Baltikums Bank AS

Annual report and Consolidated Annual report for the year 2011

Baltikums
Relations That Work

CONTENTS

MANAGEMENT REPORT

Dear Shareholders, customers and partners,

Baltikums Bank AS provides for your consideration the group's consolidated and the Bank's separate financial reports for the year 2011. The information contained in the reports reflects the operation of the bank and the entire group during the year, which is inseparably tied to economic and social phenomena in Latvia and the world.

The past year has shown that the economy of Latvia is gradually recovering from the crisis, and positive trends are picking up. This has led to Latvia being reassigned an investment grade that will allow it to return to international capital markets. At the end of the year, the international lending programme, with the participation of the International Monetary Fund and the European Commission, was successfully concluded. All of this allows us to look ahead with optimism – provided that the external economic environment is favourable.

Independence, objectivity and strategic partnership, efficiency and reliability – these words reflect the achievement of Baltikums Bank. Despite the fast-paced, at times even unexpected development of affairs in Latvia and globally, the most important financial performance indicators of Baltikums Bank are inspiring and characterise the Bank's operation as stable and resilient in the niches it has selected. The targets set by the Bank for 2011 in terms of development and income growth were met with great success. The Bank continued its work in developing the private capital management strategy, increasing the level of customer service, and creation of added value for the Bank's customers, employees and shareholder interests.

The Bank successfully operates in Riga, Limassol, Almaty and Kyiv, and has representative offices in Russia. Baltikums Bank and its international units employ a team of 194 highly qualified specialists from different countries.

Baltikums Bank has once again proven the stability of its development, closing its 11th fiscal year with an audited profit of LVL 2 208 thou. (EUR 3 142 thou.).

Last year, the Bank made considerable investment in enhancing service quality, developing business processes, training personnel, and extending its range of added-value products and services.

In 2011, the total amount of the Bank's assets grew 68% to reach LVL 210 mil. LVL (EUR 299 mil.). The amount of attracted deposits increased by 80% during the year, reaching LVL 186 mil. (EUR 265 mil.). The increase in customers' faith in the Bank is evident from growth of the amount of assets in the Bank's trust management. During the year, this figure nearly doubled, reaching LVL 67 mil. (EUR 95 mil.) by 31 December 2010 – one of the best performance indicators in Latvia.

As usual, Baltikums Bank has implemented a balanced and conservative approach to customer finance. As a result, its credit portfolio grew from LVL 20 mil. (EUR 28 mil.) to LVL 23 mil. (EUR 33 mil.). Thanks to the increased activity of its customers, in 2012 the Bank plans to expand its customer finance offering, particularly in terms of short-term financing.

The Bank's capital adequacy on 31 December 2011 was 17% (RL Finance and Capital Markets Commission requirement: at least 8%), and its liquidity was 71.94% (RL Finance and Capital Markets Commission requirement: at least 30%).

In 2011, the Bank adopted a new strategy and continued to implement a business model that positions the Bank as an international private bank. Thus, banking, finance administration and advisory services became its major lines of business, whereas the private banker – who establishes and develops customer relations thanks to the support of the Bank's powerful infrastructure and partner network – has become the Bank's most important human resource.

MANAGEMENT REPORT

An important event in the Bank's operation was the change of its name and registered office. According to its strategy, last year the bank changed its trade name to **Baltikums Bank AS**, a phrase that is easier to perceive for local and foreign customers alike and is related to the Bank's operation and growth on foreign finance and capital markets.
At the same point, the Bank also changed its registered office, planning to open a Head Office on one of the most important streets in Riga, at Smilšu iela 6. Built specially for the Riga 1st Joint Credit Company, this edifice will be the hub for Baltikums Bank operations based on the traditional values of European banks.

The building on Smilšu iela 6 was designed in 1910-1912 by architect Wilhelm Ludwig Nikolai Bockslaff and refurbished in 1991-1992 by architects Zane Kalinka, Pēteris Kļava and Andis Sīlis. The Bank was built in rational Art Deco with neoclassical decorative elements. The facade is decorated with gilded ornamental mosaics between the windows.

In 2011, Baltikums Bank began issuing elite MasterCard Platinum payment cards, continuing in the vein of its payment card service, which has been provided since 2002. Today, by issuing the MasterCard Platinum, we reaffirm the initial values we defined as early as 9 years ago: uncompromising devotion to the highest quality of banking products and services in the best interest of our customers

The base parameters of the MasterCard Platinum (high credit limit without security, travel insurance, Concierge service etc.) satisfy the most exacting requirements of users and provide the ultimate level of comfort, whereas the many customisation options allow us to keep abreast of the peculiarities and life cycle of our customers.

Last year, Baltikums Bank strategic partner Baltikums Līzings opened a representative office in Azerbaijan, representing the Bank's interests in the country.
The economic ties and relations between our countries continue to develop, due in large part to the mutual official visits paid by representatives of both Azerbaijan and Latvia. We are witnessing considerable growth of business activity in connection with the Azerbaijani market among our customers. We are aware of the needs of our customers and want to be with them on this market. The Baltikums Līzings representative office intends to provide advice on the financial services and products of the entire BBG group, which also includes Baltikums Bank.

Baltikums Bank continuously develops its business model by introducing advanced technologies and methods and by paying particular attention to internal development. The new focus of the business model is on satisfying customer needs, providing the necessary support infrastructure and resources, and increasing the level of self-reliance and sense of responsibility of its staff. However, our philosophy and business approach remain unchanged. Baltikums Bank as an independent private bank and family business is renowned for its consistency in its established as well as developing relations with the customer, which steadily bring success and mutual benefit. By paying particular attention to research and development, we create products, services and solutions that are in demand, primarily, for the simple reason that each of them was developed in the interest of our customers as a response to their particular needs and wants.

Furthermore, the Bank's goal is not only to provide customers with professional and high-quality service, but also to jointly shape an infrastructure for management of business, capital, asset and risk, an entity that, besides financial gain, will be able to reward our customers with greater stability and future security for themselves, their close ones and their partners.

MANAGEMENT REPORT

Our values remain unchanged: independence, objectivity, responsibility, and complete protection of the interests of our customers. We appreciate our customers' cooperation and trust in this difficult time, and hope for continued success in our future business together.

Baltikums Bank is an international private bank with a Head Office in Riga (Latvia) that is represented in 6 countries. Our goal is to render services of utmost quality and consumer value in order to facilitate business development and preserve and increase our customers' wealth. In turn, customers help make our business flourish, enhancing the welfare of our employees, shareholders, and the countries in which we reside and operate.

Aleksandrs Peškovs
Padomes priekšsēdētājs

Dmitrijs Latiševs
Valdes priekšsēdētājs

2012. gada 28.februāris

COUNCIL AND BOARD OF THE BANK

As at the date of signing the financial statements, members of the Board and Council of the Bank (hereafter "Bank's management") were as follows:

Council as at 31 December 2011

Name, Surname	Position	Date of Appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Andrejs Kočetkovs	Member of the Council	22 June 2001

On 8 July 2011, Olegs Cepulskis was released from his duties of a member of the Council.

Board as at 31 December 2011

Name, Surname	Position	Date of Appointment
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
	Chairman of the Board	21 April 2011
Leonarda Višņevska	Member of the Board	25 April 2003
Tatjana Drobina	Member of the Board	30 April 2008
Aleksandrs Halturins	Member of the Board	30 April 2008

On 8 April 2011, Aldis Reims ceased to perform duties of chairman and member of the Board.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2012

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

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

The Group consolidated and Bank separate financial statements on pages 9 to 67 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2011 and the consolidated results of its operations and cash flows for the year then ended, as well as the financial position of the Bank as at 31 December 2011 and the results of its operations and cash flows for the year ended 31 December 2011.

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's and Bank's assets, and the prevention and detection of fraud and other irregularities in the Group and Bank. Management is also responsible for operating the Group and Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,

Aleksandrs Peškovs *Chairman of the Council*	Dmitrijs Latiševs *Chairman of the Board*

28 February 2012

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Independent Auditors' Report

To the shareholders of Baltikums Bank AS

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Baltikums Bank AS ("the Bank"), which comprise the separate statement of financial position as at 31 December 2011, the separate income statement, the separate 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 notes, as set out on pages 9 to 67. We have also audited the accompanying consolidated financial statements of Baltikums Bank AS and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated 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 notes, as set out on pages 9 to 67.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 2 to 4, the preparation of which is the responsibility of management, is consistent with the separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate and consolidated financial statements. In our opinion, the management report is consistent with the separate and consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
28 February 2012

Inga Lipšāne
Sworn Auditor
Certificate No 112

GROUP CONSOLIDATED AND BANK SEPARATE INCOME STATEMENT

	Note	2011		2010	
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest income	6	4 261	4 174	4 047	3 991
Interest expense	7	(761)	(657)	(534)	(502)
Net interest income		**3 500**	**3 517**	**3 513**	**3 489**
Fee and commission income	8	7 591	7 558	5 233	5 191
Fee and commission expense	9	(755)	(755)	(652)	(652)
Net fee and commission income		**6 836**	**6 803**	**4 581**	**4 539**
Loss from financial assets and liabilities carried at fair value through profit or loss	10	(1 082)	(1 082)	(1 128)	(1 128)
Net foreign exchange gains	11	2 150	2 151	1 734	1 709
Share of profit of equity accounted investees	23	44	-	125	-
Other operating income	12	1 141	250	1 542	284
Operating income		**12 589**	**11 639**	**10 367**	**8 893**
Administrative expenses	13	(6 081)	(5 790)	(5 603)	(5 308)
Other operating expenses	14	(1 819)	(1 095)	(1 866)	(626)
Impairment of financial assets	15	(1 766)	(1 950)	(2 220)	(2 342)
Total operating expenses		**(9 666)**	**(8 835)**	**(9 689)**	**(8 276)**
Profit before income tax		**2 923**	**2 804**	**678**	**617**
Corporate income tax	16	(567)	(596)	(478)	(478)
Net profit for the year		**2 356**	**2 208**	**200**	**139**
Attributable to:					
Equity holders of the Bank		*2 308*	*2 208*	*200*	*139*
Non-controlling interest		*48*	-	-	-

The accompanying notes on pages 16 - 67 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 9 - 67 on 28 February 2012. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2012

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF COMPREHENSIVE INCOME

		2011		2010	
		Group	Bank	Group	Bank
	Note	LVL'000	LVL'000	LVL'000	LVL'000
Profit for the period		**2 356**	**2 208**	**200**	**139**
Other comprehensive income					
Revaluation of vessels	27	(1 030)	-	1 030	-
Total other comprehensive income					
Total comprehensive income		**1 326**	**2 208**	**1 230**	**139**
Attributable to:					
Equity holders of the Bank		1 278	2 208	1 230	139
Non controlling interest		48	-	-	-

