AS "Citadele banka"

Annual report

for the year ended
31 December 2012

together with independent
auditors' report

Translation from Latvian original*

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

Citadele

Table of Contents

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Citadele showed encouraging development of its businesses in 2012

Citadele Bank had a good year in 2012 with increased profits and steady growth in its business. Pre-tax profits of LVL 10.4m was an increase of LVL 5.1m over 2011 (excluding the impact of the LVL 3.5m asset relief payment to the Latvian state), whilst Net Profits after tax of LVL 5.5m (group LVL 9.0m) was LVL 2.0m (group LVL 7.1m) better than 2011 (excluding the impact of the asset relief payment).

The bank saw continued confidence by its clients with client deposits ending the year at a level of 1.13 billion lats, which was higher than planned.

The bank continued to attract new clients, improved its client service and received international awards during 2012. The commitment of Citadele's employees has also grown rapidly during 2012.

The stable growth of Citadele Bank and its subsidiaries resulted in a 9.8% increase in net interest income from 24.7 million lats in 2011 to 27.2 million lats in 2012 (group: net interest income increased by 12.2% from 30.9 million lats to 34.6 million lats).

Citadele Bank’s Total Assets were 1.33 billion lats (1.60 billion lats for the group) as of 31 December 2012. The bank’s loan portfolio was 629 million Lats (group: 716 million lats) and the amount of capital and reserves was 92.0 million Lats (group: - 94.9 million lats). The total amount of deposits reached 1.13 billion lats (group: 1.40 million lats) in 2012, with annual growth of 3%.

The capital adequacy ratio of the bank was 12.5% (group: 10.5%) and the liquidity ratio of the bank was almost 56% as of 31 December 2012.

The management proposes to use the profits for 2012 to reduce the accumulated losses for previous years, thus further strengthening the capital base.

Citadele Repaid State’s Term Deposits, Paid Additional Compensation for Aid

In February 2012, ahead of schedule, Citadele Bank repaid the last term deposit of 46.94 million Euros to the Ministry of Finance of the Republic of Latvia. The breakdown of the last instalment was as follows: 46.6 million Euros principal with the remainder made up of 340 thousand Euros interest. It is therefore important to note that Citadele has now fully repaid all term deposits made by the state totalling 203.7 million Euros. During the period since the formation of the bank in August 2010 until March 2012 Citadele paid 14.7 million Euros in interest. This funding was repaid in instalments during this one-and-a-half year period and was completed ten months ahead of schedule.

In the beginning of 2012 the bank also redeemed its Eurobonds with a nominal value of 20.1 million lats. The repayment of both the Eurobonds and State Treasury Deposits was facilitated by the confidence in the bank shown by our customers by maintaining a strong deposit base with us.

The encouraging profits of 2011 resulted in Citadele being able to transfer LVL 3.5m to the State treasury as additional compensation for the use of state aid in line with the commitments given to the European Commission. Accordingly, the 2011 full year results have been restated as per the requirements of International Financial Reporting Standards.

New professionals joined the bank's management team

In July 2012, the Supervisory Council of Citadele Bank confirmed Guntis Belavskis as Chairman of the Management Board following his election by the Nomination Committee formed for this process. In September the Supervisory Council appointed Santa Purgaile as a Member of the Board; Ms. Purgaile has 18 years of experience in banking and 9 years of experience in managing various business areas.

In July Jolanta Jērāne was appointed to the post of Chairwoman of the Board of the bank's subsidiaries “Citadele Life” and “Citadele Open Pension Fund”. Ms. Jērāne has been a member of the management team of “Citadele Life” since the company was founded; she has been in banking since 1999.

In October the Supervisory Council elections took place at an extraordinary shareholder meeting. The existing members of the Supervisory Board, i.e. Klāvs Vasks, Laurence Phillip Adams and Geoffrey Richard Dunn were re-elected and were joined by two new colleagues – Baiba Anda Rubesa and Aldis Greitāns. The new members of the Supervisory Council were nominated by State JSC “Privatization Agency”.

In November Uldis Upenieks became the new Chairman of the Board of “Citadele Asset Management” company. Mr. Upenieks has a total of 17 years of experience in the financial sector; of which the past 10 years have been in banking.

The commitment of Citadele's employees has also grown significantly during 2012

A poll on the commitment of the employees working for the Latvian Citadele Group conducted by TNS Latvia research agency in 2012 showed that, compared to 2011, the commitment index has grown by 10 points during the course of the year. This reflects the significant increase in our employees’ general satisfaction with the Citadele group, their willingness to recommend their job to others, team motivation, and their assessment of the bank's competitiveness.

In the area of internal communication and human resources, one of Citadele's goals in 2012 was to strengthen its corporate culture in the bank group and to build on the bank's core values: professionalism, initiative and teamwork. Citadele will also continue to continue working in these areas in 2013.

Growing local economy

Citadele corporate lending activities developed encouragingly. In 2012 Citadele signed loan agreements for a total of 148 million lats to support a number of new business enterprises. Agricultural companies, the processing industry and energy businesses received special support. During 2012 entrepreneurs purchased a significantly increased number of guarantees and letters of credit, compared to previous years. The main reason for this was the entrepreneurs' desire to expand trade with other countries.

Many new projects aimed at developments in manufacturing, agriculture and energy efficiencies were implemented in 2012 thanks to co-funding granted by Citadele. For example, “Eko Air” company in Salaspils opened the first plant in Eastern Europe to manufacture automated brazed heat exchangers; “MATSS” Ltd, the largest bread producer in Kurzeme district, purchased new equipment; “Lauma Fabrics”, a manufacturer of textile materials, modernized its production unit with the help of the funding received from Citadele. Citadele was the first bank in Latvia to fund renovation of buildings applying the energy services management agreement or ESCO principle which enables to renovate real estate in cases when inhabitants of a building lack funding. As a result, five apartment buildings in Cēsis were renovated by use of this funding principle in 2012. “Bērzi” farm was able to build a new cattle breeding farm, equip it and purchase new cattle in order to expand its activity and increase its milk production output thanks to its co-operation with Citadele and the use of EU funds.

New clients showed their confidence in Citadele

In 2012, Citadele continues to follow its strategy of developing three core business segments: retail customers and small and medium enterprises in our branch office network; corporate clients and private capital management.

More than 26 700 new clients chose Citadele Bank as their partner during 2012: Citadele acquired over 23 600 new clients in the retail customer and small and medium enterprises (SME) and corporate segments, and 2 354 new clients in the private capital management sector.

Clients’ usage of payments cards increased significantly: almost 45 400 payment cards were issued in 2012.

In the retail and SME segment almost 6 600 new clients were signed up in Lithuania as well as 544 new clients in Estonia. This was possible thanks to successful marketing in attracting clients and developing financial services tailored for the clients' needs.

The bank responded to clients’ needs

Citadele Bank continued to improve its client service, paying special attention to its remote banking services. The bank introduced SMS banking services via local as well as foreign mobile operators in 2012. The bank started offering a new service: receipt of the new payment card by mail anywhere in Latvia. Citadele is the first bank in Latvia to offer the free delivery of new cards by mail as a permanent service.

In addition to the traditional means of communication, i.e. telephone, e-mails or the internet bank, Citadele introduced an opportunity for clients to contact the bank using Skype.

The bank also expanded its ATM network, and it will continue expanding it further by setting up ATMs in new locations as well as by replacing the existing cash withdrawal machines with cash deposit/withdrawal ATMs. In 2012, Nordea Bank Finland Plc Latvia branch joined Citadele’s cash deposit and withdrawal ATM network.

Citadele Bank grew its cash collection business

Citadele Bank is one of the biggest cash collection services providers in Latvia. In 2012 Citadele Bank continued developing these services. Compared to 2011, the bank's income from cash collection business increased by almost 35%. This increased business and number of clients speaks volumes for the confidence shown in the bank. By the end of the year cash collection services were provided to more than 2 000 locations.

Citadele Bank’s cash collection services were used by amongst other, banks, retail shop chains, several large State institutions, and the majority of Latvian pharmacies.

Citadele's subsidiaries generated profit

“Citadele Life”, a company in the Citadele Bank group, underwrote 26% of the total Unit-linked life insurance premiums in the Latvian market, and 21% of the new insurance premiums with a fixed interest rate.

Thanks to its strong performance, “Citadele Life” increased its market share in underwritten premiums from 9.7 % in 31 December 2011 to 13.3% in 31 December 2012.

“Citadele Life” and Citadele Bank concluded an agreement with “LKB Life”, a subsidiary of Latvijas Krājbanka which is currently in liquidation, on the provision of services for the former clients of “LKB Life”. “Citadele Life” took over a part of the life insurance agreements concluded with the clients of “LKB Life” and disbursed the accrued funds, pursuant to the instructions given by “LKB Life”, to those clients of “LKB Life” who chose to terminate their life insurance contracts.

Other subsidiaries of Citadele Bank also completed the year 2012 successfully. IPAS “Citadele Asset Management” managed to increase assets under management portfolio to 274 million lats, Baltic leasing subsidiaries of the group completed the year with a profit of almost 0.5 million and reached almost 47 million in assets.

Citadele's subsidiaries in other countries also generated positive results: “Citadele Bankas” in Lithuania completed the year with a profit of 2.4 million lats. In turn, the profit of AP Anlage&Privatbank AG, the group's Swiss subsidiary, were 0.3 million lats, ahead of 2011 with the number of customers increasing by 17%.

Citadele Bank has high standards of risk management

In 2012 Citadele Bank continued its cautious risk policy, and has developed one of the strongest risk management teams in Latvia. In terms of risk management the aim of Citadele is to ensure low risk indices simultaneously maintaining a diversified asset portfolio, a stable liquidity position, limited risks in financial markets and a low level of operational risk.

During the previous year the bank paid special attention to credit risk, market risk and compliance management as well as to the preparatory tasks for implementing the requirements of FATCA (Foreign Account Tax Compliance Act). In order to implement intensified risk management the bank set up a separate operations unit which is responsible for controlling compliance requirements and monitoring clients.

Citadele Bank implemented social responsibility projects

In 2012 Citadele organized several collaboration projects in the field of social responsibility together with state institutions, NGOs and other companies; these projects were aimed at inspiring people to take new initiative and to expand people's opportunities.

The most important project organized by Citadele Bank in collaboration with the Latvian Paralympics Committee in 2012 was the initiative and social movement “You are. You can.” This was the biggest support program the Latvian Paralympics association had ever had. The aim of the project was to facilitate the development of the paralympic sports in Latvia by continuously engaging new people with disability in sports, and to change the society's attitude towards people with disability and their capabilities.

Thanks to the bank’s social campaign, much greater attention was paid in public space to the Paralympic Games and to people with disabilities. Tens of thousands of people engaged in the movement called “You are. You can.” via social networks. The result of this campaign was a significant positive attitude shift towards the Paralympic Team and towards the Latvian Paralympic Committee (LPK): Daiga Dadzīte, the president of the LPK, was elected to the Latvian Olympic Committee (LOK) as an individual member of the LOK, the Latvian government equalized the Paralympic prizes to the Olympic prize level, and Aigars Apinis, a triple champion of the Paralympic Games, was dubbed the European of the Year 2012 in Latvia. The project “You are. You can.” will carry on in 2013.

Likewise, 2012 was the second year in a row when, in collaboration with “Mans Mazais” magazine, Citadele organized a competition for young mothers-entrepreneurs called “Moms' business” in order to facilitate the engagement of mothers in entrepreneurship. In order to enhance the development of entrepreneurship and boost the engagement of young people, Citadele, in partnership with various NGOs, organized “Growth Forum”, a business idea competition for high school students, and a competition for projects developed mutually by the business program students of business university “Turība” and chemistry students of the Riga Technical University. The bank also organized various conferences and seminars focused on business development which enable entrepreneurs to develop new cooperation networks.

Citadele is one of the most recognized banks in Latvia

A study conducted by SKDS market and public opinion research centre in November 2012 suggests that Citadele is the third most recognizable bank in Latvia.

The latest ranking of corporate reputation produced by SIA Nords Porter Novelli and Lietišķā Diena, in turn, shows that Citadele experienced one of the most rapid increases in reputation among all Latvian companies, as well as the greatest improvement in reputation among all of the country’s banks.

The study conducted by SKDS suggested that services offered by Citadele are among the most frequently used in the Latvian banking sector. According to the polled respondents, Citadele ranked third among all Latvian banks in terms of the most frequently used services during the last six months.

Citadele’s convenience and advantages index, which shows how clients evaluate the advantages and conveniences offered by the bank, has substantially increased during the year.

The professionalism of the Citadele team is also seen in the fact that the NASDAQ OMX Rīga stock exchange awarded the title of “Broker of the Year 2011” to Citadele securities broker Kaspars Kurmiņš.

At the beginning of 2012 the Bank of Latvia included Citadele bank in the calculation of RIGIBID and RIGIBOR interbank interest rate indexes. These indexes are calculated by the Bank of Latvia on the basis of quoted bank rates.

Citadele received high international recognition

In the first half of 2012, Citadele received the highest rating in a study conducted by the Baltic Institute of Corporate Governance “Management of State-Owned Companies in the Baltic States.” Citadele was declared to be the best governed state-owned company in the Baltic States.

Citadele Bank participated in European Business Award 2012/13 competition, and it was awarded one of the five Latvian enterprises National Champion titles thanks to active voting online and the decision of the international jury. This title enables the bank to continue competing in the next stages of the competition. The competition will be completed in 2013.

In 2012 “Citadele Asset Management” received several prestigious global awards. “World Finance”, the leading financial magazine in the world, dubbed Citadele as the best asset management company in the Baltic States. Global mutual fund information and analytical company Lipper awarded the Citadele Eastern European Bond Fund - USD with Lipper Fund Award 2012 for the best and most consistent, risk-adjusted performance over three years in the Emerging Europe Bond Fund category. International financial research company Morningstar awarded the highest rating, i.e. five stars, to Citadele Eastern European Bond Fund - USD, and awarded four stars to the Citadele Russian Equity Fund.

In a competition organized by the Vilnius Chamber of Commerce, Industry and Crafts Alma Vaitkunskiene, Chairwoman of AB “Citadele” Bankas, was recognized as the best female head of a company in Lithuania.

Citadele

Citadele Bank wishes to thank its clients, partners and employees for their continuing cooperation! We will further develop Citadele Bank in order for it to become the most valuable local financial group in the Baltic States, the best partner for its clients, and a dynamic employer which welcomes success and challenges for its employees.

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

Riga,
8 March 2013

Supervisory Council of the Bank

Name	Position
Klāvs Vasks	Chairman of the Supervisory Council
Geoffrey Richard Dunn	Deputy Chairman of the Supervisory Council
Laurence Philip Adams	Member of the Supervisory Council
Baiba Anda Rubesa	Member of the Supervisory Council
Aldis Greitāns	Member of the Supervisory Council

Management Board of the Bank

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

Supervisory Council and Management Board of Citadele Bank have agreed on rescheduling of assignments for the management team of the Group with the aim to improve the efficiency of its subsidiaries. Thus, from May 2012 Juris Jākobsons serves on Supervisory Councils of a number of subsidiaries and oversees their operations, while the duties of the Chairman of the Management Board of Citadele Bank, on May 1, were taken over by Guntis Beļavskis.

As of May this year Juris Jākobsons assumed responsibilities of the Chairman of the Supervisory Council at AB “Citadele” Bankas in Lithuania, AAS “Citadele Life” and AS “Citadele Atklātais Pensiju Fonds” and a member of the Supervisory Council at “AP Anlage & Privatbank” AG in Switzerland. Juris Jākobsons is continuing to serve as a Chairman of the Supervisory Council in IPAS “Citadele Asset Management”.

On 14 June 2012 Ģirts Freibergs, the member of the Supervisory Council of the Bank, resigned.

On 14 September 2012 the Supervisory Council of the Bank elected Santa Purgaile as a Member of the Management Board, effective from 20 September 2012.

On 12 October 2012 Supervisory Council elections took place at the extraordinary shareholders’ meeting of Citadele Bank. Baiba Anda Rubesa and Aldis Greitāns were elected besides the existing members of the Supervisory Council – Klāvs Vasks, Laurence Phillip Adams and Geoffrey Richard Dunn; Juris Vaskāns, the former Supervisory Board member, was not re-elected. The shareholders’ resolution on the election of the Supervisory Council is effective from 27 October 2012.

