009	2008
Total assets	1,388,401	1,116,323	981,645	1,117,276
Loans and receivables due from customers	605,432	535,849	490,471	571,057
Due to customers	1,234,827	971,004	681,521	670,611
Total shareholder's equity	136,057	137,909	132,757	132,497
/ For the year (LVL'000)				
Net profit before tax	13,057	4,887	9,810	23,411
Net profit after tax	10,613	3,187	8,137	20,494
Operating income	47,411	44,460	50,716	67,750
/ Ratios				
Earnings per share (LVL)				
After tax	0.11	0.03	0.08	0.91
Before tax	0.13	0.05	0.10	1.04
Dividend per share (LVL)	0.03	0.01	1.03	0.23
/ Return on equity				
Before tax	9.53%	3.61%	7.40%	18.38%
After tax	7.75%	2.35%	6.14%	16.09%
/ Return on assets				
Before tax	1.04%	0.47%	0.93%	2.00%
After tax	0.85%	0.30%	0.78%	1.75%
Capital adequacy ratio	17.20%	17. 82%	17.39%	14.72%
Profit margin	27.54%	10.99 %	19.34%	34.55%
Loan portfolio to total assets ratio	43.61%	48.00%	49.96%	51.11%
Number of employees	623	605	567	648

/ STATEMENT OF MANAGEMENT RESPONSIBILITY

/ The management of Rietumu Bank (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

/ The separate and consolidated financial statements on pages 14 to 105 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2011 and the results of their operations and cash flows for the year ended 31 December 2011.

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

/ The Management of Rietumu Bank AS is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's and the Group's assets and the prevention and detection of fraud and other irregularities in the Bank and in the Group. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable institutions.

On behalf of the Management of Rietumu Bank AS:

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ During the year and as of the date of the signing of the financial statements:

/ 1 January – 24 March 2011

Name	Position	Date of appointment
Leonid Esterkin	Chairman of the Council	25/09/97(05/11/10-05/11/13)
Arkady Suharenko	Deputy Chairman of the Council	25/09/97(05/11/10-05/11/13)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05(05/11/10-05/11/13)
Dermot Fachtna Desmond	Member of the Council	07/09/05(05/11/10-05/11/13)
Alexander Gafin	Member of the Council	25/03/10(05/11/10-05/11/13)
Aleksander Kalinovski	Member of the Council	05/11/10(05/11/10-05/11/13)

/ 25 March – 31 December 2011

Name	Position	Date of appointment
Leonid Esterkin	Chairman of the Council	25/09/97(25/03/11-25/03/14)
Arkady Suharenko	Deputy Chairman of the Council	25/09/97(25/03/11-25/03/14)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05(25/03/11-25/03/14)
Dermot Fachtna Desmond	Member of the Council	07/09/05(25/03/11-25/03/14)
Alexander Gafin	Member of the Council	25/03/10(25/03/11-25/03/14)
Aleksander Kalinovski	Member of the Council	05/11/10(25/03/11-25/03/14)
Valentin Bluger	Member of the Council	25/03/11(25/03/11-25/03/14)

/ THE BOARD OF DIRECTORS

/ 1 January 2011 – 31 December 2011

Name	Position	Date of appointment
Alexander Pankov	Chairman of the Board, President	18/10/10(18/10/10-18/10/13)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10(18/10/10-18/10/13)
Dmitry Pyshkin	Member of the Board, Senior Vice President	04/07/06(18/10/10-18/10/13)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10(18/10/10-18/10/13)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10(18/10/10-18/10/13)
Rolf Paul Fuls	Member of the Board, Senior Vice President	26/11/10(26/11/10-26/11/13)

/ INDEPENDENT AUDITORS' REPORT
/ To the shareholders of AS Rietumu Banka

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013 Latvia

Phone +371 67038000
Fax +371 67038002
Internet: www.kpmg.lv

/ Report on the Separate and Consolidated Financial Statements

/ We have audited the accompanying separate financial statements of AS Rietumu Banka ("the Bank"), which comprise the separate statement of financial position as at 31 December 2011, the separate income statement, separate statements of comprehensive income, cash flows and changes in the shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 105. We have also audited the accompanying consolidated financial statements of AS Rietumu Banka and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, consolidated statements of comprehensive income, cash flows and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 105.

/ Management's Responsibility for the Financial Statements

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

/ Auditors'Responsibility

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

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

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

/ Opinion

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

/ In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AS Rietumu Banka and its subsidiaries as at 31 December 2011, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013 Latvia

Phone +371 67038000
Fax +371 67038002
Internet: www.kpmg.lv

/ Report on Other Legal and Regulatory Requirements

/ In addition, our responsibility is to assess whether the accounting information included in the Report of Council and Board of Directors, as set out on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the separate and consolidated financial statements. Our work with respect to the Report of Council and Board of Directors was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate and consolidated financial statements. In our opinion, the Report of Council and Board of Directors is consistent with the separate and consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner
Riga, Latvia

Valda Užāne
Sworn Auditor
Certificate No 4

28 March 2012

FINANCIAL STATEMENTS

/ SEPARATE AND CONSOLIDATED INCOME STATEMENT
/ For the year ended 31 December 2011

	Note	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Interest income	6	37,338	35,290	33,082	33,203
Interest expense	6	(13,867)	(12,730)	(12,762)	(12,299)
Net interest income		**23,471**	**22,560**	**20,320**	**20,904**
Fee and commission income	7	18,401	17,998	14,114	13,515
Fee and commission expense	8	(4,404)	(3,944)	(2,721)	(2,802)
Net fee and commission income		**13,997**	**14,054**	**11,393**	**10,713**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	(2,450)	(1,845)	923	609
Net foreign exchange income	10	10,787	11,040	8,224	9,134
Net gain/(loss) on the net monetary position		(115)	-	-	-
Net recognized gain on available-for-sale assets	11	13	-	185	185
Share of profit of equity accounted investees (net of income tax)		7	-	(37)	-
Other income/(expense)	12	**5,393**	**1,602**	**10,610**	**2,915**

The separate and consolidated income statement is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ SEPARATE AND CONSOLIDATED INCOME STATEMENT
/ For the year ended 31 December 2011

	Note	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Operating Income		**51,103**	**47,411**	**51,618**	**44,460**
Impairment losses	13	(8,182)	(9,351)	**(15,539)**	**(19,225)**
General administrative expenses	14	(30,603)	(25,003)	(25,380)	(20,348)
Profit before income tax		**12,318**	**13,057**	**10,699**	**4,887**
Income tax expense	15	(2,491)	(2,444)	**(3,857)**	**(1,700)**
Profit for the period		**9,827**	**10,613**	**6,842**	**3,187**
Attributable to:					
Equity holders of the parent		**9,753**		**6,454**	
Non-controlling interest		**74**		**388**	

The separate and consolidated income statement is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
/ For the year ended 31 December 2011

	Note	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Profit for the period		9,827	10,613	6,842	3,187
Attributable to:					
Equity holders of the parent		9,753	10,613	6,454	3,187
Non-controling interest		74	-	388	-
Other comprehensive income					
Changes in fair value reserve		(2,830)	(2,900)	-	1,965
Change in revaluation reserve		853	-	527	-
Exchange differences on translating foreign operations		(738)	-	536	-
Income tax related to items of other comprehensive income	15	295	435	(75)	-
Other comprehensive income for the period		(2,420)	(2,465)	988	1,965
Total comprehensive income for the period		7,407	8,148	7,830	5,152
Attributable to:					
Equity holders of the parent		7,353		7,350	
Non-controlling interest		54		480	

The separate and consolidated comprehensive income statement is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
/ As at 31 December 2011

/ ASSETS	Note	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Cash and balances with the central bank	16	71,793	71,634	126,803	126,784
Financial instruments at fair value through profit or loss	17	58,507	52,592	41,736	41,318
Loans and receivables due from banks	18	493,538	491,833	291,885	289,233
Loans and receivables due from customers	19	568,795	605,432	500,536	535,849
Amounts receivable under reverse repurchase agreement	36	-	-	50,726	50,726
Available-for-sale assets	20	78,118	106,835	416	22,371
Held-to-maturity investments	21	15,302	15,302	845	845
Investments in subsidiaries and associates	22,23	85	18,759	78	20,674
Property and equipment	24	44,319	4,234	44,784	4,491
Intangible assets	25	3,183	2,047	3,680	2,517
Investment property	26	45,413	6,926	43,244	5,861
Current tax asset		488	-	199	125
Deferred tax asset	31	67	95	8	-
Other assets	27	16,542	12,712	21,178	15,529
Total Assets		**1,396,150**	**1,388,401**	**1,126,118**	**1,116,323**

The separate and consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
/ As at 31 December 2011

/ LIABILITIES AND SHAREHOLDERS' EQUITY	Note	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Financial instruments at fair value through profit or loss	17	186	186	581	495
Deposits and balances due to banks	28	14,059	13,720	7,212	4,271
Current accounts and deposits due to customers	29	1,231,508	1,234,827	969,947	971,004
Current tax liability		592	551	49	-
Deferred tax liability	31	2,358	-	2,981	507
Other liabilities and accruals	30	6,005	3,060	4,697	2,137
Total Liabilities		**1,254,708**	**1,252,344**	**985,467**	**978,414**
Share capital	32	100,000	100,000	100,000	100,000
Share premium	32	4,809	4,809	4,809	4,809
Revaluation reserve	32	2,626	1,754	2,121	1,754
Fair value reserve		(2,405)	(2,465)	-	-
Currency translation reserve		(1,760)	-	(1,260)	-
Other reserves	32	10,025	10,016	20,025	20,016
Retained earnings		23,490	21,943	13,737	11,330
Total Equity Attributable to Equity Holders of the Bank		**136,785**	**136,057**	**139,432**	**137,909**
Non-controlling Interest		**4,657**	**-**	**1,219**	**-**
Total Shareholders' Equity		**141,442**	**136,057**	**140,651**	**137,909**
Total Liabilities and Shareholders' Equity		**1,396,150**	**1,388,401**	**1,126,118**	**1,116,323**

The separate and consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
/ For the year ended 31 December 2011

/ CASH FLOWS FROM OPERATING ACTIVITIES	Note	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Profit before income tax		12,318	13,057	10,699	4,887
Amortization and depreciation	24, 25	3,625	2,068	3,500	2,109
Decrease in provisions		-	-	(382)	(382)
Revaluation of investment property		397	(320)	-	115
Gain on disposal of property and equipment		(626)	(75)	(39)	37
Gain on sale of subsidiary		(32)	34	-	-
Impairment losses	13	8,182	9,351	15,539	19,225
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**23,864**	**24,115**	**29,317**	**25,991**
(Increase)/Decrease in financial instruments at fair value through profit or loss		(13,387)	(11,274)	32,286	32,881
Increasein loans and receivables due from banks – term deposits		(195,025)	(195,127)	(22,386)	(19,932)
Increase in loans and receivables from customers		(75,970)	(76,772)	(67,227)	(65,929)
(Increase)/Decrease in receivable under reverse repurchase agreements		50,726	50,726	(50,726)	(50,726)
Increase in available-for-sale assets		(80,641)	(87,364)	(68)	-
Decrease in other assets		2,849	1,294	1,470	7,689
Increase/(Decrease) in derivative liabilities		(395)	(309)	225	139
Increase/(Decrease) in term deposit deposits due to banks		(1,984)	868	(82,947)	(84,616)
Increase in current accounts and deposits from customers		261,561	263,823	305,543	289,483
Decrease in amounts payable under repurchase agreements			-	(72,990)	(72,990)
Increase/(Decrease) in other liabilities and accruals		1,308	923	(3,171)	(2,240)
Decrease in cash and cash equivalents from operating activities before corporate income tax		**(27,094)**	**(29,097)**	**69,326**	**59,750**
Corporate income tax paid		(2,794)	(1,935)	(584)	(22)
Net cash and cash equivalents used in operating activities		**(29,888)**	**(31,032)**	**68,742**	**59,728**

/ SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
/ For the year ended 31 December 2011

/ CASH FLOWS FROM INVESTING ACTIVITIES	Note	'000 LVL **2011** Group	'000 LVL **2011** Bank	'000 LVL **2010** Group	'000 LVL **2010** Bank
Purchase of property and equipment and intangible assets	24,25	(1,644)	(565)	(834)	(459)
Proceeds from sale of property and equipment and investment property		1,294	103	716	-
Consideration paid for acquisition of subsidiaries or increase of share capital		-	(450)	(843)	(6,852)
Proceeds from sale of subsidiary		395	395	-	-
Acquisition of Investment property	26	(2,737)	(76)	(15,561)	-
Proceeds from held-to-maturity investments		(14,633)	(14,633)	4,115	4,623
Cash and cash equivalents used in investing activities		**(17,325)**	**(15,226)**	**(12,407)**	**(2,688)**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
/ For the year ended 31 December 2011

/ CASH FLOW FROM FINANCING ACTIVITIES	Note	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Distribution from Other reserves		(10,000)	(10,000)	-	-
(Decrease)/Increase in borrowed funds		-	-	(895)	(895)
Cash and cash equivalents used in financing activities		**(10,000)**	**(10,000)**	**(895)**	**(895)**
Net cash flow for the period		**(57,213)**	**(56,258)**	**55,440**	**56,145**
Cash and cash equivalents at the beginning of the year		302,731	301,191	246,162	245,046
Cash and cash equivalents acquired on business combinations		-	-	1,129	-
Cash and cash equivalents at the end of the year	33	**245,518**	**244,933**	**302,731**	**301,191**

The separate and consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ BANK'S SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
/ For the year ended 31 December 2011

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total equity '000 LVL
Balance at 1 January 2010	**100,000**	**4,809**	**1,754**	**(1,965)**	**20,016**	**8,143**	**132,757**
/ Total comprehensive income							
Profit for the period	-	-	-	-	-	3,187	3,187
Changes in fair value of available-for-sale financial assets	-	-	-	191	-	-	191
Release of revaluation reserve of available-for-sale financial assets upon impairment recognition	-	-	-	1,774	-	-	1,774
Balance at 31 December 2010	**100,000**	**4,809**	**1,754**	**-**	**20,016**	**11,330**	**137,909**
/ Transactions with shareholders recorded directly in equity							
Distribution from Other reserves	-	-	-	-	(10,000)	-	(10,000)
/ Total comprehensive income							
Profit for the period		-	-	-	-	10,613	10,613
Changes in fair value of available-for-sale financial assets	-	-	-	(2,465)	-	-	(2,465)
Balance at 31 December 2011	**100,000**	**4,809**	**1,754**	**(2,465)**	**10,016**	**21,943**	**136,057**