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Aleksandrs Peškovs	Dmitrijs Latiševs
Chairman of the Council	*Chairman of the Board*

28 February 2012

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

		2011		2010	
Assets	**Note**	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash and demand deposits with central banks	17	16 299	16 298	7 639	7 635
Deposits with banks	18	113 298	113 297	50 347	50 345
Demand deposits with credit institutions		*65 499*	*65 498*	*42 820*	*42 818*
Term deposits with credit institutions		*47 799*	*47 799*	*7 527*	*7 527*
Financial assets at fair value through profit or loss:		17 031	17 031	20 076	20 076
Fixed income securities	19	*13 267*	*13 267*	*17 471*	*17 471*
Non fixed-income securities	19	*772*	*772*	*1 646*	*1 646*
Derivatives	34	*2 992*	*2 992*	*959*	*959*
Available-for-sale financial assets	20	34	34	34	34
Non fixed-income securities		*34*	*34*	*34*	*34*
Loans and receivables	21	19 174	23 236	19 620	19 856
Held-to-maturity financial assets	22	24 490	24 490	10 918	10 918
Investments in associates	23	2 568	1 100	4 244	2 820
Investments in subsidiary undertakings	23	-	8 448	-	8 699
Investment property	26	8 049	3 435	6 884	2 594
Property and equipment	25	5 074	294	1 636	1 631
Intangible assets	24	2 642	206	661	224
Corporate income tax receivable		-	-	-	-
Prepayments and accrued income		57	42	41	38
Other assets	27	2 867	1 957	3 687	275
Total assets		**211 583**	**209 868**	**125 787**	**125 145**

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Dmitrijs Latiševs
Chairman of the Board

28 February 2012

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

Liabilities and Equity	Note	2011 Group LVL'000	2011 Bank LVL'000	2010 Group LVL'000	2010 Bank LVL'000
Due to credit institutions on demand	28	474	474	676	676
Derivatives	34	114	114	575	575
Financial liabilities carried at amortized cost		187 493	186 439	102 211	103 049
Loans from credit institutions	29	-	-	*984*	-
Loans from other financial institutions	29	*1 210*	-	-	-
Customers' deposits	30	*185 385*	*185 541*	*101 227*	*103 049*
Subordinated liabilities	30	*898*	*898*	-	-
Deferred income and accrued expense	31	172	172	223	114
Provisions	32	183	180	147	139
Current tax liabilities		105	105	365	341
Other liabilities	33	160	163	355	238
Total liabilities		**188 701**	**187 647**	**104 552**	**105 132**
Equity					
Share capital	35	19 756	19 756	19 118	19 118
Reserves	35	17	17	17	17
Revaluation of other assets		-	-	1 030	-
Retained earnings		2 740	2 448	1 070	878
Total equity attributable to equity holders of the Bank		**22 513**	**22 221**	**21 235**	**20 013**
Non-controlling interest		369	-	-	-
Total capital and reserves		**22 882**	**22 221**	**21 235**	**20 013**
Total capital and reserves and liabilities		**211 583**	**209 868**	**125 787**	**125 145**
Contingent liabilities and commitments	37	7 160	7 160	4 462	4 462

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28 February 2012

GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital LVL`000	Reserves LVL`000	Revaluation reserve of other assets LVL`000	Retained earnings LVL`000	Total equity attributable to equity holders of the parent LVL`000	Non controlling interest LVL`000	Total equity LVL`000
Balance at 31 December 2009	**23 442**	**17**	**-**	**870**	**24 329**	**-**	**24 329**
Total comprehensive income for the period							
Net profit for the year	-	-	-	200	**200**	-	**200**
Other comprehensive income – revaluation of vessels	-	-	1 030	-	**1 030**	-	**1 030**
Total comprehensive income for the period	-	-	**1 030**	**200**	**1 230**	-	**1 230**
Transactions with shareholders recorded directly in equity							
Share capital decrease	(4 324)	-	-	-	**(4 324)**	-	**(4 324)**
Balance at 31 December 2010	**19 118**	**17**	**1 030**	**1 070**	**21 235**	**-**	**21 235**
Total comprehensive income for the period							
Net profit for the year	-	-	-	2 308	**2 308**	**48**	**2 356**
Changes in the revaluation reserve due to disposal of other assets - vessels	-	-	(1 030)	-	**(1 030)**	-	**(1 030)**
Total comprehensive income for the period	-	-	**(1 030)**	**2 308**	**1 278**	**48**	**1 326**
Non-controlling interest			-	-	-	**321**	**321**
Transactions with shareholders recorded directly in equity							
Transfer of retained earnings to increase share capital	638	-	-	(638)	-	-	-
Balance at 31 December 2011	**19 756**	**17**	**-**	**2 740**	**22 513**	**369**	**22 882**

The accompanying notes on pages 16 - 67 form an integral part of these financial statements.

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2012

BANK SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital LVL'000	Reserves LVL'000	Retained earnings LVL'000	Total LVL'000
At 31 December 2009	**23 442**	**17**	**739**	**24 198**
Total comprehensive income				
Profit for the reporting period	-	-	139	139
Total comprehensive income	-	-	139	139
Transactions with shareholders recorded directly in equity				
Share capital decrease	(4 324)	-	-	(4 324)
At 31 December 2010	**19 118**	**17**	**878**	**20 013**
Total comprehensive income				
Profit for the reporting period	-	-	2 208	2 208
Total comprehensive income	-	-	2 208	2 208
Transactions with shareholders recorded directly in equity				
Transfer of retained earnings to increase share capital	638	-	(638)	-
At 31 December 2011	**19 756**	**17**	**2 448**	**22 221**

The accompanying notes on pages 16 - 67 form an integral part of these financial statements.

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2012

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS

	Note	2011 Group LVL'000	2011 Bank LVL'000	2010 Group LVL'000	2010 Bank LVL'000
Cash flow from operating activities					
Profit before income tax		2 923	2 804	678	617
Amortization and depreciation		83	82	230	260
Release of impairment of financial assets		(849)	(1 011)	(347)	(45)
Foreign exchange (gain)/loss		(29)	(53)	59	100
Revaluation of assets and amortization of other assets and liabilities		65	(55)	(437)	-
Loss from disposal of subsidiaries		28	896	160	354
		2 221	**2 663**	**343**	**1 286**
(Increase)/decrease in loans and receivables		1 500	(2 097)	7 827	5 754
(Increase)/decrease in available-for-sale financial assets		-	-	2 293	-
(Increase)/decrease in financial assets at fair value through profit or loss		2 773	2 773	(4 061)	(4 061)
(Increase)/decrease in held-to-maturity financial assets		(17 571)	(17 797)	1 466	1 609
(Increase)/decrease in prepayments and accrued income		(16)	(4)	(1)	2
(Increase)/decrease in other assets		(194)	172	1 433	1 455
Increase in customer deposits		84 887	83 221	18 804	20 508
Increase/(decrease) in held-for-trading financial liabilities		(461)	(461)	405	405
Increase/(decrease) in other liabilities and current tax liabilities		(4 417)	(355)	(1 356)	163
Increase/(decrease) in deferred income and accrued expenses		(51)	58	55	(54)
Net cash from/(used in) operating activities before tax		**68 671**	**68 173**	**27 208**	**27 067**
Corporate income tax paid		(512)	(511)	(151)	(118)
Net cash from/(used in) operating activities		**68 159**	**67 662**	**27 057**	**26 949**
Cash flow from investing activities					
Acquisition of property and equipment and intangible assets		(173)	(157)	(225)	(225)
Disposal of fixed assets		175	175	-	-
Acquisition of subsidiaries, net of cash acquired		(2 499)	(2 500)	(11)	-
Sales of associated companies and subsidiaries		1 722	1 721	2	299
Other cash inflow/(outflow) from investment activities		6	469	-	-
Dividends received		-	-	155	-
Net cash from/(used in) investing activities		**(769)**	**(292)**	**(79)**	**74**
Cash flow from financing activities					
Cash flow from (decrease)/increase of share capital		-	-	(4 324)	(4 324)
Redemption of bonds issued		-	-	(4 390)	(4 390)
Dividends paid		-	-	-	-
Net cash from/(used in) financing activities		-	-	**(8 714)**	**(8 714)**
Net changes in cash and cash equivalents		**67 390**	**67 370**	**18 264**	**18 309**
Cash and cash equivalents at the beginning of the reporting year		**57 283**	**57 277**	**39 078**	**39 068**
Effects of exchange rates fluctuations on cash held		29	53	(59)	(100)
Cash and cash equivalents at the end of the year	36	**124 702**	**124 700**	**57 283**	**57 277**

The accompanying notes on pages 16 - 67 form an integral part of these financial statements.
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Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

28 February 2012

NOTES TO THE GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Baltikums Bank AS ("the Bank") is a Joint Stock Company that has been registered with the Enterprise Register of Latvia on 22 June 2001. The address of the Bank is Smilsu iela 6, Riga, LV 1050, Republic of Latvia. The Bank holds a banking license issued in Latvia and it acts in accordance with the legislation of Latvia and the European Union. The primary lines of business for the Bank are servicing corporate customers and wealthy private individuals, and managing investments and finances.

The sole shareholder of the Bank is Joint Stock Company BBG that holds 100% voting shares of the Bank. JSC BBG is a financial management company registered in Latvia and owned by four Latvian companies and two private individuals.

The Bank has a number of subsidiaries in Latvia, special purpose vehicles abroad, and investments in associated companies in Latvia. Mentioned entities form the Baltikums Group which comprises the following:

Name of Company	Country of incorporation	Type of operations	Holding 31.12.2011, %	Holding 31.12.2010, %
AS IPS Baltikums Asset Management	Latvia	Financial services	*100*	*100*
SIA Baltikums Līzings	Latvia	Financial services	*100*	*100*
SIA Konsalting Invest	Latvia	Financial services	*100*	*100*
Rostman Ltd.	Belize	Shipping	*100*	*100*
Hartmile Projects S.A	Panama	Shipping	-	*100*
Benmar Maritime S.A.	Panama	Shipping	-	*100*
SIA CityCap Service	Latvia	Real estate development	*100*	*100*
SIA Zapdvina Development	Latvia	Real estate development	*100*	*100*
Kamaly Development EOOD	Bulgaria	Real estate development	*100*	*100*
SIA Pils pakalpojumi	Latvia	Real estate development	*61*	-
SIA Mateli Estate	Latvia	Real estate development	*100*	-
SIA Darzciems Estate	Latvia	Real estate development	*100*	-
SIA Mazirbe Estate	Latvia	Real estate development	*100*	-

Investments in associated companies (the Bank and the Group):

Company	Country of incorporation	Type of operations	Holding 31.12.2011, %	Holding 31.12.2010, %
AAS Baltikums	Latvia	Insurance services	*19.45*	*49.86*
AS Termo biznesa Centrs	Latvia	Real estate development	*26.15*	*26.15*

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia (the 'FCMC') in force as at 31 December 2011.

