Contents

AS DNB banka
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A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL

During the course of 2012 DNB banka continued its sustainable growth paying special attention to its customer service, cost effectiveness and offering beneficial financial products and services basing on the current and future needs of our customers, benefiting also on the wide knowledge base and strong experience of its mother bank DNB – the biggest financial group in Norway.

Results summary

DNB Latvia Group's operating income reached LVL 50,6 million at the end of December 2012, which is 17% higher than a year before. The group's operating profit before provisions and taxes was at a level of LVL 19,7 million at the end of 2012 which is 28% higher than on December 31, 2011. During 2012 the DNB Latvia Group earned a total profit of LVL 9,1 million.

DNB Latvia group's lending portfolio before provisions in Latvia amounted to LVL 1,5 billion at the end of December. DNB group's deposit portfolio, 96% of which consists of resident deposits, at the end of 2012 was 17% higher than at the beginning of the year amounting to LVL 657 million. In 2012 DNB banka has succeeded in improving the loan to deposit ratio – at the end of 2012 it was 190% which is significantly better than 229% at the end of 2011.

DNB Markets in 2012 continued its development in three primary business areas – corporate financial risk hedge solutions, electronic trading systems and fixed income. By applying knowledge and experience from DNB Markets in Oslo it successfully expanded services in financial risk management for large corporate customers including hedging of commodity and interest rate risk exposures.

High evaluation by existing and potential customers

The significance of DNB Latvia Group strong shareholder, positive reputation and professional work is reflected by the high level of recognition for the bank among its existing customers and in the labour market. During 2012 more than 4 000 companies and 27 000 new private persons chose DNB banka as their bank.

According to the "Baltic Banking 2012" study, which was conducted by the independent EPSI Rating research firm, among the country's top 5 banks DNB banka for the second year already was ranked as No.1 from both legal entities and private individuals in terms of both satisfaction and loyalty.

DNB banka also has a good reputation in the labour market. Several studies have found that the bank is among the top 20 most attractive employers in Latvia, and one of the bank's strategic goals for the next several years is to pay special attention to strengthening its positive reputation as an employer.

DNB banka: A socially responsible company

DNB banka continued to pursue several projects of social responsibility in 2012 that are of high importance to the people of Latvia. For five years now, the DNB Latvian Barometer has been the only study in the country to research the moods, opinions and attitudes of the people of Latvia regularly and in the long term when it comes to various socioeconomic issues, and it has been highly evaluated among specialists, politicians, economists, academic environment and wide publics in Latvia.

The "Latvia Can!" project is being implemented in partnership with the magazine *Ir* and Latvian Television. The project is aimed at showing that there are people and companies in Latvia which have reached outstanding success in the fields of science, technologies, exports, etc.

A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL (continued)

The internet portal www.nekrize.lv established by DNB banka has been repositioned at offering SMEs and people preparing to start their own business the possibility to receive information, find answers to questions, to share experiences, and to receive the views of recognised economic, sociological, financial and other specialists on the ways of more effective and profitable development of businesses in Latvia.

Terje Turnes	Aasmund Skaar
Chairman of the Supervisory Council	CEO, Chairman of the Management Board

Riga
18 March 2013

The Supervisory Council and the Management Board of the Bank as of 31 December 2012

The Supervisory Council

Name	*Institution*	*Position*	*Date of appointment*
Terje Turnes	DNB Bank ASA	Chairman of the Supervisory Council	1 March 2011
Tony Samuelsen	DNB Bank ASA	Vice Chairman of the Supervisory Council	14 June 2012*
Margrethe Melbye Gronn	DNB Bank ASA	Member of the Supervisory Council	22 February 2010
Eline Skramstad	DNB Bank ASA	Member of the Supervisory Council	11 December 2012
Olaf Tronsgaard	DNB Bank ASA	Member of the Supervisory Council	28 May 2012

* From 26 March 2008 till 14 June 2012 Tony Samuelsen was a member of the Supervisory Council

The following members of the Supervisory Council have left their positions since 31 December 2011:

Name	*Institution*	*Position*	*Date of resignation*
Ola Landmark	DNB Bank ASA	Member of the Supervisory Council	11 December 2012
Jekaterina Titarenko	DNB Bank ASA	Vice Chairman of the Supervisory Council	1 April 2012

The Management Board

Name	*Position*	*Date of appointment*
Aasmund Skaar	CEO, Chairman of the Management Board	1 September 2012
Ole Christian Karterud	CRO, Member of the Management Board	1 April 2012
Tom Erdal	CFO, Member of the Management Board	1 January 2012
Ivars Kapitovics	Head of Retail Banking, Member of the Management Board	10 August 2006
Janis Teteris	Head of Corporate Banking, Member of the Management Board	1 August 2009

The following members of the Management Board have appointed their positions after 31 December 2012:

Name	*Position*	*Date of appointment*
Dace Kaulina	Head of HR Department, Member of the Management Board	25 January 2013
Intars Sloka	COO, Member of the Management Board	25 January 2013

The following members of the Management Board have left their positions since 31 December 2011:

Name	*Position*	*Date of resignation*
Andris Ozolins	Chairman of the Management Board	1 September 2012
Sigfred Andersen	Member of the Management Board	1 April 2012

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of AS DNB banka are responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 7 to 71 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2012 and the results of their operations and cash flows for the year ended 31 December 2012.

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

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

Aasmund Skaar CEO, Chairman of the Management Board	Ole Christian Karterud Member of the Management Board	Tom Erdal CFO, Member of the Management Board	Ivars Kapitovics Member of the Management Board

Janis Teteris Member of the Management Board	Dace Kaulina Member of the Management Board	Intars Sloka Member of the Management Board

Riga
18 March 2013

INDEPENDENT'S AUDITORS REPORT

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INDEPENDENT AUDITORS' REPORT

To the shareholder of AS DNB banka

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS DNB banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS DNB banka (hereinafter - the Bank), which are set out on pages 7 through 71 of the accompanying 2012 Annual Report, which comprise the financial position as at 31 December 2012, the statement of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2012 (set out on pages 2 through page 3 of the accompanying 2012 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2012.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board

Mārtiņš Valters
Latvian Certified Auditor
Certificate No. 185

Riga, 18 March 2013

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Notes	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Interest income	5	54,671	65,182	51,682	61,984
Interest expense	6	(23,028)	(33,417)	(21,518)	(31,148)
Net interest income		**31,643**	**31,765**	**30,164**	**30,836**
Fees and commission income	7	13,146	11,073	12,090	10,748
Fees and commission expense	8	(3,795)	(3,513)	(3,775)	(3,512)
Net fees and commissions		**9,351**	**7,560**	**8,315**	**7,236**
Net gain/ (loss) from operations with foreign currency, trading securities and derivative financial instruments	9	7,093	1,948	7,031	1,983
Net result from operations with investment property	10	1,415	(990)	204	1,803
Other operating income	11	1,099	3,063	2,026	2,838
Dividend income		5	2	402	424
Operating income		**50,606**	**43,348**	**48,142**	**45,120**
Personnel expenses	12	(12,749)	(11,952)	(12,307)	(11,657)
Other administrative expenses	12	(14,487)	(11,206)	(15,038)	(11,137)
Depreciation	21, 22	(3,073)	(3,892)	(2,266)	(2,406)
Other operating expenses	13	(623)	(969)	(484)	(619)
Net allowances for impairment loss	25	(10,294)	(89,361)	(9,985)	(92,079)
Profit before income tax		**9,380**	**(74,032)**	**8,062**	**(72,778)**
Corporate income tax	14	(252)	(13)	(459)	(2)
Profit for the period from continuing operations		**9,128**	**(74,045)**	**7,603**	**(72,780)**
Total comprehensive profit		**9,128**	**(74,045)**	**7,603**	**(72,780)**
Profit attributable to:					
Equity holders of the Bank		9,128	(74,045)	7,603	(72,780)
Total comprehensive profit attributable to:					
Equity holders of the Bank		9,128	(74,045)	7,603	(72,780)

The financial statements on pages 7 to 71 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes	Aasmund Skaar	Tom Erdal
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga,
18 March 2013