The separate and consolidated statement of changes in shareholders equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ GROUP CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
/ For the year ended 31 December 2011

	Attributable to Equity Holders of the Bank									
	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Foreign currency translation reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total '000 LVL	Non-controling interest '000 LVL	Total Equity '000 LVL
Balance at 31 December 2009	**100,000**	**4,809**	**1,312**	**-**	**(477)**	**20,025**	**6,413**	**132,082**	**739**	**132,821**
Reclassification related to prior periods	-	-	368	-	(1,238)	-	870	-	-	-
/ Total comprehensive income										
Profit for the current year	-	-	-	-	-	-	6,454	6,454	388	6,842
Revaluation of property	-	-	439	-	-	-	-	439	13	452
Exchange differences on the translating foreign operations	-	-	2	-	455	-	-	457	79	536
Balance at 31 December 2010	**100,000**	**4,809**	**2,121**	**-**	**(1,260)**	**20,025**	**13,737**	**139,432**	**1,219**	**140,651**
/ Transactions with shareholders recorded directly in equity										
Distributions of Other reserves	-	-	-	-	-	(10,000)	-	(10,000)	-	(10,000)
/ Change in ownership interest in subsidiaries										
Issue of new units to third parties by a controlled fund (Note 20)	-	-	-	-	-	-	-	-	3,384	3,384

/ GROUP CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
/ For the year ended 31 December 2011

	Attributable to Equity Holders of the Bank									
	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Foreign currency translation reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total '000 LVL	Non-controling interest '000 LVL	Total Equity '000 LVL
/ Total comprehensive income										
Profit for the current year	-	-	-		-	-	9,753	9,753	74	9,827
Revaluation of property	-	-	505	-	-	-	-	505	218	723
Changes in fair value of available-for-sale financial assets	-	-	-	(2,405)	-	-	-	(2,405)	-	(2,405)
Exchange differences on the translating foreign operations	-	-	-	-	(500)	-	-	(500)	(238)	(738)
Balance at 31 December 2011	**100,000**	**4,809**	**2,626**	**(2,405)**	**(1,760)**	**10,025**	**23,490**	**136,785**	**4,657**	**141,442**

The separate and consolidated statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 14 to 105.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

28 March 2012

/ Principal activities

/ These separate and consolidated financial statements include the financial statements of JSC "Rietumu Bank" (the "Bank") and its subsidiaries (together referred to as the "Group"). The principal subsidiaries of the Group are set out below.

/ JSC "Rietumu Bank" was established in the Republic of Latvia as a Joint Stock Company and was granted it's general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC"). The registered address of the Bank's head office is Vesetas Street 7, Riga, Latvia. The average number of people employed by the Group during the year was 1,029 (2010: 1,017) and by the Bank 623 (2010: 605).

/ Significant subsidiaries of the Group

Name	Country of incorporation	Principal activities	Ownership % 31 Dec 2011	Ownership % 31 Dec 2010
RB Securities Ltd	Stasinou 1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	Financial services	99.99%	99.99%
RB Investments Ltd	Vesetas 7, Riga, Latvia	Investments	100%	100%
RBAM I Funds Sicav Plc	TG Complex, Suite 2, Level 3, Brewery Street, Mriehel BKR 3000, Malta	Financial services	66.01%	0%
RB Asset Management IPS	Vesetas 7, Riga, Latvia	Financial services	100%	100%
Westtransinvest Ltd	Odoevskogo street 117, 6th floor, office 9, Minsk Belarus	Leasing company	50%	50%
Westleasing-M Ltd	Kostjakova street 10, Moscow, Russia	Leasing company	50%	50%
Arēna Rīga Ltd.	Skanstes street 21, Riga, Latvia	Entertainment and sports	100%	100%
Elektro Bizness Ltd	Vesetas 7, Riga, Latvia	Electricity production company	85%	90%
RB Opportunity Fund I	Vesetas 7, Riga, Latvia	Investments	100%	100%
Vesetas 7 Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
Overseas Estate Ltd	Vesetas 7, Riga, Latvia	Juice terminal	100%	100%
M 322 Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
H-Blok Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
Aristida Briāna 9 Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
ARMITANA PROPERTY Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
InCREDIT GROUP Ltd	Krišjāņa Barona iela 130, Riga, Latvia	Customer lending	51%	51%
KI Nekustamie īpašumi Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
KI Zeme Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
Miera 30C Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%

/ In the subsidiaries with an ownership share of 50% the Group has the right to majority votes on the Board of Directors and therefore controls of the operations of these subsidiaries

2 / BASIS OF PREPARATION

a / Statement of compliance

/ The accompanying separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"), and regulations of the Financial and Capital Market Commission of the Republic of Latvia (the 'FCMC') in force as at the reporting date.

/ The Board of Directors authorised these separate and consolidated financial statements for issue on March 28, 2012. The shareholders have the power to reject the separate and consolidated financial statements prepared and issued by management and the right to request that new financial statements be issued.

b / Basis of measurement

/ The separate and consolidated financial statements are prepared on the historical cost basis except for the following:

/ financial instruments at fair value through profit or loss are stated at fair value;

/ available-for-sale assets are stated at fair value;

/ owner occupied buildings which are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation;

/ investment property which is stated at fair value.

c / Functional and Presentation Currency

/ The financial statements are presented in thousands of lats (LVL 000's). The functional currencies of subsidiaries of the Bank are LVL except for the subsidiaries listed below:

RB Securities Ltd	USD (US dollar)
Westleasing Ltd	BYR (Belarus rouble)
Westtransinvest Ltd	BYR (Belarus rouble)
Westleasing-M Ltd	RUB (Russian rouble)
Parex Leasing Ltd.	BYR (Belarus rouble)
InterrentLtd	BYR (Belarus rouble)
RB Baki SIA	AZN (Azerbaijan manat)

3 / SIGNIFICANT ACCOUNTING POLICIES

/ The following significant accounting policies have been applied in the preparation of the separate and consolidated financial statements. The accounting policies have been consistently applied to all periods presented in these financial statements except as noted in 3 (s).

a / Foreign currency

I / Foreign currency transactions

/ Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiary companies at the spot exchange rate on the date of the transaction as determined by the Central Bank of the respective country in which each entity operates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated into the functional currency at the spot exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in equity through statement of other comprehensive income.

II / Foreign operations

/ The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency of the Bank at exchange rates set by Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into the functional currency of the Bank at exchange rate at the date of transaction. Foreign currency differences arising on translation to the Bank functional currency are recognised in equity in a Foreign Currency Translation Reserve, through other comprehensive income.

III / Hyperinflation

/ In 2011 the economy of the Republic of Belarus was classified as a hyperinflationary economy under the criteria included in IAS 29.

/ The foreign operations that have functional currency Belarus Ruble first restated their financial data into the measuring unit current at the reporting date in accordance with requirements of IAS29 except for comparative amounts. All financial data for the period are then translated to the Group presentation currency LVL using the exchange rate as at 31 December 2011. The comparative amounts are not adjusted for the changes in exchange rate since the relevant earlier date.

/ IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. Therefore application of IAS 29 results in an adjustment to the statement of comprehensive income for the gain or loss of purchasing power of the Belarusian Ruble under the caption “Net gain/loss on net monetary position”. This gain or loss on net monetary position is calculated as a difference resulting from the restatement of non-monetary assets, non-monetary liabilities, equity and items of the statement of comprehensive income.

/ The Group’s net exposure to Belarus Ruble is analysed under Currency risk analysis in Note 40.

IV / Foreign exchange rates

	31 Dec 2011	31 Dec 2010
EUR	0.7028040	0.7028040
USD	0.5440000	0.5350000
BYR	0.0000649	0.0001780
RUB	0.0170000	0.0176000

b / Basis of consolidation

I / Subsidiaries

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

II / Associates

/ Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of associated entity. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

III / Transactions eliminated on consolidation

/ Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

IV / Non –controlling interest

/ The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

V / Investment in subsidiaries and associates in Bank's separate financial statements

/ Investments in subsidiaries and associates are measured in Bank's separate financial statements at cost less impairment allowance.

VI / Funds management

/ The Bank and the Group manage and administer assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these trusts and investment vehicles are not included in the separate and consolidated financial statements except when the Bank or the Group control the operations of the trust or investment vehicle.

c / Goodwill

/ Goodwill represents the excess of the cost of a business combination over the Bank's or the Group's interest in the fair value of the net identifiable assets and contingent liabilities of the acquisition at the date of acquisition. Goodwill on acquisitions of business operation is included in intangible assets.

/ The Bank and the Group measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is included in intangible assets.

/ Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

/ Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired and is measured at cost less accumulated impairment losses. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to assets sold.

/ Negative goodwill arising on an acquisition is recognised immediately in the income statement.

d / Fair value measurement principles

/ A number of the Bank's and Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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

I / Financial assets

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

/ If a market for a financial instrument is not active, the Bank and the Group establish fair value using a valuation technique. Valuation techniques' assumptions are based on recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the relevant financial instrument, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

/ Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank and the Group have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk.

II / Investment property and owner occupied buildings

/ The fair value of property is based on internal valuations performed by the Bank and the Group that are, on a regular basis (once in two years or when market conditions significantly change), corroborated with external, independent valuations prepared by valuation companies, having appropriate professional qualifications and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which property could be exchanged on the date of the valuation between willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

/ In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

/ Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

III / Intangible assets

/ The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

e / Cash and cash equivalents

/ Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank and the Group in the management of their short-term commitments.

f / Financial instruments

I / Classification

/ Financial instruments are classified into the following categories:

/ Financial instruments at fair value through profit or loss are financial assets or liabilities that are derivatives or are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or that are designated to this category at initial recognition. The Bank and the Group designate financial assets and liabilities at fair value through profit or loss in the following circumstances:

/ The assets or liabilities are managed, evaluated and reported internally on a fair value basis

/ The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise

/ The asset or liability contains an embedded derivative that significantly modifies the cash flow flows that would otherwise be required under the contract.

/ Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank and the Group have the positive intention and ability to hold to maturity.

/ Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

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

/ Loans and receivables include regular loans and credit card balances and finance lease.

/ Liabilities at amortized cost include deposits and balances with Central Bank, deposits and balances due to banks and current accounts and deposits from customers and subordinated liabilities.

II / Recognition

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

III / Measurement

/ A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

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

/ Subsequent to initial recognition, financial assets other than loans and receivables, held to maturity investments and equity investments carried at cost and financial liabilities at amortised cost, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

/ Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

/ All held to maturity investments, loans and receivables and financial liabilities at amortised cost and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

IV / Gains and losses on subsequent measurement

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

/ a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;

/ a gain or loss on an available-for-sale financial asset is recognised in revaluation reserve through statement of other comprehensive income (except for impairment losses and foreign exchange gains and losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

/ For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the unwinding of interest using the effective interest rate method.

V / Derecognition

/ A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank and the Group transfer substantially all of the risks and rewards of ownership of the financial asset or when the Bank and the Group neither transfer, nor retain substantially all risks and rewards of ownership but does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank and the Group is recognised as a separate asset or liability. A financial liability is derecognised when it is extinguished.

/ On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

VI / Repurchase and reverse repurchase agreements

/ Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under “repo” transactions.

/ The difference between the sale and repurchase price represents the interest expense and is recognised in the income statement over the term of the “repo” agreement using the effective interest method.

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

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

VII / Derivative financial instruments

/ Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank and the Group classify all derivative financial instruments as financial instruments at fair value through profit and loss.

/ Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

/ Changes in the fair value of derivatives are recognised immediately in the income statement.

/ Derivatives may be embedded in another contractual arrangement (a “host contract”). The Bank and the Group account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

VIII / Offsetting

/ Financial assets and liabilities are offset and the net amount reported when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

g / Leases

/ The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases.

I / The Company as lessor

/ Assets leased out under operating lease are carried in the statement of financial position analogously to other assets. Income is recognised on a straight-line basis over each lease term. Other payments associated with the lease are recognised in the income statement as a component other income.

/ When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable before impairment allowance is recognised as unearned finance income.

II / The Company as lessee

/ Assets acquired under finance leases include equipment. Assets acquired by way of finance lease is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease plus initial direct costs of the lessee. Subsequent to initial recognition, these are measured at cost less accumulated depreciation and impairment losses.

/ Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

h / Property and equipment

I / Owned assets

/ Items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, except for land and buildings which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

/ Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

II / Revaluation

/ Land and buildings of the Bank and the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised in equity through statement of other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement.

/ A revaluation decrease on an item of land or buildings is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

III / Depreciation

/ Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually. The estimated useful lives are as follows:

Buildings	50 years
Equipment	2.5 to 4 years
Furniture	8 years
Vehicles	2.5 to 5 years

i / Investment property

/ Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in income statement in other operating income.

j / Repossessed collateral

/ If the borrower fails to fulfill the contractual obligations, the Board of Directors may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Bank and the Group cannot assume title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Bank and the Group are assuming the constructive title to the asset, and retains no contractual obligation to the original borrower, the Bank and the Group classify the asset as other assets.

/ If the collateral is property and title has been transferred to the Bank and the Group, the assets are shown as investment property.

k / Intangible assets

/ Intangible assets, which are acquired by the Bank and the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

l / Impairment

I / Financial assets

/ At each reporting date the Bank and the Group assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

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

/ Significant loans and receivables due from customers, except for lease contracts, and held-to-maturity investment securities are assessed individually for impairment indication and specific impairment allowance is established if necessary.

/ All loans and receivables for which no objective evidence of impairment is identified on an individual basis are grouped into sub-portfolios with similar credit risk characteristics according to the Bank's and the Group's internal loan portfolio rating procedure and a collective impairment allowance is assessed using statistical modelling of historical trends of the probability of default and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

/ Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are recognised in the income statement.

/ Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement. If the impaired financial asset is derecognised (due to repossessing of collateral (see Note 3j) or restructuring (see Note 21)), the related impairment allowance is written off.

/ Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to income statement. The cumulative loss that is removed from fair value reserve and recognised in profit and loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognised in income statement.

/ If, in a subsequent period, the fair value of an impaired available-for-sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

II / Non-financial assets

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

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

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

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

m / Provisions

/ A provision is recognised when the Bank and the Group have a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, which can be estimated reliably, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

n / Credit related commitments

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

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

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

o / Taxation

/ Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity respectively.

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

/ Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

/ Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

/ A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

p / Income and expense recognition

I / Interest income and expense

/ Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Bank and the Group estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

/ Fees and commission income and expenses that are integral part to the effective interest rate on financial assets and liabilities are included in the measurement of the effective interest rate.