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

The financial statements set out on pages 9 to 78 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2012 and 2011 and the results of their operations, changes in shareholders’ equity and cash flows for the years then ended. The management report set out on pages 3 to 6 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

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

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

Guntis Belavskis	Klāvs Vasks
Chairman of the Management Board	Chairman of the Supervisory Council

Riga,
8 March 2013

	Notes	2012 Group	2011 Group as restated (note 3)	2012 Bank	2011 Bank as restated (note 3)
		LVL 000's			
Interest income	5	59,405	63,509	49,650	55,306
Interest expense	5	(24,774)	(32,655)	(22,500)	(30,585)
Net interest income		34,631	30,854	27,150	24,721
Commission and fee income	6	29,496	26,103	22,376	19,434
Commission and fee expense	6	(8,069)	(7,039)	(6,848)	(5,759)
Net commission and fee income		21,427	19,064	15,528	13,675
Gain on transactions with financial instruments, net	7	10,047	7,151	8,499	5,569
Other income		1,795	1,951	299	2,422
Other expense		(297)	(4,799)	(16)	(4,449)
Administrative expense	8,9	(41,623)	(40,207)	(30,118)	(30,453)
Amortisation and depreciation charge	20,21	(4,407)	(5,313)	(1,242)	(1,812)
Impairment charges and reversals, net	10	(9,372)	(8,759)	(9,680)	(7,965)
Gain / (loss) on disposal of assets held for sale, net		648	(105)	-	-
Profit / (loss) before taxation		12,849	(163)	10,420	1,708
Corporate income tax	11	(3,888)	(1,482)	(4,901)	(1,708)
Net profit / (loss) for the period		8,961	(1,645)	5,519	-
Attributable to:					
Equity holders of the Bank		8,961	(1,645)	5,519	-
Minority interest		-	-	-	-
		8,961	(1,645)	5,519	-

The notes on pages 14 to 78 are an integral part of these financial statements.

	LVL 000's			
	2012 Group	2011 Group as restated (note 3)	2012 Bank	2011 Bank as restated (note 3)
Net profit / (loss) for the period	8,961	(1,645)	5,519	-
Other comprehensive income:				
Fair value revaluation reserve: held-to-maturity securities				
Amortisation	571	1,061	499	679
Deferred income tax charged directly to equity	(11)	(58)	-	-
Fair value revaluation reserve: available-for-sale securities				
Impairment of securities	(134)	53	(134)	53
Fair value revaluation reserve charged to statement of income	(1,613)	(210)	(1,116)	221
Change in fair value of available-for-sale securities	9,934	(4,307)	5,990	(3,741)
Deferred income tax charged / (credited) directly to equity	(515)	119	-	-
Other reserves				
Foreign exchange revaluation reserve	120	504	-	-
Restructuring reserve, net	3	-	-	-
Other comprehensive income / (loss) for the period	8,355	(2,838)	5,239	(2,788)
Total comprehensive income / (loss) for the period	17,316	(4,483)	10,758	(2,788)
Attributable to:				
Equity holders of the Bank	17,316	(4,483)	10,758	(2,788)
Minority interest	-	-	-	-
	17,316	(4,483)	10,758	(2,788)

The notes on pages 14 to 78 are an integral part of these financial statements.

	Notes	31/12/2012 Group	31/12/2011 Group as restated (note 3)	31/12/2012 Bank	31/12/2011 Bank as restated (note 3)
		LVL 000's			
Assets					
Cash and deposits with central banks	12	190,960	243,239	174,708	229,659
Balances due from credit institutions	13	129,213	212,421	81,070	183,079
Securities held for trading:					
- fixed income	16	9,221	161	-	-
- shares and other non-fixed income	17	1,175	34	-	-
Derivative financial instruments	30	988	3,483	1,034	3,542
Financial assets designated at fair value through profit and loss	18	35,508	6,381	-	-
Available-for-sale securities:					
- fixed income	16	265,769	156,065	199,077	93,828
- shares and other non-fixed income	17	3,242	8,531	3,231	8,461
Loans and receivables to customers	14,15	716,443	717,142	628,804	625,773
Held-to-maturity securities	16	165,993	126,361	155,748	118,442
Current income tax assets	11	206	246	-	-
Non-current assets classified as held for sale	22	264	1,185	168	118
Fixed assets	21	31,020	33,532	2,093	2,449
Goodwill and intangible assets	20	888	1,216	493	770
Investments in subsidiaries	19	-	-	44,545	44,195
Investment properties		902	1,099	-	-
Deferred income tax assets	11	25,182	28,896	24,209	28,777
Other assets	23	24,450	20,305	19,715	17,982
Total assets		1,601,424	1,560,297	1,334,895	1,357,075
Liabilities					
Derivative financial instruments	30	2,722	820	2,766	1,810
Financial liabilities designated at fair value through profit and loss	24	10,368	5,289	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	25	25,477	47,470	47,361	71,768
- deposits from customers	26	1,395,697	1,317,971	1,132,728	1,099,258
- issued debt securities		-	20,925	-	20,997
- other financial liabilities		5,789	23,301	-	17,782
Current income tax liabilities	11	28	155	-	12
Deferred income tax liabilities	11	-	1	-	-
Other liabilities	27	14,469	14,873	8,016	12,248
Subordinated liabilities	28	52,014	51,948	52,014	51,948
Total liabilities		1,506,564	1,482,753	1,242,885	1,275,823
Equity					
Paid-in share capital	29	103,000	103,000	103,000	103,000
Reserves		3,587	(5,000)	2,918	(2,321)
Accumulated losses		(11,727)	(20,456)	(13,908)	(19,427)
Total shareholders' equity attributable to the shareholders of the Bank		94,860	77,544	92,010	81,252
Minority interest		-	-	-	-
Total equity		94,860	77,544	92,010	81,252
Total liabilities and equity		1,601,424	1,560,297	1,334,895	1,357,075

The notes on pages 14 to 78 are an integral part of these financial statements.

Changes in the Group's equity are as follows:

	LVL 000's						
	Attributable to equity holders of the Bank						
	Issued share capital	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Foreign exchange reserve	Restructuring reserve	Accumulated losses	Total equity
Balance as at 31 December 2010	**103,000**	**(1,706)**	**2,259**	**846**	**(3,561)**	**(18,811)**	**82,027**
Net profit for the period	-	-	-	-	-	1,895	1,895
Other comprehensive income / (loss) for the period	-	1,003	(4,345)	504	-	-	(2,838)
Balance as at 31 December 2011	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(16,916)**	**81,084**
Impact of restatement (note 3)	-	-	-	-	-	(3,540)	(3,540)
Balance as at 31 December 2011, as restated (note 3)	**103,000**	**(703)**	**(2,086)**	**1,350**	**(3,561)**	**(20,456)**	**77,544**
Net profit for the period	-	-	-	-	-	8,961	8,961
Other comprehensive income / (loss) for the period	-	560	7,672	120	235	(232)	8,355
Balance as at 31 December 2012	**103,000**	**(143)**	**5,586**	**1,470**	**(3,326)**	**(11,727)**	**94,860**

Changes in the Bank's equity are as follows:

	LVL 000's				
	Attributable to equity holders of the Bank				
	Issued share capital	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Accumulated losses	Total equity
Balance as at 31 December 2010	**103,000**	**(1,709)**	**2,176**	**(19,427)**	**84,040**
Net loss for the period	-	-	-	3,540	3,540
Other comprehensive income / (loss) for the period	-	679	(3,467)	-	(2,788)
Balance as at 31 December 2011	**103,000**	**(1,030)**	**(1,291)**	**(15,887)**	**84,792**
Impact of restatement (note 3)	-	-	-	(3,540)	(3,540)
Balance as at 31 December 2011, as restated (note 3)	**103,000**	**(1,030)**	**(1,291)**	**(19,427)**	**81,252**
Net profit for the period	-	-	-	5,519	5,519
Other comprehensive income for the period	-	499	4,740	-	5,239
Balance as at 31 December 2012	**103,000**	**(531)**	**3,449**	**(13,908)**	**92,010**

The notes on pages 14 to78 are an integral part of these financial statements.

	Notes	2012 Group	2011 Group as restated (note 3)	2012 Bank	2011 Bank as restated (note 3)
		LVL 000's			
Cash flows from operating activities					
Profit / (loss) before tax		12,849	(163)	10,420	1,708
Amortisation of intangible assets, depreciation of fixed assets and investment properties		4,407	5,313	1,242	1,812
Change in impairment allowances and other provisions		9,372	8,759	9,680	7,965
Interest income		(59,405)	(63,509)	(49,650)	(55,306)
Interest expense		24,774	32,655	22,500	30,585
Other non-cash items		5,692	(4,408)	3,281	(3,251)
Cash flows before changes in assets and liabilities		**(2,311)**	**(21,353)**	**(2,527)**	**(16,487)**
Change in derivative financial instruments		4,397	(637)	3,464	282
(Increase)/ decrease in other assets		(21,437)	(1,768)	(2,848)	(1,847)
Increase/ (decrease) in other liabilities		(18,567)	18,764	(21,814)	20,899
(Increase)/ decrease in trading investments		(33,386)	(142)	-	4
(Increase)/ decrease in balances due from credit institutions		(16,234)	12,812	(3,299)	12,431
(Increase) / decrease in loans and receivables to customers		8,662	72,766	3,971	62,613
Increase / (decrease) in balances due to credit institutions and central banks		14,712	(3,685)	17,545	9,260
Increase/ (decrease) in deposits from customers		78,950	26,265	34,700	(15,897)
Cash generated from operating activities before corporate income tax		**14,786**	**103,022**	**29,192**	**71,258**
Interest received during the period		59,282	63,458	49,340	55,281
Interest paid during the period		(26,557)	(36,922)	(24,259)	(34,329)
Corporate income tax paid during the period		(62)	(246)	(12)	(4)
Net cash flow generated from operating activities		**47,449**	**129,312**	**54,261**	**92,206**
Cash flows from investing activities					
(Purchase) of intangible and fixed assets		(1,551)	(831)	(949)	(454)
Proceeds from disposal of intangible and fixed assets		93	203	24	162
(Purchase) of held-to-maturity securities, net		(39,632)	1,211	(37,306)	(1,162)
(Purchase) of available-for-sale securities		(291,679)	(246,520)	(222,144)	(165,617)
Cash inflows from available-for-sale securities		190,905	279,517	121,705	216,861
Acquisitions and investments in subsidiaries		-	-	(13,263)	(4,208)
Net cash flow from investing activities		**(141,864)**	**33,580**	**(151,933)**	**45,582**
Cash flows from financing activities					
Redemption/ repurchase of debt securities		(20,611)	(68,684)	(20,611)	(68,684)
Net cash flow from financing activities		**(20,611)**	**(68,684)**	**(20,611)**	**(68,684)**
Net cash flow for the period		**(115,026)**	**94,208**	**(118,283)**	**69,104**
Cash and cash equivalents at the beginning of the period		**415,045**	**320,837**	**365,774**	**296,670**
Cash and cash equivalents at the end of the period	33	**300,019**	**415,045**	**247,491**	**365,774**

The notes on pages 14 to 78 are an integral part of these financial statements.

If not mentioned otherwise, referral to Group’s policies and procedures should be also considered as referral to the respective Bank’s policies and procedures. Figures in parenthesis represent amounts as at 31 December 2011 or for the year ended 31 December 2011, if not stated otherwise.

AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 8 March 2013. In accordance with the Commercial Law of the Republic of Latvia, the shareholders’ meeting has the right to make the decision on the approval of the financial statements.

NOTE 1. GENERAL INFORMATION

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

The Bank’s head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2012, the Bank was operating a total of 39 (41) branches and client service centres in Riga and throughout Latvia. The Bank has 4 (5) foreign branches and client service centres – in Tallinn (Estonia), Narva (Estonia), Roosikrantsi (Estonia), Munich (Germany). Branches in Narva (Estonia) and Munich (Germany) are in process of closing. The Bank owns directly and indirectly 21 (23) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. The ultimate controlling party of the Bank is Republic of Latvia.

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

As at 31 December 2012, the Group had 1,640 (1,679) employees and the Bank had 1,175 (1,211) employees.

NOTE 2. RESTRUCTURING

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

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

Restructuring implications

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

NOTE 3. RESTATEMENT

According to the initial Commitments to the European Commission the bank shall pay a fee to the state of Latvia for the use of State support, hereinafter referred to as the "asset relief fee" when Citadele banka's capital adequacy ratio on solo basis is not lower than 12% and capital adequacy ratio at group level is not lower than 8%. In late 2011, management started discussions with the EC to change the terms of the commitments to raise the minimum capital adequacy ratios required as a precondition for the asset relief fee to become payable, which would have resulted in no fees being payable for 2011.

At the time of finalising the 2011 financial statements, management believed that an agreement was reached and no asset relief fee was payable for 2011. However, subsequent discussions have led to delaying any agreement on the matter and in June 2012, the EC confirmed that the fee is payable in respect of 2011 at the original terms.

The capital adequacy ratios of the Bank and Group as at 31 December 2011 were 13.3% and 11% respectively, which are above the set ratios of the Commitments of 12% and 8%. Citadele concluded 2011 with a profit of LVL 3.5 million. Based on the above, on 18 July 2012 the Bank transferred a similar amount to the State Treasury as the asset relief fee for 2011.

As the amount payable became measurable after the finalisation of the 2011 annual accounts and the contractual obligation relating to the asset relief fee existed at 31 December 2011, all affected balances and amounts in these financial statements and interim financial information for the 6 month period ended 30 June 2012 have been restated accordingly. The compensation liability only arose on 31 December 2011 and therefore has no impact on any financials before 31 December 2011. A third column on the Bank's and Group's balance sheet is not presented as the restatement does not have any impact on the opening balances of 2011.

However, on 10 August 2012 the European Commission agreed to amend the Restructuring plan so that among other matters the asset relief fee is only due to the extent that the Bank's and the Group's relevant capital adequacy ratios exceed the minimum regulatory requirements at the level of the Bank and the Group, plus a buffer of 0.5%, unless it brings the Bank or the Group below the future minimum national regulatory requirements (plus a buffer of 0.5%) that are to be enforced within the following year. For more details on current national regulatory requirements please refer to Note 36 *h)*.

The impact of the restatement on the Group's balance sheet is as follows:

	LVL 000's			
	Other liabilitie s	Total liabilities	Accumulated losses	Total equity
Balances as at 31 December 2011	**11,333**	**1,479,213**	**(16,916)**	**81,084**
Impact of the restatement	3,540	3,540	(3,540)	(3,540)
Balances as at 31 December 2011, as restated	**14,873**	**1,482,753**	**(20,456)**	**77,544**

The impact of the restatement on the Bank's balance sheet is as follows:

	LVL 000's			
	Other liabilitie s	Total liabilities	Accumulated losses	Total equity
Balances as at 31 December 2011	**8,708**	**1,272,283**	**(15,887)**	**84,792**
Impact of the restatement	3,540	3,540	(3,540)	(3,540)
Balances as at 31 December 2011, as restated	**12,248**	**1,275,823**	**(19,427)**	**81,252**

The impact of the restatement on the Group's income statement for the year ended 31 December 2011 is as follows:

	LVL 000's			
	Other expense	Profit before taxation	Net profit for the period	Net profit attributable to: equity holders of the Bank
Statement of income 2011	**(1,259)**	**3,377**	**1,895**	**1,895**
Impact of the restatement	(3,540)	(3,540)	(3,540)	(3,540)
Statement of income 2011, as restated	**(4,799)**	**(163)**	**(1,645)**	**(1,645)**

The impact of the restatement on the Bank’s income statement for the year ended 31 December 2011 is as follows:

	LVL 000’s			
	Other expense	Profit before taxation	Net profit for the period	Net profit attributable to: equity holders of the Bank
Statement of income 2011	**(909)**	**5,248**	**3,540**	**3,540**
Impact of the restatement	(3,540)	(3,540)	(3,540)	(3,540)
Statement of income 2011, as restated	**(4,449)**	**1,708**	**-**	**-**

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2012. Listed below are those new or amended standards or interpretations which are not relevant for the Group’s operations and did not have an impact on these financial statements:

- Amendments to IFRS 7 “Financial instruments: Disclosures” on transfers of assets (effective for annual periods beginning on or after 1 July 2011).
- Amendments to IFRS 1 “First time adoption” on fixed dates and hyperinflation (effective for annual periods beginning on or after 1 July 2011).
- Amendments to IAS 12 “Income taxes” on deferred tax (effective for annual periods beginning on or after 1 January 2012).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods and which are not yet relevant to the Group or are not yet endorsed by the EU:

- Amendments to IAS 19 “Employee benefits” (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1 “Financial statement presentation” regarding other comprehensive income (effective for annual periods beginning on or after 1 January 2012, endorsed by the EU on June 2012).
- IFRS 9 “Financial Instruments Part 1: Classification and Measurement” (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).
- IFRS 10 “Consolidated financial statements” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- IFRS 11 “Joint arrangements” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- IFRS 12 “Disclosures of interests in other entities” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2013).
- IFRS 13 “Fair value measurement” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012).
- IAS 27 (revised 2011) “Separate financial statements” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- IAS 28 (revised 2011) “Associates and joint ventures” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
- Amendments to IFRS 7 “Financial instruments: Disclosures” on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).
- Amendments to IAS 32 “Financial instruments: Presentation” on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014, endorsed by the EU on December 2012).
- Amendments to IFRS 1 “First time adoption” on government loans (effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU).
- Improvements to IFRS (issued in May 2012; most of the amendments are effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU):
  - IFRS 1 “First time adoption”;
  - IAS 1 “Financial statement presentation”;
  - IAS 16 “Property, plant and equipment”;
  - IAS 32 “Financial instruments: Presentation”;
  - IAS 34 “Interim financial reporting”.

- Amendments to IFRS 10, IFRS 12 and IAS 27 on investment entities (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU).
- IFRIC 20, “Stripping costs in the production phase of a surface mine” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

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

a) Basis of preparation

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

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

b) Functional and Presentation Currency

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

c) Accounting for restructuring/ transfer of undertaking

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

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

d) Basis of Consolidation

As at 31 December 2012, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank’s financial statements at acquisition cost. More detailed information on the Group’s subsidiaries is presented in Note 19.