The accompanying notes are an integral part of these financial statements

Consolidated statement of financial position at 31 December 2012

Assets	**Notes**	**2012 Group LVL'000**	**2011 Group LVL'000**	**2012 Bank LVL'000**	**2011 Bank LVL'000**
Cash and balances with central banks	15	65,616	76,907	65,616	76,907
Due from other credit institutions (demand)	16	19,000	24,793	18,613	24,562
Derivatives	20	14,054	11,812	14,054	11,812
Financial assets designated at fair value through profit or loss	18	66,097	59,125	66,097	59,125
-- Debt securities and other fixed income securities		*65,714*	*58,746*	*65,714*	*58,746*
-- Investment funds		*383*	*379*	*383*	*379*
Financial assets available-for-sale		26	10	26	10
Loans and advances		1,405,292	1,376,458	1,376,870	1,351,235
-- Due from other credit institutions (term)	16	*159,815*	*93,662*	*159,815*	*93,662*
-- Loans to customers	17	*1,245,477*	*1,282,796*	*1,217,055*	*1,257,573*
Accrued income and deferred expenses		672	622	452	492
Investment property	23	40,535	38,375	16,778	17,287
Property and equipment	22	24,448	26,133	5,368	5,787
Intangible assets	21	1,669	1,187	1,311	832
Investments in subsidiaries	19	-	-	6,027	5,827
Deferred corporate income tax	14	6,026	6,483	6,026	6,483
Current corporate income tax		345	14	14	14
Other assets	24	5,941	10,816	2,602	6,096
Total assets		**1,649,721**	**1,632,735**	**1,579,854**	**1,566,469**

The financial statements on pages 7 to 71 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes	Aasmund Skaar	Tom Erdal
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga,
18 March 2013

The accompanying notes are an integral part of these financial statements

Consolidated statement of financial position at 31 December 2012 *(continued)*

Liabilities	**Notes**	**2012 Group LVL'000**	**2011 Group LVL'000**	**2012 Bank LVL'000**	**2011 Bank LVL'000**
Liabilities to credit institutions on demand	26	20,535	12,370	20,535	12,370
Derivatives	20	16,193	13,851	16,193	13,851
Financial liabilities at amortised cost:		1,447,309	1,451,273	1,352,504	1,356,945
-- Due to credit institutions (term)	26	*789,896*	*890,388*	*691,368*	*788,147*
-- Deposits from customers and other financial liabilities	27	*657,413*	*560,885*	*661,136*	*568,798*
Accrued expenses and deferred income	28	3,835	2,519	3,703	2,426
Deferred tax liability	14	51	537	-	-
Income tax liability		274	-	-	-
Other liabilities	29	3,845	3,633	1,900	1,757
Provisions	30	167	167	23,792	25,496
Total liabilities		**1,492,209**	**1,484,350**	**1,418,627**	**1,412,845**
Shareholders' equity					
Share capital	31	134,361	134,361	134,361	134,361
Share premium		48,994	48,994	48,994	48,994
Reserve capital		157,511	157,511	157,511	157,511
Revaluation reserve		35	35	35	35
Accumulated result		(183,389)	(192,516)	(179,674)	(187,277)
Total shareholders' equity attributable to the shareholders of the Bank		**157,512**	**148,385**	**161,227**	**153,624**
Total shareholders' equity		**157,512**	**148,385**	**161,227**	**153,624**
Total liabilities and shareholders' equity		**1,649,721**	**1,632,735**	**1,579,854**	**1,566,469**

The financial statements on pages 7 to 71 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes	Aasmund Skaar	Tom Erdal
Chairman of the Supervisory Council	CEO, Chairman of the Management Board	CFO, Member of the Management Board

Riga,
18 March 2013

The accompanying notes are an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2012

Group

	Share capital LVL'000	Share premium LVL'000	Reserve capital LVL'000	Revaluation reserve LVL'000	Accumulated result LVL'000	Total LVL'000
At 1 January 2011	**134,361**	**48,994**	**53,302**	**133**	**(118,472)**	**118,318**
(Loss) for the year	-	-	-	-	(74,045)	**(74,045)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**(74,045)**	**(74,045)**
Decrease of revaluation reserve	-	-	-	(98)	-	**(98)**
Increase of reserve capital	-	-	104,209	-	-	**104,209**
At 31 December 2011	**134,361**	**48,994**	**157,511**	**35**	**(192,517)**	**148,384**
Profit for the year	-	-	-	-	9,128	**9,128**
Total comprehensive income	**-**	**-**	**-**	**-**	**9,128**	**9,128**
Decrease of revaluation reserve	-	-	-	-	-	**-**
Increase of reserve capital	-	-	-	-	-	**-**
At 31 December 2012	**134,361**	**48,994**	**157,511**	**35**	**(183,389)**	**157,512**

Bank	Share capital LVL'000	Share premium LVL'000	Reserve capital LVL'000	Revaluation reserve LVL'000	Accumulated result LVL'000	Total LVL'000
At 1 January 2011	**134,361**	**48,994**	**53,302**	**133**	**(114,497)**	**122,293**
(Loss) for the year	-	-	-	-	(72,780)	**(72,780)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**(72,780)**	**(72,780)**
Decrease of revaluation reserve	-	-	-	(98)	-	**(98)**
Increase of reserve capital	-	-	104,209	-	-	**104,209**
At 31 December 2011	**134,361**	**48,994**	**157,511**	**35**	**(187,277)**	**153,624**
Profit for the year	-	-	-	-	7,603	**7,603**
Total comprehensive income	**-**	**-**	**-**	**-**	**7,603**	**7,603**
Decrease of revaluation reserve	-	-	-	-	-	**-**
Increase of reserve capital	-	-	-	-	-	**-**
At 31 December 2012	**134,361**	**48,994**	**157,511**	**35**	**(179,674)**	**161,227**

The accompanying notes are an integral part of these financial statements

Consolidated statement of cash flow for the year ended 31 December 2012

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Cash flow from operating activities				
Profit/ (Loss) before income tax and dividends	9,380	(74,032)	8,062	(72,778)
Depreciation and amortization of intangible assets and property and equipment	3,073	3,892	2,266	2,406
(Decrease)/ Increase in provisions for doubtful debts and off-balance sheet liabilities	(21,428)	81,003	(20,493)	83,874
(Profit)/ Loss from revaluation of securities, derivatives and loans	(2,775)	364	(2,775)	364
Loss/ (Profit) from revaluation of fixed assets	-	126	-	126
(Profit)/ Loss from revaluation of investment property	(2,464)	890	(1,157)	(1,989)
(Profit) from sale of fixed and intangible assets	(73)	(31)	(70)	(5)
Dividends received	(5)	(2)	(402)	(424)
Loss from foreign currency revaluation	120	30	122	30
Cash flow from operating activities before changes in assets and liabilities	**(14,172)**	**12,240**	**(14,447)**	**11,604**
Decrease in loans and advances to customers	57,192	75,118	59,710	57,752
(Increase) in due from credit institutions	(722)	(8)	(722)	(8)
Decrease in derivatives	833	1,216	833	1,216
(Increase)/ Decrease in financial assets designated at fair value through profit and loss	(5,989)	79,642	(5,989)	79,642
(Increase) in due to credit institutions	(100,492)	(197,544)	(96,779)	(176,475)
(Increase)/ Decrease in accrued income and deferred expenses	(50)	58	40	87
Decrease in other assets and taxes	5,001	5,887	3,495	2,812
Increase in clients deposits	96,529	79,938	92,339	77,360
Increase/ (Decrease) in derivatives	2,342	(1,568)	2,342	(1,568)
Increase in accrued expenses and deferred income	1,315	1,761	1,277	1,734
(Decrease) in other liabilities	-	(1,527)	(1,562)	(2,204)
Increase in cash and cash equivalents as a result of operating activities	**41,787**	**55,213**	**40,537**	**51,952**
Cash flow from investing activities				
(Acquisition) of property and equipment and intangible assets	(2,612)	(2,167)	(2,398)	(2,026)
Sale of property and equipment and intangible assets	816	1,715	141	272
(Acquisition) of participation in share capital of subsidiary and Business Unit	-	-	(200)	(4,280)
Sale/ (Acquisition) of investment property	303	(24,369)	1,666	(15,850)
(Decrease)/ Increase in cash and cash equivalents as a result of investment activities	**(1,493)**	**(24,821)**	**(791)**	**(21,884)**

The accompanying notes are an integral part of these financial statements

Consolidated statement of cash flow for the year ended 31 December 2012 *(continued)*

	Note	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Cash flow from financing activities					
Increase of reserve capital		-	104,209	-	104,209
(Decrease) Subordinated liabilities		-	(54,488)	-	(54,488)
Dividends received		5	2	402	424
Increase in cash and cash equivalents as a result of financing activities		**5**	**49,723**	**402**	**50,145**
Net increase in cash and cash equivalents		**40,299**	**80,115**	**40,148**	**80,213**
Cash and cash equivalents at the beginning of the year		182,111	102,026	181,880	101,697
(Loss) of foreign currency revaluation on cash and cash equivalents		(120)	(30)	(122)	(30)
Cash and cash equivalents at the end of the year	15	**222,290**	**182,111**	**221,906**	**181,880**

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Cash flow from interest received	55,979	66,070	52,951	62,821
Cash flow from interest paid	25,910	35,920	24,196	33,670
Dividends received	5	2	402	424

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS DNB banka was established as Riga Commercial Bank on 26 June 1989. On 6 September 1991 it was incorporated in the Republic of Latvia as a joint stock company. The Bank and its subsidiaries (the Group) are engaged in banking and the financial services business.