II / Fee and commission income and expense

/ Fees and commission income, including mainly account servicing fees, investment management fees and credit card servicing fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

/ Other fees and commission expense relate mainly to transaction and service fees, which are expressed as the services are receives.

III / Net gain/loss on financial instrument at fair value through profit or loss

/ Net gain/loss on financial instrument at fair value through profit or loss comprises gains less losses related to trading assets and liabilities and derivatives held for risk management purposes which do not qualify for hedge accounting, and includes realised and unrealised fair value changes, foreign exchange differences.

q / Dividends

/ The Bank and the Group receive dividends from the equity instruments that are recorded to income when the right to receive payment is established. Proposed dividends are recognised in the financial statements only when approved by shareholders.

r / Employee benefits

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

s / New Standards and Interpretations

/ New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group and the Bank:

/ Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011). The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 is not relevant to the Bank's separate and Group's consolidated financial statements as the Bank and its subsidiaries are not a government-related entities and the revised definition of a related party did not result in new relations requiring disclosure in the financial statements.

/ Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 are not relevant to the Bank's separate and Group's consolidated financial statements as the Bank and the Group do not have any defined benefit plans with minimum funding requirements.

/ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Bank and the Group did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation does have no impact on the comparative amounts in the Bank's separate and the Group's consolidated financial statements for the year ending 31 December 2011. Further the Interpretation will be applied to relevant transactions in the future.

/ Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Bank's separate and Group's consolidated financial statements as the Bank and the Group have not issued such instruments at any time in the past.

/ An amendment to standard IFRS 7 Disclosures related to the transfers of financial assets is effective for annual periods beginning after 1 July 2011, and this amendment is expected to have no significant impact on the financial statements of the Bank and the Group.

/ The Bank and the Group have exposure to the following risks:

/ market risk

/ credit risk

/ liquidity risks

/ operational risks

/ capital management risks

/ This note presents information about the Bank's and the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

a / Risk management policies and procedures

/ The Bank's and the Group's risk management policies aim to identify, analyse and manage the risks faced by the Bank and the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

/ The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

/ The Board of Directors of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank and the Group operate within the established risk parameters. The Head of the Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the First Vice President of the Bank and indirectly to the Board of Directors.

/ Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee.

/ Both external and internal risk factors are identified and managed throughout the Bank's and the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

b / Market risks

/ Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's and the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

/ The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

/ Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chairman of the Board of Directors. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Financial Risk Management Division.

/ The Bank and the Group manage their market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits, which are monitored on a regular basis and reviewed and approved by the Board of Directors.

/ In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank and the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

/ The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's and the Group's net interest margin to various standard and non-standard interest rate scenarios.

I / Interest rate risk

/ Interest rate risk is the risk that movements in interest rates will affect the Bank's and the Group's income or the value of its portfolios of financial instruments.

/ The Bank and the Group are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. For further analysis of interest repricing refer to Note 41 Interest rate risk analysis.

/ An analysis of sensitivity of the net income for the year to changes of market interest rate impacting the interest income on variable interest rate financial instrument and the fair value of fixed interest rate financial instruments measured at fair value based on a scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves, all other variables remaining constant, is as follows:

Group '000 LVL	2011		2010	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
100bp parallel increase	1,748	-	2,755	-
100bp parallel decrease	(1,748)	-	(2,755)	-

Bank '000 LVL	2011		2010	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
100bp parallel increase	2,200	-	2,755	-
100bp parallel decrease	(2,200)	-	(2,755)	-

II / Currency risk

/ The Bank and the Group have assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's and the Group's exposure to currency risk at year-end refer to Note 40 Currency risk analysis.

/ An analysis of sensitivity of the Bank's and the Group's net income and other comprehensive income for the year to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 2010 and a scenario of a 5% change in USD, EUR, RUB or BYR to LVL exchange rates, while the other variable remain constant, is as follows:

Group '000 LVL	2011		2010	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% appreciation of USD against LVL	(3,497)	3,469	262	-
5% depreciation of USD against LVL	3,497	(3,469)	(262)	-
5% appreciation of EUR against LVL	(1,892)	1,865	(7)	-
5% depreciation of EUR against LVL	1,892	(1,865)	7	-
5% appreciation of RUB against LVL	657	-	278	-
5% depreciation of RUB against LVL	(657)	-	(278)	-
5% depreciation of BYR against LVL	11	-	(200)	-
5% appreciation of BYR against LVL	(11)	-	200	-

Bank '000 LVL	2011		2010	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% appreciation of USD against LVL	(3,497)	262	220	-
5% depreciation of USD against LVL	3,497	(262)	(220)	-
5% appreciation of EUR against LVL	(1,892)	(7)	(111)	-
5% depreciation of EUR against LVL	1,892	7	111	-

/ The foreign exchange rate LVL/EUR is pegged as at 31 December 2011. The rate could change as a result of a change in government macroeconomic policy.

III / Price risk

/ Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank and the Group take a long or short position in a financial instrument.

/ An analysis of sensitivity of the Bank's and the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2011 and 2010 and a scenario of a 5% change in all securities prices, while the other variables remain constant, is as follows:

Group '000 LVL	2011		2010	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% increase in securities prices	2,920	3,906	2,069	21
5% decrease in securities prices	(2,920)	(3,906)	(2,069)	(21)

Bank '000 LVL	2011		2010	
	Profit for the period	Other comprehensive income	Profit for the period	Other comprehensive income
5% increase in securities prices	2,624	5,342	2,055	1,119
5% decrease in securities prices	(2,624)	(5,342)	(2,055)	(1,119)

c / Credit risk

/ Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank and the Group. The Bank and the Group have developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Board of Directors.

/ The Bank's and the Group's credit policies establish:

/ Procedures for review and approval of loan/credit applications;

/ Methodology for the credit assessment of borrowers (corporate, SME and retail)

/ Methodology for the credit assessment of counterparties, issuers and insurance companies;

/ Methodology for the evaluation of collateral;

/ Credit documentation requirements;

/ Procedures for the ongoing monitoring of loans and other credit exposures.

/ Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Risk Department's Credit Risk Management Division then independently reviews the loan/credit application and the report and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

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

/ The Bank's Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department reviews retail loan/credit applications.

/ Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks. The Bank and the Group monitor concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 19 "Loans and receivables from customers".

/ The Bank's and the Group's maximum exposure to credit risk is set out below. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

31.december LVL'000 / Maximum credit risk exposure	Notes	Gross maximum credit exposure			
		2011 Group	2011 Bank	2010 Group	2010 Bank
Demand deposits with the Bank of Latvia	16	71,793	71,634	126,803	126,784
Loans and receivables due from banks	18	493,538	491,833	291,885	289,233
Loans and receivables due from customers		611,455	647,712	537,345	572,254
Reverse repo	36	-	-	50,726	50,726
Fair value through profit or loss financial instruments		57,494	51,922	40,367	40,306
Available for sale assets		77,802	77,802	-	-
Held to maturity investments	21	15,302	15,302	845	845
Total financial assets		**1,327,384**	**1,356,205**	**1,047,971**	**1,080,148**
Guarantees	34	9,926	9,926	12,322	12,322
Credit card commitments	34	6,662	6,663	4,286	4,286
Overdraft facilities	34	6,286	6,286	6,978	6,978
Credit commitments	34	44,554	50,574	32,999	37,439
Total guarantees and commitments		**67,428**	**73,449**	**56,585**	**61,025**
Total maximum credit risk exposure		**1,394,812**	**1,429,654**	**1,104,556**	**1,141,173**

d / Liquidity risk

/ Liquidity risk is the risk that the Bank and the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank and the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

/ The Bank and the Group maintain liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's and the Group's liquidity policies are reviewed and approved by the Board of Directors of the Bank.

/ The Bank and the Group seek to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

/ The liquidity management policies of the Bank and the Group require:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be traded as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

/ The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and receivables from banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank and the Group as a whole.

/ The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position of the Bank and the Group are presented to senior management on a daily basis. Decisions on the Bank's and the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

/ The table below analyses the Bank's and the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. Both the interest and principal cash flows should be included in the analysis as this best represents the liquidity risk being faced by the entity.

/ The Group

/ Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2011:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
/ Non-derivative liabilities							
Deposits and balances due to financial institutions	13,183	719	164	-	-	14,066	14,059
Current accounts and deposits due to customers	984,295	39,966	109,066	120,203	44,708	1,298,238	1,231,508
/ Derivative liabilities							
Inflow	(14,046)	(31)	(1,490)	-	-	(15,567)	-
Outflow	14,175	33	1,545	-	-	15,753	186
Total	**997,607**	**40,687**	**109,285**	**120,203**	**44,708**	**1,312,490**	**1,245,753**
Guarantees (maximum exposure)	**231**	**273**	**6,012**	**154**	**-**	**6,670**	**9,926**
Credit related commitments	**57,502**	**-**	**-**	**-**	**-**	**57,502**	**57,502**

/ Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2010:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
/ Non-derivative liabilities							
Deposits and balances due to financial institutions	4,642	-	1,876	944	-	7,462	7,212
Current accounts and deposits due to customers	729,355	51,046	132,934	68,516	12,038	993,889	969,947
/ Derivative liabilities							
Inflow	(18,636)	(140)	(144)	-	-	(18,920)	-
Outflow	19,125	141	149	-	-	19,415	581
Total	**734,486**	**51,047**	**134,815**	**69,460**	**12,038**	**1,001,846**	**977,740**
Guarantees (maximum exposure)	**303**	**56**	**1,973**	**3,616**	**-**	**5,948**	**12,322**
Credit related commitments	**44,263**	**-**	**-**	**-**	**-**	**44,263**	**44,263**

/ **The Bank**

/ Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2011:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
/ Non-derivative liabilities							
Deposits and balances due to financial institutions	12,844	719	164	-	-	13,727	13,720
Current accounts and deposits due to customers	984,295	39,966	108,985	119,070	33,098	1,285,414	1,234,827
/ Derivative liabilities							
Inflow	(14,046)	(31)	(1,490)	-	-	(15,567)	-
Outflow	14,175	33	1,545	-	-	15,753	186
Total	**997,268**	**40,687**	**109,204**	**119,070**	**33,098**	**1,299,327**	**1,248,733**
Guarantees (maximum exposure)	**231**	**273**	**6,012**	**154**	**-**	**6,670**	**9,926**
Credit related commitments	**63,523**	**-**	**-**	**-**	**-**	**63,523**	**63,523**

/ Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2010:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
/ Non-derivative liabilities							
Deposits and balances due to financial institutions	4,263	-	8	-	-	4,271	4,271
Current accounts and deposits due to customers	740,261	50,046	131,952	68,439	830	991,528	971,004
/ Derivative liabilities					-		
Inflow	(18,636)	(140)	(144)	-	-	(18,920)	-
Outflow	19,125	141	149	-	-	19,415	495
Total	**745,013**	**50,047**	**131,965**	**68,439**	**830**	**996,294**	**975,770**
Guarantees (maximum exposure)	**303**	**56**	**1,973**	**3,616**	**-**	**5,948**	**12,322**
Credit related commitments	**48,703**	**-**	**-**	**-**	**-**	**48,703**	**48,703**

e / Operational risks

/ Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's and the Group's process, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's and the Group's operations.

/ The Bank's and the Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's and the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

/ The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

/ requirements for appropriate segregation of duties, including the independent autorization of transactions

/ requirements for the reconciliation and monitoring of transactions

/ compliance with regulatory and other legal requirements

/ documentation of controls and procedures

/ requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified

/ development of contingency plans

/ training and professional development

/ ethical and business standards

/ risk mitigation, including insurance where this is effective.

/ Prevention of any possibility to be involved in money laundering and terrorist financing is a key component of operational risk. Sound anti-money laundering policies and procedures protect the Bank's and the Group's reputation and increases transparency of the Bank's and the Group's operations. Sound anti-money laundering policies and procedures also protect the Bank and the Group against financial losses. The Bank and the Group have developed and implemented an anti-money laundering strategy which includes the following:

/ new customer due diligence or enhanced new customer due diligence based on the customer risk category

/ customer risk assessment based on a risk scoring system that takes into account external and internal risk indicators

/ new customer monitoring and risk based customer monitoring for all customers based on results of individual customer due diligence and customer risk assessment

/ Real time monitoring of customer transactions based on internal and external criteria

/ Regular staff training

/ Compliance with Bank and Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Bank and the Group.

f / Capital management

/ The Bank's and the Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Bank and the Group recognise the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization. The FCMC sets and monitors capital requirements for the Bank and for the Group.

/ The Bank and the Group define as capital those items defined by statutory regulation as capital. Under the current capital requirements set by FCMC banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level – 15.1% for the Bank as at 31 December 2011. The Bank and the Group were in compliance with the statutory capital ratio as at 31 December 2010 and 31 December 2011.

/ The following table shows the composition of the Bank's and the Group's capital position calculated in accordance with the requirements of FCMC that is based on Basel II, as at 31 December 2011:

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
/ Tier 1 capital				
Share capital	100,000	100,000	100,000	100,000
Share premium	4,809	4,809	4,809	4,809
Other reserve	10,025	10,016	20,025	20,016
Revaluation reserve for available-for-sale financial assets	(2,405)	(2,465)	-	-
Non controlling interest	4,657	-	1,219	-
Currency translation reserve	(1,760)	-	(1,260)	-
Retained earnings from prior years	13,737	11,330	7,283	8,143
Current year profit	9,753	10,613	6,454	3,187
Intangible assets	(3,183)	(2,047)	(3,680)	(2,517)
Other regulatory deductions from Tier 1 capital	(6,525)	(6,525)	(6,319)	(6,319)
Dividends declared or proposed	(2,500)	(2,500)	(1,000)	(1,000)
Total tier 1 capital	**126,608**	**123,231**	**127,531**	**126,319**
/ Tier 2 capital				
Long term deposits qualifying as regulatory capital	36,325	36,325	10,621	10,621
Other regulatory deductions from Tier 2 capital	(6,525)	(6,525)	(6,318)	(6,318)
Total tier 2 capital	**29,800**	**29,800**	**4,303**	**4,303**
Total capital	**156,408**	**153,031**	**131,834**	**130,622**
Regulatory capital requirement	**74,511**	**71,157**	**64,372**	**58,652**
Total capital adequacy ratio	**16.79%**	**17.20%**	**16.38%**	**17.82%**

4 / RISK MANAGEMENT

/ The regulatory requirement represents risk-weighted assets adjusted for capital requirement related to operating risks. The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised credit commitments, with some adjustments to reflect the more contingent nature of the potential losses.