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

e) Income and Expense Recognition

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

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

Penalty income is recognised on cash-received basis.

f) Foreign Currency Translation

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

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- all resulting exchange differences are recognised as other comprehensive income.

g) Taxation

For the year ended 31 December 2012 corporate income tax is applied at the rate of 15% (2011: 15%) on taxable income generated by the Bank for the taxation period. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Several Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, with regards to Group companies registered in these jurisdictions, income tax on profit distribution is recognized as expense at the moment dividends are declared.

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

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

h) Financial instruments

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

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

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

Financial assets and liabilities held for trading

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

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

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

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

Held-to-maturity investments

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

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group's available-for-sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

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

Derivative Financial Instruments

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

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

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

Own credit risk in valuations of derivative liabilities

The Group’s own credit changes are reflected in valuations of such derivative liabilities, where the Group’s own credit risk would be considered by market participants and excludes derivatives for which it is established market practice not to include an entity-specific adjustment for own credit, also referred to as counterparty close out approach. This amount represents the estimated difference in the market value of identical obligations issued by a riskless intermediary, relative to the market value of those obligations issued by the Group, as judged from the perspective of the holders of those obligations. Own credit changes were calculated based on credit default swap spreads. At 31 December 2012 and 31 December 2011, there are no material adjustments arising from Group’s own credit assessment.

Loans and receivables

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

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

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

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

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

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

i) Sale and Repurchase Agreements

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

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

j) Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

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

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

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

Financial liabilities

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

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

k) Leases

Finance leases – Group as lessor

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

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

Operating leases – Group as lessor

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

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

Operating leases – Group as lessee

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

l) Impairment of loans and receivables to customers

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

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

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

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

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

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

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

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

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

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

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

n) Business combinations and goodwill

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

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

o) Intangible Assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 50%. All intangible assets, except for goodwill, are with definite lives.

p) Fixed Assets

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

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

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

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

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

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

q) Inventories

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group’s real estate workout companies. Group’s inventories are accounted at individual cost. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at lowest of purchase cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as impairment charges in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

r) Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification. Non-currents assets classifies as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale in the near term, but are not expected to be sold in the ordinary course of business. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the income statement’s line “Impairment charges and reversals, net”. In the same line of the income statement a gain from any subsequent increase in fair value less cost to sell of an asset is recognized, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

s) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs. For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group’s fixed assets are applicable. Investment properties are periodically reviewed for impairment. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

t) Insurance business

Group’s exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is accounted at fair value and is shown in the financial statements as liabilities designated at fair value through profit and loss; insurance reserves as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance, if the Group deems this appropriate.

u) Provisions

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

v) Off-balance Sheet Financial Commitments and Contingent Liabilities

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

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

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

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

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

w) Trust Activities

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

x) Fair Values of Financial Assets and Liabilities

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

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

y) Cash and Cash Equivalents

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

z) Offsetting

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

aa) Staff costs and related contributions

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

bb) Events after the balance sheet date

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

cc) Changes in accounting policies

(1) Citadele group previously presented balances with credit card companies as balances due from credit institutions. Starting from 2012 interim accounts these balances are presented as other assets.

(2) Previously the Group presented penalty fees for non-compliance with contractual terms of loan and deposit agreements as other operating income. Starting from 2012, these have been included as an effective interest rate component and are shown accordingly in interest income and interest expense lines of the income statement.

(3) Fee income and expense related to the consulting activities performed by the Group is presented in commission and fee income and commission and fee expense lines of the income statement as opposed to other income and administrative expense previously.

(4) Fixed interest rate investment contracts originating from the insurance business are presented as liabilities designated at fair value through profit and loss; previously as other liabilities.

All comparative data has been restated accordingly. The tables below also include effect from asset relief payment due as at 31 December 2011 (for more details refer to note 3).

The impact of theses changes on the Group's and Bank's statements of income is as follows:

		Group LVL 000's				Bank LVL 000's			
	Change	2012	2012 Before restatement	2011	2011 Before restatement	2012	2012 Before restatement	2011	2011 Before restatement
Interest income	(2)	59,405	56,468	63,509	59,916	49,650	47,162	55,306	52,194
Interest expense	(2)	(24,774)	(24,812)	(32,655)	(32,689)	(22,500)	(22,538)	(30,585)	(30,619)
Net interest income / (expense)		34,631	31,656	30,854	27,227	27,150	24,624	24,721	21,575
Commission and fee income	(3)	29,496	28,937	26,103	25,737	22,376	22,376	19,434	19,434
Commission and fee expense	(3)	(8,069)	(7,756)	(7,039)	(7,126)	(6,848)	(6,848)	(5,759)	(5,759)
Net commission and fee income		21,427	21,181	19,064	18,611	15,528	15,528	13,675	13,675
Gain on transactions with financial instruments, net		10,047	10,047	7,151	7,151	8,499	8,499	5,569	5,569
Other income	(2),(3)	1,795	5,328	1,951	5,944	299	2,825	2,422	5,568
Other expense		(297)	(297)	(4,799)	(1,259)	(16)	(16)	(4,449)	(909)
Administrative expense	(3)	(41,623)	(41,935)	(40,207)	(40,120)	(30,118)	(30,118)	(30,453)	(30,453)
Amortisation and depreciation charge		(4,407)	(4,407)	(5,313)	(5,313)	(1,242)	(1,242)	(1,812)	(1,812)
Impairment charges and reversals, net		(9,372)	(9,372)	(8,759)	(8,759)	(9,680)	(9,680)	(7,965)	(7,965)
Gain / (loss) on disposal of assets held for sale, net		648	648	(105)	(105)	-	-	-	-
Profit / (loss) before taxation		12,849	12,849	(163)	3,377	10,420	10,420	1,708	5,248
Corporate income tax		(3,888)	(3,888)	(1,482)	(1,482)	(4,901)	(4,901)	(1,708)	(1,708)
Net profit / (loss) for the period		8,961	8,961	(1,645)	1,895	5,519	5,519	-	3,540
Attributable to:									
Equity holders of the Bank		8,961	8,961	(1,645)	1,895	5,519	5,519	-	3,540
Minority interest		-	-	-	-	-	-	-	-
		8,961	8,961	(1,645)	1,895	5,519	5,519	-	3,540

The impact of theses changes on the Group's and Bank's balance sheets is as follows:

		Group LVL 000's				Bank LVL 000's			
	Change	31/12/2012	31/12/2012 Before restatement	31/12/2011	31/12/2011 Before restatement	31/12/2012	31/12/2012 Before restatement	31/12/2011	31/12/2011 Before restatement
Assets									
Cash and deposits with central banks		190,960	190,960	243,239	243,239	174,708	174,708	229,659	229,659
Balances due from credit institutions	(1)	129,213	140,375	212,421	225,739	81,070	92,232	183,079	196,397
Securities held for trading		10,396	10,396	195	195	-	-	-	-
Derivative financial instruments		988	988	3,483	3,483	1,034	1,034	3,542	3,542
Financial assets designated at fair value through profit and loss		35,508	35,508	6,381	6,381	-	-	-	-
Available-for-sale securities		269,011	269,011	164,596	164,596	202,308	202,308	102,289	102,289
Loans and receivables to customers		716,443	716,443	717,142	717,142	628,804	628,804	625,773	625,773
Held-to-maturity securities		165,993	165,993	126,361	126,361	155,748	155,748	118,442	118,442
Current income tax assets		206	206	246	246	-	-	-	
Non-current assets classified as held for sale		264	264	1,185	1,185	168	168	118	118
Fixed assets		31,020	31,020	33,532	33,532	2,093	2,093	2,449	2,449
Goodwill and intangible assets		888	888	1,216	1,216	493	493	770	770
Investments in subsidiaries		-	-	-	-	44,545	44,545	44,195	44,195
Investment properties		902	902	1,099	1,099	-	-	-	-
Deferred income tax assets		25,182	25,182	28,896	28,896	24,209	24,209	28,777	28,777
Other assets	(1)	24,450	13,288	20,305	6,987	19,715	8,553	17,982	4,664
Total assets		1,601,424	1,601,424	1,560,297	1,560,297	1,334,895	1,334,895	1,357,075	1,357,075
Liabilities									
Derivative financial instruments		2,722	2,722	820	820	2,766	2,766	1,810	1,810
Financial liabilities designated at fair value through profit and loss	(4)	10,368	6,986	5,289	4,426	-	-	-	-
Financial liabilities measured at amortised cost:		1,426,963	1,426,963	1,409,667	1,409,667	1,180,089	1,180,089	1,209,805	1,209,805
Current income tax liabilities		28	28	155	155	-	-	12	12
Deferred income tax liabilities		-	-	1	1	-	-	-	-
Other liabilities	(4)	14,469	17,851	14,873	12,196	8,016	8,016	12,248	8,708
Subordinated liabilities		52,014	52,014	51,948	51,948	52,014	52,014	51,948	51,948
Total liabilities		1,506,564	1,506,564	1,482,753	1,479,213	1,242,885	1,242,885	1,275,823	1,272,283
Equity									
Total shareholders' equity attributable to the shareholders of the Bank		94,860	94,860	77,544	81,084	92,010	92,010	81,252	84,792
Minority interest				-	-	-	-	-	-
Total equity		94,860	94,860	77,544	81,084	92,010	92,010	81,252	84,792
Total liabilities and equity		1,601,424	1,601,424	1,560,297	1,560,297	1,334,895	1,334,895	1,357,075	1,357,075

dd) Use of estimates in the preparation of financial statements

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

Impairment of loans

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

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

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

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank’s LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. LVL 1.1 million (2011: LVL 0.9 million).

Impairment of securities

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

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2012, increase or decrease in credit spread delta by 200 basis points would result in no additional impairment for the Bank (2011: nil).

Deferred tax asset

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

NOTE 5. INTEREST INCOME AND EXPENSE

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	53,474	57,489	46,833	51,424
- interest on loans and receivables to customers	*44,663*	*49,406*	*38,533*	*43,194*
- interest on balances due from credit institutions and central banks	*809*	*1,222*	*655*	*1,711*
- interest on held-to-maturity securities	*8,002*	*6,861*	*7,645*	*6,519*
- interest on available-for-sale securities	4,934	5,931	2,747	3,881
- interest on held for trading securities	339	15	-	1
- interest income on financial assets designated at fair value through profit or loss	588	74	-	-
- other interest income	70	-	70	-
Total interest income	**59,405**	**63,509**	**49,650**	**55,306**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(24,704)	(32,655)	(22,500)	(30,585)
- interest on deposits from customers	*(18,539)*	*(25,045)*	*(15,975)*	*(22,740)*
- interest on subordinated liabilities	*(4,463)*	*(4,449)*	*(4,463)*	*(4,449)*
- interest on issued debt securities	*(128)*	*(2,363)*	*(128)*	*(2,366)*
- interest on balances due to credit institutions and central banks	*(65)*	*(308)*	*(430)*	*(559)*
- other interest expense	*(1,509)*	*(490)*	*(1,504)*	*(471)*
- interest expense on financial liabilities designated at fair value through profit or loss	(70)	-	-	-
Total interest expense	**(24,774)**	**(32,655)**	**(22,500)**	**(30,585)**
Net interest income / (expense)	**34,631**	**30,854**	**27,150**	**24,721**

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Interest income recognised on impaired assets	3,981	1,830	3,269	2,715

NOTE 6. COMMISSION AND FEE INCOME AND EXPENSE

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Commission and fee income:				
- transactions with settlement cards	12,693	11,377	11,562	10,363
- payment transfer fee	5,238	4,506	3,984	3,383
- custody, trust and asset management fees	4,442	4,420	820	606
- service fee for account maintenance	1,237	1,233	979	1,027
- review of loan applications and collateral evaluation	1,086	437	1,051	417
- cash disbursement/ transaction commission	1,059	1,091	641	744
- cash collection	1,048	796	1,048	796
- securities, financial instrument brokerage fees	884	773	547	436
- letters of credit and guarantees	593	478	495	340
- other fees	1,216	992	1,249	1,322
Total commission and fee income	**29,496**	**26,103**	**22,376**	**19,434**

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Commission and fee expense:				
- fees related to settlement card operations	(5,974)	(5,225)	(5,356)	(4,529)
- fees related to correspondent accounts	(1,135)	(994)	(979)	(869)
- brokerage and custodian fees:	(549)	(484)	(456)	(325)
- securities, financial instrument brokerage fees	*(325)*	*(266)*	*(328)*	*(192)*
- custody, trust and asset management fees	*(224)*	*(218)*	*(128)*	*(133)*
- other fees	(411)	(336)	(57)	(36)
Total commission and fee expense	**(8,069)**	**(7,039)**	**(6,848)**	**(5,759)**
Net commission and fee income	**21,427**	**19,064**	**15,528**	**13,675**

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

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Commission and fee income	29,496	26,103	22,376	19,434
Commission and fee expense	(8,069)	(7,039)	(6,848)	(5,759)

NOTE 7. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Gain from trading and revaluation of securities held for trading purposes, net	(295)	12	-	12
Gain / (loss) from disposal of available-for-sale securities, net	1,613	210	1,116	(221)
Gain on financial assets measured at amortised cost, net	2	355	-	-
Gain from foreign exchange trading and revaluation of open positions, net	8,926	7,732	7,490	6,231
Loss from trading and revaluation of other derivatives, net	27	(1,101)	(107)	(453)
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(226)	(57)	-	-
Gain on trading with financial instruments, net	**10,047**	**7,151**	**8,499**	**5,569**

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Net gain / (loss) on financial instruments not at fair value through profit or loss	1,615	565	1,116	(221)
Net gain on financial instruments at fair value through profit or loss	8,432	6,586	7,383	5,790
Total gain on financial instruments, net	**10,047**	**7,151**	**8,499**	**5,569**

NOTE 8. ADMINISTRATIVE EXPENSE

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Personnel expense	26,144	25,113	18,026	18,120
Rent, utilities, maintenance	3,634	3,705	4,241	4,511
Non-refundable value added tax	2,349	2,312	1,843	1,873
IT equipment and software related expense	2,021	1,997	1,560	1,513
Consulting and professional fees	1,198	1,025	756	584
Advertising, marketing and sponsorship	1,171	1,276	730	1,035
Communications (telephone, telex, etc.)	514	586	327	357
Office administration expense	458	503	327	380
Other administrative expense	4,134	3,690	2,308	2,080
Total administrative expense	**41,623**	**40,207**	**30,118**	**30,453**

NOTE 9. PERSONNEL EXPENSE

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

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Remuneration:				
- management	1,520	1,520	648	577
- other personnel	19,556	18,723	13,751	14,033
Total remuneration for work	**21,076**	**20,243**	**14,399**	**14,610**
Social security contributions:				
- management	316	321	159	139
- other personnel	4,752	4,549	3,468	3,371
Total social security contributions	**5,068**	**4,870**	**3,627**	**3,510**
Total personnel expense	**26,144**	**25,113**	**18,026**	**18,120**
Number of employees at the end of the period	1,640	1,679	1,175	1,211

NOTE 10. IMPAIRMENT OF ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

Total net impairment allowance charged to income statement:

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Loans – specifically assessed impairment	(11,112)	(7,986)	8,214	(4,049)
Loans – collectively assessed impairment	4,650	1,276	(921)	1,016
Available-for-sale securities	(3,356)	(53)	(3,356)	(53)
Due from credit institutions	(23)	-	(23)	-
Other financial and non-financial assets	(270)	(2,053)	(14,332)	(4,935)
Recovered written-off assets	739	57	738	56
Total provision and reversals charged to the statement of income, net	**(9,372)**	**(8,759)**	**(9,680)**	**(7,965)**

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

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Total allowance for impairment at the beginning of the period, including:	**60,969**	**60,633**	**57,277**	**60,523**
- loans - specifically assessed impairment	48,493	46,905	50,972	53,203
- loans - collectively assessed impairment	12,476	13,728	6,305	7,320
Charge:	**17,635**	**18,921**	**10,204**	**16,642**
- loans - specifically assessed impairment	14,847	15,355	7,732	13,859
- loans - collectively assessed impairment	2,788	3,566	2,472	2,783
Release:	**(11,173)**	**(12,211)**	**(17,497)**	**(13,609)**
- loans - specifically assessed impairment	(3,735)	(7,369)	(15,946)	(9,810)
- loans - collectively assessed impairment	(7,438)	(4,842)	(1,551)	(3,799)
Provision charged to the statement of income, net, including:	**6,462**	**6,710**	**(7,293)**	**3,033**
- loans - specifically assessed impairment	11,112	7,986	(8,214)	4,049
- loans - collectively assessed impairment	(4,650)	(1,276)	921	(1,016)
Change of allowance due to write-offs, net	**(4,948)**	**(6,056)**	**(2,850)**	**(5,911)**
Effect of changes in currency exchange rates:	**188**	**(318)**	**187**	**(368)**
- loans - specifically assessed impairment	189	(342)	188	(369)
- loans - collectively assessed impairment	(1)	24	(1)	1
Total allowance for impairment at the end of the period, including:	**62,671**	**60,969**	**47,321**	**57,277**
- loans - specifically assessed impairment	54,846	48,493	40,096	50,972
- loans - collectively assessed impairment	7,825	12,476	7,225	6,305