On June 30, 2011 DNB Bank ASA (former DnB NOR Bank ASA) has acquired from Bank DNB A/S (former Bank DnB NORD A/S) all Bank shares which belonged to Bank DNB A/S (Denmark) and constituted 100% of share capital of Bank; DNB Bank ASA (Norway) became the direct shareholder of the Bank.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Reporting Currency

The accompanying financial statements are reported in thousands of lats (LVL'000), unless otherwise stated.

b) Basis of Presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss, derivative contracts and the Group's and Bank's buildings and investment properties which are measured at fair value.

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

These financial statements comprise of both, the financial statements of the parent company AS DNB banka and the consolidated statements.

c) Consolidation

Subsidiary undertakings in which the Bank, directly or indirectly, has the power to exercise control over financial and operating policies, have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal or when the control ceases. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

d) Income and Expense Recognition

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect to financial assets or liabilities not at fair value through profit or loss are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other commissions and fees are credited and/ or charged to the income statement as earned/ incurred.

e) Foreign Currency Translation

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

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal rates of exchange (LVL to 1 foreign currency unit) set by the Bank of Latvia and used in the preparation of the Group's and the Bank's balance sheets were as follows:

Reporting date	USD	EUR
As at 31 December 2012	0,531	0,702804
As at 31 December 2011	0,544	0,702804

f) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liability is calculated using the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

g) Cash and Cash Equivalents

For purposes of the cash flow statements cash and cash equivalents comprise cash balances, balances due from the central banks, due from other credit institutions with original maturity less than 3 months and insignificant risk due to change in value, less balances on demand due to other credit institutions.

h) Loans and receivables and allowances for loan impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and advances are recognised in the balance sheet when cash is advanced to borrowers. For the purposes of these financial statements, finance lease receivables are included in loans and advances to non-banking customers.

A credit risk allowances for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the current interest rate of the loans.

The Group first assesses whether objective evidence of impairment exists individually for material loans. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment loans are grouped on a basis of similar credit risk characteristics.

The Group reviews their loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is possible, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries are credited to the income statement.

Allowances for individual loan impairment are made in the currency of the related asset and are subject to revaluation at period end at the rate set by the Bank of Latvia. Foreign exchange rate differences arising from such revaluation are recorded in the income statement as additional allowances or income from the recovery of existing allowances (if any). The corresponding result of revaluing the respective asset covered by the allowances for loan impairment is recorded as profit/ loss to foreign currency transactions. Allowances for collective loan impairment are made in LVL.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Loans and receivables and allowances for loan impairment (continued)

Individual and collective Impairments

Material loans are subject for quarterly individual assessment of provision need if at least one loss event has occurred, e.g. one or more commitments of the customer are overdue more than 90 days (principal or interest), restructuring of one or more commitments of the customer, customer has major financial problems or other issues that will lead to major financial problems, customer has breached financial covenants / other covenants that affects the customer's ability to service his liabilities, suspension or revocation of license held by the customer engaged in licensed activities, significant drop in rating class etc. If the Group determines that no loss event has occurred for specific loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment (using IBNR approach, where provisions amount is based on historical loss rate for specific group and probability of becoming impaired).

Immaterial loans are assessed quarterly on the basis of portfolios, i.e. mortgage loans, private RE loans, small and medium size loans to legal entities (mainly SME's), as well as active lease agreements. Within each portfolio approach differs based on loans quality – number of overdue days and status of restructuring. The main part of immaterial loans is mortgage and private RE loans (both of those groups are loans issued to private individuals secured with real estate collateral). In case of non-performing (>90 days overdue) loans, provisions are made based on information about current collateral values, chosen foreclosure strategy, estimated expenses related to collateral realisation as well as potential recovery of uncovered loan amount after realisation of collateral. If loan is not due or delayed up to 90 days or restructured, impairment is calculated based on historical and estimated migration to non-performing status. Impairment for non-performing loans is classified as specific provisions while impairment for restructured loans is classified as pool provisions, impairment for performing loans are classified as IBNR or pool provisions.

Impairment for terminated leasing agreements are calculated based on realised losses, in case of factoring and consumer loans impairment is calculated based on overdue days.

Restructured loans

Where possible, the Bank seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting the payment schedule made by a borrower in a manner matching the borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and the agreement of new loan conditions. If the customer faces long term financial difficulties, the Bank together with the customer if possible is looking for long term solution (e.g. extended maturity, voluntarily sales of property etc.) Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. Restructured loans continue to be subject to an individual or collective impairment assessment on a quarterly basis.

The Bank recognises decreasing provisions for impairment losses due to shortening of discounting period of expected cash flows and treats it as a part of interest income.

i) Leases - when the Group or the Bank is a lessor

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific assets and the arrangement conveys a right to use the asset.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Contingent rents are recognised as revenue in the period in which they are earned.

Assets under operating leases are recognised as equipment at historical cost net of accumulated depreciation. Depreciation is calculated on a straight-line. Assets are depreciated till its residual value over the estimated useful life of property and equipment that is determined based on useful lives of similar assets of the Group and the Bank. Rentals receivable under operating leases are credited to the income statement on a straight-line basis over the lease term and presented in other income.

***Notes to the Financial Statements** (continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Leases - *when the Group or the Bank is a lessor (continued)*

If a sale and leaseback transaction results in an operating lease and the sales price is above fair value of the asset sold, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

j) Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit and loss are designated by management on initial recognition as a part of financial assets which are managed and their performance evaluated on a fair value basis.

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of financial assets at fair value through profit or loss is derived from the value of an instrument that is substantially the same or from discounted cash flow models. Gains and losses arising from changes in the fair value of financial assets are recognised in the income statement.

Interest earned whilst holding financial assets at fair value through profit or loss is recorded as interest income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at settlement date.

k) Subsidiaries

Investments in subsidiaries in the Bank's financial statements are accounted for under the cost method.

The Bank recognises income from investment only to the extent that the Bank receives dividends from the accumulated profit of the subsidiaries arising after the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If there is objective evidence that an impairment loss on investments in subsidiaries carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of investment. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

l) Property and Equipment

Property is valued at fair value. Equipment and other assets are recorded at cost, less accumulated depreciation, revaluation method is being applied.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to write off the cost or revaluated amount of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual Rate
Buildings	1% – 2%
Building parts	2% – 6%
Engineering networks and equipment	4%
Office equipment	10% – 20%
Network and computer equipment	20% –25%
Vehicles	20%

Maintenance and repair costs are charged to the income statement as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

***Notes to the Financial Statements** (continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Property and Equipment

Revaluation reserve

The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified values. The fair value of items of plant and equipment is their market value determined by appraisal.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

m) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

n) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the straight-line basis basis of their expected useful lives, not exceeding five years.

o) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps and options, commodity swaps are initially recognised at their fair value. Derivatives are revalued at least monthly. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are reported in the income statement.

Derivatives notional amounts are recognised in Bank off-balance sheet accounts.

p) Hedge accounting principles

In order to manage particular risks arising from changes in interest rates the Group uses derivative instruments and applies hedge accounting for transactions meeting the specified criteria.

At inception of the hedge relationship, a formal documentation is prepared of the relationship between the hedged item and the hedging instrument, including the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Further, at the inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedge relationship is expected to be highly effective. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Hedge accounting principles (continued)

In relation to hedges (fair value), which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the statement of income.

For derivatives, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value are taken directly to the statement of income for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, any gain or loss arising from such cases are taken to the statement of income for the period over the remaining life of hedging item.

q) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to customers and due to banks. These are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

r) *Off-balance sheet items*

In the ordinary course of business, the Group and the Bank have been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

s) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices.

t) Off-setting financial instruments

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

u) Provisions

Provisions are recognised when the Group and the Bank 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. These provisions relate to the guarantees issued, to other off balance sheet items and also to legal reserve. The assessment of provisions requires the application of management's judgement and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

The provisions for employee vacation pay are calculated for the Group's and the Bank's personnel based on each employees' total number of vacation days earned but not used and average salary including social security expense.

v) Financial Guarantees

The Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at balance sheet date.

w) Trust Activities

Funds managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are not included in the balance sheet.

Notes to the Financial Statements *(continued)*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances:
  The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(h).

  The Bank in 2012 has revised assumption used for provisions calculation for mortgage and private RE loans, leading to changes in some of assumptions used, however, approach was not changed. To assess the provisioning level for mortgage and private RE loans, the Bank has performed individual and statistical revaluation of real estate collaterals, as well as reviewed and adjusted assumptions used in calculations (proportion of each foreclosure strategy (voluntarily sales and forced sales), realisation values in auctions, real estate market price growth, expected recovery of unsecured part after realisation of collateral and other). In total it resulted in immaterial change in impairments.