The Bank separate and Group consolidated financial statements were authorized for issue by the Board on 28 February 2012. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

(2) Functional and presentation currency

These Group consolidated and Bank financial statements are presented in Latvian lats, which is the Bank's functional currency. Except where indicated otherwise, financial information presented in Latvian lats has been rounded to the nearest thousand.

(3) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items which are carried at fair value: non-hedging derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss, financial assets available for sale except for those whose fair value cannot be reliably estimated, and vessels

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting principles used in the preparation of the Group consolidated and the Bank's financial statements are consistent with those used in the year ended 31 December 2010.

(1) Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiary financial statements are included in consolidation as at the date when the control is obtained until the date it ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(2) Goodwill

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

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gains and losses on the disposal of an entity are determined after including the carrying amount of goodwill relating to the entity sold.

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

(3) Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the Bank and its subsidiaries at the exchange rate set by Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized directly in equity.

The exchange rates for the most significant currencies as set by the Bank of Latvia at reporting date are as follows:

	31 December 2011	31 December 2010
EUR	0.7028	0.7028
USD	0.544	0.535

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into LVL at exchange rates set by Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into LVL at spot exchange rates at the dates of the transactions.

Foreign currency differences arising on translation to the Bank functional currency are recognized in equity in a foreign currency translation reserve, through other comprehensive income.

(4) Financial instruments

a) Classification:

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are held-for-trading financial instruments and financial assets and liabilities that the Bank and the Group initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorized as held for trading unless they are designated as hedging instrument for hedge accounting purposes.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale and do not meet the definition of loans and receivables. Held-to-maturity financial instruments include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group or the Bank intends to sell immediately or in the short-term, (b) those that the Group or the Bank upon initial recognition designates as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply with these classification criteria.

Available-for-sale assets are financial assets classified at inception as available for sale or assets other than classified as financial assets at fair value through profit or loss, held to maturity or loans and receivables. Available-for-sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Bank and the Group to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortized cost represent financial liabilities of the Bank and the Group other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits and other financial liabilities.

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

b) Recognition

The Group and the Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

c) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

d) Measurement

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial measurement, all financial assets and liabilities designed at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments which have no quoted market price in an active market or for which no reliable fair value measurement is possible. Such instruments are carried at cost less transaction costs and impairment.

Financial liabilities, except for financial liabilities at fair value through profit or loss, loans and receivables and held-to-maturity assets are measured at amortized cost using the effective interest rate method. All such instruments are subject to revaluation when impaired.

Profit or loss arising from changes in the fair value of financial instruments designated through profit or loss are recognized in the income statement. Profit or loss arising from changes in the fair value of available-for-sale financial instruments is recognized in equity through other comprehensive income (except for impairment losses and foreign exchange gains and losses on monetary assets) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest on an available-for-sale financial asset is recognized in the income statement using the effective interest rate method.

e) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group and the Bank transfer substantially all of the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Group and the Bank is recognized as a separate asset or liability.

The Group and the Bank derecognize a financial liability when its contractual obligations are discharged or cancelled or expire.

f) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a legal right to set off the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the trading activity.

(5) Identification and measurement of impairment of financial assets

Loans are stated at the amount of the principal outstanding, less any impairment allowances. Impairment losses and recoveries are recognized monthly based on regular loan reviews. Allowances during the period are recognized in the income statement.

At each reporting date the Bank assesses whether there is objective evidence that financial assets other than carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the impairment event has an impact on the future cash flows of the asset that can be estimated reliably.

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

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at the specific asset level. All loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Impairment losses on available-for-sale assets are recognized by transferring the cumulative loss that has been recognized in equity through the statement of other comprehensive income to income statement. The cumulative loss that is removed from equity and recognized in the income statement is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the income statement. Changes in impairment allowance attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed, with the amount of the reversal recognized in income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognized directly in other comprehensive income.

(6) Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The table below details financial instruments carried at fair value, by valuation method:

Group

2011	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	13 267	-	**13 267**
Non fixed-income securities	772	-	**772**
Derivatives	-	2 992	**2 992**
Available-for-sale assets			
Non fixed-income securities	-	34	**34**
	14 039	**3 026**	**17 065**
Financial liabilities			
Derivatives	-	114	**114**
	-	**114**	**114**
2010			
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	17 471	-	**17 471**
Non fixed-income securities	1 646	-	**1 646**
Derivatives	-	959	**959**
Available-for-sale assets			
Non fixed-income securities	-	34	**34**
Financial liabilities	**19 117**	**993**	**20 110**
Derivatives	-	575	**575**
	-	**575**	**575**

Bank

2011	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss:			
Fixed income securities	13 267	-	**13 267**
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Derivatives	-	2 992	**2 992**
Available-for-sale assets			
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Financial liabilities			
Derivatives	-	114	**114**
	-	**114**	**114**
2010			
Financial assets			
Financial assets at fair value through profit or loss:			
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Available-for-sale assets			
Non fixed-income securities	-	34	**34**
	19 117	**993**	**20 110**
Financial liabilities			
Derivatives	-	575	**575**
	-	**575**	**575**

(1) Included in this category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is considered quoted in an active market if quoted prices are readily and regularly available from a stock exchange, broker, industry group, rating or regulating agencies and prices represent the actual and regular market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

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

(7) Derivatives

Derivative financial instruments include swap and forward foreign exchange instruments. The Bank classifies all derivative financial instruments as trading.

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

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

(8) Repo transactions

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities continue to be recognized on the statement of financial position. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized on the statement of financial position. The amount paid for securities is recognized as a loan provided to the seller. The Bank and the Group are involved in two types of such transactions – classic *repo* and *buy/sellback* transactions. The result of *repo* and *buy/sellback* transactions is recognized in the profit or loss statement as interest income or expense according to the accrual principle.

(9) Investment in subsidiaries

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

Investments in subsidiaries are carried at the initial cost less impairment, if any, in the Bank financial statements. The Bank recognises income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition.

(10) Impairment of non financial assets

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

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

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

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

(11) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both.

When the use of a property changes it is reclassified as property and equipment.

Investment property is initially recognized at its acquisition cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The useful life of investment property has been estimated at 20 years with the annual depreciation rate of 5%.

(12) Repossessed assets

As part of the normal course of business the Group and Bank occasionally take title to property and other assets that originally were pledged as security for a loan. When the Group and Bank acquires (i.e. gains a full title to) an asset in this way, the asset's classification follows the nature of its intended use by the Group and Bank. When the Group and Bank is uncertain of its intentions with respect to property that it has repossessed, those properties are classified as investment property.

Repossessed property is valued at lower of cost and net realizable value.

Other types of collateral (repossessed vessels) are classified as other assets. Vessels are stated at fair value with all changes in fair value recorded in other comprehensive income. Upon disposal the Group and Bank elect not to transfer any part of revaluation reserve to prior years' retained earnings.

(13) Non-current assets held for sale

The Group and the Bank classify assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The Group and the Bank measure assets classified as held for sale at the lower of their carrying amount and fair value less costs to sell.

(14) Property and equipment

Items of property and equipment are measured at acquisition cost including direct costs, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis. Based on the useful life and residual value of the respective item of property and equipment, the following annual depreciation rates are applied:

Furniture and equipment	20%
Computers	25%
Others	20%

Gains and losses on the disposal of property and equipment are recognized in the income statement in the period of disposal. Repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and useful life is extended.

Depreciation methods, useful lives and residual amounts are reviewed at each reporting date.

(15) Investments in associates

Associates are those entities in which the Group or Bank has significant influence, but no control, over the financial and operating policies. The Group consolidated and Bank separate financial statements include the Group's and Bank's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's or Bank's share of losses exceeds its interest in an associate, the Group's or Bank's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group or Bank has incurred legal or constructive obligations or made payments on behalf of an associate. Investments in associates are accounted for under the equity method.

(16) Fund management

The Group and Bank manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group or Bank controls the trust or investment vehicle.

(17) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank.

Intangible assets are recorded at acquisition cost less accumulated amortization and amortized to the income statement in equal amounts over the useful life of the intangible asset. The annual amortization rate for software is 20%

(18) Recognition of income and expenses

All significant income and expense categories, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Interest income and expenses include discount or premium amortization or other difference between the carrying amount of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Fees and commission (excluding commission for long-term loans issued) are accounted for when as the related services are performed. Income and expense that refers to the accounting period are reflected in the income statement regardless of the date of receipt or payment. Loan origination fees together with the related direct costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest rate method..

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(19) Credit-related commitments

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

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

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

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

(20) Tax

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

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(21) Dividends

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

(22) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprises cash, deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when originated, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months. The balances under sale and repurchase agreements are not included in the cash and cash equivalents.

(23) Leases

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to a lessee. Title may or may not eventually be transferred. When assets are leased out under a finance lease, the net investment in the finance lease is recognized as a receivable. The net investment in the finance lease represents the difference between the gross receivable and the unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease. Assets leased out under an operating lease, are presented within property and equipment in the statement of financial position, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned Property and equipment.

(24) Provisions

Provisions are recognized when the Bank and the Group have 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.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(25) Short-term employee benefits

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

(26) Assets under management

Assets managed by the Bank and the Group on behalf of customers are not treated as assets of the Bank and the Group. The Bank and the Group assumes no risk on the assets.

(27) Fair values of financial assets and liabilities

A number of the Bank and the Group's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from other credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans to customers

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rates used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For a non-material amount of non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount", approved for the respective year by the shareholders' meeting, representing the price for new share allocation and the participants' quit price.

Derivatives

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into lats, applying the exchange rate set by the Bank of Latvia. EURIBOR and LIBOR interest rates are used for discounting purposes.

Liabilities to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand, as they are largely due on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(28) New standards and interpretations

New and amended standards and interpretations that became effective during current accounting period but not applicable to the Group and Bank:

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

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group and Bank or having no impact on the Group and Bank financial statements:

- Revised IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011). The amendment exempts a government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 is not expected to result in new relations requiring disclosure in the Group's and Bank's financial statements.
- Amendment to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant to the Group's and Bank's financial statements as the Bank does not have any defined benefit plans with minimum funding requirements.
- FRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Group and Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's and Bank's financial statements for the year ending 31 December 2011. Since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's and Bank's financial statements as the Group and Bank have not issued such instruments at any time in the past.

4. RISK MANAGEMENT

Within the framework of internal control system, the Bank and the Group have developed and follow the Risk Management Policy or fundamental principles which are defined below:

1) general guidelines observed by the Bank and the Group in its activities aimed at decreasing all types of risks which may lead to losses;
2) description of risk transactions and other risks to which the Bank and the Group is exposed;
3) general daily control of risk transactions and management of transaction related risks.