/ The Bank and the Group are subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank and the Group. The Bank and the Group have complied with all externally imposed capital requirements as at 31 December 2011 and 31 December 2010.

5 / USE OF ESTIMATES AND JUDGEMENTS

/ The preparation of financial statements in conformity with EU IFRS requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

/ Key sources of estimation uncertainty:

I / Allowances for credit losses on loans and receivables

/ The specific counterparty component of the total allowances for impairment applies to loans and receivables evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function. The cash flows may be realised from repayment of the loan, from sale of collateral, from operating the collateral etc., depending on the specific situation and terms of the loan agreement. The estimated net realisable value of collateral is based on a combination of internal fair value assessment conducted by internal valuation specialists and independent external valuation reports and is reviewed on a regular basis. The estimated future cash flows are discounted using the financial asset's original effective interest rate.

/ Collectively assessed impairment allowance covers credit losses inherent in a portfolio of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentration and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the estimates of future cash flows for specific counterparty allowance and the model assumptions and parameters used in determining collective allowance.

II / Determining fair value of financial instruments

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

/ All financial instruments that are carried at fair value were valued based on their market value, except for units in RB Opportunity Fund that are valued based on the estimated fair value of underlying assets, mostly properties. To determine fair value of the properties valuation techniques were used that are based on market prices for similar properties sold on the market or based on discounted estimated future income.

/ Fair value of financial instruments carried at amortised cost is stated at present value of future estimated cash flows discounted by a market interest rate. For short term financial assets and liabilities the fair value approximate amortised cost.

5 / USE OF ESTIMATES AND JUDGEMENTS

III / Impairment of held-to-maturity investments

/ The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. In the event of a significant decline and subsequent significant fluctuations in financial and capital markets or the existence of an illiquid capital market, the market price may not always represent fair value, i.e. is not the best indication of impairment of a financial asset. The Bank and the Group use valuation models based on quoted market prices of similar products.

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

IV / Determining fair value of property

/ Investment property is stated at its fair value with all changes in fair value recorded in the income statement. Property used in own business operation is revaluated to fair value on regular periodic basis with changes in revaluation recognized through other comprehensive income in a revaluation reserve and subsequent amortization is recognised in income statement. When measuring the fair value of the property, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on discounted estimated future cash flows from the property. Comparative method is based on recent market transactions with comparable property.

V / Impairment of assets shown under other assets

/ Assets assumed as collateral are valued at lower of cost and net realisable value. When assessing net realisable value of assets, management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers).

VI / Impairment of investments in subsidiaries

/ Investments in subsidiaries are valued at cost in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying value of net assets of a subsidiary to see whether any impairment indication exists. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Discount rate is equal to the cost of financing interest rate, i.e. rate charged on deposits to customers increased by a risk margin of 2 to 6 basis points. An impairment loss is recorded when the decline in value of subsidiary is significant and prolonged.

VII / Impairment of goodwill

/ Goodwill is assessed for impairment on an annual basis by discounting estimated future cash flows for the underlying cash generating unit using a discount rate equal to return on equity expected by shareholders. The estimated future cash flows are projected based on historical experience adjusted for expected changes in the business.

VIII / Useful lives of equipment

/ Estimated useful lives of equipment are based on practical experience over using similar equipment in the past. Each year damaged items and technically out-of-date items are identified and their useful life or carrying value is adjusted individually.

IX / Deferred tax asset recognition

/ A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

6 / NET INTEREST INCOME

	'000 LVL **2011** Group	'000 LVL **2011** Bank	'000 LVL **2010** Group	'000 LVL **2010** Bank
/ Interest income				
Loans and receivables due from customers	31,047	29,193	30,366	30,558
Loans and receivables due from financial institutions	2,428	2,384	1,949	1,908
Financial instruments at fair value through profit or loss	3,462	3,312	412	382
Held-to-maturity investments	401	401	347	347
Amounts receivable under reverse repurchase agreements	-	-	8	8
	37,338	**35,290**	**33,082**	**33,203**
/ Interest expense				
Current accounts and deposits due to customers	10,962	10,598	10,352	9,982
Deposits and balances due to financial institutions	557	45	655	562
Amounts payable under repurchase agreements	-	-	274	274
Certificates of deposit and promissory notes		-	9	9
Other interest expense	2,348	2,087	1,472	1,472
	13,867	**12,730**	**12,762**	**12,299**

7 / FEE AND COMMISSION INCOME

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Money transfers	7,478	7,478	5,943	5,943
Commission income from payment cards	4,860	4,860	3,241	3,241
Revenue from customer asset management and brokerage commissions	2,319	1,858	1,752	1,410
Remote system fee	659	659	575	575
Commission from documentary operations	572	572	472	472
Commission from account servicing	514	514	261	261
Cash withdrawals	219	219	192	192
Other	1,780	1,838	1,678	1,421
	18,401	**17,998**	**14,114**	**13,515**

8 / FEE AND COMMISSION EXPENSE

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Credit card expenses	1,763	1,763	1,062	1,062
On correspondent accounts	378	378	455	455
Brokerage fees	506	461	260	442
Commission for maintenance of syndicated loan	-	-	189	189
Cash withdrawal fees	10	10	12	12
Other	1,747	1,332	743	642
	4,404	**3,944**	**2,721**	**2,802**

9 / NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Equity instruments	(539)	(203)	520	206
Debt instruments	(2,454)	(2,185)	(357)	(357)
Derivatives	543	543	760	760
	(2,450)	**(1,845)**	**923**	**609**

10 / NET FOREIGN EXCHANGE INCOME/(LOSS)

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Gain/(loss) from revaluation of financial assets and liabilities	(29)	(13)	(909)	(86)
Gain/(loss) on spot transactions and derivatives	10,816	11,053	9,133	9,220
	10,787	**11,040**	**8,224**	**9,134**

11 / NET RECOGNIZED GAIN/(LOSS) ON AVAILABLE-FOR-SALE ASSETS

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Equity instruments	-	-	185	185
Debt instruments	13	-	-	-
	13	**-**	**185**	**185**

12 / OTHER INCOME/(EXPENSES)

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Rental income from operating leases	3,795	499	3,956	411
Fair value change in investment property	(397)	320	3,245	(115)
Penalties received	444	314	1,089	362
Recovery of assets written off	268	268	-	-
Gain on transaction with lease portfolio	515	-	-	-
Release of provision for litigation	-	-	418	418
Dividends received	27	17	59	268
Loss/ profit from sale of property and equipment	626	75	(330)	-
Negative goodwill write-off	-	-	128	-
Income/(loss) from sale of subsidiaries	32	(35)	-	-
Other	83	144	2,045	1,571
	5,393	**1,602**	**10,610**	**2,915**

13 / IMPAIRMENT LOSSES

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
/ Impairment losses				
Loans and receivables from customers	(16,924)	(15,858)	(18,493)	(17,796)
Available-for-sale financial assets	(109)	-	(1,050)	(2,396)
Held-to-maturity investments	(176)	(176)	-	-
Goodwill	-	-	(12)	-
Investments in subsidiaries	-	(2,790)	-	(2,175)
Other assets	(236)	(203)	(3,109)	(2,576)
	(17,445)	**(19,027)**	**(22,664)**	**(24,943)**
/ Reversals of impairment losses				
Loans and receivables from customers	9,211	8,667	6,251	4,845
Held-to-maturity investments	-	-	83	83
Investments in subsidiaries	-	1,000	-	-
Other assets	52	9	791	790
	9,263	**9,676**	**7,125**	**5,718**
Net impairment losses	**(8,182)**	**(9,351)**	**(15,539)**	**(19,225)**

14 / GENERAL ADMINISTRATIVE EXPENSES

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Employee compensation	11,633	8,989	9,188	7,447
Depreciation and amortisation	3,625	2,068	3,500	2,109
Rent	1,115	2,114	1,153	2,035
Payroll related taxes	2,740	2,220	2,012	1,788
Repairs and maintenance	1,197	537	1,362	529
Taxes other than on corporate income and payroll	1,316	963	1,270	837
Advertising and marketing	1,325	1,212	1,027	529
IT service and IT material consumption	1,129	1,128	1,000	1,000
Communications and information services	881	807	848	786
Professional services	628	351	721	424
Travel expenses	852	807	611	567
Salaries to Board of Directors and Council	1,061	846	538	363
Representative offices	777	526	322	322
Credit card service	434	434	301	301
Charity and sponsorship	315	322	512	281
Representation	199	161	15	151
Insurance	222	150	387	187
Office supplies (Stationary)	116	42	62	43
Subscription of information	64	64	53	53
Security	31	48	207	86
Other	943	1,214	291	510
	30,603	**25,003**	**25,380**	**20,348**

15 / INCOME TAX EXPENSE

a / Income tax expense recognized in the profit and loss

	'000 LVL **2011** Group	'000 LVL **2011** Bank	'000 LVL **2010** Group	'000 LVL **2010** Bank
/ Current tax expense				
Current tax expense	3,003	2,611	2,285	1,700
Origination and reversal of temporary differences	(512)	(167)	1,572	-
Total income tax expense in the profit and loss	**2,491**	**2,444**	**3,857**	**1,700**

/ The tax rate applicable in countries in which group entities operate:

	'000 LVL **2011**	'000 LVL **2010**
Latvia	15.00%	15.00%
Belarus	24.00%	24.00%
Cyprus	10.00%	10.00%
Russia	20.00%	20.00%
Azerbaijan	20.00%	20.00%

15 / INCOME TAX EXPENSE

b / Reconciliation of effective tax rate:

	'000 LVL 2011	%	'000 LVL 2010	%
/ The Group				
Income before tax	12,318		10,699	
Income tax at the applicable tax rate	1,848	15.00%	1,605	15.00%
Non-deductible expenses	984	7.99%	1,384	12.95%
Tax exempt income	-	-	(102)	(0.95%)
Tax relief on donations	(262)	(2.13%)	(227)	(2.12%)
Change in unrecognized deferred tax asset	(149)	(1.21%)	912	8.52%
Effect of different tax rate in other countries	70	0.58%	285	2.65%
	2,491	**20.23%**	**3,857**	**36.05%**
/ The Bank				
Income before tax	13,057	-	4,887	-
Income tax at the applicable tax rate	1,959	15.00%	733	15.00%
Non-deductible expenses	813	6.23 %	384	7.86%
Tax exempt income	(23)	(0.18%)	(102)	(2.09 %)
Tax relief on donations	(262)	(2.01%)	(227)	(4.64%)
Change in unrecognized deferred tax asset	(43)	(0.33%)	912	18.66%
	2,444	**18.71%**	**1,700**	**34,79%**

15 / INCOME TAX EXPENSE

c / Income tax recognized in other comprehensive income

Deferred tax expense	'000 LVL **2011** Tax Base	'000 LVL **2011** Deferred income tax	'000 LVL 2010 Tax Base	'000 LVL 2010 Deferred income tax
/ Group				
Change in revaluation reserve	853	(130)	527	(75)
Change in fair value reserve	(2,830)	425	-	-
Total income tax recognized in equity	**(1,977)**	**295**	**527**	**(75)**
/ Bank				
Change in fair value reserve	(2,900)	435	-	-
Total income tax recognized in equity	**(2,900)**	**435**	**-**	**-**

16 / CASH AND BALANCES WITH THE CENTRAL BANK

/ Cash and balances with central bank comprised of the following items:

	'000 LVL 31 Dec **2011** Group	'000 LVL **2011** Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Cash	3,254	3,095	3,321	3,302
Balances due from the Bank of Latvia	68,539	68,539	123,482	123,482
	71,793	**71,634**	**126,803**	**126,784**

/ Deposits with the Bank of Latvia represent the balance outstanding on the correspondent account with the Bank of Latvia in LVL and EUR.

/ In accordance with the Bank of Latvia's regulations, the Bank and the Group are required to maintain a compulsory reserve set based on the average monthly balance of the following items:

+ deposits from the public

- less liabilities against credit institutions

- less balance due to the State Treasury on its consolidated account with the Bank

+ bonds and other debt securities issued by the Bank

/ The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

17 / FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
/ Bonds				
with rating from AAA to A	36,556	36,269	30,414	30,414
with rating from BBB+ to BBB-	16,337	15,206	7,067	7,067
non-investment grade	4,274	312	2,874	2,874
not rated	192	-	-	-
Equity investments	827	484	788	517
Derivative financial instruments	321	321	593	446
Financial assets at fair value through profit or loss	**58,507**	**52,592**	**41,736**	**41,318**
Derivative financial instruments	(186)	(186)	(581)	(495)
Financial liabilities at fair value through profit or loss	**(186)**	**(186)**	**(581)**	**(495)**

/ The Bank and the Group classify trading and derivative financial instruments and trading portfolio under this category.

17 / FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

/ Derivative financial assets and liabilities
/ The Group

	'000 LVL 31 Dec 2011 Carrying value	'000 LVL 31 Dec 2011 Notional value	'000 LVL 31 Dec 2010 Carrying value	'000 LVL 31 Dec 2010 Notional value
/ Assets				
Forward contracts	114	6,315	200	15,897
Option premium	204	n/a	242	n/a
Future contracts	-	-	147	4,355
Swap contracts	3	193	4	350
Total derivative financial assets	**321**		**593**	
/ Liabilities				
Option contracts	-	-	77	-
Future contracts	-	-	9	1,531
Swap contracts	117	7,999	-	-
Forward contracts	69	2,281	495	15,806
Total derivative liabilities	**186**		**581**	

/ The Bank

	'000 LVL 31 Dec 2011 Carrying value	'000 LVL 31 Dec 2011 Notional value	'000 LVL 31 Dec 2010 Carrying value	'000 LVL 31 Dec 2010 Notional value
/ Assets				
Forward contracts	114	6,315	200	15,897
Option premium	204	n/a	242	n/a
Swap contracts	3	193	4	4
Total derivative financial assets	**321**		**446**	
/ Liabilities				
Swap contracts	117	7,999	-	-
Forward contracts	69	2,281	495	15,806
Total derivative liabilities	**186**		**495**	

17 / FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

/ Financial instruments reclassified to loans and receivables

/ Pursuant to the amendments to IAS 39 and IFRS 7, as of 1 July 2008, the Group reclassified trading assets of LVL 23,980 thousands to Loans and receivables from customers. The table below sets out the amounts that would have been recognised in the periods following reclassification during 2008 if the reclassifications had not been made:

	'000 LVL **2011** Profit and loss	'000 LVL **2011** Comprehensive income	'000 LVL **2010** Profit and loss	'000 LVL **2010** Comprehensive income
/ The Group				
Net gain / (loss) on financial instruments at fair value through profit and loss reclassified to loans and advances to customers	204	204	455	455
/ The Bank				
Net gain / (loss) on financial instruments at fair value through profit and loss reclassified to loans and advances to customers	204	204	142	142

/ In 2011 remaining assets earlier reclassified as loans and advances to customers were transferred to held to maturity portfolio and as at December 31, 2011 their carrying amount of LVL thousand was 14,577.