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

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Total allowance for impairment at the beginning of the period, including:	**25,391**	**24,186**	**25,375**	**20,371**
- available-for-sale securities	3,432	3,370	3,432	3,370
- due from credit institutions	544	535	544	535
- other non-financial assets	21,415	20,281	21,399	16,466
Charge:	**5,954**	**2,164**	**18,190**	**4,988**
- available-for-sale securities	3,356	53	3,356	53
- due from credit institutions	23	-	23	-
- other non-financial assets	2,575	2,111	14,811	4,935
Release:	**(2,305)**	**(58)**	**(479)**	**-**
- other non-financial assets	(2,305)	(58)	(479)	-
Provision charged to the statement of income, net, including:	**3,649**	**2,106**	**17,711**	**4,988**
- available-for-sale securities	3,356	53	3,356	53
- due from credit institutions	23	-	23	-
- other financial and non-financial assets	270	2,053	14,332	4,935
Change of allowance due to write-offs, net:	**(3,412)**	**(935)**	**-**	**-**
- other non-financial assets	(3,412)	(935)	-	-
Effect of changes in currency exchange rates:	**(228)**	**34**	**(226)**	**16**
- available-for-sale securities	(159)	9	(159)	9
- due from credit institutions	(13)	9	(13)	9
- other non-financial assets	(56)	16	(54)	(2)
Total allowance for impairment at the end of the period, including:	**25,400**	**25,391**	**42,860**	**25,375**
- available-for-sale securities	6,629	3,432	6,629	3,432
- due from credit institutions	554	544	554	544
- other non-financial assets	18,217	21,415	35,677	21,399

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Current corporate income tax	378	213	12	16
Deferred income tax	3,187	775	4,568	1,203
Tax withheld abroad	321	489	321	489
Prior year adjustments	2	5	-	-
Total corporate income tax expense	**3,888**	**1,482**	**4,901**	**1,708**

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

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Profit / (loss) before corporate income tax	12,849	(163)	10,420	1,708
Corporate income tax (at standard rate)*	**1,927**	**(24)**	**1,563**	**256**
Effect of tax rates in foreign jurisdictions	8	(8)	-	-
Permanent differences, net	2,080	2,959	2,396	1,048
Temporary differences and utilised prior period tax loss	(127)	(1,450)	942	404
Prior year adjustments	-	5	-	-
Total effective corporate income tax	**3,888**	**1,482**	**4,901**	**1,708**

* standard domestic tax rate for the period ended 31 December 2012 was 15% (2011: 15%).

The movements in deferred corporate income tax liability / (asset) can be specified as follows:

	LVL 000's			
	2012 Group	2011 Group	2012 Bank	2011 Bank
As at the beginning of the year	(28,895)	(29,609)	(28,777)	(29,980)
Charge to statement of income	3,187	775	4,568	1,203
Charge to statement of comprehensive income**	526	(61)	-	-
Total deferred income tax (asset) at the end of the year, net	**(25,182)**	**(28,895)**	**(24,209)**	**(28,777)**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	1,626	1,166	141	173
Other deferred tax liabilities	20	-	8	-
Deferred tax assets:				
Vacation pay accrual	(378)	(283)	(305)	(176)
Revaluation of securities and derivatives**	103	(3)	(260)	(3)
Non-taxable impairment allowance	(3,811)	(7,003)	(1,643)	(4,459)
Unutilised tax losses	(28,463)	(32,514)	(21,965)	(26,817)
Other deferred tax assets	(130)	-	(185)	-
Net deferred corporate income tax (asset)	**(31,033)**	**(38,637)**	**(24,209)**	**(31,282)**
Unrecognised deferred tax asset	5,851	9,742	-	2,505
Recognised deferred corporate income tax (asset), net	**(25,182)**	**(28,895)**	**(24,209)**	**(28,777)**

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

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Expiry year:				
2012	-	115	-	-
2013	3,050	392	-	-
2014	13,657	788	-	-
2015	8,345	283	-	-
Undated ***	164,699	214,647	146,434	178,780
Total unutilised tax losses	**189,751**	**216,225**	**146,434**	**178,780**

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

The movements in tax accounts of the Bank during 2012 can be specified as follows:

	LVL 000's			
	Balance as at 01/01/2012	Calculated in 2012	Paid in 2012	Balance as at 31/12/2012
Corporate income tax	(12)	(327)	339	-
including corporate income tax withheld abroad	-	*(327)*	*327*	-
Social security contributions	(20)	(5,022)	5,033	(9)
Personal income tax	(10)	(3,494)	3,501	(3)
Value added tax	(7)	(548)	534	(21)
Real estate tax	-	(4)	4	-
Total tax (payable)/ receivable	**(49)**			**(33)**

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

NOTE 12. CASH AND DEPOSITS WITH CENTRAL BANKS

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Cash	45,956	45,606	42,251	42,489
Deposits with the Bank of Latvia	53,383	177,680	53,383	177,680
Demand deposits with other central banks	91,621	19,953	79,074	9,490
Total cash and deposits with central banks	**190,960**	**243,239**	**174,708**	**229,659**

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

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and certain Euro zone countries. As at 31 December 2012 and 31 December 2011, none of the amounts due from central banks were past due.

NOTE 13. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Due from credit institutions registered in OECD countries	118,480	172,587	66,303	144,980
Due from credit institutions registered in Latvia	1,433	29,766	79	29,059
Due from credit institutions registered in other non-OECD countries	9,854	10,612	15,242	9,584
Total gross balances due from credit institutions	**129,767**	**212,965**	**81,624**	**183,623**
Incl. impaired balances	*554*	*544*	*554*	*544*
Impairment allowance	(554)	(544)	(554)	(544)
Total net balances due from credit institutions	**129,213**	**212,421**	**81,070**	**183,079**

As at 31 December 2012 and 2011, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group’s neither past due nor impaired balances due from credit institutions refer to Credit risk section of the Note 36. The Bank’s balances with its subsidiary AB “Citadele” Bankas (Lithuania) accounted for 64% (2011: 7%) of the total net balances due from credit institutions registered in other non-OECD countries.

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Correspondent accounts (nostro)	70,530	55,590	43,088	45,735
Overnight deposits	15,775	132,669	21,246	133,281
Total demand deposits	**86,305**	**188,259**	**64,334**	**179,016**
Term deposits with credit institutions:				
due within 1 month	31,220	15,249	14,491	4,063
due within 1-3 months	9,685	8,039	2,249	-
due within 3-6 months	-	-	-	-
due within 6-12 months	279	335	-	-
due within 1-5 years	817	267	-	-
Over 5 years and undated	1,461	816	550	544
Total term deposits	**43,462**	**24,706**	**17,290**	**4,607**
Total gross balances due from credit institutions	**129,767**	**212,965**	**81,624**	**183,623**
Impairment allowance	(554)	(544)	(554)	(544)
Total net balances due from credit institutions	**129,213**	**212,421**	**81,070**	**183,079**

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

NOTE 14. LOANS AND RECEIVABLES TO CUSTOMERS

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

	Group, LVL 000's			Group, LVL 000's		
	31/12/2012			31/12/2011		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	592,557	22,568	615,125	626,904	1,674	628,578
Utilised credit lines	71,655	20,594	92,249	41,873	40,373	82,246
Finance leases	48,865	-	48,865	40,624	-	40,624
Debit balances on payment cards	56,682	61,559	118,241	62,123	61,292	123,415
Overdraft facilities	2,333	11,262	13,595	460	7,369	7,829
Factoring	782	-	782	378	-	378
Due from investment counterparties	6,240	-	6,240	5,749	-	5,749
Total loans and receivables to customers	**779,114**	**115,983**	**895,097**	**778,111**	**110,708**	**888,819**
Impairment allowance	(62,671)	-	(62,671)	(60,969)	-	(60,969)
Total net loans and receivables to customers	**716,443**	**115,983**	**832,426**	**717,142**	**110,708**	**827,850**

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

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

	Bank, LVL 000's			Bank, LVL 000's		
	31/12/2012			31/12/2011		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	510,876	20,692	531,568	551,243	1,054	552,297
Utilised credit lines	107,059	36,291	143,350	70,732	66,304	137,036
Debit balances on payment cards	50,067	53,429	103,496	55,076	53,097	108,173
Overdraft facilities	2,123	10,486	12,609	334	6,412	6,746
Due from investment counterparties	6,000	-	6,000	5,665	-	5,665
Total loans and receivables to customers	**676,125**	**120,898**	**797,023**	**683,050**	**126,867**	**809,917**
Impairment allowance	(47,321)	-	(47,321)	(57,277)	-	(57,277)
Total net loans and receivables to customers	**628,804**	**120,898**	**749,702**	**625,773**	**126,867**	**752,640**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Private individuals	344,061	366,027	245,643	255,746
Privately held companies	405,332	373,847	405,828	394,822
State owned enterprises	14,610	17,515	13,231	16,254
Municipality owned enterprises	4,372	7,495	3,962	6,934
Public and religious institutions	8,145	10,180	5,103	6,671
Local municipalities	2,554	3,033	2,327	2,620
Government	40	14	31	3
Total gross loans and receivables to customers	**779,114**	**778,111**	**676,125**	**683,050**
Impairment allowance	(62,671)	(60,969)	(47,321)	(57,277)
Total net loans and receivables to customers	**716,443**	**717,142**	**628,804**	**625,773**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Real estate purchase and management	112,163	112,620	137,982	153,604
Transport and communications	72,820	91,360	57,276	79,534
Manufacturing	59,659	34,374	53,667	29,223
Trade	55,651	57,049	37,969	42,754
Agriculture and forestry	38,827	27,415	28,615	18,175
Electricity, gas and water supply	20,142	8,600	19,371	7,972
Construction	17,349	13,384	12,426	9,230
Hotels, restaurants	13,398	25,920	11,425	23,645
Financial intermediation	12,358	10,428	53,015	44,196
Other industries	32,686	30,934	18,736	18,971
Total gross loans and receivables to corporate customers	**435,053**	**412,084**	**430,482**	**427,304**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Latvian residents	517,840	490,470	552,215	537,490
OECD region residents	54,284	49,679	48,346	44,966
Non-OECD region residents	206,990	237,962	75,564	100,594
Total gross loans and receivables to customers	**779,114**	**778,111**	**676,125**	**683,050**
Impairment allowance	(62,671)	(60,969)	(47,321)	(57,277)
Total net loans and receivables to customers	**716,443**	**717,142**	**628,804**	**625,773**

NOTE 15. LEASES

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Transport vehicles	34,010	31,660	-	-
Manufacturing equipment	8,106	2,080	-	-
Real estate	606	691	-	-
Other	6,143	6,193	-	-
Total present value of finance lease payments, excluding impairment	**48,865**	**40,624**	**-**	**-**
Impairment allowance	(6,586)	(7,008)	-	-
Net present value of finance lease payments	**42,279**	**33,616**	**-**	**-**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Gross investment in finance leases receivable:				
within 1 year	16,232	11,351	-	-
later than 1 year and no later than in 5 years	35,807	31,852	-	-
later than in 5 years	436	713	-	-
Total gross investment in finance leases	**52,475**	**43,916**	**-**	**-**
Unearned finance income receivable:				
within 1 year	1,000	922	-	-
later than 1 year and no later than in 5 years	2,574	2,333	-	-
later than in 5 years	36	37	-	-
Total	**3,610**	**3,292**	**-**	**-**
Present value of minimum lease payments receivable:				
within 1 year	15,232	10,429	-	-
later than 1 year and no later than in 5 years	33,233	29,519	-	-
later than in 5 years	400	676	-	-
Total	**48,865**	**40,624**	**-**	**-**

NOTE 16. FIXED INCOME SECURITIES

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

	LVL 000's							
	31/12/2012				31/12/2011			
	Held-to-maturity	Available for sale	Held for trading	Total	Held-to-maturity	Available for sale	Held for trading	Total
Government bonds	134,479	175,831	3,234	313,544	118,690	69,027	97	187,814
Municipality bonds	24,733	1,494	-	26,227	479	744	-	1,223
Credit institution bonds	931	46,874	2,497	50,302	1,798	48,665	64	50,527
Corporate bonds	3,162	35,081	2,941	41,184	582	17,017	-	17,599
Other financial institution bonds	2,688	6,489	549	9,726	4,812	20,612	-	25,424
Total net fixed income securities	**165,993**	**265,769**	**9,221**	**440,983**	**126,361**	**156,065**	**161**	**282,587**

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

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

	LVL 000's							
	31/12/2012				31/12/2011			
	Held-to-maturity	Available for sale	Held for trading	Total	Held-to-maturity	Available for sale	Held for trading	Total
Government bonds	131,507	126,316	-	257,823	118,442	38,815	-	157,257
Municipality bonds	24,241	762	-	25,003	-	-	-	-
Credit institution bonds	-	39,151	-	39,151	-	33,689	-	33,689
Corporate bonds	-	26,359	-	26,359	-	16,282	-	16,282
Other financial institution bonds	-	6,489	-	6,489	-	5,042	-	5,042
Total net fixed income securities	**155,748**	**199,077**	**-**	**354,825**	**118,442**	**93,828**	**-**	**212,270**

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

As at 31 December 2012, there are no Group's and Bank's securities on which payments are past due or which were restructured during the reporting period (2011: LVL nil).

As at 31 December 2012, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to LVL 1,465 thousand (2011: LVL 3,985 thousand).

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Government bonds:				
Latvia	214,814	142,700	211,397	142,665
OECD	46,800	16,588	38,059	10,025
Non-OECD	51,930	28,526	8,367	4,567
Total government bonds	**313,544**	**187,814**	**257,823**	**157,257**
Municipality bonds:				
Latvia	24,241	-	24,241	-
OECD	733	744	-	-
Non-OECD	1,253	479	762	-
Total municipality bonds	**26,227**	**1,223**	**25,003**	**-**
Credit institution bonds:				
Latvia	-	2,755	-	2,714
OECD	48,842	44,049	39,151	30,975
Non-OECD	1,460	3,723	-	-
Total credit institution bonds	**50,302**	**50,527**	**39,151**	**33,689**
Corporate bonds (OECD and non-OECD)	41,184	17,599	26,359	16,282
Other financial institution bonds (OECD and non-OECD)	9,726	25,424	6,489	5,042
Total net fixed income securities	**440,983**	**282,587**	**354,825**	**212,270**

All fixed income securities as at 31 December 2012 and 31 December 2011 are listed.

NOTE 17. SHARES AND OTHER NON-FIXED INCOME SECURITIES

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

	LVL 000’s			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Foreign entities’ equity shares:				
listed	-	56	-	-
unlisted	79	149	67	135
Total foreign entities’ equity shares	79	205	67	135
Mutual investment funds	4,338	8,360	3,164	8,326
Total shares and other non-fixed income securities	**4,417**	**8,565**	**3,231**	**8,461**

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

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

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

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

	LVL 000’s	
	31/12/2012 Group	31/12/2011 Group
Government bonds	3,055	1,367
Municipality bonds	183	-
Corporate bonds	16,425	126
Credit institution bonds	9,546	73
Other financial institution bonds	60	-
Mutual investment funds	6,239	4,815
Total financial assets designated at fair value through profit and loss	**35,508**	**6,381**

According to unit-linked investment contract terms, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 31 December 2012 LVL 6,957 thousand of financial assets designated at fair value through profit and loss relate to this.

NOTE 19. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

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

	LVL 000’s	
	2012	2011
Balance at the beginning of the period	**44,195**	**43,839**
Establishment of new subsidiaries	-	8
Equity investments in existing subsidiaries	13,263	4,200
Impairment, net	(12,913)	(3,852)
Balance at the end of the period	**44,545**	**44,195**

In 2012 the Bank increased share capital of it’s wholly owned subsidiary SIA “Rīgas Pirmā Garāža” by LVL 13,263 thousand. The management of the Bank concluded that there is an evidence of impairment of investment and an impairment allowance of a corresponding amount was recognised.

In 2012 LVL 350 thousand reversal of impairment in investment in SIA “Citadele Express Kredīts” was recorded; previously, in 2011 an additional impairment amounting to LVL 150 thousand was recognized for the same investment.

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

In September 2011, the Bank established SIA “Hortus Commercial”, SIA “Hortus Land”, SIA “Hortus TC”, and SIA “Hortus Residental” to ensure more effective management of the repossessed assets.