The Risk Management Policy describes and determines the aggregate of measures to ensure that the possibility to suffer losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffer other losses. The Board and the Council of the Bank have approved the Risk Management Policy. The Board and the Council of the Bank have also approved all other policies listed below related to risk management. The Bank's board supervises the Risk Management System, but the structural units of the respective sectors are responsible for the daily activities. The Risk Management System is monitored by the Internal Audit Division on a regular basis is being continuously developed pursuant to the development of the Bank and the Group and activities in the financial markets.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfillment of contractual obligations by the Bank and the Group's debtor or counterparty.

Credit risk is managed in accordance with the credit risk management policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, restriction and control.

The management of risks related to ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements, is controlled by the Asset and Liability Committee that sets limits for transactions with each counter party.

The Bank and the Group monitor the concentration of significant assets, liabilities, as well as contingent liabilities and commitments' credit risk by geographical regions (i.e., countries, groups of countries, specific regions within the countries etc), customer groups (i.e., central governments, local authorities, state enterprises, private enterprises, private individuals, etc) and industries.

(2) Foreign exchange risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of assets, liabilities, as well as contingent liabilities and commitments denominated in foreign currencies due to change in exchange rates.

The Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency.

As at 31 December 2011 and 2010, the lat was pegged to the EUR.

The Asset and Liability Committee sets limits for the open position in each currency providing an acceptable overall level of foreign currency risk.

An analysis of sensitivity of the Bank's net profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 5% change in USD or EUR to LVL exchange rates is as follows:

	2011	2010
'000 LVL	Profit or loss	Profit or loss
5% appreciation of USD against LVL	(4)	(35)
5% depreciation of USD against LVL	4	35
5% appreciation of EUR against LVL	1	(53)
5% depreciation of EUR against LVL	(1)	53

(3) Interest rate risk

Interest rate risk is the risk of potential loss the Bank and the Group may incur as a result of fluctuations of interest rates.

For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analyses of assets and liabilities by maturity and type of interest. A change of interest rates by 100 basis points would result in the following changes in profit or loss and equity:

	2011	2010
	LVL'000	LVL'000
LVL	119	104
EUR	227	133
USD	743	132

The interest reprising analysis is disclosed in Note 44.

(4) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavorable prices in order for the Bank and the Group to fulfill its liabilities to creditors and depositors.

Liquidity risk management is based on the analysis of the structure of assets and liabilities performed by the Bank's Financial Analysis and Risk Management Department. That includes the analysis of dynamics in customer funds by customer group and assessment of the possibilities of external borrowing. Based on this information, the Asset and Liability Committee monitors the Bank and the Group's ability to fulfill all its commitments. Operating short-term liquidity management, i.e. the attraction and placement of resources, in the Bank and the Group is performed by the Resources Department of the Bank and the Group based on the short-term liquidity forecast.

Details of the reported ratio of net liquid assets to total assets at the reporting date were as follows:

	2011	2010
As at December 31	71.94%	71.38%

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities.

(5) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Bank and the Group perform an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfill their obligations.

(6) Operational risks

The Bank and the Group's organizational structure, precise job specifications, clear division of responsibilities as well as control procedures allow the Bank and the Group to monitor operational risks. The Bank has also developed an action plan for various emergency situations. The Bank and the Group have set up an independent "Internal audit service" (IAS) whose primary function is to ensure that the Bank's and the Group's activities comply with existing legislation, approved plans, policies and other internal Bank and the Group documents and to monitor the compliance of the Bank's and the Group's department activities with internal control procedures.

(7) Reputational risk

The Bank and the Group recognize the importance of the prevention of money laundering and terrorism financing. To that end, the Bank has in place the Reputation Risk Management Department and an internal control system that helps monitor the transactions performed by the customers and their business partners as they take place. The department on a regular basis monitors the execution of policies and procedures governing the prevention of money laundering and terrorism financing.

(8) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Capital requirements for the Bank are set and monitored by the Financial and Capital Market Commission (FCMC).

Under the current capital requirements set by the Financial and Capital Market Commission banks have to maintain a ratio of capital to risk weighted assets "statutory capital ratio") above the prescribed minimum level – 8% as at 31 December 2011. However, according to the specific requirement of the FCMC, the Bank should maintain a capital adequacy ratio above minimum level – 11.9% for the period starting from 1 October 2011 till 30 September 2012. As at 31 December 2011, the Bank and the Group were in compliance with the law "On Credit Institutions" and the requirements of the FCMC for capital adequacy and minimum equity, as well as satisfied the higher ratio as requested by the FCMC. For the calculation of capital adequacy refer to Note 45.

(9) Know-your-customer (KYC) policies

The primary goal of the Bank's KYC policy is a well-established customer identification program which includes the ascertainment of beneficial owners, client business and client partners.

In addition to obligatory identification of the customer, the Bank's KYC policy foresees interviewing and completing a customer's form. Based on this information, a new basic profile of the customer emerges, which becomes the keystone for the customer's file.

The main objective of this stage is to understand the business and profile of the customer. All activities of the Bank and the Group are aimed at increasing the security of financial transactions. Such an attitude will allow the Bank and the Group to develop an optimum service configuration for each customer in the future. Additionally, the policy helps the Bank and the Group decrease the risk of unusual and suspicious financial operations emerging in the future.

As the working relationship between the customer and the Bank progresses, further understanding of the customer's business deepens. The customer's profile expands and should contain detailed information, business description and transaction type. Knowing the customers' business and their transactions allows the Bank and the Group to prevent any efforts of unauthorized money transfers, access to the account's information and other crimes.

5. USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty:

(i) Allowances for credit losses

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and possible net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are reviewed by the Credit Risk function.

(ii) Valuation of financial instruments

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

(iii) Impairment of financial instruments

The determination of impairment indication is based on a comparison of the financial instrument's carrying value and fair value. Due to periodic illiquidity in capital markets, the market price is not always a reliable source for impairment indication. The Bank use valuation models based on quoted market prices of similar products.

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

(iv) Impairment of non-current assets held for sale

When assessing the net realizable value of the non-current assets held for sale, the management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers). The net realizable value assessment includes estimated selling expenses, the timing of the sale, and the liquidity of the market.

(v) Impairment of goodwill

The recoverable amount of goodwill is estimated at each reporting date for the purposes of measuring impairment loss. The recoverable amount of goodwill is the greater of value in use of the underlying cash-generating unit and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(vi) Valuation of repossessed collateral

Repossessed collateral is valued at lower of cost and net realizable value. Accordingly, the management estimates the net realizable value of assets whenever there are indications that the carrying amount may have decreased below its cost. If this is the case, assets are written down to their net realizable value.

(vii) Fair value of assets and liabilities at acquisition

The fair value of assets acquired in a business combination is based on the discounted estimated cash flows from individual assets and/or external valuations.

(viii) Fair value of vessels

Vessels are stated at fair value with all changes in fair value recorded in other comprehensive income. When measuring the fair value of vessels, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on discounted estimated future cash flows from the assets. Comparative method is based on recent market transactions with comparable assets.

6. INTEREST INCOME

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest income on assets at amortized cost:	2 067	1 980	1 754	1 710
Deposits with credit institutions	*512*	*512*	*134*	*162*
Loans and receivables	*1 345*	*1 258*	*1 604*	*1 532*
Interest income on impaired assets	*210*	*210*	*16*	*16*
Interest income from securities at fair value through profit or loss	1 016	1 016	1 166	1 166
Interest income from available-for-sale securities	-	-	12	-
Interest income from held-to-maturity securities	1 178	1 178	1 115	1 115
Total interest income	**4 261**	**4 174**	**4 047**	**3 991**

7. INTEREST EXPENSE

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest expense from liabilities measured at amortized cost:	378	343	335	303
Deposits and balances due to financial institutions	*26*	*24*	*31*	-
Customers' deposits	*352*	*319*	*290*	*289*
Notes payable	-	-	*14*	*14*
Other interest expense	383	314	199	199
Total interest expenses	**761**	**657**	**534**	**502**

8. FEE AND COMMISSION INCOME

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Payments	4 675	4 678	3 962	3 967
Corporate banking fee income	118	118	144	144
Securities transactions	816	816	169	169
Trust operation	890	890	354	354
Account servicing	567	567	320	320
Management of investment funds and plans	36	-	47	-
Other	489	489	237	237
Total fee and commission income	**7 591**	**7 558**	**5 233**	**5 191**

9. FEE AND COMMISSION EXPENSE

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Correspondent accounts	447	447	495	495
Cash transactions and payment card transaction	106	106	84	84
Customer acquisition and distribution of fund shares	-	-	2	2
Securities transactions	202	202	71	71
Total fee and commission expense	**755**	**755**	**652**	**652**

10. LOSS FROM FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net loss from trading on financial assets and liabilities held-for-trading	(527)	(527)	(606)	(606)
Net loss from revaluation of financial assets and liabilities	(555)	(555)	(522)	(522)
Net loss from financial assets and liabilities at fair value through profit or loss	**(1 082)**	**(1 082)**	**(1 128)**	**(1 128)**

11. NET FOREIGN EXCHANGE GAINS

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net gain from trading with foreign currency	2 121	2 098	1 793	1 809
Net gain/(loss) from revaluation of foreign currency	29	53	(59)	(100)
Net foreign exchange gains	**2 150**	**2 151**	**1 734**	**1 709**

12. OTHER OPERATING INCOME

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Penalties received	13	13	31	31
Rental income from real estate	175	54	316	68
Profit from sale of a vessel owned by a subsidiary	69	-	-	-
Dividends received	11	176	-	155
Income from the shipping business	560	-	1 061	-
Other	313	7	134	30
Total other operating income	**1 141**	**250**	**1 542**	**284**

13. ADMINISTRATIVE EXPENSES

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Remuneration of the Council and the Board	265	254	241	212
Staff remuneration	2 793	2 769	2 187	2 171
State compulsory social insurance contributions	708	700	565	554
Other staff costs	202	201	165	165
Communications and transport	203	195	208	204
Professional fees	682	581	622	572
Rent, utilities and maintenance	468	499	762	763
Depreciation and amortization costs	388	248	399	261
Computer network	157	156	141	141
Advertising and marketing	55	55	92	92
Other taxes	94	67	108	100
Insurance	11	8	44	40
Other	55	57	69	33
Total administrative expenses	**6 081**	**5 790**	**5 603**	**5 308**

The average number of employees in the Bank in 2011 was 187 (2010: 180).