18 / LOANS AND RECEIVABLES DUE FROM BANKS

	'000 LVL **2011** Group	'000 LVL **2011** Bank	'000 LVL **2010** Group	'000 LVL **2010** Bank
/ Demand accounts				
Latvian commercial banks	45,979	45,810	731	470
OECD banks	120,002	119,961	174,375	174,357
Other non-OECD banks	20,838	20,372	5,085	3,843
Total Demand accounts	**186,819**	**186,143**	**180,191**	**178,670**
/ Deposit accounts				
Latvian commercial banks	27,200	27,200	-	-
OECD banks	265,120	265,120	102,730	102,730
Other non-OECD banks	14,399	13,370	8,964	7,833
Total loans and deposits	**306,719**	**305,690**	**111,694**	**110,563**
	493,538	491,833	291,885	289,233

18 / LOANS AND RECEIVABLES DUE FROM BANKS

/ Concentration of placements with banks and other financial institutions

/ As at 31 December 2011 the Bank and the Group had balances with two (2010: one) banks, which exceeded 10% of total loans and receivable from banks. The gross value of these balances as of 31 December 2011 and 2010 were LVL 107,894 thousand and LVL 37,450 thousand, respectively.

/ The largest balances due from credit institutions as of 31 December 2011 were as follows:

	'000 LVL **2011**	%
Erste Bank Vienna	54,400	11.1
UBS AG Zurich	53,494	10.9
Latvijas Pasta banka	45,699	9.3
HSH Nordbank AG	35,360	7.2
Credit Suisse	32,640	6.6
Hypovereinsbank	27,200	5.5
NORD/LB London	27,200	5.5
Nordea bank Riga	27,200	5.5
LBBW Stuttgart	17,410	3.5
KBC Bank NV	13,600	2.8
Bank of Montreal London	5,880	1.2
Total	**340,083**	**69.1**

/ Demand account due from Latvijas Pasta Banka is fully covered by a collateral – financial instruments quoted in active markets.

/ The largest balances due from credit institutions as of 31 December 2010 were as follows:

	'000 LVL **2010**	%
Hypovereinsbank	37,450	12.84%
Bank of Montreal	26,750	9.16%
NORD/LB London	26,750	9.16%
Landesbank Hessen	26,750	9.16%
Erste Bank Vienna	26,750	9.16%
KBC Bank NV	26,750	9.16%
LBBW Stuttgart	25,269	8.66%
HSH Nordbank AG	16,050	5.51%
Total	**212,519**	**72.81%**

19 / LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
/ Companies				
Finance leases	18,215	-	13,411	-
Loans	526,128	585,826	466,793	515,775
/ Individuals				
Finance leases	5,243	-	662	-
Loans	61,889	61,886	56,479	56,479
Specific impairment allowance	(42,464)	(42,278)	(36,667)	(36,329)
Collective impairment allowance	(216)	(2)	(142)	(76)
Net Loans and receivables from customers	**568,795**	**605,432**	**500,536**	**535,849**

/ Bonds classified as loans and receivables as at 31 December 2010 (included under Other), were transferred during 2011 into the Held-to-maturity investments category (see Note 21; 2010: LVL thousand 17,830).

a / Finance leases

/ Loans and receivables from customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
/ Gross investment in finance leases, receivable				
Less than one year	10,956	-	11,369	-
Between one and five years	16,170	-	5,652	-
Total gross investment in finance leases	27,126	-	17,021	-
Unearned finance income	(3,668)	-	(2,948)	-
Net investment in finance lease before allowance	23,458	-	14,073	-
Impairment allowance	(1,793)	-	(1,983)	-
Net investment in finance lease	**21,665**	**-**	**12,090**	**-**

19 / LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
/ The net investment in finance leases comprises:				
Less than one year	8,004	-	7,542	-
Between one and five years	13,661	-	4,548	-
Net investment in finance lease	**21,665**	-	**12,090**	-

b / Credit quality of loan portfolio

I / Ageing structure of loan portfolio

	Total '000 LVL	Of which not past due on the reporting date	Of which past due by the following terms: Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying value of overdue loans
/ The Group							
/ As at 31 Dec 2011							
Net carrying amount	**568,795**	510,578	30,303	14,500	912	12,502	58,217
Out of which impaired	**64,945**	47,823	2,374	3,375	266	11,107	17,122
Estimated fair value of collateral	**699,101**	609,645	23,489	46,069	1,082	18,816	89,456
/ As at 31 Dec 2010							
Net carrying amount	**500,536**	388,767	57,736	40,574	5,544	7,915	111,769
Out of which impaired	**63,189**	39,058	8,845	4,113	5,181	5,992	24,131
Estimated fair value of collateral	**678,430**	534,843	61,338	58,144	8,321	15,784	143,587
/ The Bank							
/ As at 31 Dec 2011							
Net carrying amount	**605,432**	538,409	40,182	14,046	572	12,223	67,023
Out of which impaired	**60,834**	45,417	2,056	3,315	246	9,800	15,417
Estimated fair value of collateral	**746,060**	650,029	30,794	45,666	755	18,816	96,031
/ As at 31 Dec 2010							
Net carrying amount	**535,849**	423,114	59,447	40,376	4,998	7,914	112,735
Out of which impaired	**61,462**	28,763	17,996	3,854	4,859	5,990	32,699
Assessed fair value of collateral	**727,232**	582,215	63,713	57,890	7,776	15,638	145,017

19 / LOANS AND RECEIVABLES DUE FROM CUSTOMERS

II / Analysis of loan by type of collateral

/ The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2011:

	'000 LVL 31 December **2011**	% of loan portfolio	'000 LVL 31 December 2010	% of loan portfolio
/ The Group				
Commercial buildings	186,588	32.80	179,332	35.83
Commercial assets pledge	108,556	19.09	75,093	15.00
Traded securities	97,279	17.10	109,621	21.90
Other mortgage	50,435	8.87	9,909	1.98
Without Collateral	36,184	6.36	15,680	3.13
Land mortgage	47,514	8.35	54,110	10.81
Mortgage on residential properties	29,011	5.10	28,846	5.76
Guarantee	3,732	0.66	2,771	0.55
Not traded securities	1,133	0.20	1,056	0.21
Deposit	834	0.15	3,334	0.67
Other	7,529	1.32	20,784	4.16
Total	**568,795**	**100.00**	**500,536**	**100.00**
/ The Bank				
Commercial buildings	217,221	35.88	207,136	38.66
Commercial assets pledge	106,870	17.65	75,196	14.03
Traded securities	97,278	16.07	109,621	20.46
Other mortgage	56,182	9.28	15,844	2.96
Land mortgage	47,514	7.85	54,110	10.10
Without collateral	43,826	7.23	18,643	3.48
Mortgage on residential properties	30,439	5.02	30,302	5.65
Guarantee	3,731	0.62	2,771	0.52
Non-traded securities	1,133	0.19	1,058	0.20
Deposit	834	0.14	3,334	0.62
Other	404	0.07	17,834	3.32
Total	**605,432**	**100**	**535,849**	**100**

/ The amounts shown in the table above represent the carrying value of the loans, and not the fair value of the collateral.

19 / LOANS AND RECEIVABLES DUE FROM CUSTOMERS

III / Impaired loans

	31 Dec 2011 '000 LVL Group	31 Dec 2011 '000 LVL Bank	31 Dec 2010 '000 LVL Group	31 Dec 2010 '000 LVL Bank
Impaired loans gross	122,687	103,112	99,856	97,791
Specific impairment allowance	(42,464)	(42,278)	(36,667)	(36,329)
Net Loans and receivables from customers	**80,223**	**60,834**	**63,189**	**61,462**
Fair value of collateral related to impaired loans	**108,484**	**93,727**	**92,978**	**91,787**

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

	31 Dec 2011 '000 LVL Gross	Specific Impairment allowance	Collective Impairment allowance	31 Dec 2010 '000 LVL Gross	Specific Impairment allowance	Collective Impairment allowance
/ The Group						
Standard	515,304	(290)	(216)	444,663	(2,948)	(142)
Watch	38,206	(5,168)	-	44,783	(5,899)	-
Substandard	23,890	(8,256)	-	20,376	(7,821)	-
Doubtful	28,910	(23,594)	-	25,399	(17,885)	-
Lost	5,165	(5,156)	-	2,124	(2,114)	-
Total	**611,475**	**(42,464)**	**(216)**	**537,345**	**(36,667)**	**(142)**
/ The Bank						
Standard	549,720	(144)	(2)	474,564	(101)	(76)
Watch	37,293	(4,826)	-	44,783	(5,899)	-
Substandard	28,947	(10,869)	-	25,384	(10,286)	-
Doubtful	28,823	(23,520)	-	25,399	(17,928)	-
Lost	2,929	(2,919)	-	2,124	(2,115)	-
Total	**647,712**	**(42,278)**	**(2)**	**572,254**	**(36,329)**	**(76)**

19 / LOANS AND RECEIVABLES DUE FROM CUSTOMERS

IV / Movements in the impairment allowance

/ Movements in the loan impairment allowance for the year ended 31 December 2011 and 2010 are as follows:

	31 Dec 2011 '000 LVL Group	31 Dec 2011 '000 LVL Bank	31 Dec 2010 '000 LVL Group	31 Dec 2010 '000 LVL Bank
/ Allowance for impairment				
Balance at 1 January	36,809	36,405	26,002	26,055
Charge for the year:				
Specific impairment allowance	16,721	15,858	18,493	17,796
Collective impairment allowance	203	-		-
Reversal of specific impairment allowance loss				
Specific impairment allowance	(9,158)	(8,593)	(6,251)	(3,901)
Collective impairment allowance	(53)	(74)	-	(944)
Effect of foreign currency translation	(267)	(87)	127	(43)
Write offs	(1,575)	(1,229)	(2,079)	(2,558)
Increase in allowance as a result of acquisition of subsidiaries	-	-	517	-
Balance at 31 December	**42,680**	**42,280**	**36,809**	**36,405**

V / Restructured loans

/ As at 31 December 2011, the Group held restructured loans of LVL 91,987 thousand (2010: 136,729) and the Bank held restructured loans of LVL 96,911 thousand (2010: 144,872). Main forms of restructuring were the reduction of the interest rate, postponing of interest payments or principal payments.

19 / LOANS AND RECEIVABLES DUE FROM CUSTOMERS

c / Industry analysis of the loan portfolio

	31 Dec 2011 '000 LVL Group	31 Dec 2011 '000 LVL Bank	31 Dec 2010 '000 LVL Group	31 Dec 2010 '000 LVL Bank
Real estate management	162,528	194,174	104,961	136,985
Financial services	221,834	244,402	216,880	229,112
Individuals	49,066	49,066	49,553	49,553
Wholesale and retailing	28,631	28,617	28,675	28,674
Construction	22,898	22,898	6,235	6,235
Manufacturing	24,508	21,346	24,924	23,500
Investments in finance lease	13,571	-	12,090	-
Food industry	7,145	7,145	7,617	7,617
Transport and communication	14,776	15,956	6,353	8,591
Tourism	7,426	7,426	8,535	8,535
Financial instruments classified as loans and receivables	571	-	17,830	17,830
Other	15,841	14,402	16,883	19,217
	568,795	**605,432**	**500,536**	**535,849**

d / Geographical analysis of the loan portfolio

	31 Dec 2011 '000 LVL Group	31 Dec 2011 '000 LVL Bank	31 Dec 2010 '000 LVL Group	31 Dec 2010 '000 LVL Bank
Latvia	182,437	218,498	187,065	223,548
OECD countries	72,777	71,911	102,295	101,167
Other non-OECD countries	313,581	315,023	211,176	211,134
	568,795	**605,432**	**500,536**	**535,849**

e / Significant credit exposures

/ As at 31 December 2011 and 2010 the Bank and the Group had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans and receivables from customers.

/ According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at December 31, 2011 and 2010 the Bank and the Group were in compliance with this requirement.

20 / AVAILABLE-FOR-SALE ASSETS

Equity investments	31 Dec 2011 '000 LVL Group	31 Dec 2011 '000 LVL Bank	31 Dec 2010 '000 LVL Group	31 Dec 2010 '000 LVL Bank
/ Equity shares				
RB Opportunity Fund I	-	24,599	-	24,599
Impairment allowance	-	(2,396)	-	(2,396)
Net value	-	22,203	-	22,203
RBAM Fixed Income Fund	-	6, 732	-	-
Revaluation	-	(70)	-	-
Net value	-	6,662	-	-
Corporate shares	1,475	168	1,466	168
Impairment allowance	(1,159)	-	(1,050)	-
Net value	316	168	416	168
/ Bonds				
with rating from AAA to A	54,790	54,790	-	-
Revaluation	(1,737)	(1,737)	-	-
Net value	53,053	53,053	-	-
with rating from BBB+ to BBB-	20,141	20,141	-	-
Revaluation	(694)	(694)	-	-
Net value	19,447	19,447	-	-
non-investment	5,701	5,701	-	-
Revaluation	(399)	(399)	-	-
Net value	5,302	5,302	-	-
	78,118	**106,835**	**416**	**22,371**

/ On 5 July 2011, the Bank acquired 100% units of open-ended fund RBAM Fixed Income Fund I in value of USD 13,000 thousand. Subsequently the RBAM Fixed Income Fund I started issuing units to third parties. As at 31 December 2011, the share of the Bank and the Group in the fund stood at 66.49%. The RBAM Fixed Income Fund I invests into listed bonds. Fair value of its units is measured based on price of underlying securities quoted in active market.

/ The Bank and the Group own 100% of units of close-ended fund RB Opportunity Fund I. The fund invests into property in Latvia and the fair value of units is measured based on fair value of underlying property.

/ RB Opportunity Fund and RBAM Fixed Income Fund I are funds managed by a subsidiary of the Group, RB Asset Management IS. Both funds are controlled by the Group and therefore consolidated by the Group.