As at 31 December 2012 and 2011 the Bank held the following direct and indirect investments in subsidiaries:

			31/12/2012			As at 31/12/2011			Carrying value LVL 000’s	
Company	Country of registration	Business profile	Share capital LVL 000’s	The Bank’s share (%)	% of total voting rights	Share capital LVL 000’s	The Bank’s share (%)	% of total voting rights	31/12/2012	31/12/2011
AB “Citadele” Bankas	Lithuania	Banking	30,369	100.0	100.0	58,100	100.0	100.0	29,006	29,006
“AP Anlage & Privatbank” AG	Switzerland	Banking	5,820	100.0	100.0	5,630	100.0	100.0	9,702	9,702
AS “Citadele Atklātais Pensiju Fonds”	Latvia	Pension fund	450	100.0	100.0	450	100.0	100.0	454	454
IPAS “Citadele Asset Management”	Latvia	Finance	4,150	100.0	100.0	4,150	100.0	100.0	4,151	4,151
OOO “Citadele Asset Management Ukraina”	Ukraine	Finance	610	100.0	100.0	621	100.0	100.0	-	-
UAB “Citadele Investiciju Valdymas”	Lithuania	Finance	730	100.0	100.0	727	100.0	100.0	-	-
OU “Citadele Leasing & Factoring”	Estonia	Finance	351	100.0	100.0	351	100.0	100.0	313	313
UAB “Citadele faktoringas ir lizingas”	Lithuania	Finance	306	100.0	100.0	305	100.0	100.0	-	-
SIA “Rīgas Pirmā Garāža”	Latvia	Misc.*	13,615	100.0	100.0	352	100.0	100.0	-	-
SIA “Citadele Express Kredīts”	Latvia	Leasing	31	100.0	100.0	31	100.0	100.0	413	63
SIA “E&P Baltic Properties”	Latvia	Finance	20	50.0	50.0	20	50.0	50.0	-	-
SIA “Citadele Līzings un Faktorings”	Latvia	Leasing	13,600	100.0	100.0	13,600	100.0	100.0	498	498
AAS “Citadele Life”	Latvia	Life insurance	3,000	100.0	100.0	3,000	100.0	100.0	-	-
Calenia Investments Limited	Cyprus	Misc.*	-	100.0	100.0	-	100.0	100.0	-	-
OOO “Citadele Investments Ukraine”	Ukraine	Finance	43	100.0	100.0	44	100.0	100.0	-	-
SIA “RPG Interjers”	Latvia	Misc.*	952	100.0	100.0	2	100.0	100.0	-	-
SIA “Hortus Commercial”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA “Hortus Land”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA “Hortus TC”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA “Hortus Residental”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	2	2
SIA “PR Speciālie Projekti”	Latvia	Misc.*	2	100.0	100.0	2	100.0	100.0	-	-
OAO “Parex Ukrainian Equity Fund”	Ukraine	Finance	-	-	-	-	100.0	100.0	-	-
ZAO “Parex Asset Management”	Russia	Finance	-	-	-	458	100.0	100.0	-	-
Total investments in subsidiaries									**44,545**	**44,195**

* Misc. – the companies are providing various support services

NOTE 20. INTANGIBLE ASSETS

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Software	539	443	373	315
Other intangible assets	236	307	20	2
Total intangible assets excluding advances	775	750	393	317
Advances for intangible assets	113	466	100	453
Total net book value of intangible assets	**888**	**1,216**	**493**	**770**

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2012 and 2011 can be specified as follows:

	LVL 000's		
	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost less impairment allowance			
As at 31 December 2010	**8,904**	**2,422**	**11,326**
Additions	192	5	197
Disposals	(28)	-	(28)
As at 31 December 2011	**9,068**	**2,427**	**11,495**
Additions	1,203	3	1,206
Disposals	(3)	(4)	(7)
Transfers, impairment	(785)	-	(785)
As at 31 December 2012	**9,483**	**2,426**	**11,909**
Accumulated amortisation			
As at 31 December 2010	**8,300**	**1,807**	**10,107**
Charge for the year	350	313	663
Reversal due to disposals	(25)	-	(25)
As at 31 December 2011	**8,625**	**2,120**	**10,745**
Charge for the year	322	73	395
Reversal due to disposals	(3)	(3)	(6)
As at 31 December 2012	**8,944**	**2,190**	**11,134**
Net book value (incl. impairment allowance)			
As at 31 December 2010	**604**	**615**	**1,219**
As at 31 December 2011	**443**	**307**	**750**
As at 31 December 2012	**539**	**236**	**775**
Impairment allowance			
As at 31 December 2010	**-**	**-**	**-**
As at 31 December 2011	**-**	**-**	**-**
As at 31 December 2012	**(785)**	**-**	**(785)**

NOTE 21. FIXED ASSETS

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Leasehold improvements	341	606	341	606
Land and buildings	27,192	28,442	684	701
Transport vehicles	574	495	136	96
Other fixed assets	2,873	3,929	898	989
Total fixed assets excluding advances	30,980	33,472	2,059	2,392
Advances for fixed assets	40	60	34	57
Total net book value of fixed assets	**31,020**	**33,532**	**2,093**	**2,449**

The following changes in the Group's fixed assets excluding advances for fixed assets took place during the year ended 31 December 2012 and 2011:

	LVL 000's					
	Leasehold improve-ments	Land and buildings	Transport vehicles	Other fixed assets	Construc-tion in progress	Total fixed assets excluding advances
Historical cost less impairment allowance						
As at 31 December 2010	**3,667**	**35,261**	**2,540**	**25,084**	**-**	**66,552**
Additions	30	54	167	379	4	634
Disposals	(190)	-	(1,034)	(1,443)	-	(2,667)
Transfers	(30)	30	-	-	-	-
Impairment (charge) / reversal, net	(100)	9	-	-	-	(91)
As at 31 December 2011	**3,377**	**35,354**	**1,673**	**24,020**	**4**	**64,428**
Additions	52	71	356	619	55	1,153
Disposals	(226)	(3,345)	(307)	(2,507)	(59)	(6,444)
Transfers	301	-	-	186	-	487
Net impairment (charge) / reversal and write-offs	100	3,453	-	-	-	3,553
As at 31 December 2012	**3,604**	**35,533**	**1,722**	**22,318**	**-**	**63,177**
Accumulated depreciation						
As at 31 December 2010	**2,371**	**5,057**	**1,628**	**19,478**	**-**	**28,534**
Charge for the year	552	1,855	245	1,979	-	4,631
Reversal due to disposals	(152)	-	(695)	(1,362)	-	(2,209)
As at 31 December 2011	**2,771**	**6,912**	**1,178**	**20,095**	**-**	**30,956**
Charge for the year	326	1,798	205	1,659	-	3,988
Reversal due to disposals	(135)	(369)	(235)	(2,486)	-	(3,225)
Transfers	301	-	-	177	-	478
As at 31 December 2012	**3,263**	**8,341**	**1,148**	**19,445**	**-**	**32,197**
Net book value (incl. impairment allowance)						
As at 31 December 2010	**1,296**	**30,204**	**912**	**5,606**	**-**	**38,018**
As at 31 December 2011	**606**	**28,442**	**495**	**3,925**	**4**	**33,472**
As at 31 December 2012	**341**	**27,192**	**574**	**2,873**	**-**	**30,980**
Impairment allowance						
As at 31 December 2010	**-**	**(17,915)**	**-**	**-**	**-**	**(17,915)**
As at 31 December 2011	**(100)**	**(17,906)**	**-**	**-**	**-**	**(18,006)**
As at 31 December 2012	**-**	**(14,453)**	**-**	**-**	**-**	**(14,453)**

The following changes in the Bank's fixed assets excluding advances for fixed assets took place during the year ended 31 December 2012 and 2011:

	LVL 000's				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding prepayments
Historical cost less impairment allowance					
As at 31 December 2010	**3,667**	**814**	**1,439**	**18,186**	**24,106**
Additions	30	9	-	253	292
Disposals	(190)	-	(398)	(1,196)	(1,784)
Transfers	(30)	30	-	-	-
Impairment (charge) / reversal, net	(100)	-	-	-	(100)
As at 31 December 2011	**3,377**	**853**	**1,041**	**17,243**	**22,514**
Additions	52	-	108	481	641
Disposals	(226)	-	(213)	(2,326)	(2,765)
Transfers	301	-	-	186	487
Impairment (charge) / reversal, net	100	-	-	-	100
As at 31 December 2012	**3,604**	**853**	**936**	**15,584**	**20,977**
Accumulated depreciation					
As at 31 December 2010	**2,371**	**135**	**1,158**	**16,585**	**20,249**
Charge for the year	552	17	132	838	1,539
Reversal due to disposals	(152)	-	(345)	(1,169)	(1,666)
As at 31 December 2011	**2,771**	**152**	**945**	**16,254**	**20,122**
Charge for the year	326	17	68	572	983
Reversal due to disposals	(135)	-	(213)	(2,317)	(2,665)
Transfers	301	-	-	177	478
As at 31 December 2012	**3,263**	**169**	**800**	**14,686**	**18,918**
Net book value (incl. impairment allowance)					
As at 31 December 2010	**1,296**	**679**	**281**	**1,601**	**3,857**
As at 31 December 2011	**606**	**701**	**96**	**989**	**2,392**
As at 31 December 2012	**341**	**684**	**136**	**898**	**2,059**
Impairment allowance					
As at 31 December 2010	**-**	**-**	**-**	**-**	**-**
As at 31 December 2011	**(100)**	**-**	**-**	**-**	**(100)**
As at 31 December 2012	**-**	**-**	**-**	**-**	**-**

NOTE 22. NON-CURRENT ASSETS HELD FOR SALE

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Transport vehicles	390	2,347	-	-
Real estate	188	118	168	118
Other	85	135	-	-
Total gross non-current assets held for sale	**663**	**2,600**	**168**	**118**
Impairment allowance	(399)	(1,415)	**-**	**-**
Total net non-current assets held for sale	**264**	**1,185**	**168**	**118**

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Net carrying amount at the beginning of the period	**1,185**	**3,289**	**118**	**-**
Impairment charges	(193)	(737)	-	-
Impairment reversals	368	-	-	-
Decrease of impairment allowance due to disposals	841	867	-	-
Net impairment charge to income statements	**1,016**	**130**	**-**	**-**
Increase of initial carrying amount due to additions	308	720	50	118
Decrease of initial carrying amount due to disposals	(2,245)	(2,959)	-	-
Net change in initial carrying amount	**(1,937)**	**(2,239)**	**50**	**118**
Effect of changes in currency exchange rates	**-**	**5**	**-**	**-**
Initial carrying amount as at the end of the year	**663**	**2,600**	**168**	**118**
Impairment allowance at the end of the year	**(399)**	**(1,415)**	**-**	**-**
Net carrying amount at the end of the year	**264**	**1,185**	**168**	**118**

NOTE 23. OTHER ASSETS

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Deposits with card payment system companies	11,162	13,318	11,162	13,318
Money in transit	6,184	2,161	6,184	2,159
Prepayments	1,134	863	724	627
Other assets *	8,240	5,331	3,632	2,750
Total gross other assets	**26,720**	**21,673**	**21,702**	**18,854**
Impairment allowance	(2,270)	(1,368)	(1,987)	(872)
Total net other assets	**24,450**	**20,305**	**19,715**	**17,982**

* As at 31 December 2012, included in the Group's and Bank's other assets are balances amounting to LVL 889 thousand (2011: LVL1,267 thousand) and LVL nil (2011: LVL nil), respectively, which are delayed. The Group has recognized LVL 190 thousand (2011: LVL 478 thousand) impairment allowance on these balances. Additionally, as at 31 December 2012, the Group's and the Bank's other assets amounts that are not delayed but impaired amount to LVL 2,080 thousand (2011: LVL 891 thousand) and LVL 1,987 thousand (2011: LVL 872 thousand), respectively.

NOTE 24. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

	LVL 000's	
	2012 Group	2011 Group
Balance as at the beginning of the period	**5,289**	**1,909**
Premiums received	5,490	3,880
Commissions and risk charges	(309)	(169)
Benefits paid to policyholders	(576)	(69)
Dividends received	53	4
Securities fair value revaluation result	445	(458)
Income from insurance contracts	43	13
Currency revaluation result	(67)	179
Balance as at the end of the period	**10,368**	**5,289**

NOTE 25. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Due to credit institutions registered in OECD countries	17	1,447	28,845	17,949
Due to credit institutions registered in Latvia	17,930	39,844	17,930	38,190
Due to credit institutions registered in other non-OECD countries	7,530	6,179	586	15,629
Total balances due to credit institutions and central banks	**25,477**	**47,470**	**47,361**	**71,768**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Balances on demand	2,695	39,258	4,660	37,972
Overnight deposits	-	-	465	8,992
Total balances repayable on demand	**2,695**	**39,258**	**5,125**	**46,964**
Loans from credit institutions:				
due within 1 month	21,360	7,185	19,497	12,621
due within 1-3 months	134	-	10,024	10,005
due within 3-6 months	1,022	-	11,416	654
due within 6-12 months	266	1,027	817	1,524
due within 1-5 years	-	-	482	-
Total loans from credit institutions	**22,782**	**8,212**	**42,236**	**24,804**
Total due to credit institutions	**25,477**	**47,470**	**47,361**	**71,768**

NOTE 26. DEPOSITS FROM CUSTOMERS

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Privately held companies	630,022	579,261	464,961	443,640
Private individuals	550,210	529,258	468,944	456,788
State owned enterprises	80,954	109,843	80,728	109,750
Financial institutions	70,911	48,988	56,169	40,393
Government	31,135	36,585	30,520	35,920
Municipalities	26,493	8,775	26,493	8,754
Public and religious institutions	5,972	5,261	4,913	4,013
Total deposits from customers	**1,395,697**	**1,317,971**	**1,132,728**	**1,099,258**

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Demand deposits	955,256	676,277	762,667	527,727
Term deposits:				
due within 1 month	87,587	133,390	70,073	113,685
due within 1-3 months	100,579	186,701	86,679	171,110
due within 3-6 months	89,009	97,610	68,346	85,459
due within 6-12 months	132,138	200,555	118,967	179,936
due within 1-5 years	29,548	22,780	25,138	20,740
due in more than 5 years	1,580	658	858	601
Total term deposits	440,441	641,694	370,061	571,531
Total deposits from customers	**1,395,697**	**1,317,971**	**1,132,728**	**1,099,258**

Financing support from the Ministry of Finance

In 2012 the Bank has repaid the whole outstanding State support deposit. The payment was made ahead of the schedule. As at 31 December 2011 the financing support received from the Ministry of Finance amounted to LVL 33,250 thousand (2012: nil).

NOTE 27. OTHER LIABILITIES

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Accrued expense	6,298	4,991	4,768	4,191
Asset relief payment due (note 3)	-	3,540	-	3,540
Suspense liabilities	2,396	1,696	2,136	1,696
Amounts due to suppliers	877	992	373	1,403
Provisions for other liabilities	365	286	-	-
Deferred income	122	68	-	-
Other liabilities	4,411	3,300	739	1,418
Total other liabilities	**14,469**	**14,873**	**8,016**	**12,248**

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

NOTE 28. SUBORDINATED DEBT

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

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised cost LVL 000's 31/12/2012	Amortised cost LVL 000's 31/12/2011
Privatisation Agency	Latvia	EUR	53,128	9.393%	22/05/2009	21/05/2016	38,760	38,656
Privatisation Agency	Latvia	EUR	11,205	7.658%	02/08/2010	08/08/2016	8,120	8,156
EBRD	UK	EUR	7,195	7.658%	11/09/2009	08/08/2016	5,134	5,136
						Total	**52,014**	**51,948**

NOTE 29. ISSUED SHARE CAPITAL

As at 31 December 2012, the Bank's registered and paid-in share capital was LVL 103,000 thousand (2011: LVL 103,000 thousand). In accordance with the Bank's statutes, the share capital consists of 103,000 thousand ordinary shares with voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2012, they all were issued and fully paid. As at 31 December 2012 and 2011, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2012 and 2011.

As at 31 December 2012, the Bank had 2 (2011: 2) shareholders. The respective shareholdings as at 31 December 2012 and 31 December 2011 may be specified as follows:

	31/12/2011 and 31/12/2012		
	Paid-in share capital (LVL)	% of total paid-in capital	% of total voting rights
Privatisation Agency	77,249,999	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	25,750,001	25% plus 1 share	25% plus 1 share
Total	**103,000,000**	**100.00**	**100.00**

NOTE 30. OFF-BALANCE SHEET ITEMS

Memorandum items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2012 and 2011.

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Contingent liabilities:				
Outstanding guarantees	35,014	20,192	31,922	17,286
Outstanding letters of credit	611	1,178	611	1,021
Total contingent liabilities	**35,625**	**21,370**	**32,533**	**18,307**
Financial commitments:				
Loans granted, not fully drawn down	22,568	9,043	20,692	7,467
Unutilised credit lines and overdraft facilities	31,856	40,373	46,777	66,303
Credit card commitments	61,559	61,292	53,429	53,097
Bank placement commitments	-	15,001	-	15,001
Total financial commitments	**115,983**	**125,709**	**120,898**	**141,868**

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

The Group:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2012	31/12/2011	31/12/2012		31/12/2011	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	18,460	132,677	29	(26)	737	(483)
Forwards	12,380	6,873	35	(20)	209	(249)
Swaps	361,610	251,968	924	(2,676)	2,537	(88)
Total foreign exchange contracts	**392,450**	**391,518**	**988**	**(2,722)**	**3,483**	**(820)**
Derivative financial instruments	**392,450**	**391,518**	**988**	**(2,722)**	**3,483**	**(820)**

The Bank:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2012	31/12/2011	31/12/2012		31/12/2011	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	18,270	132,949	28	(26)	737	(483)
Forwards	14,622	44,145	38	(21)	233	(310)
Swaps	410,053	285,248	968	(2,719)	2,572	(1,017)
Total foreign exchange contracts	**442,945**	**462,342**	**1,034**	**(2,766)**	**3,542**	**(1,810)**
Derivative financial instruments	**442,945**	**462,342**	**1,034**	**(2,766)**	**3,542**	**(1,810)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2012, more than 41% (2011: 54%) of the fair value assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2012, none (2011: nil) of the payments receivable arising out of derivative transactions was past due.