14. OTHER OPERATING EXPENSES

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Membership fees	41	41	20	20
Fees for real estate management	62	8	45	7
Loss from disposal of subsidiaries	28	896	158	354
Penalties	1	-	32	32
Operating costs of the shipping business	1 460	-	1 589	-
Other	227	150	22	213
Total other operating expenses	**1 819**	**1 095**	**1 866**	**626**

15. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of assets for the Bank

	2011 LVL'000	2010 LVL'000
Total allowances as at the beginning of the reporting period	**3 001**	**3 241**
Increase in the impairment allowance for loans and other assets	*2 590*	2 497
Increase in the impairment allowance for securities	*44*	293
Increase in the impairment allowance for correspondent accounts	*601*	-
Reversal of previously recognized allowances for loans and held-to-maturity financial assets	*(1 285)*	(448)
Change for the year	**1 950**	**2 342**
Assets written off during the year	(3 090)	(2 635)
Change of previously recognized allowances due to currency fluctuations	(15)	53
Total allowance as at the end of the reporting period	**1 846**	**3 001**

Impairment of assets for the Group

	2011 LVL'000	2010 LVL'000
Total allowances as at the beginning of the reporting period	**3 026**	**3 266**
Increase in the impairment allowance for loans	*2 638*	*2 375*
Increase in the impairment allowance for securities	*44*	*293*
Increase in the impairment allowance for correspondent accounts	*601*	-
Reversal of previously recognized allowances for loans and held-to-maturity financial assets	*(1 517)*	*(448)*
Change for the year	**1 766**	**2 220**
Assets written off during the year	*(2 931)*	*(2 513)*
Recovery of the value of non-current assets held for sale through sale (attributable to the Group)	*(15)*	*53*
Total allowance as at the end of the reporting period	**1 846**	**3 026**

16. INCOME TAX EXPENSE

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Current year tax expense	595	590	478	478
Correction of prior years' corporate income tax	(28)	6	-	-
Total current year tax expense	**567**	**596**	**478**	**478**

The table below shows the reconciliation between the current tax expense and the theoretically calculated tax amount using the basic tax rate, which was 15% in 2011 and 2010.

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit before tax	2 923	2 804	678	617
Theoretically calculated tax at rate 15%	438	421	102	93
Non-deductible expenses and exempt income, net	157	169	376	385
Total income tax expense	**595**	**590**	**478**	**478**

Deferred tax assets and liabilities

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

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

	Assets		Liabilities		Net	
'000 LVL	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Financial instruments at fair value through profit and loss	141	60		-	141	60
Property and equipment	-	-	(63)	(92)	(63)	(92)
Other liabilities	6	32	-	-	6	32
Total deferred tax asset /(liabilities)	**147**	**92**	**(63)**	**(92)**	**84**	**-**
Unrecognized deferred tax asset	**-**	**-**	**-**	**-**	**(84)**	**-**

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

17. CASH AND BALANCES WITH THE BANK OF LATVIA

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash	497	496	374	370
Balance with the Bank of Latvia (including minimum reserve deposit)	15 802	15 802	7 265	7 265
Total	**16 299**	**16 298**	**7 639**	**7 635**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. As at 31

December 2011, the amount of obligatory reserves was specified to be LVL 11,125 thousand (2010: LVL 5,681 thousand).

18. DEPOSITS WITH CREDIT INSTITUTIONS

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	8 630	8 630	4 044	4 042
Credit institutions registered in OECD countries	45 757	45 757	27 584	27 584
Credit institutions of other countries	11 112	11 111	11 192	11 192
Total demand deposits with credit institutions	**65 499**	**65 498**	**42 820**	**42 818**
Term deposits with credit institutions	**47 799**	**47 799**	**7 527**	**7 527**
Total deposits with credit institutions	**113 298**	**113 297**	**50 347**	**50 345**

As at 31 December 2011, the Bank had correspondent accounts with 46 banks (2010: 43). The largest account balances were due from CREDIT SUISSE (Switzerland) – LVL 12 869 thousand (2010: none) and AS DNB NORD Bank (Latvia) – LVL 10 543 thousand (2010: none), DANSKE BANK A/S, LATVIJA BRANCH (Latvia) – LVL 8 769 thousand (2010: none), KBC BANK NV – LVL 8 388 thousand (2010: LVL 791 thousand).

As at 31 December 2011 the Bank had amounts due from 1 credit institution and other financial institutions (2010: 4), which exceeded 10% of the total amounts due from credit institutions. The aggregate value of these balances as at 31 December 2011 was LVL 12,869 thousand (2010: LVL 32,104 thousand).

As at 31 December 2011 the amount of LVL 3,866 thousand was pledged as collateral for OTC futures exchange contract (2010: LVL 1,500 thousand).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fixed income securities:				
Eurobonds issued by companies and credit institutions of non-OECD countries	13 267	13 267	17 471	17 471
Total	**13 267**	**13 267**	**17 471**	**17 471**
Shares and other securities with non-fixed income:				
Shares issued by companies and credit institutions of non-OECD countries	9	9	10	10
Investment fund certificates	763	763	1 636	1 636
Total	**772**	**772**	**1 646**	**1 646**
Total securities at fair value through profit or loss	**14 039**	**14 039**	**19 117**	**19 117**

An analysis of the credit quality of financial instruments at fair value through profit or loss, based on rating agency ratings where applicable, is as follows:

	2011	2010

	'000 LVL	'000 LVL
Fixed and non-fixed income securities		
- Corporate bonds		
Rated from BBB+ to BBB-	7 200	6 279
Rated from BB- to BB+	3 219	7 946
Rated below BB-	2 857	3 256
Not rated	-	1 636
Total corporate bonds	**13 276**	**19 117**
- Total investment fund certificates		
Not rated	763	-
Total investment fund certificates	**763**	**-**
Total fixed and non-fixed income securities	**14 039**	**19 117**

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011		2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Shares and other securities with non-fixed income				
SWIFT shares	34	34	34	34
Total available-for-sale financial assets	**34**	**34**	**34**	**34**

21. LOANS AND RECEIVABLES

(a) Loans

	2011		2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Financial institutions	2 270	2 270	-	-
Corporates	17 145	21 207	21 767	22 066
Individuals	994	994	597	323
Total loans and receivables	**20 409**	**24 471**	**22 364**	**22 389**
Impairment allowance	(1 235)	(1 235)	(2 744)	(2 533)
Net loans and receivables	**19 174**	**23 236**	**19 620**	**19 856**

(b) Analysis of loans by type

	2011		2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loan portfolio				
Corporate loans	3 347	7 429	7 135	7 135
Industrial loans	4 580	4 580	8 342	8 342
Payment card loans	72	72	112	112
Mortgage loans	4 651	4 651	12	12
Other loans	338	318	427	452
Total loan portfolio	**12 988**	**17 050**	**16 028**	**16 053**
Securities-backed loans				
Reverse repo	7 421	7 421	6 336	6 336
Total securities-backed loans	**7 421**	**7 421**	**6 336**	**6 336**
Total loans and receivables	**20 409**	**24 471**	**22 364**	**22 389**
Impairment allowance	(1 235)	(1 235)	(2 744)	(2 533)
Net loans and receivables	**19 174**	**23 236**	**19 620**	**19 856**

(c) Geographical segmentation of the loans

	2011		2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loans to residents of Latvia	6 897	10 959	5 046	4 867
Loans to residents of OECD countries	399	399	3 693	3 482
Loans to residents of non-OECD countries	13 113	13 113	13 625	14 040
Total loans and receivables	**20 409**	**24 471**	**22 364**	**22 389**
Impairment allowance	(1 235)	(1 235)	(2 744)	(2 533)
Net loans and receivables	**19 174**	**23 236**	**19 620**	**19 856**

(d) Ageing structure of the loan portfolio

Bank	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms: Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying value of overdue loans
At 31 December 2011							
Net carrying value	**23 236**	22 925	-	-	-	311	311
Out of which impaired	**1 168**	857	-	-	-	311	311
At 31 December 2010							
Net carrying value	**19 856**	17 686	-	115	1 733	322	2 170
Out of which impaired	**5 279**	3 109	-	115	1 733	322	2 170

The classification for the Group is not significantly different from that of the Bank disclosed above.

(e) Impaired loans

	2011 '000 LVL Group	2011 '000 LVL Bank	2010 '000 LVL Group	2010 '000 LVL Bank
Impaired loans, gross	2 403	2 403	8 023	7 812
Impairment allowance	(1 235)	(1 235)	(2 744)	(2 533)
Net loans and receivables	**1 168**	**1 168**	**5 279**	**5 279**

(f) Movements in the impairment allowance

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

	2011 Group LVL'000	2011 Bank LVL'000	2010 Group LVL'000	2010 Bank LVL'000
Opening balance	**2 744**	**2 533**	**2 258**	**2 047**
Increase in the impairment allowance for loans and receivables	2 638	2 590	2 375	2 497
Reversal of impairment loss	(1 517)	(1 099)	(146)	(146)
Loans written off	(2 615)	(2 774)	(1 757)	(1 879)
Effect of foreign currency translation	(15)	(15)	14	14
Closing balance	**1 235**	**1 235**	**2 744**	**2 533**

(g) Industry analysis of the loan portfolio of the Bank

	2011 '000 LVL	2010 '000 LVL
Water transport	4 476	8 135
Financial services	8 580	6 336
Wholesale	1 533	253
Real estate	4 082	-
Leisure, recreation, sports	1 032	1 050
Other services	3 533	4 082
Net loans and receivables	**23 236**	**19 856**

(h) Analysis of loans by type of collateral (Bank)

LVL'000	31 December 2011	% of loan portfolio	31 December 2010	% of loan portfolio
Commercial buildings	5 335	23	1 192	6
Real estate – first mortgage	467	2	-	-
Commercial assets pledge	3 376	15	3 508	18
Commercial assets: water transport	4 070	17	8 135	41
Traded securities	7 421	32	6 336	32
Other	2 567	11	685	3
Net loans and receivables	**23 236**	**100**	**19 856**	**100**

The amounts shown in the table above refer to the carrying value of the related loans, and do not necessarily represent the fair value of the collateral. Fair value of collateral at least is equal to the net carrying amount of loans.

(j) Restructured loans

As at 31 December 2011, restructured loans of the Bank included the following:

LVL'000	2011 '000 LVL	2010 '000 LVL
Reduced interest rate	1 019	1 903
Extended repayment period	1 785	1 703
Total restructured loans	**2 804**	**3 606**

(k) Repossessed assets

During 2010, the Bank took over 100% of share capital pledged as collateral for loans issued to the shipping company Benmar Maritime S.A. (see Note 23).

During 2011, the Bank took over a loan collateral (vessels) in the amount of LVL 1 798 thousand (see Note 27).

(l) Significant credit exposures

As at 31 December 2011 the Bank had one borrower or group of related borrowers whose loan balances exceeded 10% of loans and receivables from customers. The borrower's loan balance amounted to LVL 3,935 thousand. As at 31 December 2010 the Bank had one borrower or group of related borrowers whose loan balances exceeded 10% of loans and receivables from customers and the balance represented LVL 2,525 thousand.