21 HELD-TO-MATURITY INVESTMENTS

Debt and other fixed-income instruments	31 Dec 2011 '000 LVL Group	31 Dec 2011 '000 LVL Bank	31 Dec 2010 '000 LVL Group	31 Dec 2010 '000 LVL Bank
/ Government and municipal bonds				
Argentina government bonds	901	901	845	845
Total government and municipal bonds	**901**	**901**	**845**	**845**
/ Corporate bonds				
Russia	15	15	-	-
USA	14,562	14,562	-	-
Total corporate bonds	**14,577**	**14,577**	**845**	**845**
Impairment allowance	(176)	(176)	-	-
	15,302	**15,302**	**845**	**845**

/ In 2011, bonds amounting to LVL 17,830 thousand, earlier classified as loans and advances to customers were transferred to Held-to-maturity investments portfolio. As at December 31, 2011 their carrying amount was LVL 14,577 thousand.

Analysis of movements in the impairment allowance	31 Dec 2011 '000 LVL Group	31 Dec2011 '000 LVL Bank	31 Dec 2010 '000 LVL Group	31 Dec 2010 '000 LVL Bank
Balance at the beginning of the year	-	-	1,078	1,078
Net charge/(recovery) for the year	176	176	(83)	(83)
Write off allowance as a result of derecognition	-	-	(1,037)	(1,037)
Currency revaluation	-	-	42	42
Balance at the end of the year	**176**	**176**	**-**	**-**

22 / INVESTMENTS IN SUBSIDIARIES

/ The subsidiaries of the Bank are as follows:

	31 Dec 2011 '000 LVL Bank	31 Dec 2010 '000 LVL Bank
/ Incorporated in		
- Latvia	12,955	13,758
- Cyprus	7,700	7,700
- Russia	1,666	1,666
- Belarus	225	225
- Azerbaijan	3	-
Total gross investments	**22,549**	**23,349**
Impairment allowance	(3,790)	(2,675)
Net Investments in subsidiaries	**18,759**	**20,674**

Movements in the impairment allowances	31 Dec 2011 '000 LVL Bank	31 Dec 2010 '000 LVL Bank
Balance at the beginning of the period	2,675	500
Charge for the period	2,790	2,175
Reversal of impairment loss	(1,000)	-
Sale of subsidiary	(675)	-
Balance at the end of period	**3,790**	**2, 675**

/ During the reporting period the Bank increased the share capital of its subsidiary RB Overseas Estates SIA for LVL 250 thousand. No changes in ownership share arose. During the reporting period the Bank set up a subsidiary RB BAKI SIA with 90% ownership in it, co-owned with its subsidiary RB Investments. In November 2011, the Group disposed of 5% share in SIA FRB Elektro. The change in non-controlling interest and consideration received are not material.

/ On 3 February 2011, the Bank signed a Share Purchase Agreement to sell 100% shares of AS RB Securities IBS to a third party, refer to Note 42.

23 / INVESTMENT IN ASSOCIATES

/ The Group owns a share in the following associates, both associated companies provide information services and their assets consist mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

			31 December 2011		31 December 2010	
Name	Country of incorpora-tion	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
AED Real Service Ltd	Latvia	Information services for the railway	43.00%	62	43.00%	48
Dzelzcela Tranzits Ltd	Latvia	Information services for the railway	49.12%	23	49.12%	30
Total				85		78

24 / PROPERTY AND EQUIPMENT

/ The Group

'000 LVL	Land and buildings	Construction in progress	Vehicles	Office equipment	Total
/ Cost/Revalued amount					
At 1 January 2011	**39,052**	**47**	**1,328**	**13,595**	**54,022**
Additions	44	39	281	1,040	1,404
Disposals	(141)	-	(124)	(1,075)	(1,340)
Transfers from advances	-	-	257	431	688
Revaluation	853	-	-	-	853
FX translation	(258)	-	1	2	(255)
At 31 December 2011	**39,550**	**86**	**1,743**	**13,993**	**55,372**
/ Depreciation and impairment losses					
At 1 January 2011	**684**	**-**	**1,036**	**7,518**	**9,238**
Depreciation charge	704	-	219	1,736	2,659
Disposals	(15)	-	(95)	(985)	(1,095)
FX translation	(16)	-	146	121	251
At 31 December 2011	**1,357**	**-**	**1,306**	**8,390**	**11,053**
/ Carrying value					
At 31 December 2011	**38,193**	**86**	**437**	**5,603**	**44,319**
At 31 December 2010	**38,368**	**47**	**292**	**6,077**	**44,784**

24 / PROPERTY AND EQUIPMENT

'000 LVL	Land and buildings	Construction in progress	Vehicles	Office equipment	Total
/ Cost/Revalued amount					
At 1 January 2010	**25,666**	**1,323**	**1,516**	**12,079**	**40,584**
Additions	18	16	-	592	626
Acquisition of subsidiaries	11,873	23	29	1,145	13,070
Disposals	(456)	-	(339)	(296)	(1,091)
Transfers from other assets	1,398	(1,398)	122	73	195
Revaluation	527	-	-	-	527
FX translation	26	83	-	2	111
At 31 December 2010	**39,052**	**47**	**1,328**	**13,595**	**54,022**
/ Depreciation and impairment losses					
At 1 January 2010	**29**	**-**	**932**	**6,111**	**7,072**
Depreciation charge	654	-	300	1,626	2,580
Disposals	-	-	(196)	(220)	(416)
FX translation	1	-	-	1	2
At 31 December 2010	**684**	**-**	**1,036**	**7,518**	**9,238**
/ Carrying value					
At 31 December 2010	**38,368**	**47**	**292**	**6,077**	**44,784**
At 31 December 2009	**25,637**	**1,323**	**584**	**5,968**	**33,512**

24 / PROPERTY AND EQUIPMENT

/ The Bank

'000 LVL	Vehicles	Office equipment	Total
/ Cost/Revalued amount			
1 January 2011	1,563	10,379	11,942
Additions	-	375	375
Disposals	(113)	(802)	(915)
Transferred from advances	257	318	575
At 31 December 2011	1,707	10,270	11,977
/ Depreciation and impairment losses			
At 1 January 2011	1,160	6,291	7,451
Depreciation charge	206	973	1,179
Disposals	(90)	(797)	(887)
At 31 December 2011	1,276	6,467	7,743
Net book value			
At 31 December 2011	431	3,803	4,234
At 31 December 2010	403	4,088	4,491

'000 LVL	Vehicles	Office equipment	Total
/ Cost/Revalued amount			
1 January 2010	1,514	10,251	11,765
Additions	-	255	255
Disposals	(68)	(206)	(274)
Transferred from advances	117	79	196
At 31 December 2010	1,563	10,379	11,942
/ Depreciation and impairment losses			
At 1 January 2010	939	5,450	6,389
Depreciation charge	273	1,028	1,301
Disposals	(52)	(187)	(239)
At 31 December 2010	1,160	6,291	7,451
Net book value			
At 31 December 2010	403	4,088	4,491
At 31 December 2009	575	4,801	5,376

25 / INTANGIBLE ASSETS

/ The Group

'000 LVL	Goodwill	Software	Other	Total
/ Cost				
At 1 January 2011	2,339	7,578	1,056	10,973
Additions	-	108	132	240
Reclassification	-	(300)	300	-
Transfers from advances	-	229	-	229
At 31 December 2011	2,339	7,615	1,488	11,442
/ Amortisation and impairment losses				
At 1 January 2011	1,588	5,476	229	7,293
Amortization charge	-	888	78	966
At 31 December 2011	1,588	6,364	307	8,259
/ Carrying value				
At 31 December 2011	751	1,251	1,181	3,183
At 31 December 2010	751	2,102	827	3,680

25 / INTANGIBLE ASSETS

'000 LVL	Goodwill	Software	Other	Total
/ Cost				
At 1 January 2010	**2,339**	**6,428**	**1,599**	**10,366**
Additions	-	206	2	208
Disposals	-	-	(2)	(2)
Reclassification	-	559	(559)	-
Transfers from other assets	-	385	-	385
Acquisition of subsidiary	-	-	16	16
At 31 December 2010	**2,339**	**7,578**	**1,056**	**10,973**
/ Amortisation and impairment losses				
At 1 January 2010	**1,576**	**4,668**	**117**	**6,361**
Amortization charge	-	808	112	920
Impairment loss	12	-	-	12
At 31 December 2010	**1,588**	**5,476**	**229**	**7,293**
/ Carrying value				
At 31 December 2010	**751**	**2,102**	**827**	**3,680**
At 31 December 2009	**763**	**1,760**	**1,482**	**4,005**

/ Goodwill of LVL 751 thousand (2010: LVL 751 thousand) originated on the acquisition of a payment card business unit in 2001.

25 / INTANGIBLE ASSETS

/ The Bank

'000 LVL	Goodwill	Software	Other	Total
/ Cost				
At 1 January 2011	751	7,061	194	8,006
Additions	-	108	82	190
Reclassification	-	208	(208)	-
Transfers from advances	-	229	-	229
At 31 December 2011	751	7,606	68	8,425
/ Amortization and impairment losses				
At 1 January 2011	-	5,472	17	5,489
Amortization charge	-	886	3	889
At 31 December 2011	-	6,358	20	6,378
/ Net book value				
At 31 December 2011	751	1,248	48	2,047
At 31 December 2010	751	1,589	177	2,517

25 / INTANGIBLE ASSETS

'000 LVL	Goodwill	Software	Other	Total
/ Cost				
At 1 January 2010	**751**	**5,913**	**755**	**7,419**
Additions	-	204	-	204
Disposals	-	-	(2)	(2)
Reclassification	-	559	(559)	-
Transferred from advances	-	385	-	385
At 31 December 2010	**751**	**7,061**	**194**	**8,006**
/ Amortization and impairment losses				
At 1 January 2010	**-**	**4,668**	**13**	**4,681**
Amortization charge	-	804	4	808
At 31 December 2010	**-**	**5,472**	**17**	**5,489**
/ Net book value				
At 31 December 2010	**751**	**1,589**	**177**	**2,517**
At 31 December 2009	**751**	**1,245**	**742**	**2,738**

/ Goodwill of LVL 751 thousand (2010: LVL 751 thousand) originated on the acquisition of a payment card business unit in 2001.

26 / INVESTMENT PROPERTY

/ Investment property comprises office buildings and other commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy and which are leased to third parties. The Group's investment property comprises of a juice processing terminal, residential property, plots of land, and a hotel and leisure complex.

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Balance at 1 January	43,244	5,861	30,141	5,803
Collateral from loans assumed	499	499	-	-
Transferred from advances	79	170	-	173
Additions	2,737	76	15,561	-
Sale of investment property	(423)	-	(5,735)	-
Revaluation of property	(397)	320	3,245	(115)
Currency revaluation	(326)	-	32	-
Balance at 31 December	**45,413**	**6,926**	**43,244**	**5,861**

/ Rental income and operating expense

	'000 LVL Book value	'000 LVL Rental income	'000 LVL Operating expenses
Investment property rented out	21,500	798	230
Investment property not rented out	23,913	-	117
Total	**45,413**	**798**	**347**

/ Rental income and operating expenses are presented under Other income (expenses) in the Income statement.

26 / INVESTMENT PROPERTY

/ Valuation of investment property as at 31 December 2011

	'000 LVL Valued internally	'000 LVL External valuations
Land	-	8,201
Residential property	-	11,018
Commercial property	2,653	17,688
Hotels	-	3,676
Other	-	2,177
Total	**2,653**	**42,760**

/ The fair value of investment property was determined within 3 months before the end of reporting period.

/ The fair value of residential properties and office buildings is based either on completed transactions with similar properties at similar locations or a discounted cash flow model. If similar transactions did not take place the Group and external valuation companies used discounted cash flow models, the main assumptions being market rental rates of 10-15Euro/m2 and discount rates in the range of 7-10%.

/ For commercial properties other than office building the valuation is based on expected future cash flows based on contractual terms agreed with tenants or management estimate regarding future potential tenants using the same discount rates as above. Where the rental agreements are not yet in force a probability of entering into the agreement and time delay is taken into consideration in the valuation.

/ Due to the fact that the investment property includes many items with different characteristics, different valuation models with different assumptions were used and therefore it is impracticable to disclose sensitivity of fair value to changes in key assumptions in a meaningful way.

27 / OTHER ASSETS

	'000 LVL 31 Dec **2011** Group	'000 LVL 31 Dec **2011** Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Collateral assumed on non performing loans	9,059	9,059	15,910	14,321
Prepayments	1,705	711	1,553	912
Prepayments for property obtained in auctions	-	-	1,612	-
Guarantee receivable from borrower	2,606	2,606	2,078	2,078
Recoverable VAT	1,327	106	510	-
Tax prepayments	16	-	41	-
Other	4,102	2,045	3,863	2,046
Impairment allowance on collateral assumed	(2,273)	(1,815)	(4,389)	(3,828)
	16,542	**12,712**	**21,178**	**15,529**

/ Analysis of movements in the value of collateral assumed on non performing loans

	'000 LVL **2011** Group	'000 LVL **2011** Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Balance at the beginning of the year	15,910	14,321	20,708	17,942
Transfer from Loans and receivables	-	-	9,189	7,600
Reclassified to guarantee receivable	(528)	(528)	(2,078)	(2,078)
Sale of collateral completed	(5,364)	(4,235)	(11,909)	(9,143)
Reclassified to Other under Other assets	(444)	-	-	-
Reclassified to investment property	(499)	(499)	-	-
Currency revaluation	(16)	-	-	-
Balance at the end of the year	**9,059**	**9,059**	**15,910**	**14,321**

27 / OTHER ASSETS

/ Analysis of movements in the impairment allowance

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Balance at the beginning of the year	4,389	3,828	2,947	2,433
Charge for the year	236	203	3,109	2,576
Recovery	(52)	(9)	(791)	(790)
Sale completed	(2,287)	(2,207)	(878)	(391)
Currency revaluation	(13)	-	2	-
Balance at the end of the year	**2,273**	**1,815**	**4,389**	**3,828**

/ Collateral assumed on non performing loans by type of property

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Residential property	7,916	7,916	9,583	9,583
Land	905	905	1,951	1,951
Commercial property	209	209	1,085	1,085
Production plants	29	29	1,702	1,702
Movable property	-	-	1,589	-
	9,059	**9,059**	**15,910**	**14,321**

28 / DEPOSITS AND BALANCES DUE TO BANKS

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Vostro accounts	13,094	12,844	4,263	4,263
Term deposits	965	876	2,949	8
	14,059	**13,720**	**7,212**	**4,271**

/ **Concentration of deposits and balances from banks and other financial institutions**

/ As at 31 December 2011 the Bank and the Group had balances with three clients (two as at 31 December 2010), which exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2011 was LVL 10,049 thousand and LVL 1,342 thousand accordingly.