NOTE 31. FUNDS UNDER TRUST MANAGEMENT

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Fixed income securities:				
Government bonds	43,186	34,353	-	-
Credit institution bonds	23,441	32,053	-	-
Corporate bonds	35,608	33,349	-	-
Foreign municipality bonds	2,162	776	-	-
Other financial institution bonds	3,709	4,924	-	-
Total investments in fixed income securities	**108,106**	**105,455**	**-**	**-**
Other investments:				
Investment funds	99,001	63,980	-	-
Deposits with credit institutions	35,050	55,367	-	53
Shares	15,522	21,410	-	-
Real estate	20,434	19,773	-	-
Loans to corporate entities	10,188	39,533	31,193	36,589
Other	54,276	69,408	7,071	36,327
Total other investments	**234,471**	**269,471**	**38,264**	**72,969**
Total assets under trust management agreements	**342,577**	**374,926**	**38,264**	**72,969**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Pension Plans	129,855	129,774	-	-
Insurance companies, investment and pension funds	87,099	69,328	-	-
Other companies	64,919	81,858	31,236	36,642
Deposit guarantee fund	6,684	36,327	6,684	36,327
Private individuals	54,020	57,639	344	-
Total liabilities under trust management agreements	**342,577**	**374,926**	**38,264**	**72,969**

NOTE 32. FINANCIAL ASSETS PLEDGED

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Due from credit institutions*	12,490	10,612	11,846	10,612
Loans to customers**	19,998	155,363	19,998	155,363
Fixed income securities	6,821	-	-	-
Other assets*	11,162	13,318	11,162	13,318
Total financial assets pledged	**50,471**	**179,293**	**43,006**	**179,293**
Due to credit institutions and central banks	6,018	-	-	-
Deposits from Ministry of Finance	-	32,748	-	32,748
Total liabilities secured by pledged financial assets	**6,018**	**32,748**	**-**	**32,748**

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

** As at 31 December 2012 the Bank and the Group had part of the loan portfolio pledged as collateral to Ministry of Finance of Latvia to receive a guarantee. The guarantee was issued as a security to European Investment Bank's financing which was repaid ahead of the schedule in December 2012 (carrying amount as at 31 December 2011: LVL 17.8 million). The respective pledges as at year end formally are still registered with Commercial Register.

NOTE 33. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2012 and 31 December 2011:

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Bank	31/12/2011 Bank
Cash and demand deposits with central banks	190,960	243,239	174,708	229,659
Deposits with other credit institutions*	111,614	211,064	77,767	183,079
Demand deposits due to other credit institutions	(2,555)	(39,258)	(4,984)	(46,964)
Total cash and cash equivalents	**300,019**	**415,045**	**247,491**	**365,774**

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

NOTE 34. LITIGATION AND CLAIMS

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

The management of the Bank believes that any legal proceedings pending as at 31 December 2012 will not result in material losses for the Group.

NOTE 35. RELATED PARTIES

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

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

The following table presents the outstanding balances and terms of the Group's transactions with counterparties, which were related parties at respective dated.

	LVL 000's 31/12/2012	Interest income/ expense 2012	LVL 000's 31/12/2011	Interest income/ expense 2011
Credit exposure to related parties				
Securities:	235,638	8,699	142,666	8.314
Latvian treasury bills and government bonds	*211,397*	*7,676*	*142,666*	*8,314*
Municipality bonds	*24,241*	*1,023*		
Loans and receivables:	2,663	99	3,208	94
Management	*306*	*45*	*583*	*20*
State institutions and state controlled companies	*30*	-	-	-
Municipality institutions and municipality controlled companies	*2,327*	*54*	*2,625*	*74*
Derivatives – assets:	-	-	8	-
State institutions and state controlled companies	-	-	*8*	-
Financial commitments and outstanding guarantees:	3,338	4	3,223	-
Management	*133*	*4*	*51*	-
State institutions and state controlled companies	*3,195*	-	*3,162*	-
Municipality institutions and municipality controlled companies	*10*	-	*10*	-
Total credit exposure to related parties	**241,639**		**149,105**	
Due to related parties:	107,442	5,404	133,678	10,226
Deposits from Ministry of Finance	-	*238*	*33,250*	*5,044*
Subordinated loans from shareholder	*52,014*	*4,463*	*51,948*	*4,440*
Management	*383*	*7*	*436*	*7*
State institutions and state controlled companies	*28,977*	*611*	*31,223*	*664*
Municipality institutions and municipality controlled companies	*26,068*	*85*	*16,821*	*71*
Total amounts due to related parties	**107,442**		**133,678**	

No Group's exposures with related parties as at 31 December 2012 or for the year then ended were impaired (2011: nil).

The following table presents the outstanding balances and terms of the Bank’s transactions with counterparties, which were related parties at respective dates.

	LVL 000's 31/12/2012	Interest income/ expense 2012	LVL 000's 31/12/2011	Interest income/ expense 2011
Credit exposure to related parties				
Securities:	235,638	8,699	142,666	8,314
Latvian treasury bills and government bonds	*211,397*	*7,676*	*142,666*	*8,314*
Municipality bonds	*24,241*	*1,023*	-	-
Loans and receivables:	92,487	2,526	78,026	3,695
Management	*88*	*34*	*35*	*6*
State institutions and state controlled companies	*30*	-	-	-
Municipality institutions and municipality controlled companies	*2,327*	*54*	*2,625*	*74*
Subsidiaries	*90,042*	*2,438*	*75,366*	*3,615*
Derivatives – assets:	51	-	94	-
Subsidiaries	*51*	-	*86*	-
State institutions and state controlled companies	-	-	*8*	-
Financial commitments and outstanding guarantees:	19,910	7	30,566	-
Management	*64*	*4*	*51*	-
State institutions and state controlled companies	*3,195*	-	*3,162*	-
Municipality institutions and municipality controlled companies	*10*	-	*10*	-
Subsidiaries	*16,641*	*3*	*27,343*	-
Total credit exposure to related parties	**348,086**		**251,352**	
Due to related parties:	124,235	5,562	163,424	10,476
Deposits from Ministry of Finance	-	*238*	*33,250*	*5,044*
Subordinated loans from shareholders	*52,014*	*4,463*	*51,948*	*4,440*
Management	*172*	*3*	*203*	*4*
State institutions and state controlled companies	*28,977*	*611*	*31,223*	*664*
Municipality institutions and municipality controlled companies	*26,068*	*85*	*16,821*	*71*
Subsidiaries	*17,004*	*162*	*29,979*	*253*
Derivatives – liabilities:	46	-	999	-
Subsidiaries	*46*	-	*999*	-
Total amounts due to related parties	**124,281**		**164,423**	

In the year ended 31 December 2012 the Bank's net impairment charges on loans and receivables from subsidiaries amounted to a release of LVL 13,262 thousand (2011: net release of impairment allowance LVL 3,148 thousand). As at 31 December 2012 no impairment allowance was recognized on loans and receivables from subsidiaries (2011: LVL 13,262 thousand). No other Bank’s exposures with related parties as at 31 December 2012 or for the year period then ended were impaired (2011: nil).

In 2012 the Bank’s and the Group’s fee expense for the guarantee received from Ministry of Finance of Latvia amounted to LVL 196 thousand (2011: LVL 106 thousand). The guarantee was issued as a security to European Investment Bank’s financing.

NOTE 36. RISK MANAGEMENT

Risk management polices

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

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

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

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

a) Credit risk

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

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

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

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

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

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

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

	Group, LVL 000’s 31/12/2012							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	470,846	66,644	35,918	39,800	1,792	537	2,097	617,634
Not delayed - impaired	40,774	122	614	-	71	-	4,143	45,724
Total not delayed loans	**511,620**	**66,766**	**36,532**	**39,800**	**1,863**	**537**	**6,240**	**663,358**
Past due loans - not impaired								
Delayed days:								
=< 29	25,328	141	4,921	1,036	6	-	-	31,432
30-59	10,545	-	1,021	348	-	-	-	11,914
60-89	6,999	-	119	177	-	-	-	7,295
90 and more	5,745	-	163	314	-	63	-	6,285
Total past due loans - not impaired	**48,617**	**141**	**6,224**	**1,875**	**6**	**63**	**-**	**56,926**
Total past due loans - impaired	**32,320**	**4,748**	**6,109**	**15,007**	**464**	**182**	**-**	**58,830**
Total gross loans and receivables to customers	**592,557**	**71,655**	**48,865**	**56,682**	**2,333**	**782**	**6,240**	**779,114**
Impairment allowance	(36,360)	(1,638)	(6,586)	(15,922)	(536)	(235)	(1,394)	(62,671)
Total net loans and receivables to customers	**556,197**	**70,017**	**42,279**	**40,760**	**1,797**	**547**	**4,846**	**716,443**

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

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

	Bank, LVL 000's 31/12/2012							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	414,767	102,198	-	35,936	1,588	-	1,857	556,346
Not delayed - impaired	34,060	-	-	-	71	-	4,143	38,274
Total not delayed loans	**448,827**	**102,198**	**-**	**35,936**	**1,659**	**-**	**6,000**	**594,620**
Past due loans - not impaired								
Delayed days:								
=< 29	19,461	141	-	564	-	-	-	20,166
30-59	9,366	-	-	296	-	-	-	9,662
60-89	6,624	-	-	147	-	-	-	6,771
90 and more	4,418	-	-	314	-	-	-	4,732
Total past due loans - not impaired	**39,869**	**141**	**-**	**1,321**	**-**	**-**	-	**41,331**
Total past due loans - impaired	**22,180**	**4,720**	**-**	**12,810**	**464**	**-**	**-**	**40,174**
Total gross loans and receivables to customers	**510,876**	**107,059**	**-**	**50,067**	**2,123**	**-**	**6,000**	**676,125**
Impairment allowance	(30,117)	(1,572)	-	(13,703)	(535)	-	(1,394)	(47,321)
Total net loans and receivables to customers	**480,759**	**105,487**	**-**	**36,364**	**1,588**	**-**	**4,606**	**628,804**

	Bank, LVL 000's							
	31/12/2011							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	405,363	69,209	-	38,931	334	-	485	514,322
Not delayed - impaired	91,733	-	-	-	-	-	5,180	96,913
Total not delayed loans	**497,096**	**69,209**	**-**	**38,931**	**334**	**-**	**5,665**	**611,235**
Past due loans - not impaired								
Delayed days:								
=< 29	19,190	55	-	535	-	-	-	19,780
30-59	4,833	-	-	369	-	-	-	5,202
60-89	2,406	-	-	260	-	-	-	2,666
90 and more	4,467	-	-	512	-	-	-	4,979
Total past due loans - not impaired	**30,896**	**55**	**-**	**1,676**	**-**	**-**	-	**32,627**
Total past due loans - impaired	**23,251**	**1,468**	**-**	**14,469**	**-**	**-**	**-**	**39,188**
Total gross loans and receivables to customers	**551,243**	**70,732**	**-**	**55,076**	**334**	**-**	**5,665**	**683,050**
Impairment allowance	(40,971)	(264)	-	(15,498)	-	-	(544)	(57,277)
Total net loans and receivables to customers	**510,272**	**70,468**	**-**	**39,578**	**334**	**-**	**5,121**	**625,773**

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

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2010	**20,403**	**244**	**5,956**	**18,686**	**823**	**240**	**553**	**46,905**
Impairment charge for the reported period - specific	12,807	7	1,400	1,140	-	1	-	15,355
Release of previously established impairment allowance - specific	(5,697)	(244)	(601)	(4)	(823)	-	-	(7,369)
Impairment charged to the statement of income, net	**7,110**	**(237)**	**799**	**1,136**	**(823)**	**1**	**-**	**7,986**
Change of impairment allowance due to write-offs, net	(700)	-	-	(5,356)	-	-	-	(6,056)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(359)	18	8	-	-	-	(9)	(342)
Outstanding specific impairment as at 31/12/2011	**26,454**	**25**	**6,763**	**14,466**	**-**	**241**	**544**	**48,493**
Impairment charge for the reported period - specific	7,534	1,602	1,933	2,256	535	-	987	14,847
Release of previously established impairment allowance - specific	(3,137)	(10)	(304)	(91)	-	(59)	(134)	(3,735)
Impairment charged to the statement of income, net	**4,397**	**1,592**	**1,629**	**2,165**	**535**	**(59)**	**853**	**11,112**
Change of impairment allowance due to write-offs, net	(1,345)		(1,969)	(1,634)	-	-	-	(4,948)
Increase/ (decrease) in impairment allowance due to currency fluctuations	194	-	-	-	-	-	(5)	189
Outstanding specific impairment as at 31/12/2012	**29,700**	**1,617**	**6,423**	**14,997**	**535**	**182**	**1,392**	**54,846**

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

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2010	**29,996**	**3,145**	**-**	**18,686**	**823**	**-**	**553**	**53,203**
Impairment charge for the reported period - specific	12,719	-	-	1,140	-	-	-	13,859
Release of previously established impairment allowance - specific	(5,838)	(3,145)	-	(4)	(823)	-	-	(9,810)
Impairment charged to the statement of income, net	**6,881**	**(3,145)**	**-**	**1,136**	**(823)**	**-**	**-**	**4,049**
Change of impairment allowance due to write-offs, net	(555)	-	-	(5,356)	-	-	-	(5,911)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(360)	-	-	-	-	-	(9)	(369)
Outstanding specific impairment as at 31/12/2011	**35,962**	**-**	**-**	**14,466**	**-**	**-**	**544**	**50,972**
Impairment charge for the reported period - specific	4,614	1,572	-	24	535	-	987	7,732
Release of previously established impairment allowance - specific	(15,721)	-	-	(91)	-	-	(134)	(15,946)
Impairment charged to the statement of income, net	**(11,107)**	**1,572**	**-**	**(67)**	**535**	**-**	**853**	**(8,214)**
Change of impairment allowance due to write-offs, net	(1,262)	-	-	(1,588)	-	-	-	(2,850)
Increase/ (decrease) in impairment allowance due to currency fluctuations	193	-	-	-	-	-	(5)	188
Outstanding specific impairment as at 31/12/2012	**23,786**	**1,572**	**-**	**12,811**	**535**	**-**	**1,392**	**40,096**

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

	Group, LVL 000's							
	31/12/2012				31/12/2011			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	268,358	586,110	287,839	193,405	248,942	574,606	343,108	216,770
Utilised credit lines	33,406	76,788	36,611	22,114	22,109	55,744	19,461	12,730
Finance leases	40,224	41,613	2,055	1,506	28,736	29,824	4,880	4,734
Debit balances on settlement cards	13	45	40,747	-	-	-	44,157	-
Overdraft facilities	64	119	1,733	20	73	107	387	-
Factoring	-	-	547	537	-	-	84	74
Due from investment counterparties	-	-	4,846	-	-	-	5,205	-
Total net loans	**342,065**	**704,675**	**374,378**	**217,582**	**299,860**	**660,281**	**417,282**	**234,308**

	Bank, LVL 000's							
	31/12/2012				31/12/2011			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	208,461	465,210	272,298	183,527	165,157	438,693	345,115	222,283
Utilised credit lines	28,702	74,278	76,785	21,460	19,323	50,505	51,145	12,112
Debit balances on settlement cards	-	-	36,364	-	-	-	39,578	-
Overdraft facilities	-	-	1,588	-	-	-	334	-
Due from investment counterparties	-	-	4,606	-	-	-	5,121	-
Total net loans	**237,163**	**539,488**	**391,641**	**204,987**	**184,480**	**489,198**	**441,293**	**234,395**

* As at 31 December 2012 carrying value of Bank's loans without collateral or with guarantees amount to LVL 121,581 thousand (2011: LVL 111,439 thousand). Mostly, loans falling into categories “regular loans” and “utilised credit lines” are secured by collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15).