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

22. HELD-TO-MATURITY FINANCIAL ASSETS

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Debt securities and other securities with fixed income				
Eurobonds issued by Latvian credit institutions	-	-	963	963
Eurobonds issued by companies and credit institutions of other countries	24 500	24 500	10 237	10 237
Total debt securities	**24 500**	**24 500**	**11 200**	**11 200**
Impairment allowance	(10)	(10)	(282)	(282)
Debt securities, net	**24 490**	**24 490**	**10 918**	**10 918**

An analysis of the credit quality of financial instruments at fair value through profit or loss, based on rating agency ratings where applicable, is as follows:

	2011 '000 LVL	2010 '000 LVL
Debt securities and other securities with fixed income		
- Corporate bonds		
Rated from BBB+ to BBB-	10 545	2,110
Rated from BB- to BB+	7 162	2,326
Rated below B+	6 783	5,757
Not rated	-	725
Total corporate bonds	**24 490**	**10 918**
Debt securities and other securities with fixed income	**24 490**	**10 918**

Analysis of movements in the impairment allowance

	2011 '000 LVL	2010 '000 LVL
Opening balance	282	1 008
Increase in the impairment allowance for securities	44	293
Adjustment of previously recognized allowances	-	(302)
Write-off of securities	(316)	(756)
Currency exchange rate differences	-	39
Closing balance	**10**	**282**

Reclassification out of held-for-trading financial instruments

In 2008, pursuant to the amendments to IAS 39 and IFRS 7, the Bank reclassified certain trading assets to financial assets held to maturity.

Under the amendments to IAS 39 the reclassifications were made effective from 1 July 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

'000 LVL	1 July 2008 Carrying values	1 July 2008 Fair value of	31 December 2011 Carrying values	31 December 2011 Fair value of
Trading assets reclassified to held-to-maturity financial assets	5 755	5 755	2 021	2 036
	5 755	**5 755**	**2 021**	**2 036**

The table below sets out the amounts actually recognized in profit or loss and equity during 2011 in respect of financial assets reclassified out of trading assets:

'000LVL	Net income	Shareholders equity
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	-	-
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	1	-
Coupon income	200	-
Savings on coupon income	-	-
Net gain on appreciation of the value	3	-

The table below sets out the amounts that would have been recognized in the period following reclassification during 2011 if the reclassifications had not been made:

LVL'000	Profit or loss
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	(15)

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	Share in equity	Cost as at 31.12.2011 LVL'000	Cost as at 31.12.2010 LVL'000
SIA Baltikums Līzings	100%	1 860	345
Impairment allowance		-	(186)
AS IPS Baltikums Asset Management	100%	136	136
SIA Konsalting Invest	100%	2 115	5 295
SIA Zapdvina Development	100%	690	690
SIA CityCap Service	100%	380	380
Rostman Ltd.	100%	767	1 083
SIA Pils pakalpojumi	61%	2 500	-
Benmar Maritime S.A.	100%	-	956
		8 448	**8 699**

Investments in subsidiaries (Group)

Company	Share in equity	Cost as at 31.12.2011 LVL'000	Cost as at 31.12.2010 LVL'000
Hartmile Projects S.A.	100%	-	5
KamalyDevelopment EOOD	100%	486	486
SIA Mateli Estate	100%	2	-
SIA Darzciems Estate	100%	2	-
SIA Mazirbe Estate	100%	2	-
		492	**491**

The Bank increased the share capital of its subsidiary, SIA Baltikums Lizings, by 18,424 shares with nominal value of LVL 100.00 for a total of LVL 1,842,400. After this increase, the share capital of SIA Baltikums Lizings consisted of 18,444 shares with nominal value of LVL 100.00 amounting to LVL 1,844,400.

The share capital was increased as a result of restructuring of the Group companies. The impairment allowance was reversed as the quality of assets of the subsidiary improved.

(b) Acquisition of subsidiaries in 2011

In October 2011, the Bank finalized acquisition of 61% of SIA Pils Pakalpojumi. The company owns a building in Riga, Smilsu iela 6, and the Bank plans to use this building as an office.

Acquisition of shares in 2011:	Shareholding acquired	Fair value of net assets at acquisition LVL'000	Cash paid LVL'000	Goodwill LVL'000
SIA Pils pakalpojumi	61%	782	(2 500)	2 023

The Bank's management has reviewed recoverable amounts of the assets at the acquisition date and believes that the recoverable amount is not materially different from the carrying amount.

Non-controlling interest (39%) was calculated in proportion to the value of net assets at the acquisition date.

Carrying amount before acquisition of 61%, LVL'000

Non-current assets	Current assets cash	Current assets debtors	Current liabilities	Net identifiable assets 100%	Net identifiable assets 61%	Goodwill on acquisition	Acquisition cost	Recognized value on acquisition
4 740	2	20	(3 980)	782	477	2 023	2 500	2 500

SIA Baltikums Lizings, the subsidiary, in 2011 acquired three subsidiaries: SIA Mateli Estate, SIA Darzciems Estate, SIA Mazirbe Estate.

Subsidiaries acquired in 2011 contributed to consolidated revenues in amount of LVL 149 thousand, and to consolidated net profit of the Group in amount of LVL 0 thousand.

(c) Sale of subsidiaries in 2011

In February 2011, the Bank disposed 100% holding in the subsidiary Benmar Maritime S.A. The Bank incurred a loss of LVL 896 thousand on the sale of the subsidiary, as disclosed in Note 14.

In February 2011, Rostman Ltd. disposed 100% holding in the subsidiary Hartmile Projects S.A. Rostman Ltd. incurred a loss of LVL 4 thousand on the sale of the subsidiary.

Sale of subsidiaries in 2011	**Disposed investment**	**Net assets at the date of the deal LVL'000**	**Goodwill LVL'000**	**Consideration received LVL'000**
Hartmile Projects S.A.	100%	-	(22)	1
Benmar Maritime S.A.	100%	-	(8)	1
		-	**(30)**	**2**
Cash of subsidiaries				-
Net cash received				**2**

(d) Investments in associates (Bank and Group)

Company	**Share in equity**	**Cost as at 31.12.2011 LVL'000**		**Cost as at 31.12.2010 LVL'000**	
		Group	**Bank**	**Group**	**Bank**
AAS Baltikums	19.45%	1 269	1 110	2 945	2 820
AS Termo biznesa Centrs	26.15 %	1 299	-	1 299	-
Total		**2 568**	**1 110**	**4 244**	**2 820**

Although the Bank holds 19.45% of AAS Baltikums shares, it exercises significant influence through other means, such as presence in the associate's Council.

	OOO Балтикумс Траст, Kiev	**AS Termo biznesa Centrs**	**AAS Baltikums**	**Total**
Value as at 31 December 2009	**2**	**1 288**	**2 975**	**4 265**
Acquisitions (payment in cash)	-	11	-	**11**
Dividends received	-	-	(155)	**(155)**
Share in net profit of associated companies	-	-	125	**125**
Liquidation	(2)	-	-	**(2)**
Value as at 31 December 2010	**-**	**1 299**	**2 945**	**4 244**
Disposed (cash received)	-	-	(1 720)	**(1 720)**
Share in net profit of associated companies	-	-	44	**44**
Value as at 31 December 2011	**-**	**1 299**	**1 269**	**2 568**

	Current assets LVL'000	Non-current assets LVL'000	Total assets LVL'000	Current liabilities LVL'000	Non-current liabilities LVL'000	Total liabilities LVL'000	Income LVL'000	Expenses LVL'000	Net profit LVL'000	Group share of total assets LVL'000	Group share of net profit LVL'000
31 December 2010											
AAS „Baltikums"	3 241	13 073	16 314	778	9 570	10 348	1 393	1 143	250	2 975	125
31 December 2011											
AAS „Baltikums"	4 951	11 552	16 503	1 005	9 307	10 312	2 613	2 387	226	1 204	44

The Bank sold 30.41% of shares in AAS „Baltikums" to its parent company AS „BBG". The net result of the sale is zero.

24. INTANGIBLE ASSETS

Group	Goodwill LVL'000	Software LVL'000	Total LVL'000
Acquisition cost			
At 31 December 2009	**21**	**519**	**540**
Acquired in the reporting period	576	45	621
Disposed in the reporting period	(160)	-	(160)
At 31 December 2010	**437**	**564**	**1 001**
Acquired in the reporting period	2 026	65	2 091
Disposed in the reporting period	(30)	(78)	(108)
At 31 December 2011	**2 433**	**551**	**2 984**
Amortization for the period			
At 31 December 2009	-	**264**	**264**
Amortization for the period	-	76	76
At 31 December 2010	-	**340**	**340**
Amortization for the period	-	2	2
At 31 December 2011	-	**342**	**342**
Net carrying amount			
At 31 December 2009	**21**	**255**	**276**
At 31 December 2010	**437**	**224**	**661**
At 31 December 2011	**2 433**	**209**	**2 642**

Bank	Software LVL'000	Total LVL'000
Acquisition cost		
At 31 December 2009	**516**	**516**
Acquired in the reporting period	45	45
At 31 December 2010	**561**	**561**
Disposed in the reporting period	(78)	(78)
Acquired in the reporting period	62	62
At 31 December 2011	**545**	**545**
Amortization		
At 31 December 2009	**261**	**261**
Amortization for the period	76	76
At 31 December 2010	**337**	**337**
Amortization for the period	2	2
At 31 December 2011	**339**	**339**
Net carrying amount		
At 31 December 2009	**255**	**255**
At 31 December 2010	**224**	**224**
At 31 December 2011	**206**	**206**

25. PROPERTY AND EQUIPMENT

	Real estate for own use LVL'000		Leasehold improvement LVL '000		Vehicles LVL '000		Office equipment LVL'000		Total LVL'000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
At 31 December 2009	1 255	1 255	169	169	90	90	485	477	1 999	1 991
Additions	-	-	-	-	-	-	181	180	181	180
Disposals	-	-	-	-	-	-	(26)	(26)	(26)	(26)
At 31 December 2010	1 255	1 255	169	169	90	90	640	631	2 154	2 145
Additions	-	-	-	-	42	42	68	53	110	95
Additions as a result of acquisition of a subsidiary	4 763	-	-	-	-	-	-	-	4 763	-
Disposals	(1 255)	(1 255)	-	-	(74)	(74)	(23)	(23)	(1 352)	(1 352)
At 31 December 2011	4 763	-	169	169	58	58	685	661	5 675	888
Depreciation										
At 31 December 2009	-	-	94	94	44	44	251	249	389	387
Depreciation	-	-	43	43	17	17	95	93	155	153
Disposals	-	-	-	-	-	-	(26)	(26)	(26)	(26)
At 31 December 2010	-	-	137	137	61	61	320	316	518	514
Depreciation	-	-	32	32	5	5	120	117	157	154
Disposals	-	-	-	-	(51)	(51)	(23)	(23)	(74)	(74)
At 31 December 2011	-	-	169	169	15	15	417	410	601	594
Net carrying amount										
At 31 December 2009	-	-	75	75	46	46	234	228	1 610	1 604
At 31 December 2010	-	-	32	32	29	29	320	315	1 636	1 631
At 31 December 2011	4 763	-	-	-	43	43	268	251	5 074	294

26. INVESTMENT PROPERTY

The investment property of the Group consists of the following property items:

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Real estate in Latvia	5 612	1 364	4 444	520
Real estate in Estonia	91	91	96	96
Real estate in Lithuania	1 980	1 980	1 978	1 978
Real estate in Bulgaria	366	-	366	-
	8 049	**3 435**	**6 884**	**2 594**

	Group LVL'000	Bank LVL'000
At 31 December 2009	**4 707**	**647**
Acquisition of investment property	408	42
Repossessed loan collaterals	1 978	1 978
Transfer from advances	(41)	(41)
Depreciation of buildings	(168)	(32)
At 31 December 2010	**6 884**	**2 594**
Acquisition of investment property	233	2
Reclassification and offset	1 322	1 322
Disposed	(308)	(538)
Depreciation of disposed assets	69	69
Depreciation of buildings	(151)	(14)
At 31 December 2011	**8 049**	**3 435**

The management has performed an assessment of fair value of investment property as at 31 December 2011 and 2010 using market data and discounted cash flows method, where possible. The management concluded that the fair value of investment property is not lower than its net carrying amount as at 31 December 2011 and 31 December 2010.