  If real estate market price growth is used in calculations is 2% lower than the current assumption, it might lead to additional provisions in amount of LVL 2,7 mln.

- Deferred assets:
  Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The deferred tax assets are recognised based on profitability assumptions over three year horizon.

- Fair values:
  Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgements include considerations of liquidity and model inputs. The valuation of financial instruments is described in more detail in Note 35.

- Investment property
  Investment property is property held to earn rentals or for capital appreciation or both. The Group use the following classification for investment property:

  - land;
  - building;
  - part of building;
  - objects for commercial use.

The Group and the Bank engaged independent valuation specialists and their developed tools (matrix with average quarterly price changes for different real estate segments) to determine fair value as at 31 December 2012.

Properties with high market value (over 100 000 EUR) were revalued individually using comparable market data method and discounted future cash flow method. Standard type properties with lower market values (under 100 000 EUR) were revaluated through the mass-valuation making adjustments accordingly to the average price changes in the respective real estate segments. More details on values of investment properties are disclosed in Note 23.

Taking in to account that all valuations can be considered subjective which means that there exists and can exist a difference between two valuers/ valuations (i.e. market values) for one property, the revaluation results for each property were adjusted in order to provide fair value approach and to avoid reflecting overoptimistic valuations in the books. The adjustments (i.e. reduction) were performed accordingly to the acceptable diff between two valuers (up to 15%, depending on complexity of the property) which is approved in the Latvian Association of Property Appraisers (member of TEGOVA and IVSC).

***Notes to the Financial Statements** (continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS

During the year the Group has adopted the following IFRS amendments:

- **Amendment to IFRS 7 Financial Instruments - Enhanced Derecognition Disclosure Requirements**
- **Amendment to IAS 12 Income tax: Deferred tax - Recovery of Underlying Assets.**

The amendments did not impact the financial statements of the Group, because the Group did not have items or transactions addressed by these changes.

Standards issued but not yet effective:

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

Amendment to IAS 1 *Financial Statement Presentation* - Presentation of Items of Other Comprehensive Income (effective for financial years beginning on or after 1 July 2012)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

Amendment to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 January 2013)

There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.) IAS 19 will have no impact on the Group's financial statements, as the Group does not have items or transactions addressed by these change.

Amendment to IAS 27 *Separate Financial Statements* (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The implementation of this amendment will not have any impact on the financial statements of the Group.

Amendment to IAS 28 *Investments in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Group.

Amendment to IAS 32 *Financial Instruments: Presentation* - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group has not yet evaluated the impact of the implementation of this amendment.

Amendment to IFRS 7 *Financial Instruments: Disclosures* - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2013)

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The Group has not yet evaluated the impact of the implementation of this amendment.

IFRS 9 *Financial Instruments* – Classification and Measurement (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 10 *Consolidated Financial Statements* (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The implementation of this amendment will not have any impact on the financial statements of the Group.

IFRS 11 *Joint Arrangements* (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The implementation of this amendment will not have any impact on the financial statements of the Group.

IFRS 12 *Disclosures of Interests in Other Entities* (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity The implementation of this amendment will not have any impact on the financial statements of the Group.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

IFRS 13 *Fair Value Measurement* (effective for financial years beginning on or after 1 January 2013)

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The Group has not yet evaluated the impact of the implementation of this standard.

Improvements to IFRSs (effective for financial years beginning on or after 1 January 2013, once endorsed by the EU)

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:
- **IFRS 1 First-time adoption of IFRS;**
- **IAS 1 Presentation of Financial Statements;**
- **IAS 16 Property, Plant and Equipment;**
- **IAS 32 Financial instruments: Presentation;**
- **IAS 34 Interim Financial Reporting.**

The adoption of these amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group.

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for financial years beginning on or after 1 January 2013)

This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Interpretation will have no impact on the Group's financial statements, as the Group is not involved in mining activity.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

***Notes to the Financial Statements** (continued)*

4 FINANCIAL RISK MANAGEMENT

Sound risk management is a prerequisite for long-term value generation as the profitability is dependent on Group's ability to identify, manage and accurately price risk. In 2012 the Bank continued to carry out harmonization of risk management process with the parent bank DNB Bank ASA (Norway) and further on aims to follow main parent bank's policies and guidelines to the extent possible. However, it has to be taken into account that the Group is standardized approach bank according to Basel II while parent bank follows internal ratings based approach. Therefore, harmonization of some sub-processes in risk management area is limited.

Organisation and authorization structure

- *Supervisory Council and Management Board.* The Supervisory Council sets long-term targets for the Group's risk profile. The risk profile is operationalised through the risk management framework, including the establishment of authorisations. The Management Board is responsible for development, implementation, control and regular revision of risk management framework.
- *Authorisations*. Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas.
- *Annual review of limits*. Risk limits are reviewed at least annually in connection with budget and planning processes.
- *Independent risk management functions*. Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas.

Monitoring and use

- *Accountability*. All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times.
- *Risk reporting*. Risk reporting in the Group ensures that all executives have the necessary information about current risk levels and possible future developments. To ensure high-quality, independent risk reports, responsibility for reporting is assigned to units that are independent of the operative units.
- *Capital assessment*. A summary and analysis of the Group's capital and risk situation is presented on a regular basis to the Bank's senior management.
- *Use of risk information*. Risk is an integral part of the management and monitoring of business areas to the extent possible, including taken into account during strategic and planning processes, lending process, product development and other daily business activities.

Relevant risk measures

Risk is followed up through risk measures adapted to operations in the various business areas, for example, monitoring of set limits, key financial and risk figures and ratios, portfolio risk targets, stress testing as well as risk analysis during internal capital adequacy assessment process.

Risk categories

For risk management purposes, Group distinguishes between the following main risk categories:

- *Credit risk* is the risk of financial losses due to failure on the part of the Group's customers (counterparties) to meet their payment obligations towards DNB. Credit risk also includes concentration risk and residual risk.
- *Market risk* is the risk of losses due to un-hedged positions in the foreign exchange, interest rate, commodity and equity markets. The risk reflects potential fluctuations in profits due to volatility in market prices and exchange rates.
- *Liquidity risk* is the risk that the Group will be unable to meet its payment obligations.
- *Operational risk* is the risk of losses due to deficiencies or errors in processes and systems, errors made by employees or external events. Operational risk also includes compliance risk and legal risk.
- *Business risk* is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. Reputational risk is often a consequence of other risk categories. The Group's business risk is generally handled through the strategy process and by maintaining ongoing focus on safeguarding and improving the Group's reputation.

The Group quantifies total risk during internal capital adequacy assessment process by calculating capital needed to cover various types of risk, except liquidity risk. Risk measurement is a field in constant development, and measurement methods and tools are subject to continual improvement.

***Notes to the Financial Statements** (continued)*

4 RISK MANAGEMENT (continued)

a) Credit Risk

Credit risk is the main risk category in the Group. The credit portfolio includes loans, liabilities in the form of other extended credits, guarantees, leasing, factoring, interest bearing securities, approved, undrawn credits, as well as counterparty risk arising through derivatives and foreign exchange contracts. Settlement risk, which arises in connections with payment transfers as not all transactions take place in real time, also involves counterparty risk.

Credit risk management framework

The Group's credit policy, credit strategies and credit guidelines (*Credit Manual*) regulate credit activity in the Group and are based on the parent bank's relevant credit policies and guidelines. The best practice, experience and competence of the parent bank are taken over in order to have common and strong credit culture.

Strategic goal for the whole DNB Group is to ensure that the loan portfolio has a quality and compositions which secure the Group's profitability in the short and long term. The Group intends to grow credit portfolio only with low and medium risk customers.

Main credit risk management principles

- Customer's true willingness and ability to repay the loan is/ must be the key element when considering whether to approve a loan; collateral is considered only as a risk mitigant.
- Keep a balanced loan portfolio from concentration point of view, including the balance between private individuals and legal entities.
- Avoidance of large risk concentrations related to a single customer/ group or clusters in higher risk categories, specific business sectors and geographic areas whereby significant changes in one or a few risk drivers may substantially affect the Group's profitability.
- Not financing industries where the Group does not have competence and experience.
- Any changes to a credit facility are approved at the appropriate level in the decision making hierarchy. "Four eyes principle" must be followed throughout the credit process.
- Strong risk culture encourages not to compromise with established quality requirements despite goals set to reach volumes or gain market shares.

Risk Classification

Risk classification is an important element of the credit process and the management of the Group's credit risk. The Group has developed different risk classification models to cover specific loan portfolios/ credit products. Risk classification systems are used as decision support, risk monitoring and internal reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing monitoring including the follow-up of credit strategies.

The Group's credit risk models provide a basis for statistically based calculations of expected losses in a long-term perspective and risk-adjusted capital in a portfolio perspective. Customers are classified based on the probability of default (PD). Customers are re-classified according to risk with every significant credit approval or major change in customer's risk profile, but at least once a year, unless otherwise decided.