29 / CURRENT ACCOUNTS AND DEPOSITS DUE TO CUSTOMERS

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
/ Current accounts and demand deposits				
- Central government	-	-	69	69
- State enterprises	84	3	-	-
- Private companies residents	24,019	37,839	20,798	28,245
- Individuals residents	28,609	28,609	28,168	28,168
- Government – non-residents	53	53	-	-
- Private companies non-residents	780,436	780,437	552,973	553,089
- Individuals non-residents	111,224	111,224	65,409	65,409
Total current account and demand deposits	**944,425**	**958,165**	**667,417**	**674,980**
/ Term deposits				
-State enterprise	162	-	-	-
- Private companies	5,178	4,944	7,586	10,567
- Individuals	38,934	38,195	38,993	38,331
- Private companies non-residents	155,516	146,230	208,143	199,318
- Individuals non-residents	42,068	42,068	34,430	34,430
/ Subordinated deposits				
- Individuals	6,343	6,343	3,013	3,013
- Private companies non-residents	10,965	10,965	1,051	1,051
- Individuals non-residents	27,917	27,917	9,314	9,314
Total term deposits	**287,083**	**276,662**	**302,530**	**296,024**
Total current accounts and deposits form customers	**1,231,508**	**1,234,827**	**969,947**	**971,004**

/ Subordinated deposits have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims.

a / Blocked accounts

/ As of 31 December 2011, the Bank maintained customer deposit balances of LVL 4,090 thousand (2010: LVL 3,334 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

b / Concentrations of current accounts and customer deposits

/ As of 31 December 2011 and 2010, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

30 / OTHER LIABILITIES AND ACCRUALS

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Annual leave	706	655	699	661
Deferred income	80	72	490	45
Management bonus	649	596	382	382
Deposits guarantee fund	439	439	296	296
VAT payable	66	-	242	61
Dividends payable	4	4	4	4
Prepayments	1,182	24	398	3
Other	2,879	1,270	2,186	685
	6,005	**3,060**	**4,697**	**2,137**

/ Other liabilities includes accounts payable to suppliers.

31 / DEFERRED TAX ASSET AND LIABILITY

/ Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2011 and 2010.

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

/ The Group

	Assets		Liabilities		Net	
'000 LVL	**2011**	2010	**2011**	2010	**2011**	2010
Financial instruments at fair value through profit or loss	125	10	-	-	125	10
Loans and advances to customers	68	262	-	(489)	68	(227)
Available-for-sale financial assets	793	-	(11)	-	782	-
Property and equipment	-	2	(1,360)	(1,291)	(1,360)	(1,289)
Intangible assets	-	-	(162)	-	(162)	-
Investment property	-	-	(1,717)	(1,297)	(1,717)	(1,297)
Other assets	735	597	-	-	735	597
Due to financial institutions	-	-	-	(2)	-	(2)
Other liabilities	206	156	(205)	(9)	1	147
Total recognised deferred tax assets/(liabilities)	**1,927**	**1,027**	**(3,455)**	**(3,088)**	**(1,528)**	**(2,061)**
Unrecognised deferred tax assets/(liabilities)	**(682)**	**(912)**	**(81)**	**-**	**(763)**	**(912)**
Recognised net deferred tax assets/(liabilities)	**1,245**	**115**	**(3,536)**	**(3,088)**	**(2,291)**	**(2,973)**

/ The rate of tax applicable for deferred taxes was equals to the tax rate applicable in countries in which subsidiaries operate, as disclosed in Note 15.

31 / DEFERRED TAX ASSET AND LIABILITY

/ Movement in temporary differences during the year ended 31 December 2011

	'000 LVL 2011	'000 LVL 2010
Balance at 1 January – deferred tax liability	(2,981)	(1,423)
Balance at 1 January – deferred tax asset	8	151
Purchase of subsidiaries	-	20
Charge to profit for the year	512	(1,572)
Release / charge in other comprehensive income	295	(75)
Currency revaluation	(125)	(74)
Balance at 31 December	**(2,291)**	**(2,973)**
Deferred tax asset	**67**	**8**
Deferred tax liability	**(2,358)**	**(2,981)**

/ Deferred tax asset and liability are shown net on individual subsidiaries level, but are not netted on Group level.

/ The Bank

	Assets		Liabilities		Net	
'000 LVL	2011	2010	2011	2010	2011	2010
Financial instruments at fair value through profit or loss	125	10	-	-	125	10
Loans and advances to customers	68	95	-	-	68	95
Available-for-sale assets	793	359	-	-	793	359
Investment in subsidiaries	560	401	-	-	560	401
Property and equipment		-	(686)	(764)	(686)	(764)
Investment property	-	-	(340)	(310)	(340)	(310)
Other assets	256	458	-	-	256	458
Other liabilities	188	156	-	-	188	156
Total deferred tax assets/(liabilities)	**1,990**	**1,479**	**(1,026)**	**(1,074)**	**964**	**405**
Unrecognised deferred tax asset	**(869)**	**(912)**		**-**	**(869)**	**(912)**
Recognised net deferred tax assets/(liabilities)	**1,121**	**567**	**(1,026)**	**(1,074)**	**95**	**(507)**

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

32 / SHARE CAPITAL AND RESERVES

a / Issued capital and share premium

/ The authorised, issued and fully paid share capital comprises 100,000,000 ordinary shares (2010:100,000,000). All shares have a par value of LVL 1. The share premium represents amount that were paid by shareholders in excess to the par value of ordinary shares.

/ The largest shareholders of the Bank as of December 31, 2011 and December 31, 2010 are as follows:

	'000 LVL **2011**	%	'000 LVL **2010**	%
Companies non-residents, total	**33,110**		**33,110**	
Boswell (International) Consulting Limited	33,110	33.11%	33,110	33.11%
Private persons, total	**66,890**		**66,890**	
Leonid Esterkin	33,120	33.12%	33,120	33.12%
Arkady Suharenko	17,335	17.34%	17,335	17.34%
Others	16,435	16.43%	16,435	16.43%
Issued capital	**100,000**	**100%**	**100,000**	**100%**
Share premium	**4,809**		**4,809**	

/ The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

b / Dividends

/ As at reporting date dividends in amount of LVL 2,500 thousand were proposed.

c / Other reserves

/ In the past, shareholders contributed to other reserves of LVL 20,016 thousand and its use or distribution is at the discretion of the shareholders. During the reporting period, shareholders decided to distribute LVL 10,000 thousand from Other reserves.

d / Fair value reserve

/ The fair value reserve represents the changes in fair value of available for sale assets and is reduced by deferred tax charged on unrealized gains or losses on revaluation of the available for sale financial instruments.

32 / SHARE CAPITAL AND RESERVES

e / Revaluation reserve

/ A revaluation reserve represents the increase in the fair value of real estate properties classified under Property and equipment.

	'000 LVL 2011 Group	'000 LVL 2011 Bank	'000 LVL 2010 Group	'000 LVL 2010 Bank
Revaluation reserve as at 1 January	2,121	1,754	1,312	1,754
Reclassification related to prior periods	-	-	368	-
Revaluation of property and equipment	853	-	527	-
Release of revaluation reserve due to sale of investment property	-	-	-	-
Deferred tax on change in revaluation reserve	(130)	-	(75)	-
Non controlling interest share on change in revaluation reserve	(260)	-	(13)	-
FX translation	42	-	2	-
	2,626	**1,754**	**2,121**	**1,754**

/ The balance of LVL 1,754 thousand recognized in the Bank and the Group as at 31 December 2011 relates to the revaluation of the office building recognized prior to reclassification as investment property.

/ Revaluation of property on Group level was recognized based on external valuation report adjusted conservatively for some assumptions by the management. The main assumption included in the valuation were a 5% gross margin, rent income increase from 10EUR/sqm to 14EUR/sqm in 10 years and discount rate of 8.5%.

33 / CASH AND CASH EQUIVALENTS

/ **Cash and cash equivalents consist of the following:**

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
Cash	3,254	3,095	3,321	3,302
Balances due from the Bank of Latvia	68,539	68,539	123,482	123,482
Demand Loans and receivables from banks	186,819	186,143	180,191	178,670
Demand deposits from banks	(13,094)	(12,844)	(4,263)	(4,263)
Total	**245,518**	**244,933**	**302,731**	**301,191**

34 / COMMITMENTS AND GUARANTEES

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

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

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

	'000 LVL 31 Dec 2011 Group	'000 LVL 31 Dec 2011 Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
/ Contracted amount				
Loan and credit line commitments	44,554	50,574	32,999	37,439
Credit card commitments	6,662	6,663	4,286	4,286
Undrawn overdraft facilities	6,286	6,286	6,978	6,978
Guarantees and letters of credit	9,926	9,926	12,322	12,322
Total	**67,428**	**73,449**	**56,585**	**61,025**

/ The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

35 / LITIGATION

/ In the ordinary course of business, the Bank is subject to legal actions and complaints. As at 31 December 2011 there were 19 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 3,982 thousand. Provisions are made for where management based on the professional advice to the Bank considers that it is likely that loss may eventuate. No provisions were recognized as at 31 December 2011 and 2010.

36 / REVERSE REPO

	'000 LVL 31 Dec **2011** Group	'000 LVL 31 Dec **2011** Bank	'000 LVL 31 Dec 2010 Group	'000 LVL 31 Dec 2010 Bank
MF Global Inc.	-	-	50,726	50,726
Total	**-**	**-**	**50.726**	**50,726**

/ The amounts receivable under reverse repo agreement were received in the first quarter of 2011.

37 / TRUST AND CUSTODY ACTIVITIES

a / Trust activities

/ Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers. The Bank and the Group earn commission income for holding such securities.

/ The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2011 the total assets held by the Group on behalf of customers and assets under management were 67,877 LVL thousand (2010: LVL 448,080 thousand) and by the Bank 209,765 LVL thousand (2010: LVL 203,217 thousand) accordingly.

38 / RELATED PARTY TRANSACTIONS

/ Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies.

a / Shareholders, Members of the Council and Board (the Bank)

	'000 LVL 31 Dec 2011	'000 LVL 31 Dec 2010
/ Loans and receivables:		
Loans and receivables at the beginning of the year	662	624
Loans issued during the year	92	12
Forex translation effect	1	-
Due to changes in the structure of related parties	39	167
Loan repayment during the year	(108)	(141)
Loans and receivables at the end of the year	**686**	**662**
Interest income earned during the year	**26**	**22**
/ Deposits		
Deposits at the beginning of the year	4,396	3,722
Deposits received during the year	3,776	4,961
Forex translation effect	2	-
Deposits repaid during the year	(2,190)	(4,287)
Deposits at the end of the year	**5,984**	**4,396**
Interest expense on deposits charged during the year	**392**	**372**

38 / RELATED PARTY TRANSACTIONS

/ Total remuneration included in employee compensation (Note 14):

	'000 LVL 2011	'000 LVL 2010
Members of the Council	150	133
Members of the Board of Directors	696	230
	846	363

b / Subsidiaries and associated companies (the Bank)

	'000 LVL 2011	'000 LVL 2010
/ Loans and receivables:		
Loans and receivables at the beginning of the year	52,139	54,722
Loans issued during the year	103,455	130,540
Due to changes in the structure of related parties	(2,259)	-
Forex translation effect	71	1,651
Loan repayment during the year	(92,928)	(134,774)
Loans and receivables at the end of the year	**60,478**	**52,139**
Interest income earned	**3,120**	**3,400**
/ Deposits		
Deposits at the beginning of the year	1	1,147
Deposits received during the year	1,100	235
Forex translation effect	-	(1)
Deposits repaid during the year	(1,100)	(1,380)
Deposits at the end of the year	**1**	**1**
Interest expense on deposits	**6**	**3**

/ During the year 2011, the Bank paid rent to its indirect subsidiary SIA Vesetas 7 in the amount of LVL 1,243 thousand (2010: LVL 1,280 thousand).

38 / RELATED PARTY TRANSACTIONS

/ The Group

/ Transactions with members of the Council and the Board of Directors

/ The outstanding balances as of 31 December 2011 and 31 December 2010 with members of the Council and the Board are as follows:

	'000 LVL 2011	'000 LVL 2010
/ Loans and receivables		
Shareholders, Members of Council and Board	602	525
Key management personnel and relatives	170	18
Companies controlled by Shareholders, Members of Council and Board	4,352	5,996
/ Term deposits		
Shareholders, Members of Council and Board	8,109	4,942
Key management personnel and relatives	1,793	220
Companies controlled by Shareholders, Members of Council and Board	7,115	18,362

/ Total remuneration included in employee compensation (Note 14):

	'000 LVL 2011	'000 LVL 2010
Members of the Council	405	308
Members of Board of Directors	656	230
	1,061	**538**

39 / FAIR VALUE OF FINANCIAL INSTRUMENTS

/ The Group

	Carrying amount '000 LVL 31 Dec 2011	Fair value '000 LVL 31 Dec 2011	Carrying amount '000 LVL 31 Dec 2010	Fair value '000 LVL 31 Dec 2010
/ Financial assets				
Cash and balances with central bank	71,793	71,793	126,803	126,803
Financial instruments at fair value through profit or loss	58,507	58,507	41,736	41,736
Loans and receivables from banks	493,538	493,538	291,885	291,885
Loans and receivables from customers	568,795	568,795	500,536	500,538
Reverse repo	-	-	50,726	50,726
Available-for-sale assets	78,118	78,118	416	416
Held-to-maturity investments	15,302	14,266	845	691
Total	**1,286,053**	**1,285,017**	**1,012,947**	**1,012,795**
/ Financial liabilities				
Financial instruments at fair value through profit or loss	186	186	581	581
Deposits and balances from banks	14,059	14,059	7,212	7,212
Current accounts and deposits from customers	1,231,508	1,231,508	969,947	969,947
Total	**1,245,753**	**1,245,753**	**977,740**	**977,740**

39 / FAIR VALUE OF FINANCIAL INSTRUMENTS

/ The Bank

	Carrying amount '000 LVL 31 Dec 2011	Fair value '000 LVL 31 Dec 2011	Carrying amount '000 LVL 31 Dec 2010	Fair value '000 LVL 31 Dec 2010
/ Financial assets				
Cash and balances with central bank	71,634	71,634	126,784	126,784
Financial instruments at fair value through profit and loss	52,592	52,592	41,318	41,318
Loans and receivables from banks	491,833	491,833	289,233	289,233
Loans and receivables from customers	605,432	605,432	535,849	535,721
Reverse repo	-	-	50,726	50,726
Available-for-sale assets	106,835	106,835	22,371	22,371
Held-to-maturity investments	15,302	14,266	845	691
Total	**1,343,628**	**1,342,592**	**1,067,126**	**1,066,844**
/ Financial liabilities				
Financial instruments at fair value through profit and loss	186	186	495	495
Deposits and balances from banks	13,720	13,720	4,271	4,271
Current accounts and deposits from customers	1,234,827	1,234,827	971,004	971,004
Total	**1,248,733**	**1,248,733**	**975,770**	**975,770**

39 / FAIR VALUE OF FINANCIAL INSTRUMENTS

/ Fair value hierarchy

/ The Group

	Level (1)	Level (2)	Total
/ 31 Dec 2011			
Financial assets			
Available for sale assets	77,970	148	78,118
Financial assets at fair value through profit or loss	57,855	652	58,507
Financial liabilities			
Financial investments at fair value through profit or loss	-	(186)	(186)
/ 31 Dec 2010			
Financial assets			
Available for sale assets	416	-	416
Financial assets at fair value through profit or loss	41,494	242	41,736
Financial liabilities			
Financial investments at fair value through profit or loss	(86)	(495)	(581)

/ The Bank

	Level (1)	Level (2)	Total
/ 31 Dec 2011			
Financial assets			
Available for sale assets	77,970	28,865	106,835
Financial assets at fair value through profit or loss	52,475	117	52,592
Financial liabilities			
Financial investments at fair value through profit or loss	-	(186)	(186)
/ 31 Dec 2010			
Financial assets			
Available for sale assets	168	22,203	22,371
Financial assets at fair value through profit or loss	41,114	204	41,318
Financial liabilities			
Financial investments at fair value through profit or loss	-	(495)	(495)

39 / FAIR VALUE OF FINANCIAL INSTRUMENTS

1 / Included in this category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

2 / Included in this category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable, and assets when fair value has been stated from independent real estate valuator.