27. OTHER ASSETS

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Repossessed collateral – vessels	1 798	1 798	3 000	-
Cash with brokers for securities settlements	-	-	46	46
VAT overpayment	40	40	128	128
Receivables from SPOT deals	20	20	-	-
Receivables from transactions with credit cards MCEurop	24	24	-	-
Other debtors	985	75	513	101
Total other assets	**2 867**	**1 957**	**3 687**	**275**

Collateral (vessels) repossessed in 2010 were sold during the year 2011; related revaluation reserve was released.

28. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit institutions registered in Latvia	48	48	-	-
Credit institutions registered in other countries (non-OECD)	426	426	676	676
	474	**474**	**676**	**676**

As at 31 December 2011 the Bank had two banks (2010: 1) whose account balances exceeded 10% of total due to credit institutions. The total account balances of these banks or credit institutions as at 31 December 2011 amounted to LVL 295 thousand (2010: LVL 488 thousand).

29. LOANS FROM CREDIT INSTITUTIONS AND FINANCE COMPANIES

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit institutions registered in Latvia	-	-	984	-
Finance companies registered in Latvia	1 210	-	-	-
	1 210	**-**	**984**	**-**

30. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Current accounts:				
Financial institutions	690	690	3 407	3 540
Corporate entities	147 368	147 524	83 456	83 474
Individuals	17 675	17 675	5 135	5 135
	165 733	**165 889**	**91 998**	**92 149**
Term deposits:				
Credit institutions	169	169	-	-
Subordinated liabilities	898	898	-	-
Other financial institutions	568	568	518	2 189
Corporate entities	12 710	12 710	6 118	6 118
Individuals	6 205	6 205	2 593	2 593
	20 550	**20 550**	**9 229**	**10 900**
Deposits total	**186 283**	**186 439**	**101 227**	**103 049**

As at 31 December 2011, the Bank maintained customer deposit balances of LVL 2 989 thousand (2010: LVL 411 thousand) which were blocked by the Bank as collateral for loans and other credit instruments granted by the Bank.

As at 31 December 2011 the Bank had no customers/customer groups with deposits exceeding 10 % of the total customer deposits. As at 31 December 2010 the Bank had one customer/customer group with deposits exceeding 10% of the total customer deposits with the balance of LVL 13 300 LVL.

31. DEFERRED INCOME AND ACCRUED EXPENSES

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Prepaid income	5	5	46	8
Accrued expense	167	167	177	106
	172	**172**	**223**	**114**

32. PROVISIONS

	Group LVL'000	Bank LVL'000
At 31 December 2010	**147**	**139**
Increase in provisions	36	41
At 31 December 2011	**183**	**180**

Provisions consist of provisions for unused vacations of employees.

33. OTHER LIABILITIES

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Settlements related to credit cards	30	30	3	3
Settlements related to placing investments	-	63	195	195
Trade advances received	-	-	32	-
Other creditors	130	70	125	40
	160	**163**	**355**	**238**

34. DERIVATIVE ASSETS AND LIABILITIES

Group and Bank	2011 '000 LVL		2010 '000 LVL	
	Carrying amount	Notional amount	Carrying amount	Notional amount
Assets				
Future contracts	2 992	50 548	959	46 026
Total derivative financial assets	**2 992**	**50 548**	**959**	**46 026**
Liabilities				
Future contracts	114	47 670	575	45 643
Total derivative liabilities	**114**	**47 670**	**575**	**45 643**

As at 31 December 2011 the Bank had 25 foreign exchange forward contracts outstanding (2010: 25 contracts).

35. SHARE CAPITAL AND RESERVES

During year 2011 the share capital was increased by (profit distribution) issuing 638,000 shares at LVL 1 per share. As at 31 December 2011 the authorized share capital comprised 19,756,200 ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2011		2010	
	Quantity	**'000 LVL**	**Quantity**	**'000 LVL**
Share capital				
Ordinary shares with voting rights	19 756 200	19 756	19 118 200	19 118
	19 756 200	**19 756**	**19 118 200**	**19 118**

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of Latvia, at the end of reporting period, reserves available for distribution amount to LVL 2 448 thousand (2010: LVL 878 thousand).

Reserve capital amounting to LVL 17 thousand (2010: LVL 17 thousand) represents a historically-established reserve accumulated from retained earnings in accordance with the legislation of the Republic of Latvia. The reserve capital is not subject to any restrictions and can be distributed to the shareholders on the appropriate decision.

36. CASH AND CASH EQUIVALENTS

	2011		2010	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash and balance due from the Bank of Latvia	16 299	16 298	7 639	7 635
Due from credit institutions on demand and within 3 months	109 046	109 045	50 320	50 318
Due to credit institutions on demand and within 3 months	(643)	(643)	(676)	(676)
Total cash and cash equivalents	**124 702**	**124 700**	**57 283**	**57 277**

37. CONTINGENT LIABILITIES

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

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

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Unutilized loan facilities	6 265	6 265	3 939	3 939
Unutilized credit card facilities	614	614	450	450
Letters of credit	-	-	-	-
Guarantees	281	281	73	73
	7 160	**7 160**	**4 462**	**4 462**

Total contractual and above amounts of commitments to extend loans may not be equal to the cash flow required in the future as such commitments may expire before they are used.

38. LITIGATION

Management is unaware of any significant actual, pending or likely claims against the Group and Bank.

39. ASSETS UNDER MANAGEMENT

	2011		2010	
Assets under management	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Due from credit institutions registered in Latvia	12 048	12 048	1 675	1 675
Due from foreign credit institutions	7 880	7 880	880	880
Loans to customers	1 757	1 757	703	703
Non fixed-income securities	4 751	4 751	667	667
Fixed-income securities,	38 472	38 472	29 465	29 465
Of which: pledged under repo transactions	*366*	*366*	*5 645*	*5 645*
Other assets	2 371	2 371	2 414	2 414
Total assets under management	**67 279**	**67 279**	**35 804**	**35 804**
Liabilities under management				
Non-resident trust liabilities	65 418	65 418	34 008	34 008
Resident trust liabilities	1 861	1 861	1 796	1 796
Total liabilities under management	**67 279**	**67 279**	**35 804**	**35 804**

As at 31 December 2011 assets under management from related parties amounted to LVL 548 thousand. As at 31 December 2010 assets under management included transactions with related parties of the Bank in the amount of LVL 1 529 thousand.

40. TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders who have a significant influence over the Bank, companies in which they have a controlling interest, members of the Council and the Board, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies. All transactions with related parties have been carried out at an arm's length. For sale of share in an associate (AAS Baltikums) refer to Note 23.

Loans, deposits and other claims and liabilities to related parties include the following:

	2011		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loans to related parties	1 775	5 857	127	646
incl. the parent company	*1 423*	*1 423*	-	-
incl. subsidiaries	-	*4 082*	-	*519*
incl. Council and Board members	*8*	*8*	*17*	*17*
incl. other	*344*	*344*	*110*	*110*
Derivatives	12	12	28	28
Total loans and other claims	**1 787**	**5 869**	**155**	**674**
Term and demand deposits and loans	9 347	9 504	3 157	4 980
incl. from the parent company	*13*	*13*	*5*	*5*
incl. from subsidiaries	-	*157*	-	*1 822*
incl. from associated companies	*404*	*404*	*1 144*	*1 144*
incl. Council and Board members	*8 363*	*8 363*	*1 768*	*1 768*
incl. from others	*567*	*567*	*240*	*241*
Loans from other Group companies	1 210	-	-	-
Total deposits and liabilities	**10 557**	**9 504**	**3 157**	**4 980**
Contingent liabilities and commitments	**112**	**112**	**183**	**183**

	2011		2010	
	Group Interest rate %	Bank Interest rate %	Group Interest rate %	Bank Interest rate %
Loans to related parties	4,68	4,68	6,77	6,77
Term and demand deposits	0,55	0,55	3,67	3,67

Remuneration to the members of the Council and the Board in 2011 was LVL 254 thousand (2010: LVL 212 thousand).