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

	Group, LVL 000's							
	31/12/2012				31/12/2011			
	Held-to-maturity	Available-for-sale	Held for trading	Total	Held-to-maturity	Available-for-sale	Held for trading	Total
Investment grade:								
AAA	24,792	85,631	2,178	112,601	-	25,416	-	25,416
AA	814	11,218	445	12,477	-	33,430	-	33,430
A	-	22,126	3,626	25,752	3,740	23,719	63	27,522
BBB/Baa	138,108	145,053	2,603	285,764	119,936	73,500	34	193,470
Other lower ratings	2,279	770	262	3,311	2,685	-	-	2,685
Not rated	-	971	107	1,078	-	-	64	64
Total net fixed income securities	**165,993**	**265,769**	**9,221**	**440,983**	**126,361**	**156,065**	**161**	**282,587**

	Bank, LVL 000's							
	31/12/2012				31/12/2011			
	Held-to-maturity	Available-for-sale	Held for trading	Total	Held-to-maturity	Available-for-sale	Held for trading	Total
Investment grade:								
AAA	24,241	78,345	-	102,586	-	10,805	-	10,805
AA	-	4,898	-	4,898	-	22,101	-	22,101
A	-	14,200	-	14,200	-	14,723	-	14,723
BBB/Baa	131,507	99,893	-	231,400	118,442	46,199	-	164,641
Other lower ratings	-	770	-	770	-	-	-	-
Not rated	-	971	-	971	-	-	-	-
Total net fixed income securities	**155,748**	**199,077**	**-**	**354,825**	**118,442**	**93,828**	**-**	**212,270**

GEOGRAPHICAL PROFILE

The following tables provide an analysis of the Group’s assets and liabilities, as well as memorandum items outstanding as at 31 December 2012 and 31 December 2011 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2012, LVL 000’s					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	81,690	10,312	82,556	-	16,402	190,960
Balances due from credit institutions	1,433	3,279	60,495	6,010	57,996	129,213
Securities held for trading	1,415	5	6,702	1,096	1,178	10,396
Financial assets designated at fair value through profit or loss	2,702	66	15,257	1,860	15,623	35,508
Available-for-sale securities	84,165	48,162	73,363	6,462	56,859	269,011
Loans and receivables to customers	470,239	139,395	49,610	38,842	18,357	716,443
Held-to-maturity securities	155,748	2,972	-	3,220	4,053	165,993
Derivative financial instruments	335	-	117	46	490	988
Other assets	64,688	5,026	12,740	144	314	82,912
Total assets	**862,415**	**209,217**	**300,840**	**57,680**	**171,272**	**1,601,424**
Liabilities						
Financial liabilities designated at fair value through profit or loss	7,120	-	21	3,227	-	10,368
Financial liabilities measured at amortised cost	737,557	89,578	195,395	102,185	354,262	1,478,977
Derivative financial instruments	240	3	1,403	63	1,013	2,722
Other liabilities	10,069	3,433	399	61	535	14,497
Total liabilities	**754,986**	**93,014**	**197,218**	**105,536**	**355,810**	**1,506,564**
Equity	94,860	-	-	-	-	94,860
Total liabilities and equity	**849,846**	**93,014**	**197,218**	**105,536**	**355,810**	**1,601,424**
Memorandum items						
Contingent liabilities	29,259	1,940	1,040	2,338	1,048	35,625
Financial commitments	90,033	15,061	3,052	7,334	503	115,983

	Group as at 31/12/2011, LVL 000’s					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	201,007	10,608	28,652	-	2,972	243,239
Balances due from credit institutions	29,766	958	139,006	9,080	33,611	212,421
Securities held for trading	35	-	97	63	-	195
Financial assets designated at fair value through profit or loss	2,276	410	2,463	73	1,159	6,381
Available-for-sale securities	28,896	27,480	55,318	15,360	37,542	164,596
Loans and receivables to customers	442,669	144,563	47,493	50,183	32,234	717,142
Held-to-maturity securities	118,442	-	-	4,180	3,739	126,361
Derivative financial instruments	2,777	28	189	166	323	3,483
Other assets	67,125	4,750	13,939	441	224	86,479
Total assets	**892,993**	**188,797**	**287,157**	**79,546**	**111,804**	**1,560,297**
Liabilities						
Financial liabilities designated at fair value through profit or loss	2,848	-	20	2,421	-	5,289
Financial liabilities measured at amortised cost	757,313	97,456	211,481	69,004	326,361	1,461,615
Derivative financial instruments	177	1	171	63	408	820
Other liabilities	12,252	1,883	442	30	422	15,029
Total liabilities	**772,590**	**99,340**	**212,114**	**71,518**	**327,191**	**1,482,753**
Equity	77,544	-	-	-	-	77,544
Total liabilities and equity	**850,134**	**99,340**	**212,114**	**71,518**	**327,191**	**1,560,297**
Memorandum items						
Contingent liabilities	15,844	2,066	284	1,826	1,350	21,370
Financial commitments	103,875	11,281	950	9,115	488	125,709

The following tables provide an analysis of the Bank's assets and liabilities, as well as memorandum items outstanding as at 31 December 2012 and 31 December 2011 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Bank as at 31/12/2012, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	81,69(	-	82,55(	-	10,46:	174,708
Balances due from credit institutions	79	9,472	43,85‹	5,205	22,46(	81,070
Available-for-sale securities	81,55:	7,570	59,55(	5,795	47,84:	202,308
Loans and receivables to customers	509,39(	17,956	44,57:	38,522	18,35;	628,804
Held-to-maturity securities	155,74{	-	-	-	-	155,748
Derivative financial instruments	337	44	117	46	490	1,034
Other assets	39,95(	29,007	12,54!	10	9,70!	91,223
Total assets	**868,75;**	**64,049**	**243,19!**	**49,578**	**109,31(**	**1,334,895**
Liabilities						
Financial liabilities measured at amortised cost	736,90{	1,226	154,85(	84,743	254,37(	1,232,103
Derivative financial instruments	244	46	1,40:	63	1,01(	2,766
Other liabilities	7,71:	23	207	60	14	8,016
Total liabilities	**744,86‹**	**1,295**	**156,46(**	**84,866**	**255,40(**	**1,242,885**
Equity	92,01(	-	-	-	-	92,010
Total liabilities and equity	**836,87‹**	**1,295**	**156,46(**	**84,866**	**255,40(**	**1,334,895**
Memorandum items						
Contingent liabilities	29,21(	-	931	2,164	222	32,533
Financial commitments	100,30:	8,640	4,12(	7,334	502	120,898

	Bank as at 31/12/2011, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	201,00;	-	28,65:	-	-	229,659
Balances due from credit institutions	29,05(	689	129,54(	8,320	15,46!	183,079
Available-for-sale securities	28,85(	4,567	33,22{	12,096	23,54:	102,289
Loans and receivables to customers	482,94{	17,310	43,69:	49,923	31,90:	625,773
Held-to-maturity securities	118,44:	-	-	-	-	118,442
Derivative financial instruments	2,78{	78	189	166	321	3,542
Other assets	41,75;	29,006	13,80(	18	9,70‹	94,291
Total assets	**904,85;**	**51,650**	**249,11:**	**70,523**	**80,93:**	**1,357,075**
Liabilities						
Financial liabilities measured at amortised cost	756,34(	16,072	160,18‹	59,059	270,08(	1,261,753
Derivative financial instruments	169	998	171	63	409	1,810
Other liabilities	11,27;	631	338	-	14	12,260
Total liabilities	**767,79!**	**17,701**	**160,69:**	**59,122**	**270,51:**	**1,275,823**
Equity	81,25:	-	-	-	-	81,252
Total liabilities and equity	**849,04;**	**17,701**	**160,69:**	**59,122**	**270,51:**	**1,357,075**
Memorandum items						
Contingent liabilities	15,88;	-	203	1,534	683	18,307
Financial commitments	122,30(	7,904	2,05:	9,114	488	141,868

b) Market risk

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

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

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

c) Equity price risk

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

To assess equity price risk, the Group applies the scenario analysis “flight-to-quality” which refers to a fear of investors of global systemic failure when investors start selling assets they consider to be overly risky and substituting them with more dependable ones. According to the Bank’s equity price risk assessment as at 31 December 2012, in the event that all equity (also including investments in investment funds) prices drop by 10% for equities in OECD countries, 20% – Baltic countries and CIS countries and 15% – other equities, revaluation loss charged directly to the equity would increase by approximately LVL 0.3 million (2011: LVL 0.7 million) and an impairment loss of LVL 0.3 million (2011: LVL 0.8 million) would be recognized in the income statement.

d) Interest rate risk

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

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

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

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

Scenario: +1%	LVL 000’s			
	2012 Group	2011 Group	2012 Bank	2011 Bank
Pre-tax profit / (loss)	2,311	2,800	3,606	1,774
Securities fair value revaluation reserve	(5,711)	(3,493)	(3,263)	(1,397)
Total pre-tax effect on equity	**(3,400)**	**(693)**	**343**	**377**
Estimated net effect on equity	**(2,890)**	**(589)**	**292**	**320**
Scenario: -1%				
Pre-tax profit / (loss)	(2,321)	(2,802)	(3,616)	(1,775)
Securities fair value revaluation reserve	5,868	3,570	3,420	1,474
Total pre-tax effect on equity	**3,547**	**768**	**(196)**	**(301)**
Estimated net effect on equity	**3,015**	**653**	**(167)**	**(256)**

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

	LVL 000’s							
Scenario: +2%	31/12/2012				31/12/2011			
	LVL	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
Pre-tax profit/ (loss)	989	2,178	3,481	554	(4,284)	377	100	422
Securities fair value revaluation reserve	(1,554)	(2,997)	(1,829)	-	(947)	(1,157)	(598)	(21)
Total pre-tax effect on equity	**(565)**	**(819)**	**1,652**	**554**	**(5,231)**	**(780)**	**(498)**	**401**
Estimated net effect on equity	**(480)**	**(696)**	**1,404**	**471**	**(4,446)**	**(663)**	**(423)**	**341**
Scenario: -2%								
Pre-tax profit/ (loss)	(985)	(2,215)	(3,490)	(551)	4,749	(344)	(106)	(448)
Securities fair value revaluation reserve	1,689	3,318	2,000	-	1,031	1,311	668	22
Total pre-tax effect on equity	**704**	**1,103**	**(1,490)**	**(551)**	**5,780**	**967**	**562**	**(426)**
Estimated net effect on equity	**598**	**938**	**(1,267)**	**(468)**	**4,913**	**822**	**478**	**(362)**

e) Currency risk

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

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

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

	Group LVL 000’s							
	31/12/2012				31/12/2011			
Scenario:	USD	CHF	RUR	Total for all currencies	USD	CHF	RUR	Total for all currencies
2% adverse change	33	251	4	1,041	124	178	3	945
5% adverse change	83	629	9	2,603	310	445	9	2,363

	Bank LVL 000’s							
	31/12/2012				31/12/2011			
Scenario:	USD	CHF	RUR	Total for all currencies	USD	CHF	RUR	Total for all currencies
2% adverse change	2	6	1	164	59	1	2	596
5% adverse change	5	14	2	409	147	2	4	1,489

In 2012 and 2011 the Bank was in compliance with currency position limits.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2012 and 2011 by currency profile:

	Group as at 31/12/2012, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	75,423	3,491	93,626	6,172	8,142	684	3,422	190,960
Balances due from credit institutions	1,341	95,777	17,450	3,634	187	5,142	5,682	129,213
Securities held for trading	611	863	7,579	1,272	-	71	-	10,396
Financial assets designated at fair value through profit or loss	-	18,156	11,057	6,295	-	-	-	35,508
Available-for-sale securities	55,410	81,053	95,556	2,745	34,146	-	101	269,011
Loans and receivables to customers	74,056	62,778	538,142	2,500	36,073	455	2,439	716,443
Held-to-maturity securities	127,530	5,349	30,142	-	2,972	-	-	165,993
Derivative financial instruments	984	-	-	4	-	-	-	988
Other assets	63,830	6,292	7,492	292	4,827	34	145	82,912
Total assets	**399,185**	**273,759**	**801,044**	**22,914**	**86,347**	**6,386**	**11,789**	**1,601,424**
Liabilities								
Financial liabilities designated at fair value through profit or loss	3,338	3,467	3,563	-	-	-	-	10,368
Financial liabilities measured at amortised cost	378,572	431,823	537,920	11,394	63,393	21,279	34,596	1,478,977
Derivative financial instruments	2,719	-	-	-	3	-	-	2,722
Other liabilities	7,005	1,909	2,362	513	2,011	355	342	14,497
Total liabilities	**391,634**	**437,199**	**543,845**	**11,907**	**65,407**	**21,634**	**34,938**	**1,506,564**
Equity	94,860	-	-	-	-	-	-	94,860
Total liabilities and equity	**486,494**	**437,199**	**543,845**	**11,907**	**65,407**	**21,634**	**34,938**	**1,601,424**
Net long/ (short) position for balance sheet items	(87,309)	(163,440)	257,199	11,007	20,940	(15,248)	(23,149)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	994	(4,965)	4,919	212	(4)	(608)	(544)	4
Forward foreign exchange contracts	524	(1,232)	703	-	-	-	24	19
Swap exchange contracts	18,833	171,288	(233,172)	1,354	-	16,045	23,921	(1,731)
Net long/ (short) positions on foreign exchange	*20,351*	*165,091*	*(227,550)*	*1,566*	*(4)*	*15,437*	*23,401*	*(1,708)*
Net long/ (short) position as at 31 December 2012	**(66,958)**	**1,651**	**29,649**	**12,573**	**20,936**	**189**	**252**	**(1,708)**
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	-	0.531	0.702804	0.582	0.204	0.0174	-	-

As at 31 December 2012 and 31 December 2011 LVL and LTL currencies are pegged to the EUR at a fixed rate.

	Group as at 31/12/2011, LVL 000's							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	199,512	6,513	21,202	3,170	9,188	1,008	2,646	243,239
Balances due from credit institutions	14,390	119,009	66,775	320	132	8,296	3,499	212,421
Securities held for trading	34	-	98	-	-	63	-	195
Financial assets designated at fair value through profit or loss	165	2,942	3,256	-	-	-	18	6,381
Available-for-sale securities	26,436	35,504	76,483	9,309	13,514	-	3,350	164,596
Loans and receivables to customers	62,017	81,178	534,060	2,782	36,632	459	14	717,142
Held-to-maturity securities	118,442	6,103	1,816	-	-	-	-	126,361
Derivative financial instruments	3,437	19	-	-	27	-	-	3,483
Other assets	66,100	8,952	6,655	265	3,902	54	551	86,479
Total assets	**490,533**	**260,220**	**710,345**	**15,846**	**63,395**	**9,880**	**10,078**	**1,560,297**
Liabilities								
Financial liabilities designated at fair value through profit or loss	988	2,654	1,647	-	-	-	-	5,289
Financial liabilities measured at amortised cost	361,700	331,198	616,039	11,280	67,491	30,330	43,577	1,461,615
Derivative financial instruments	725	-	25	1	69	-	-	820
Other liabilities	10,724	1,253	817	34	945	99	1,157	15,029
Total liabilities	**374,137**	**335,105**	**618,528**	**11,315**	**68,505**	**30,429**	**44,734**	**1,482,753**
Equity	77,544	-	-	-	-	-	-	77,544
Total liabilities and equity	**451,681**	**335,105**	**618,528**	**11,315**	**68,505**	**30,429**	**44,734**	**1,560,297**
Net long/ (short) position for balance sheet items	38,852	(74,885)	91,817	4,531	(5,110)	(20,549)	(34,656)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	970	407	(1,789)	464	-	(911)	851	(8)
Forward foreign exchange contracts	810	1,111	(2,835)	866	(1)	-	-	(49)
Swap exchange contracts	(69,246)	79,561	(94,440)	3,031	23,385	21,630	38,740	2,661
Net long/ (short) positions on foreign exchange	*(67,466)*	*81,079*	*(99,064)*	*4,361*	*23,384*	*20,719*	*39,591*	*2,604*
Net long/ (short) position as at 31 December 2011	**(28,614)**	**6,194**	**(7,247)**	**8,892**	**18,274**	**170**	**4,935**	**2,604**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	-	0.544	0.702804	0.577	0.204	0.017	-	-

	Bank as at 31/12/2012, LVL 000’s							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	75,396	2,914	92,486	205	149	586	2,972	174,708
Balances due from credit institutions	79	60,148	9,504	2,935	1,231	4,775	2,398	81,070
Available-for-sale securities	55,411	65,187	81,609	-	-	-	101	202,308
Loans and receivables to customers	112,163	61,046	450,176	2,500	-	455	2,464	628,804
Held-to-maturity securities	127,531	-	28,217	-	-	-	-	155,748
Derivative financial instruments	1,034	-	-	-	-	-	-	1,034
Other assets	78,706	6,232	6,230	1	2	6	46	91,223
Total assets	**450,320**	**195,527**	**668,222**	**5,641**	**1,382**	**5,822**	**7,981**	**1,334,895**
Liabilities								
Financial liabilities measured at amortised cost	381,506	322,427	470,222	7,210	109	19,568	31,061	1,232,103
Derivative financial instruments	2,766	-	-	-	-	-	-	2,766
Other liabilities	4,914	1,319	1,329	3	3	328	120	8,016
Total liabilities	**389,186**	**323,746**	**471,551**	**7,213**	**112**	**19,896**	**31,181**	**1,242,885**
Equity	92,010	-	-	-	-	-	-	92,010
Total liabilities and equity	**481,196**	**323,746**	**471,551**	**7,213**	**112**	**19,896**	**31,181**	**1,334,895**
Net long/ (short) position for balance sheet items	(30,876	(128,219)	196,671	(1,572)	1,270	(14,074)	(23,200)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	994	(4,785)	4,730	212	-	(637)	(513)	1
Forward foreign exchange contracts	2,632	(1,233)	(1,405)	-	-	-	24	18
Swap exchange contracts	18,833	134,133	(194,001)	1,354	(347)	14,745	23,556	(1,727)
Net long/ (short) positions on foreign exchange	*22,459*	*128,115*	*(190,676)*	*1,566*	*(347)*	*14,108*	*23,067*	*(1,708)*
Net long/ (short) position as at 31 December 2012	**(8,417**	**(104)**	**5,995**	**(6)**	**923**	**34**	**(133)**	**(1,708)**
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	-	0.531	0.702804	0.582	0.204	0.0174	-	-