40 / CURRENCY ANALYSIS

/ The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2011:

/ The Group

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	BYR '000 LVL	Other currencies '000 LVL	Total '000 LVL
/ Financial assets						
Cash and balances with central bank	66,888	510	4,065	-	330	**71,793**
Loans and receivables from banks	380	341,524	106,584	376	44,674	**493,538**
Financial instruments at fair value through profit or loss	8,169	11,922	37,798	-	618	**58,507**
Loans and receivables from customers	16,084	293,144	241,862	197	17,508	**568,795**
Available-for-sale assets	264	62,696	15,149	-	9	**78,118**
Held-to-maturity investments	-	3,409	11,893	-	-	**15,302**
Total financial assets	**91,785**	**713,205**	**417,351**	**573**	**63,139**	**1,286,053**
/ Financial liabilities						
Financial instruments at fair value through profit or loss	186	-	-	-	-	**186**
Deposits and balances from banks	98	9,642	3,382	127	810	**14,059**
Current accounts and deposits from customers	21,230	699,616	445,508	229	64,925	**1,231,508**
Total financial liabilities	**21,514**	**709,258**	**448,890**	**356**	**65,735**	**1,245,753**
Net position as of 31 December 2011	**70,271**	**3,947**	**(31,539)**	**217**	**(2,596)**	
Net as of 31 December 2011	**3,212**	**(565)**	**(536)**	**(2,082)**	**(29)**	
Net total positions as of 31 December 2011	**73,483**	**3,382**	**(32,075)**	**(1,865)**	**(2,625)**	
Net total positions as of 31 December 2010	**99,448**	**3,479**	**(90,046)**	**-**	**22,035**	

40 / CURRENCY ANALYSIS

/ The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2010:

/ The Group

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
/ Financial assets					
Cash and balances with central bank	123,060	601	2,977	165	**126,803**
Loans and receivables from banks	385	228,519	37,923	25,058	**291,885**
Financial instruments at fair value through profit or loss	146	26,378	15,212	-	**41,736**
Loans and receivables from customers	2,841	227,521	245,606	24,568	**500,536**
Available-for-sale assets	291	-	125	-	**416**
Held-to-maturity investments	-	845	-	-	**845**
Amounts receivable under reverse repurchase agreement	-	50,726	-	-	**50,726**
Total financial assets	**126,723**	**534,590**	**301,843**	**49,791**	**1,012,947**
/ Financial liabilities					
Financial instruments at fair value through profit or loss	495	86	-	-	**581**
Deposits and balances from banks	270	4,252	1,334	1,356	**7,212**
Current accounts and deposits from customers	27,924	542,362	370,455	29,206	**969,947**
Total financial liabilities	**28,689**	**546,700**	**371,789**	**30,562**	**977,740**
Net position as of 31 December 2010	**98,034**	**(12,110)**	**(69,946)**	**19,229**	
Net off balance positions as of 31 December 2010	**1,414**	**15,589**	**(20,100)**	**2,806**	
Net total positions as of 31 December 2010	**99,448**	**3,479**	**(90,046)**	**22,035**	
Net total positions as of 31 December 2009	**41,749**	**2,769**	**2,453**	**(1,081)**	

40 / CURRENCY ANALYSIS

/ The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2011:

/ **The Bank**

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	BYR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Financial assets						
Cash and balances with central bank	66,859	510	4,065	-	200	**71,634**
Financial instruments at fair value through profit or loss	8,169	8,049	36,374	-	-	**52,592**
Loans and receivables from banks	211	341,339	106,529	200	43,554	**491,833**
Loans and receivables from customers	44,674	290,651	248,845	-	21,262	**605,432**
Available-for-sale assets	126	69,358	37,351	-	-	**106,835**
Held-to-maturity investments	-	3,409	11,893	-	-	**15,302**
Total financial assets	**120,039**	**713,316**	**445,057**	**200**	**65,016**	**1,343,628**
Financial liabilities						
Financial instruments at fair value through profit or loss	186	-	-	-	-	**186**
Deposits and balances from banks	93	11,564	1,253	-	810	**13,720**
Current accounts and deposits from customers	23,609	705,953	440,272	227	64,766	**1,234,827**
Total financial liabilities	**23,888**	**717,517**	**441,525**	**227**	**65,576**	**1,248,733**
Net position as of 31 December 2011	**96,151**	**(4,201)**	**3,532**	**(27)**	**(560)**	
Net off balance sheet position as of 31 December 2011	**(92,939)**	**3,636**	**(4,068)**	**(2)**	**(1,522)**	
Net total positions as of 31 December 2011	**3,212**	**(565)**	**(536)**	**(29)**	**(2,082)**	
Net total positions as of 31 December 2010	**100,407**	**5,922**	**(14,150)**	**-**	**(823)**	

40 / CURRENCY ANALYSIS

/ The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2010:

/ **The Bank**

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Financial assets					
Cash and balances with central bank	123,041	601	2,977	165	**126,784**
Financial instruments at fair value through profit or loss	146	25,963	15,209	-	**41,318**
Loans and receivables from banks	124	228,252	37,785	23,072	**289,233**
Loans and receivables from customers	5,534	232,665	295,079	2,571	**535,849**
Available-for-sale assets	44	-	22,327	-	**22,371**
Reverse repo	-	50,726	-	-	**50,726**
Held-to-maturity investments	-	845	-	-	**845**
Total financial assets	**128,889**	**539,052**	**373,377**	**25,808**	**1,067,126**
Financial liabilities					
Financial instruments at fair value through profit or loss	495	-	-	-	**495**
Deposits and balances from banks	270	3,675	207	119	**4,271**
Current accounts and deposits from customers	29,420	545,044	367,220	29,320	**971,004**
Total financial liabilities	**30,185**	**548,719**	**367,427**	**29,439**	**975,770**
Net position as of 31 December 2010	**98,704**	**(9,667)**	**5,950**	**(3,631)**	
Net off balance sheet position as of 31 December 2010	**1,703**	**15,589**	**(20,100)**	**2,808**	
Net total positions as of 31 December 2010	**100,407**	**5,922**	**(14,150)**	**(823)**	
Net total positions as of 31 December 2009	**35,199**	**33,185**	**75,514**	**132**	

41 / INTEREST RATE RISK ANALYSIS

/ The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at December 31, 2011, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Noninter-est bearing '000 LVL	Total '000 LVL
/ Financial assets							
Cash and balances with central bank	65,697	-	-	-	-	6,096	**71,793**
Loans and receivables from banks	304,853	837	1,029	-	-	186,819	**493,538**
Financial instruments at fair value through profit or loss	10,061	29,116	12,176	1,464	4,542	1,148	**58,507**
Loans and receivables from customers	125,956	163,130	61,553	34,996	18,222	164,938	**568,795**
Available-for-sale assets	1,415	180	2,489	63,799	9,919	316	**78,118**
Held-to-maturity investments	30	20	1	14,534	717	-	**15,302**
Total financial assets	**508,012**	**193,283**	**77,248**	**114,793**	**33,400**	**359,317**	**1,286,053**
/ Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	186	**186**
Deposits and balances from banks	89	712	164	-	-	13,094	**14,059**
Current accounts and deposits from customers	25,560	38,507	102,658	94,725	25,618	944,440	**1,231,508**
Total financial liabilities	**25,649**	**39,219**	**102,822**	**94,725**	**25,618**	**957,720**	**1,245,753**
Net position as at 31 December 2011	**482,363**	**154,064**	**(25,574)**	**20,068**	**7,782**	**(598,403)**	
Net position as at 31 December 2010	**561,398**	**(21,286)**	**(55,506)**	**100,448**	**66,162**	**(616,010)**	

41 / INTEREST RATE RISK ANALYSIS

/ The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at December 31, 2010, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Noninterest bearing '000 LVL	Total '000 LVL
/ Financial assets							
Cash and balances with central bank	121,758	-	-	-	-	5,045	**126,803**
Loans and receivables from banks	249,411	812	1,132	-	-	40,530	**291,885**
Financial instruments at fair value through profit or loss	40,355	-	-	-	-	1,381	**41,736**
Loans and receivables from customers	156,040	27,938	72,112	155,184	75,760	13,502	**500,536**
Available-for-sale assets	-	-	-	-	-	416	**416**
Amounts payable under repurchase agreements	50,726	-	-	-	-	-	**50,726**
Held-to-maturity investments	-	-	-	-	845	-	**845**
Total financial assets	**618,290**	**28,750**	**73,244**	**155,184**	**76,605**	**60,874**	**1,012,947**
/ Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	581	**581**
Deposits and balances from banks	-	-	2,562	387	-	4,263	**7,212**
Current accounts and deposits from customers	56,892	50,036	126,188	54,349	10,443	672,039	**969,947**
Total financial liabilities	**56,892**	**50,036**	**128,750**	**54,736**	**10,443**	**676,883**	**977,740**
Net position as at 31 December 2010	**561,398**	**(21,286)**	**(55,506)**	**100,448**	**66,162**	**(616,009)**	
Net position as at 31 December 2009	**217,902**	**19,735**	**(108,891)**	**162,598**	**70,528**	**(316,462)**	

41 / INTEREST RATE RISK ANALYSIS

/ The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2011, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Noninter-est bearing '000 LVL	Total '000 LVL
/ Financial assets							
Cash and balances with central bank	65,697	-	-	-	-	5,937	**71,634**
Loans and receivables from banks	304,853	837	-	-	-	186,143	**491,833**
Financial instruments at fair value through profit or loss	10,061	29,116	12,121	-	489	805	**52,592**
Loans and receivables from customers	125,938	195,789	63,839	47,845	7,044	164,977	**605,432**
Available-for-sale assets	1,415	180	2,489	63,799	9,919	29,033	**106,835**
Held-to-maturity investments	30	20	1	14,534	717	-	**15,302**
Total financial assets	**507,994**	**225,942**	**78,450**	**126,178**	**18,169**	**386,895**	**1,343,628**
/ Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	186	**186**
Deposits and balances from banks	-	712	164	-	-	12,844	**13,720**
Current accounts and deposits from customers	25,479	38,507	102,658	93,871	16,147	958,165	**1,234,827**
Total financial liabilities	**25,479**	**39,219**	**102,822**	**93,871**	**16,147**	**971,195**	**1,248,733**
Net position as at 31 December 2011	**482,515**	**186,723**	**(24,372)**	**32,307**	**2,022**	**(584,300)**	
Net position as at 31 December 2010	**544,919**	**3,812**	**(44,234)**	**114,227**	**76,495**	**(603,863)**	

41 / INTEREST RATE RISK ANALYSIS

/ The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at December 31, 2010, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Noninter-est bearing '000 LVL	Total '000 LVL
/ Financial assets							
Cash and balances with central bank	121,758	-	-	-	-	5,026	**126,784**
Loans and receivables from banks	249,411	812	-	-	-	39,010	**289,233**
Financial instruments at fair value through profit or loss	40,355	-	-	-	-	963	**41,318**
Loans and receivables from customers	142,904	53,036	81,962	168,576	76,244	13,127	**535,849**
Available-for-sale assets	-	-	-	-	-	22,371	**22,371**
Reverse repo	50,726	-	-	-	-	-	**50,726**
Held-to-maturity investments	-	-	-	-	845	-	**845**
Total financial assets	**605,154**	**53,848**	**81,962**	**168,576**	**77,089**	**80,497**	**1,067,126**
/ Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	495	**495**
Deposits and balances from banks	-	-	8	-	-	4,263	**4,271**
Current accounts and deposits from customers	60,235	50,036	126,188	54,349	594	679,602	**971,004**
Total financial liabilities	**60,235**	**50,036**	**126,196**	**54,349**	**594**	**684,360**	**975,770**
Net position as at 31 December 2010	**544,919**	**3,812**	**(44,234)**	**114,227**	**76,495**	**(603,863)**	
Net position as at 31 December 2009	**208,888**	**11,159**	**(105,664)**	**196,564**	**71,010**	**(243,934)**	

42 / DISPOSAL OF SUBSIDIARY

/ On 3 February 2011 the Bank disposed of its investment in AS RB Securities IBS. The subsidiary contributed with net loss of LVL 26 thousand to the result of Group for the period, the gain on disposal amounts to LVL 32 thousand.

/ The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

'000 LVL	Carrying amount at date of disposal
/ Assets	
Placements with banks and other financial institutions	366
Other assets	3
/ Liabilities	
Other liabilities	(6)
Net identifiable assets and liabilities	**363**
Consideration received	395
Gain on sale of subsidiary	**32**

/ The net carrying value of the investment in the Bank's financial statements at the date of disposal was LVL 429 thousand.