The risk classes are defined on the basis of the scales used by international rating agencies. Probability of default (PD) is a statistical measure representing the expected rate of defaulted customers to the total number of customers initially attributed to the specific class (grade) in one year horizon. There are ten risk classes for performing loans. In addition, doubtful and non-performing commitments are placed in classes 11 and 12 for internal reporting purposes.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

a) Credit Risk (continued)

Risk segmentation	Risk class	PD as from	PD up to
Low	1	0,01	0,10
	2	0,10	0,25
	3	0,25	0,50
	4	0,50	0,75
Moderate	5	0,75	1,25
	6	1,25	2,00
	7	2,00	3,00
High	8	3,00	5,00
	9	5,00	8,00
	10	8,00	…

Credit Approval Authorizations

Credit decision making is based on a dual credit approval system with individual credit approval authorities. Credit approval authority remains within the business units, while final credit approval requires endorsement by relevant persons from risk area, who are organizationally independent of the business units. For larger commitments or exposures involving unusual / specific risks, Advisory credit committee will play a role of advisory board for giving recommendations to decision makers / endorsers. Lower exposures are approved by relevant Business decision maker and Risk endorser.

All individual credit approval authorities are personal and are assigned based on person's qualification, experience and competence. Credit decisions on products with limited small amounts and strictly defined product requirements are taken by business units; recommendation from risks is replaced then by appropriate scoring models where risk assessment is included. "Two pairs of eyes" principle follows throughout all credit approval process.

The Group has defined a list of criteria when credit decisions must be lifted one level up than ordinary decision making level.

Credit Risk Mitigation

Credit risk mitigation is an integral part of credit risk management process in the Group. Defined requirements for new customers, prudent evaluation of debt service capacity and collateral held as security are the main credit risk mitigation measures. However, other risk mitigation techniques, tools and processes, including but not limited to different risk classification models, calculation of debt service capacity, transparent credit approval authorities and strict credit decision making rules, ongoing credit risk monitoring are used in daily activities as well.

Credit Risk Measurement

Credit risk is monitored by following developments in risk parameters, migration and distribution over the various risk classes. Developments in risk concentrations are monitored closely with respect to exposure and risk classes.

The Group has developed different management tools in order to monitor the ongoing credit risk of a customer and implement relevant measures proactively in the case of negative development, already at an early stage. Larger exposures are monitored individually case-on-case basis where the frequency and scope depends on the size and risk classification of the exposure, while monitoring of smaller exposures is performed by business units based on automatically generated reports or in close cooperation with risk reporting unit. The Group has established the system for identification of commitments showing early warning signals when special attention and separate follow up is needed.

Detailed rules are in place for the use and monitoring of collateral including guidelines for the valuation of various pledged assets. Such valuations are part of credit decisions and are reviewed in connection with the annual renewal of the commitments or at least once a year. A procedure has been established for the periodic physical control of collateral. The Group continues working on improvement of internal statistical revaluation methods of collateral.

Credit Risk Stress Testing

Stress testing is used to define the potential impact of diverse extraordinary, yet probable and materially unfavourable occurrences or changes in market conditions on the risk profile, financial and capital ratios of the Group. Stress tests are performed at least once in every six months. Within the stress test at least 2 scenarios are developed – standard scenario and severe scenario. Stress tests are performed for at least two time periods, i.e. 1 and 2 years' periods; within the framework of the annual ICAAP also for 3 years' period.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

a) Credit Risk (continued)

In case of private individuals stress testing is performed based on top-down method using the Group's developed model, which is based on macroeconomic indicators (unemployment, GDP, inflation etc.), as well as scenario analysis of non-performing and restructured loan portfolio development.

According to standard scenario macroeconomic situation will improve, e.g. moderate GDP growth, decrease in registered unemployment. According to severe scenario macroeconomic indicators will significantly deteriorate due to turmoil in Euro zone. According to this scenario GDP will decrease, while unemployment will increase.

Stress testing for legal entities is performed based on bottom-up method - enough representative proportion of the performing portfolio in terms of total exposures is subject to individual assessment. Afterwards, results are extrapolated in order to cover whole performing loan portfolio. Also non-performing and doubtful loans are subject for individual assessment.

The stress tests should identify possible future changes in economic conditions which could have a negative impact on the Group's credit exposure and ability to withstand such changes. These assessments are taken into account in the Group's risk and capital adequacy assessment process as well as to estimate the necessary capital buffer. Results of stress testing have direct impact on strategic and business decisions of the Group.

Group determines those factors, which are assessed as more believable. Capital buffer is calculated as a result of above mentioned assessment.

Industry Risk Management

The Group has defined maximum limit to any single industry sector. The Group has recognized and regularly reviews sensitive sectors to which lending is frozen on existing level. Within Real estate sector the Group has strict guidelines and limits to manage, reduce the volumes and increase the quality of the portfolio in this segment.

Acceptable Risk Criteria have been prepared for the different industries. These are used as indicative standards when appraising a customer's creditworthiness. In order to increase industry competence the Group has organized the Corporate Banking according to industry strategy specialization, and complex financing is done in close cooperation with the industry divisions and sections of the parent bank.

Following parent bank's credit policy, ethical and corporate social responsibility guidelines the Group has determined to which industry sectors financing shall not be pursued.

Country Risk Management

The Group closely follows "home market" approach. The Group restricts to the large extent any exposure related to countries where DNB Group has no presence.

All countries are classified according to Group's PD risk scale the classification of country risk is based on classification by external rating agencies. Risk grades are reviewed and updated on monthly basis. Country risk limits are approved only based on parent bank's recommendations. Country risk limits are reviewed annually, unless there is any deterioration in risk classification of the particular country.

In 2012 the Group continued launching new initiatives in order to improve credit risk management process as well as harmonizing further credit processes with DNB Group. In addition to several smaller projects, the Group adopted DNB Group Credit Manual, continued implementation of risk-adjusted pricing tools and improved risk reports. Our focus was on strengthening risk culture throughout the organization and corporate social responsibility.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

b) Market risk

The Group is exposed to foreign currency risk (hereinafter – FX risk) and interest rate risk, and discloses its sensitivity to the mentioned risks below. The Group does not have any open positions in commodity or equity instruments and is not exposed to changes in commodity or equity prices. During the year 2012 there were no significant changes in market risk management process.

Currency risk

The Group and the Bank seek to match assets, liabilities and off-balance sheet items denominated in foreign currencies in order to keep foreign currency exposures within limits set by the Credit Institution Law and internally by the sole shareholder DNB Bank ASA. According to the Credit Institution Law the Bank's open position in each foreign currency may not exceed 10% of the Bank's own funds and that the total foreign currency open position may not exceed 20% of the Bank's own funds. During the year 2012 the Bank was in compliance with all limits.

Sensitivity to foreign exchange risk

Sensitivity of the Bank to FX risk is calculated by multiplying foreign currency open positions by reasonably possible changes in FX rates. FX risk parameters for the Bank are provided in the table below:

Currency	Possible change
EUR	1,5 %
USD	2,5 %
NOK	2,5 %
Other currencies	5,0 %

A presumable change in FX rates has an impact on the Bank's profit or loss and makes LVL 102 thousand as of December 31, 2012 (December 31, 2011: LVL 99 thousand).

Interest rate risk

In normal course of business, the interest rate risk arise due to timing differences in the maturity (for fixed rate) and repricing (for floating rate) of the Group's and the Bank's assets, liabilities and off-balance sheet items.

Sensitivity to interest rate risk (basis point value)

Interest rate risk from single currency positions is calculated and monitored, using the Basis Point Value (BPV) analysis, which reflects the sensitivity of the present value of the Group's future cash flows to a parallel shift of 0.01% in market interest rates. The Group follows a conservative approach to interest rate risk and seeks to match maturity and repricing profiles of assets, liabilities and off-balance sheet items in order to keep BPV within limits set by the sole shareholder, DNB Bank ASA. Limits are set for each currency in which the Group and the Bank have significant activity as well as for all currencies altogether. During the year 2012 the Group and the Bank were in compliance with the limits.

Sensitivity of the Group to an interest rate risk, in terms of a basis point value, is provided in the table below:

		LVL'000
	December 31, 2012	December 31, 2011
LVL	(5,8)	(2,8)
EUR	6,6	1,3
USD	(0,1)	0,4

Interest rate risk management involves the usage of funding and fund placements for different time periods or/and different repricing periods as well as derivative financial instruments, such as interest rate swap agreements.