	Bank as at 31/12/2011, LVL 000’s							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	199,494	6,024	20,439	165	137	950	2,450	229,659
Balances due from credit institutions	13,750	100,797	58,735	32	637	8,261	867	183,079
Available-for-sale securities	26,436	17,495	54,549	-	731	-	3,078	102,289
Loans and receivables to customers	61,629	79,623	481,249	2,782	-	459	31	625,773
Held-to-maturity securities	118,442	-	-	-	-	-	-	118,442
Derivative financial instruments	3,523	19	-	-	-	-	-	3,542
Other assets	79,644	8,743	5,713	1	-	1	189	94,291
Total assets	**502,918**	**212,701**	**620,685**	**2,980**	**1,505**	**9,671**	**6,615**	**1,357,075**
Liabilities								
Financial liabilities measured at amortised cost	362,754	272,432	550,975	7,150	107	29,970	38,365	1,261,753
Derivative financial instruments	1,792	-	18	-	-	-	-	1,810
Other liabilities	9,853	1,132	407	3	3	85	777	12,260
Total liabilities	**374,399**	**273,564**	**551,400**	**7,153**	**110**	**30,055**	**39,142**	**1,275,823**
Equity	81,252	-	-	-	-	-	-	81,252
Total liabilities and equity	**455,651**	**273,564**	**551,400**	**7,153**	**110**	**30,055**	**39,142**	**1,357,075**
Net long/ (short) position for balance sheet items	47,267	(60,863)	69,285	(4,173)	1,395	(20,384)	(32,527)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	970	174	(1,587)	464	-	(911)	881	(9)
Forward foreign exchange contracts	2,918	1,110	9,112	866	(14,087)	-	-	(81)
Swap exchange contracts	(69,246	56,647	(69,628)	2,800	23,385	21,380	36,435	1,773
Net long/ (short) positions on foreign exchange	*(65,358*	*57,931*	*(62,103)*	*4,130*	*9,298*	*20,469*	*37,316*	*1,683*
Net long/ (short) position as at 31 December 2011	**(18,091**	**(2,932)**	**7,182**	**(43)**	**10,693**	**85**	**4,789**	**1,683**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	-	0.544	0.702804	0.577	0.204	0.017	-	-

f) Liquidity risk

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

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

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

In 2012 and 2011 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

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

Year	*Highest*	*Lowest*	*Average*	*Year-end*
2012	70%	52%	61%	56%
2011	79%	61%	68%	72%

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

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2012

	Group as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	187,255	-	-	-	-	3,705	190,960
Balances due from credit institutions	117,521	9,685	-	279	817	911	129,213
Securities held for trading	-	366	71	854	6,929	2,176	10,396
Financial assets designated at fair value through profit or loss	-	1,775	5,055	2,762	19,502	6,414	35,508
Available-for-sale securities	9,178	21,583	17,352	23,374	153,220	44,304	269,011
Loans and receivables to customers	8,554	18,561	29,233	69,808	407,403	182,884	716,443
Held-to-maturity securities	-	52,748	-	5,691	69,883	37,671	165,993
Derivative financial instruments	882	97	9	-	-	-	988
Other assets	19,315	90	773	1,201	1,784	59,749	82,912
Total assets	**342,705**	**104,905**	**52,493**	**103,969**	**659,538**	**337,814**	**1,601,424**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	10,368	10,368
Financial liabilities measured at amortised cost	1,059,400	100,959	89,683	137,501	83,390	8,044	1,478,977
Derivative financial instruments	1,403	1,319	-	-	-	-	2,722
Other liabilities	12,405	521	44	164	-	1,363	14,497
Total liabilities	**1,073,208**	**102,799**	**89,727**	**137,665**	**83,390**	**19,775**	**1,506,564**
Equity	-	-	-	-	-	94,860	94,860
Total liabilities and equity	**1,073,208**	**102,799**	**89,727**	**137,665**	**83,390**	**114,635**	**1,601,424**
Net balance sheet position – long/ (short)	(730,503)	2,106	(37,234)	(33,696)	576,148	223,179	-
Memorandum items							
Contingent liabilities	35,625	-	-	-	-	-	35,625
Financial commitments	115,983	-	-	-	-	-	115,983

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2012:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	10,368	10,368
Financial liabilities measured at amortised cost	1,066,187	98,384	90,664	153,637	84,479	7,277	1,500,628
Memorandum items							
Contingent liabilities	35,625	-	-	-	-	-	35,625
Financial commitments	115,983	-	-	-	-	-	115,983

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

	Group as at 31/12/2011, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	232,631	-	-	-	-	10,608	243,239
Balances due from credit institutions	203,508	8,039	-	335	267	272	212,421
Securities held for trading	34	-	-	-	126	35	195
Financial assets designated at fair value through profit or loss	-	-	368	172	4,618	1,223	6,381
Available-for-sale securities	3,581	10,209	5,581	20,412	105,531	19,282	164,596
Loans and receivables to customers	17,650	15,553	37,308	54,258	421,070	171,303	717,142
Held-to-maturity securities	1	-	1,198	1,137	114,875	9,150	126,361
Derivative financial instruments	2,640	57	786	-	-	-	3,483
Other assets	19,070	256	95	755	639	65,664	86,479
Total assets	**479,115**	**34,114**	**45,336**	**77,069**	**647,126**	**277,537**	**1,560,297**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	4,547	742	5,289
Financial liabilities measured at amortised cost	856,189	207,739	97,767	201,731	96,833	1,356	1,461,615
Derivative financial instruments	480	103	237	-	-	-	820
Other liabilities	13,321	260	133	98	110	1,107	15,029
Total liabilities	**869,990**	**208,102**	**98,137**	**201,829**	**101,490**	**3,205**	**1,482,753**
Equity	-	-	-	-	-	77,544	77,544
Total liabilities and equity	**869,990**	**208,102**	**98,137**	**201,829**	**101,490**	**80,749**	**1,560,297**
Net balance sheet position – long/ (short)	(390,875)	(173,988)	(52,801)	(124,760)	545,636	196,788	-
Memorandum items							
Contingent liabilities	21,370	-	-	-	-	-	21,370
Financial commitments	125,709	-	-	-	-	-	125,709

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

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

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	-	-	-	-	4,547	742	5,289
Financial liabilities measured at amortised cost	857,494	212,110	101,356	206,880	115,233	1,172	1,494,245
Memorandum items							
Contingent liabilities	21,370	-	-	-	-	-	21,370
Financial commitments	125,709	-	-	-	-	-	125,709

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2012

	Bank as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	174,708	-	-	-	-	-	174,708
Balances due from credit institutions	78,821	2,249	-	-	-	-	81,070
Available-for-sale securities	7,789	17,413	15,381	16,463	118,270	26,992	202,308
Loans and receivables to customers	8,659	51,692	31,312	62,187	341,256	133,698	628,804
Held-to-maturity securities	-	52,196	-	4,978	60,902	37,672	155,748
Derivative financial instruments	921	100	13	-	-	-	1,034
Other assets	18,202	-	-	-	-	73,021	91,223
Total assets	**289,100**	**123,650**	**46,706**	**83,628**	**520,428**	**271,383**	**1,334,895**
Liabilities							
Financial liabilities measured at amortised cost	855,855	96,949	79,414	119,644	79,463	778	1,232,103
Derivative financial instruments	1,449	1,317	-	-	-	-	2,766
Other liabilities	8,016	-	-	-	-	-	8,016
Total liabilities	**865,320**	**98,266**	**79,414**	**119,644**	**79,463**	**778**	**1,242,885**
Equity	-	-	-	-	-	92,010	92,010
Total liabilities and equity	**865,320**	**98,266**	**79,414**	**119,644**	**79,463**	**92,788**	**1,334,895**
Net balance sheet position – long/ (short)	(576,220)	25,384	(32,708)	(36,016)	440,965	178,595	-
Memorandum items							
Contingent liabilities	32,533	-	-	-	-	-	32,533
Financial commitments	120,898	-	-	-	-	-	120,898

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	862,484	94,263	80,265	135,437	79,037	-	1,251,486
Memorandum items							
Contingent liabilities	32,533	-	-	-	-	-	32,533
Financial commitments	120,898	-	-	-	-	-	120,898

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

	Bank as at 31/12/2011, LVL 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	229,659	-	-	-	-	-	229,659
Balances due from credit institutions	183,079	-	-	-	-	-	183,079
Available-for-sale securities	1,404	6,412	735	13,036	69,889	10,813	102,289
Loans and receivables to customers	10,346	48,979	35,459	46,668	366,551	117,770	625,773
Held-to-maturity securities	-	-	-	-	109,292	9,150	118,442
Derivative financial instruments	2,701	47	794	-	-	-	3,542
Other assets	17,930	3	7	49	11	76,291	94,291
Total assets	**445,119**	**55,441**	**36,995**	**59,753**	**545,743**	**214,024**	**1,357,075**
Liabilities							
Financial liabilities measured at amortised cost	700,997	202,112	86,113	181,460	90,470	601	1,261,753
Derivative financial instruments	1,259	314	237	-	-	-	1,810
Other liabilities	12,260	-	-	-	-	-	12,260
Total liabilities	**714,516**	**202,426**	**86,350**	**181,460**	**90,470**	**601**	**1,275,823**
Equity	-	-	-	-	-	81,252	81,252
Total liabilities and equity	**714,516**	**202,426**	**86,350**	**181,460**	**90,470**	**81,853**	**1,357,075**
Net balance sheet position – long/ (short)	(269,397)	(146,985)	(49,355)	(121,707)	455,273	132,171	-
Memorandum items							
Contingent liabilities	18,307	-	-	-	-	-	18,307
Financial commitments	141,868	-	-	-	-	-	141,868

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

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

Derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from derivatives settled on a gross basis.

	Group, 31/12/2012 LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(510)	(1,199)	-	-	-	-	(1,709)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(2,551)	(8,920)	(2,176)	-	-	-	(13,647)
inflow	2,540	8,898	2,194	-	-	-	13,632

	Group, 31/12/2011 LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(440)	(86)	(237)	-	-	-	(763)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,160)	(212)	-	-	-	-	(8,372)
inflow	8,167	222	-	-	-	-	8,389

	Bank, 31/12/2012 LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(494)	(1,195)	-	-	-	-	(1,689)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,143)	(8,877)	(2,176)	-	-	-	(19,196)
inflow	8,111	8,858	2,194	-	-	-	19,163

	Bank, 31/12/2011 LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(1,218)	(314)	(237)	-	-	-	(1,769)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(8,448)	-	-	-	-	-	(8,448)
inflow	8,453	-	-	-	-	-	8,453

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Loans and receivables to customers
The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by LVL 7.3 million (2011: LVL 8.6 million).

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

Customer deposits
The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by LVL 0.04 million (2011: LVL 0.2 million).

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

Fair value hierarchy

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

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

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

The following table presents fair values of Group’s financial assets and liabilities.

	31/12/2012		31/12/2011		Fair value hierarchy level
	Carrying value	Fair value	Carrying value	Fair value	
Cash and demand deposits with central banks	190,960	190,960	243,239	243,239	n/a
Balances due from credit institution	129,213	129,213	212,421	212,422	n/a
Held for trading securities	10,396	10,396	195	195	Level 1
Financial assets designated at fair value through profit or loss	35,508	35,508	6,381	6,381	Level 1
Derivatives	988	988	3,483	3,483	Level 2
Available-for-sale securities	269,011	269,011	164,596	164,596	Level 1
Loans and receivables to customers	716,443	704,609	717,142	704,473	n/a
Held-to-maturity securities	165,993	166,367	126,361	129,485	n/a
Total financial assets	**1,518,512**	**1,507,052**	**1,473,818**	**1,464,274**	
Derivatives	2,722	2,722	820	820	Level 2
Financial liabilities designated at fair value through profit or loss	10,368	10,368	5,289	5,289	Level 1
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,477	25,477	47,470	47,482	n/a
Customer deposits	1,395,697	1,394,657	1,317,971	1,316,418	n/a
Issued debt	-	-	20,925	20,928	n/a
Subordinated liabilities	52,014	52,014	51,948	51,948	n/a
Other financial liabilities	5,789	5,677	23,301	23,817	n/a
Total financial liabilities	**1,492,067**	**1,490,915**	**1,467,724**	**1,466,702**	

The following table presents fair values of Bank’s financial assets and liabilities.

	31/12/2012		31/12/2011		Fair value hierarchy level
	Carrying value	Fair value	Carrying value	Fair value	
Cash and demand deposits with central banks	174,708	174,708	229,659	229,659	n/a
Balances due from credit institution	81,070	81,070	183,079	183,079	n/a
Derivatives	1,034	1,034	3,542	3,542	Level 2
Available-for-sale securities	202,308	202,308	102,289	102,289	Level 1
Loans and receivables to customers	628,804	618,975	625,773	612,274	n/a
Held-to-maturity securities	155,748	160,929	118,442	122,002	n/a
Total financial assets	**1,243,672**	**1,239,024**	**1,262,784**	**1,252,845**	
Derivatives	2,766	2,766	1,810	1,810	Level 2
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	47,361	47,361	71,768	71,768	n/a
Customer deposits	1,132,728	1,131,617	1,099,258	1,097,557	n/a
Issued debt	-	-	20,997	21,000	n/a
Subordinated liabilities	52,014	52,014	51,948	51,948	n/a
Other financial liabilities	-	-	17,782	17,782	n/a
Total financial liabilities	**1,234,869**	**1,233,758**	**1,263,563**	**1,261,865**	

g) Operational risk

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

The Group does not accept operational risks with potential impact exceeding 10% of the Group’s net annual revenues and with probability of occurrence at least once per ten years or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

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

h) Capital management

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8% of risk weighted assets. In second half of 2011, for the first time ever FCMC calculated Bank's capital adequacy ratio, based on FCMC internal policies and guidelines. From then on, the calculation is performed once a year. The 2012 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 8.4%. The increase in ratio is related to the non-resident business of the Bank. At the same time, FCMC's guidelines stipulate that well capitalised banks should have at least 10% minimum capital adequacy ratio. As a result, FCMC has requested that the Bank and the Group has to maintain the capital adequacy ratio above 10%. The management believes that the Group will comply with the aforementioned target throughout 2013.

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

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

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

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

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	High	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (counterparty credit risk in derivatives, participations etc)	Low	Standardized approach	n/a
Market risk	Position risk	High	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Moderate	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Moderate	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Moderate	Part of reputation risk	n/a

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group as restated (note 3)	31/12/2012 Bank	31/12/2011 Bank as restated (note 3)
Tier 1				
- paid-in share capital	103,000	103,000	103,000	103,000
- audited retained earnings/ (accumulated loss) (not subject to dividend distribution)	(11,860)	(20,441)	(13,908)	(19,427)
Less				
- intangible assets	(859)	(1,172)	(493)	(770)
- negative securities fair value revaluation reserve	-	(2,789)	-	(2,321)
- restructuring reserve and other reserves	(3,153)	(3,389)	-	-
- Investments in subsidiaries – insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 1	**85,628**	**73,709**	**87,099**	**78,982**
Tier 2				
- subordinated debt	50,270	50,270	50,270	50,270
- amortisation of subordinated debt	(20,108)	(10,054)	(20,108)	(10,054)
- Tier 2 excess over 50% from Tier 1	-	(2,611)	-	-
- investments in subsidiaries – insurance company (50% from total)*	(1,500)	(1,500)	(1,500)	(1,500)
Total Tier 2	**28,662**	**36,105**	**28,662**	**38,716**
Equity to be utilised in the capital adequacy ratio	**114,290**	**109,814**	**115,761**	**117,698**
Credit risk and counterparty risk capital charge by regulatory asset classes:				
Central governments and banks	893	497	494	29
Municipalities	2,105	112	2,037	41
Government institutions	51	9	51	9
Credit institutions	3,993	7,009	5,141	7,071
Companies	38,578	33,784	38,833	35,078
Assets qualifying for “retail” definition	5,562	5,624	4,000	3,970
Qualifying residential mortgage loans	7,878	7,745	6,112	5,715
Assets qualifying for “past due” definition	1,561	1,293	1,179	990
Covered bonds	-	109	-	109
Investment funds	253	666	253	666
Other assets	11,145	12,876	7,315	8,698
Other risk capital charges:				
Foreign currency open positions subject to capital charge	5,068	3,143	604	1,860
Fixed income securities position risk capital charge	399	144	233	144
Commodities risk capital charge	14	60	14	60
Operational risk capital charge	9,981	10,624	7,713	8,364
Total capital charges	**87,481**	**83,695**	**73,979**	**72,804**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	**10.5%**	**10.5%**	**12.5%**	**12.9%**

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

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Citadele banka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Citadele banka and its subsidiaries (the "Group") and financial statements of AS Citadele banka (the "Bank") on pages 9 to 78, which comprise the balance sheets as of 31 December 2012 and the statements of income and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements give true and fair views of the financial positions of the Group and the Bank as of 31 December 2012, and of their financial performance and their cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 3 to 6 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ahmed Abu Sharkh
Chairman of the Board

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
8 March 2013

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