	2011		2010	
	Group	Bank	Group	Bank
Income from related party transactions	LVL'000	LVL'000	LVL'000	LVL'000
Commission income	27	30	6	11
Interest income	130	199	56	82
Dividends	-	165	155	155
Other income	14	204	50	59
Expenses from related party transactions				
Interest expenses	6	7	26	29
Other expenses	49	275	21	179
Rent payments	125	125	258	258

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of financial assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2011 was as follows:

2011 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
Financial assets							
Cash and demand deposits with central banks	16 298	-	-	-	-	-	**16 298**
Deposits with credit institutions	109 045	2 845	1 407	-	-	-	**113 297**
Financial assets at fair value through profit or loss	16 224	6	6	795	-	-	**17 031**
Available-for-sale financial assets	-	-	-	-	-	34	**34**
Loans and receivables	8 154	56	1 021	3 225	6 694	4 086	**23 236**
Held-to-maturity financial assets	0	2 716	7 435	2 514	11 560	265	**24 490**
Total financial assets	**149 721**	**5 623**	**9 869**	**6 534**	**18 254**	**4 385**	**194 386**
Financial liabilities							
Due to credit institutions on demand	474	-	-	-	-	-	**474**
Derivatives	114	-	-	-	-	-	**114**
Financial liabilities carried at amortized cost	182 031	587	1 182	483	2 156	-	**186 439**
Total financial liabilities	**182 619**	**587**	**1 182**	**483**	**2 156**	**-**	**187 027**
Maturity gap	**(32 898)**	**5 036**	**8 687**	**6 051**	**16 098**	**4 385**	**7 359**
Contingent liabilities and commitments	**6 909**	**59**	**192**	**-**	**-**	**-**	**7 160**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The table below reflects the maturity analysis of financial assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2010 was as follows:

2010 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
Financial assets							
Cash and due from the Bank of Latvia	7 635	-	-	-	-	-	**7 635**
Deposits with credit institutions	50 318	-	-	-	27	-	**50 345**
Financial assets at fair value through profit or loss	20 076	-	-	-	-	-	**20 076**
Available-for-sale financial assets	-	-	-	-	-	34	**34**
Loans and receivables	8 711	77	364	2 355	7 347	1 002	**19 856**
Held-to-maturity financial assets	-	401	3 166	1 717	5 378	256	**10 918**
Total financial assets	**86 740**	**478**	**3 530**	**4 072**	**12 752**	**1 292**	**108 864**
Financial liabilities							
Due to credit institutions on demand	676	-	-	-	-	-	**676**
Derivatives	575	-	-	-	-	-	**575**
Financial liabilities carried at amortized cost	99 319	621	1 434	445	1 230	-	**103 049**
Total financial liabilities	**100 570**	**621**	**1 434**	**445**	**1 230**	**-**	**104 300**
Maturity gap	**(18 262)**	**(173)**	**2 096**	**3 627**	**11 522**	**1 292**	**102**
Contingent liabilities and commitments	**4 432**	**30**	**-**	**-**	**-**	**-**	**4 462**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

42. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

LVL'000

31 December 2011	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
Non-derivative liabilities						
Due to credit institutions on demand	474	(474)	(474)	-	-	-
Customers' deposits	186 439	(186 439)	(182 031)	(587)	(1 665)	(2 156)
Total non-derivative liabilities	**186 913**	**(186 913)**	**(182 505)**	**(587)**	**(1 665)**	**(2 156)**
Derivative liabilities						
Trading: outflow	11 087	(11 087)	(11 087)	-	-	-
Trading: inflow	(10 973)	10 973	10 973	-	-	-
Total derivative liabilities	**(114)**	**(114)**	**(114)**	**-**	**-**	**-**
Contingent liabilities and commitments	7 160	(7 160)	(6 909)	(59)	(192)	-
Total liabilities	**194 187**	**(194 187)**	**(189 528)**	**(646)**	**(1 857)**	**(2 156)**

LVL'000

31 December 2010	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
Non-derivative liabilities						
Due to credit institutions on demand	676	(676)	(676)	-	-	-
Customers' deposits	103 049	(103 334)	(99 293)	(639)	(1 918)	(1 484)
Total non-derivative liabilities	**103 725**	**(104 010)**	**(99 969)**	**(639)**	**(1 918)**	**(1 484)**
Derivative liabilities						
Trading: outflow	31 702	(31 702)	(29 475)	-	(2 227)	-
Trading: inflow	(31 127)	31 127	29 019	-	2 108	-
Total derivative liabilities	**575**	**(575)**	**(456)**	**-**	(119)	**-**
Contingent liabilities and commitments	4 462	(4 462)	(4 432)	(30)	-	-
Total liabilities	**108 762**	**(109 047)**	**(104 857)**	**(669)**	**(2 037)**	**(1 484)**

43. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 20% of the equity.

The LVL equivalent of assets and liabilities as at 31 December 2011 by the currencies in which they are denominated is as follows:

2011 LVL'000	LVL LVL'000	USD LVL'000	EUR LVL'000	Other currencies LVL'000	Total LVL'000
Financial assets					
Cash and demand deposits with central banks	13 224	87	2 952	35	**16 298**
Deposits with credit institutions	14	30 332	63 917	19 034	**113 297**
Financial assets at fair value through profit or loss	-	15 453	1 505	73	**17 031**
Available-for-sale financial assets	-	-	34	-	**34**
Loans and receivables	244	12 945	10 035	12	**23 236**
Held-to-maturity financial assets	-	23 578	912	-	**24 490**
Total financial assets	**13 482**	**82 395**	**79 355**	**19 154**	**194 386**
Financial liabilities					
Due to credit institutions on demand	-	314	155	5	**474**
Derivatives	4	22	87	1	**114**
Financial liabilities carried at amortized cost	1 562	110 271	56 756	17 850	**186 439**
Total financial liabilities	**1 566**	**110 607**	**56 998**	**17 856**	**187 027**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	1 049	43 607	12 849	1 581	**59 086**
Spot and forward transaction liabilities	(1 400)	(12 539)	(39 347)	(2 905)	**(56 191)**
Net long/short currency position	**11 565**	**2 856**	**(4 141)**	**(26)**	**10 254**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

43. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 20% of the equity.

The LVL equivalent of assets and liabilities as at 31 December 2010 by the currencies in which they are denominated is as follows:

2010 **LVL'000**	**LVL** **LVL'000**	**USD** **LVL'000**	**EUR** **LVL'000**	**Other currencies** **LVL'000**	**Total** **LVL'000**
Financial assets					
Cash and due from the Bank of Latvia	5 488	147	1 988	12	**7 635**
Deposits with credit institutions	7 504	14 830	18 530	9 481	**50 345**
Financial assets at fair value through profit or loss	959	17 427	1 690	-	**20 076**
Available-for-sale financial assets	-	-	34	-	**34**
Loans and receivables	200	12 701	6 955	-	**19 856**
Held-to-maturity financial assets	-	9 182	1 736	-	**10 918**
Total financial assets	**14 151**	**54 287**	**30 933**	**9 493**	**108 864**
Financial liabilities					
Due to credit institutions on demand	-	195	453	28	**676**
Derivatives	575	-	-	-	**575**
Financial liabilities carried at amortized cost	2 546	53 970	36 955	9 578	**103 049**
Total fiancial liabilities	**3 121**	**54 165**	**37 408**	**9 606**	**104 300**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	2 141	40 902	42 034	815	**85 892**
Spot and forward transaction liabilities	(3 100)	(41 767)	(40 485)	(350)	**(85 702)**
Net long/short currency position	**10 071**	**(743)**	**(4 926)**	**352**	**4 754**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

44. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to the changes in the value of financial instruments as a result of changes in the market rates. As at 31 December 2011, interest rate re-pricing categories were:

2011 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL '000
ASSETS								
Cash and demand deposits with central banks	15 802	-	-	-	-	-	496	**16 298**
Deposits with credit institutions	109 039	2 838	1 406	-	-	-	14	**113 297**
Financial assets at fair value through profit or loss	4 516	1 972	1 792	743	5 811	1 142	1 055	**17 031**
Available-for-sale financial assets	-	-	-	-	-	-	34	**34**
Loans and receivables	11 527	56	1 019	1 803	4 790	3 974	67	**23 236**
Held-to-maturity financial assets	-	2 654	7 388	2 488	11 360	262	338	**24 490**
Total assets	**140 884**	**7 520**	**11 605**	**5 034**	**21 961**	**5 378**	**17 486**	**209 868**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	(474)	-	-	-	-	-	-	**(474)**
Derivatives	(114)	-	-	-	-	-	-	**(114)**
Financial liabilities carried at amortized cost	(22 409)	(719)	(1 163)	(477)	(1 283)	-	(160 388)	**(186 439)**
Total liabilities and equity	**(22 997)**	**(719)**	**(1 163)**	**(477)**	**(1 283)**	**-**	**(183 229)**	**(209 868)**
Interest rate risk net position	**117 887**	**6 801**	**10 442**	**4 557**	**20 678**	**5 378**	**(165 743)**	**-**
Interest rate risk gross (cumulative) position	**117 887**	**124 688**	**135 130**	**139 687**	**160 365**	**165 743**	**-**	**-**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

44. REPRICING MATURITY ANALYSIS (BANK) (continued)

Interest rate risk relates to the changes in the value of financial instruments as a result of changes in the market rates. As at 31 December 2010, interest rate re-pricing categories were:

2010 LVL'000	Up to 1 month including	From 1 months to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL '000
ASSETS								
Cash and due from the Bank of Latvia	7 265	-	-	-	-	-	370	**7 635**
Deposits with credit institutions	50 317	-	-	-	27	-	1	**50 345**
Financial assets at fair value through profit or loss	958	509	816	3 434	9 997	4 135	227	**20 076**
Available-for-sale financial assets	-	-	-	-	-	-	34	**34**
Loans and receivables	10 719	66	315	2 815	4 661	1 002	278	**19 856**
Held-to-maturity financial assets	-	401	3 166	1 717	5 172	256	206	**10 918**
Total assets	**69 259**	**976**	**4 297**	**7 966**	**19 857**	**5 393**	**17 397**	**125 145**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	(676)	-	-	-	-	-	-	**(676)**
Derivatives	(575)	-	-	-	-	-	-	**(575)**
Financial liabilities carried at amortized cost	(21 957)	(621)	(1 434)	(445)	(1 230)		(77 362)	**(103 049)**
Total liabilities and equity	**(23 208)**	**(621)**	**(1 434)**	**(445)**	**(1 230)**	**-**	**(98 207)**	**(125 145)**
Interest rate risk net position	**46 051**	**355**	**2 863**	**7 521**	**18 627**	**5 393**	**(80 810)**	**-**
Interest rate risk gross (cumulative) position	**46 051**	**46 406**	**49 269**	**56 790**	**75 417**	**80 810**	**-**	**-**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

45. CAPITAL ADEQUACY CALCULATION (BANK)

	2011 '000 LVL	2010 '000 LVL
Tier 1		
Share capital	19 756	19 118
Reserves	17	17
Retained earnings for the previous periods	240	739
Profit of the year	2 208	139
Intangible assets	(206)	(224)
Other deductions	(468)	(1 416)
Total Tier 1	**21 547**	**18 373**
Tier 2 capital	**698**	-
Reduction of Tier 1 capital and Tier 2 capital	-	(2 820)
Shareholder s equity	**22 245**	**15 553**
Risk-weighted value		
Bank s portfolio	94 846	58 038
Trading portfolio	16 220	28 288
Operating risk	17 028	14 663
Total risk weighted assets	**128 094**	**100 989**
Total capital as percentage of risk weighted assets (total capital ratio)	**17%**	**15%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("Tier 1 capital ratio")	**17%**	**15%**

As at 31 December 2011, the Bank's capital adequacy ratio was 17% (2010: 15%) which is above the minimum required ratio of 8% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission of Latvia.

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group and Bank have performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The estimated fair values of financial instruments at fair value through profit or loss and quoted available-for-sale securities are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instrument at the reporting date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of all financial instruments of the Company approximatetheir carrying amounts as at 31 December 2011 and 2010.