Notes to the Financial Statements *(continued)*

4 RISK MANAGEMENT (continued)

c) Liquidity risk

The Group has a low liquidity risk profile as it is strongly supported by a committed long-term multicurrency funding line from the sole shareholder DNB Bank ASA (counterparty credit rating A-1/A+/Stable, affirmed by Standard & Poor's in July 2012), signed in mid 2011. DNB Bank ASA acts as a lender of a last resort. This commitment was proven during the recent global financial turmoil, when DNB Bank ASA supplied the Group with liquidity at all times in sufficient amounts and in a timely manner.

Liquidity risk management process

The level of the Bank's liquidity risk is limited by the surviving periods analyzed across different stress scenarios, which are based on both idiosyncratic and systemic stress assumptions. The survival periods are defined as a period with a positive cumulative cash flow; these are regularly measured and reported to the Bank's management bodies.

The Bank uses a set of liquidity risk metrics to measure its liquidity position, structural liquidity mismatches, and a concentration of funding. Liquidity ratio, set by the Financial and Capital Market Commission, as of December 31, 2012 is 53,43% (December 31, 2011: 48,58%), which is sufficiently above the regulatory minimum of 30%.

Liquidity risk is managed in a manner to ensure a constant ability to settle contractual obligations. The Bank has developed a set of early warning indicators for a timely identification of liquidity crises, and a contingency funding plan to manage the Bank's liquidity during the market disruption.

d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is a consequence of Group's operations.

Operational risk management

Operational risk management in the Group is performed by following the policy for the management of operational risk. Operational risk should be low, and risk management should ensure that the risk of unwanted losses is reduced.

All managers are responsible for knowing and managing operational risk within their own area of responsibility. This is to be ensured through risk assessment of everyday operations of all major changes in operations as well as of particularly critical functions. When a need for improvement measures is identified, special follow-ups are initiated. In order to limit the consequences of serious events, operational disruptions etc., comprehensive contingency and business continuity plans have been drawn up to be able to handle a crisis situation in a rational and effective manner, thus contributing to limiting damage and restoring a normal situation.

The Group's insurance coverage is an element in operational risk management. Insurance contracts are entered into to limit the financial consequences of undesirable events which occur in spite of established security routines and other risk-mitigating measures. The insurance program also covers legal liabilities the Group may face related to its operations.

Operational risk measurement

Operational risk events in the Group which result in losses and near-events with a loss potential are registered, reported and followed up on an ongoing basis in the Group's event database. Undesirable events which cause, or could have caused, financial losses for the Group represent valuable information and learning about necessary improvement needs.

The Group's management is kept updated on the status of operational risk through the periodic risk report, which provides a basis for analysing the risk situation. In addition, the Group's management is kept updated on the Group's operational risk in the annual status report on ongoing management and control of operational and business risk. The status report includes a presentation of key group-wide risks, relevant improvement measures and a detailed qualitative assessment based on the Group's ambitions within key areas of risk management and quality assurance.

Notes to the Financial Statements *(continued)*

5 INTEREST INCOME

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Interest income:				
Interest on financial assets measured at amortised cost:	53,183	62,328	50,194	59,130
- interest on loans and receivables to customers	48,682	56,532	45,693	53,334
- interest on impaired loans	3,764	5,296	3,764	5,296
- interest on balances due from credit institutions and central banks	737	500	737	500
Interest on financial assets designated at fair value through profit or loss	1,488	2,854	1,488	2,854
Total interest income	**54,671**	**65,182**	**51,682**	**61,984**

6 INTEREST EXPENSE

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Interest expense:				
- interest on deposits from customers	(4,071)	(4,051)	(4,106)	(4,201)
- interest on balances due to credit institutions and central banks	(14,517)	(22,662)	(12,972)	(20,243)
- interest on subordinated liabilities	-	(1,142)	-	(1,142)
- payments on Guarantee fund and charge of financial stability	(2,361)	(1,426)	(2,361)	(1,426)
- interest on derivatives	(2,079)	(4,136)	(2,079)	(4,136)
Total interest expense	**(23,028)**	**(33,417)**	**(21,518)**	**(31,148)**
Net interest income	**31,643**	**31,765**	**30,164**	**30,836**

7 FEES AND COMMISSION INCOME

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Money transfers	6,275	4,724	6,276	4,724
Credit card service	1,690	1,668	1,690	1,668
Assets management	1,395	1,106	588	570
Commissions on loans monitoring and service	890	1,380	643	1,161
Client service	819	635	784	576
Guarantees	500	385	500	840*
Insurance	477	363	477	363
Cash operations	354	321	354	321
Trade finance	121	53	121	53
Investments products	107	115	139	149
Other	518	323	518	323
Total fees and commission income	**13,146**	**11,073**	**12,090**	**10,748**

***** Including income from Guarantee issued to SIA DNB līzings LVL 456 thou. Guarantee agreement was expired in February, 2011.

***Notes to the Financial Statements** (continued)*

8 FEES AND COMMISSION EXPENSES

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Money transfers	(2,280)	(1,932)	(2,279)	(1,932)
Cash operations	(639)	(447)	(639)	(447)
Client service	(236)	(99)	(236)	(99)
Loans monitoring expense	(224)	(283)	(206)	(283)
Guarantees	(96)	(108)	(96)	(108)
Commissions on loans	(75)	(117)	(75)	(117)
Credit cards service	(22)	(341)	(22)	(341)
Other	(223)	(186)	(222)	(185)
Total fee and commission expenses	**(3,795)**	**(3,513)**	**(3,775)**	**(3,512)**
Net fees and commission	**9,351**	**7,560**	**8,315**	**7,236**

9 NET GAIN/(LOSS) FROM OPERATIONS WITH FOREIGN CURRENCY, TRADING SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Gain from operations with foreign currencies	4,197	3,971	4,137	4,006
Gain / (Loss)from trading with financial assets at fair value through profit or loss	241	(1,629)	241	(1,629)
Gain/ (Loss) from revaluation of financial assets at fair value through profit or loss	984	(552)	984	(552)
(Loss) from foreign currency revaluation	(120)	(30)	(122)	(30)
Gain from derivatives revaluation	1,791	188	1,791	188
	7,093	**1,948**	**7,031**	**1,983**

10 NET RESULT FROM OPERATIONS WITH INVESTMENT PROPERTY

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Net rental expenses/ income				
Rent of investment property	444	211	98	7
Investment property related expenses	(1,970)	(885)	(1,246)	(562)
	(1,526)	**(674)**	**(1,148)**	**(555)**
Net profit/ loss from revaluation and sale				
Unrealized gain/ (loss) from investment property revaluation	2,464	(890)	1,157	1,989
Realized profit from sale of investment property	477	574	195	369
	2,941	**(316)**	**1,352**	**2,358**
Total	**1,415**	**(990)**	**204**	**1,803**

***Notes to the Financial Statements** (continued)*

11 OTHER OPERATING INCOME

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Profit from sale of fixed assets	73	31	70	5
Operating lease income	320	1,293	-	-
Other operating income	706	1,739*	1,956	2,833*
	1,099	**3,063**	**2,026**	**2,838**

* Received credit note for previous year expenses (service fee) in amount of LVL 1,009 thou

12 ADMINISTRATIVE EXPENSES

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Salary to Management Board	315	369	315	369
Salary to employees	9,914	9,220	9,558	8,983
Social insurance contributions	2,520	2,363	2,434	2,305
Total salaries and related expenses	**12,749**	**11,952**	**12,307**	**11,657**
Cost related with IT development system	3,633	1,788	3,633	1,788
Maintenance of equipment and other IT cost	2,527	2,047	2,409	1,950
Advertising and representation	1,927	2,191	1,829	2,102
Maintenance and occupancy costs of building	1,924	1,612	2,751	2,219
Payments for management services to Group	1,499	550	1,499	550
Communications	686	736	653	703
Professional services	397	642	232	435
Training	197	154	191	149
Insurance to personnel	170	161	166	159
Insurance	161	175	141	145
Business travel	113	100	110	97
External audit expenses	92	129	62	100
Other	1,161	921	1,362	740
Total other administrative expenses	**14,487**	**11,206**	**15,038**	**11,137**
Total administrative expenses	**27,236**	**23,158**	**27,345**	**22,794**

Average number of staff employed by the Group in 2012 was 859, by the Bank was 837 (by the Group in 2011 was 827, by the Bank was 811)

13 OTHER OPERATING EXPENSES

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Loss from write off and sale of fixed assets	147	43	104	43
Loss from fixed assets revaluation	-	126	-	126
Other operating expenses	476	800	380	450
	623	**969**	**484**	**619**

14 CORPORATE INCOME TAX

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Corporate income tax for the year	281	13	2	2
Deferred tax	(29)	-	457	-
	252	**13**	**459**	**2**

Notes to the Financial Statements *(continued)*

14 CORPORATE INCOME TAX (continued)

Corporate income tax differs from the theoretically calculated tax amount, which would be applicable on profit before taxation at the 15% rate as stipulated by the law (see below):

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Profit before taxation	**9,380**	**(74,032)**	**8,062**	**(72,778)**
Theoretically calculated tax at a tax rate of 15%	1,407	(11,105)	1,209	(10,917)
Undeductable revaluation of securities and derivatives	(739)	(259)	(590)	(225)
Impairment for debtors	53	270	25	156
Other net expenses not deductible for tax purposes	353	696	387	514
Non-taxable income	(60)	(63)	(60)	(63)
Tax losses used for the Group	-	-	-	426
Unrecognised deferred tax asset	(733)	10,461	(971)	10,109
	281	**-**	**-**	**-**
Deferred tax liability at the beginning of the year	(5,946)	(5,946)	(6,483)	(6,483)
Change in deferred tax asset during the year	(29)	-	457	-
Deferred tax at the end of the year	**(5,975)**	**(5,946)**	**(6,026)**	**(6,483)**

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Gross deferred income tax liability:				
Temporary difference on property and equipment depreciation	1,127	1,176	508	563
Gross deferred income tax asset:				
Temporary difference on accruals for unused annual leave and bonuses	(171)	(157)	(169)	(156)
Other temporary differences	(1,077)	(537)	(1,059)	(371)
Change in unrecognised deferred tax asset	21,108	22,484	21,098	21,684
Tax loss carried forward	(26,962)	(28,912)	(26,404)	(28,203)
Net deferred tax assets	**(5,975)**	**(5,946)**	**(6,026)**	**(6,483)**

Deferred income tax assets are recognised for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised at 31 December 2012 in respect of tax losses have been based on profitability assumptions over three year horizon. The expected future taxable profits are based on business plan assumptions taking into consideration uncertainties arising from the current adverse economic environment. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of existing deferred tax assets may need to be adjusted.

As at 31 December 2012 tax losses of the Group constituted LVL 179 mln. In accordance with the law "On Corporate Income Tax" tax losses can be carried forward and set off against taxable income during the unlimited period of time.

***Notes to the Financial Statements** (continued)*

15 CASH AND CASH EQUIVALENTS

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Cash	21,442	17,098	21,442	17,098
Balances on demand with the central banks	44,174	59,809	44,174	59,809
Total cash and balances on demand with central banks	**65,616**	**76,907**	**65,616**	**76,907**
Balances due from other credit institutions with the original maturity less than 3 months	177,209	117,574	176,825	117,343
Balances on demand due to other credit institutions	(20,535)	(12,370)	(20,535)	(12,370)
Total cash and cash equivalents	**222,290**	**182,111**	**221,906**	**181,880**

The correspondent account with the Bank of Latvia reflects the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

The Bank is required to comply with minimum reserve requirements set by the Bank of Latvia. This requires the Bank's monthly average LVL balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

The Bank was in compliance with the reserve requirement during the reporting period.

16 DUE FROM CREDIT INSTITUTIONS

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions	405	234	18	3
OECD credit institutions	17,224*	24,197*	17,224*	24,197*
Non-OECD credit institutions	1,371	362	1,371	362
Total demand deposits	**19,000**	**24,793**	**18,613**	**24,562**
Term deposits				
Republic of Latvia credit institutions	1,232	-	1,232	-
OECD credit institutions	157,283**	93,662**	157,283**	93,662**
Non-OECD credit institutions	1,300	-	1,300	-
Total term deposits	**159,815**	**93,662**	**159,815**	**93,662**
Total	**178,815**	**118,455**	**178,428**	**118,224**

The effective interest rate on balances due from other credit institutions as at 31 December 2012 was 0,19% (2011: 1,06%).

*Including DNB Bank ASA LVL 16,767 thou (2011: LVL 19,410 thou)
**Including DNB Bank ASA LVL 156,900 thou (2011: LVL 92,770 thou)

***Notes to the Financial Statements** (continued)*

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Less than a year	216,022	177,130	158,831	180,870
More than a year	1,245,743	1,336,501	1,249,948	1,285,802
Accrued interest	6,640	8,051	6,610	8,025
	1,468,405	**1,521,682**	**1,415,389**	**1,474,697**
Less allowances for loan impairment	(221,180)	(237,114)	(196,586)	(215,352)
Less allowances for unpaid interest	(1,748)	(1,772)	(1,748)	(1,772)
Total	**1,245,477**	**1,282,796**	**1,217,055**	**1,257,573**

Loan portfolio includes loans secured by the Republic of Latvia Government guarantees of LVL 1,843 thou (2011: LVL 1,495 thou).

The effective interest rate on loans as at 31 December 2012 was 2,76% (2011: 3,95%).

(b) Analysis of loans by client type

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Individuals	849,138	889,576	832,497	868,550
Private companies	578,456	598,580	536,461	569,653
Public companies	12,987	6,472	12,102	5,828
Management/employees of Bank	12,569	11,465	11,915	10,479
Local government	8,615	7,538	8,212	7,357
Finance institutions	-	-	7,592	4,805
Accrued interest	6,640	8,051	6,610	8,025
	1,468,405	**1,521,682**	**1,415,389**	**1,474,697**
Less allowances for loan impairment	(221,180)	(237,114)	(196,586)	(215,352)
Less allowances for unpaid interest	(1,748)	(1,772)	(1,748)	(1,772)
Total	**1,245,477**	**1,282,796**	**1,217,055**	**1,257,573**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Analysis of loans by products

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Mortgage loans	718,227	739,005	718,226	739,005
Commercial loans	523,974	547,174	564,308	589,907
Private loans	111,658	123,729	111,658	123,729
Leasing	93,529	89,919	210	227
Card loans	8,590	8,120	8,590	8,120
Consumer loans	5,655	5,519	5,655	5,519
Other	132	165	132	165
Accrued interest	6,640	8,051	6,610	8,025
	1,468,405	**1,521,682**	**1,415,389**	**1,474,697**
Less allowances for loan impairment	(221,180)	(237,114)	(196,586)	(215,352)
Less allowances for unpaid interest	(1,748)	(1,772)	(1,748)	(1,772)
Total	**1,245,477**	**1,282,796**	**1,217,055**	**1,257,573**

(d) Analysis of loans by industry

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Individuals	853,776	889,563	829,215	864,900
Management of real estate	163,868	188,870	209,329	236,772
Manufacturing	94,550	109,759	82,836	90,294
Trade	78,268	87,081	67,122	74,853
Transport	50,906	65,358	29,778	48,550
Agriculture	23,124	14,377	14,771	9,155
Construction	16,771	16,147	7,215	9,355
Management/employees of Bank	12,569	11,021	11,915	10,479
Non-profit and religious organizations	1,569	1,090	1,569	1,090
Other	145,675	108,890	134,340	99,749
Total loans to residents	**1,441,076**	**1,492,156**	**1,388,090**	**1,445,197**
Loans issued to non-residents	20,689	21,475	20,689	21,475
Accrued interest	6,640	8,051	6,610	8,025
	1,468,405	**1,521,682**	**1,415,389**	**1,474,697**
Less allowances for loan impairment	(221,180)	(237,114)	(196,586)	(215,352)
Less allowances for unpaid interest	(1,748)	(1,772)	(1,748)	(1,772)
Total	**1,245,477**	**1,282,796**	**1,217,055**	**1,257,573**

(e) Analysis of loans by countries

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Latvia	1,441,076	1,492,156	1,388,090	1,445,197
Other countries	20,689	21,475	20,689	21,475
Accrued interest	6,640	8,051	6,610	8,025
Total	**1,468,405**	**1,521,682**	**1,415,389**	**1,474,697**
Less allowances for loan impairment	(221,180)	(237,114)	(196,586)	(215,352)
Less allowances for unpaid interest	(1,748)	(1,772)	(1,748)	(1,772)
Total	**1,245,477**	**1,282,796**	**1,217,055**	**1,257,573**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Gross investment in finance lease

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Not later than 1 year	32,255	33,045	4	4
1 – 5 years	73,295	53,730	-	-
More than 5 years	87	103	-	-
Total gross finance lease receivables	**105,637**	**86,878**	**4**	**4**

Unearned future interest income from investments in finance lease

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Not later than 1 year	2,172	3,054	1	1
1 – 5 years	2,169	3,197	-	-
Total unearned future interest income	**4,341**	**6,251**	**1**	**1**

Net investment in finance lease

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Not later than 1 year	30,084	29,991	3	3
1 – 5 years	71,125	50,533	-	-
More than 5 years	87	103	-	-
Total investment in finance lease	**101,296**	**80,627**	**3**	**3**
Less allowances for loan impairment	(20,062)	(16,005)	-	-
Less allowances for homogenous groups of loans	(595)	(1,675)	-	-
Total net investment in finance lease	**80,639**	**62,947**	**3**	**3**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(g) The following table provides the division of loans and advances to customers by quality:

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Neither past due nor impaired	988,021	1,019,688	981,485	1,011,090
Past due but not impaired	100,366	112,339	79,784	94,383
Impaired	373,378	381,604	347,510	361,199
Accrued interest	6,640	8,051	6,610	8,025
Total gross loans and advances to customers	**1,468,405**	**1,521,682**	**1,415,389**	**1,474,697**
ss allowances for loan impairment	(204,213)	(207,898)	(180,214)	(187,811)
ss allowances for homogenous groups of loans	(16,967)	(29,216)	(16,372)	(27,541)
ss allowances for unpaid interest	(1,748)	(1,772)	(1,748)	(1,772)
al net loans and advances to customers	**1,245,477**	**1,282,796**	**1,217,055**	**1,257,573**

(h) The following table provides the division of loans and advances to customers neither past due nor impaired:

Grades	Risk classes	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Corporate *	**Low**	54,243	19,122	95,898	73,081
	Medium	170,199	179,247	167,889	179,247
	High	55,339	79,701	54,066	79,701
SME*	**Low**	19,013	24	498	24
(Small and medium sized enterprises)	**Medium**	43,510	72,746	33,593	25,241
	High	26,627	22,017	24,242	22,017
Private individuals	**Low**	323,710	310,743	315,756	310,743
	Medium	243,240	255,852	238,127	255,852
	High	52,140	65,184	51,416	65,184
	Not rated	-	15,052	-	-
	Total	**988,021**	**1,019,688**	**981,485**	**1,011,090**

***** The information is based on business lines. The legal entities are treated as Corporate if gross commitments are over 1 MEUR or turnover is more than 10 MEUR. Central and local government are also treated as corporate.

***Notes to the Financial Statements** (continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(h) The following table provides the division of loans and advances to customers neither past due nor impaired:

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Mortgage loans	533,707	553,055	533,707	553,055
Commercial	321,710	330,669	376,156	382,280
Leasing	60,983	60,212	1	3
Private loans	60,661	65,512	60,661	65,512
Card loans	5,784	5,120	5,784	5,120
Consumer loans	5,162	5,101	5,162	5,101
Other	14	19	14	19
Total	**988,021**	**1,019,688**	**981,485**	**1,011,090**

(i) The following table provides the division of loans and advances to customers past due but not impaired of Group and Bank:

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Commercial loans				
Past due up to 30 days	9,163	5,370	7,419	5,024
Past due 31-60 days	1,782	2,224	1,350	2,188
Past due 61-90 days	91	312	91	312
Past due over 90 days	3,694	2,974	3,694	2,974
Total	**14,730**	**10,880**	**12,554**	**10,498**
Mortgage loans (issued to private individuals secured with real estate collateral)				
Past due up to 30 days	36,598	43,250	36,598	43,250
Past due 31-60 days	12,161	17,683	12,161	17,683
Past due 61-90 days	5,452	5,559	5,452	5,559
Past due over 90 days	514	78	514	78
Total	**54,725**	**66,570**	**54,725**	**66,570**
Private loans (issued to private individuals secured with real estate collateral)				
Past due up to 30 days	6,405	9,392	6,405	9,392
Past due 31-60 days	1,950	3,195	1,950	3,195
Past due 61-90 days	1,126	1,254	1,126	1,254
Past due over 90 days	736	805	736	805
Total	**10,217**	**14,646**	**10,217**	**14,646**
Consumer loans				
Past due up to 30 days	161	162	161	162
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	1	-	1	-
Total	**162**	**162**	**162**	**162**
Leasing				
Past due up to 30 days	13,831	12,085	1	4
Past due 31-60 days	1,551	2,988	-	-
Past due 61-90 days	729	2,505	-	-
Past due over 90 days	2,296	-	-	-
Total	**18,407**	**17,578**	**1**	**4**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(i) The following table provides the division of loans and advances to customers past due but not impaired of Group and Bank (continued):

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Card loans				
Past due up to 30 days	2,057	2,435	2,057	2,435
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	-	-	-	-
Total	**2,057**	**2,435**	**2,057**	**2,435**
Other loans				
Past due up to 30 days	-	68	-	68
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	68	-	68	-
Total	**68**	**68**	**68**	**68**
Past due up to 30 days	68,215	72,762	52,641	60,335
Past due 31-60 days	17,444	26,090	15,461	23,066
Past due 61-90 days	7,398	9,630	6,669	7,125
Past due over 90 days	7,309	3,857	5,013	3,857
Total	**100,366**	**112,339**	**79,784**	**94,383**
Total gross loans and advances to customers past due but not impaired	**100,366**	**112,339**	**79,784**	**94,383**
Fair value of collateral	**82,870**	**99,059**	**80,382**	**95,134**

(j) The following table provides the division of impaired loans and advances to customers of Group and Bank

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Commercial	179,942	200,821	175,597	197,130
Mortgage loans	129,794	119,380	129,794	119,380
Private loans	40,780	43,571	40,780	43,571
Leasing	21,732	16,935	209	221
Card loans	749	565	749	565
Consumer loans	331	255	331	255
Other	50	77	50	77
Total	**373,378**	**381,604**	**347,510**	**361,199**

***Notes to the Financial Statements** (continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(j) The following table provides the division of Group's loans and advances to customers individually impaired:

	Commercial loans LVL'000	Mortgage loans LVL'000	Private loans LVL'000	Consumer loans LVL'000	Leasing LVL'000	Card loans LVL'000	Other loans LVL'000	Total LVL'000
31 December 2012								
Impaired loans	179,942	129,794	40,780	331	21,732	749	50	**373,378**
Fair value of collateral	100,522	49,474	17,051	-	21	-	-	**167,068**
31 December 2011								
Impaired loans	200,821	119,380	43,571	255	16,935	565	77	**381,604**
Fair value of collateral	107,080	47,627	18,356	-	61	-	-	**173,124**

The following table provides the division of Bank's loans and advances to customers individually impaired:

	Commercial loans LVL'000	Mortgage loans LVL'000	Private loans LVL'000	Consumer loans LVL'000	Leasing LVL'000	Card Loans LVL'000	Other loans LVL'000	Total LVL'000
31 December 2012								
Impaired loans	175,597	129,794	40,780	331	209	749	50	**347,510**
Fair value of collateral	100,522	49,474	17,051	-	21	-	-	**167,068**
31 December 2011								
Impaired loans	197,130	119,380	43,571	255	221	565	77	**361,199**
Fair value of collateral	107,080	47,627	18,356	-	61	-	-	**173,124**

***Notes to the Financial Statements** (continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(k) The following table provides the division of Group's restructured loans and advances to customers:

Information regarding all kinds of restructured loans included (impaired, past due but not impaired and neither past due nor impaired)

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Mortgage loans	114,727	137,141	114,727	137,141
Commercial	110,058	139,782	110,058	139,782
Private loans	24,226	30,314	24,226	30,314
Leasing	4,720	4,571	13	15
Consumer loans	105	283	105	283
Other	68	68	68	68
Total	**253,904**	**312,159**	**249,197**	**307,603**

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2012:

	Neither past due nor impaired LVL'000	Past due but not impaired LVL'000	Impaired LVL'000	Total LVL'000
Mortgage loans	33,503	23,666	57,558	**114,727**
Commercial	13,511	3,666	92,881	**110,058**
Private loans	5,997	4,279	13,950	**24,226**
Leasing	2,015	1,161	1,544	**4,720**
Consumer loans	36	11	58	**105**
Other	-	68	-	**68**
Total	**55,062**	**32,851**	**165,991**	**253,904**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2012

	Neither past due nor impaired LVL'000	Past due but not impaired LVL'000	Impaired LVL'000	Total LVL'000
Mortgage loans	33,503	23,666	57,558	**114,727**
Commercial	13,511	3,666	92,881	**110,058**
Private loans	5,997	4,279	13,950	**24,226**
Consumer loans	36	11	58	**105**
Leasing	-	-	13	**13**
Other	-	68	-	**68**
Total	**53,047**	**31,690**	**164,460**	**249,197**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(k) The following table provides the division of Group's restructured loans and advances to customers

The following table provides the division of Group's restructured loans and advances to customers as at 31 December 2011:

	Neither past due nor impaired LVL'000	Past due but not impaired LVL'000	Impaired LVL'000	Total LVL'000
Mortgage loans	56,345	34,501	46,295	**137,141**
Commercial	42,017	4,836	92,929	**139,782**
Private loans	9,975	7,410	12,929	**30,314**
Leasing	1,820	1,328	1,423	**4,571**
Consumer loans	161	41	81	**283**
Other	-	68	-	**68**
Total	**110,318**	**48,184**	**153,657**	**312,159**

The following table provides the division of Bank's restructured loans and advances to customers as at 31 December 2011:

	Neither past due nor impaired LVL'000	Past due but not impaired LVL'000	Impaired LVL'000	Total LVL'000
Mortgage loans	56,345	34,501	46,295	**137,141**
Commercial	42,017	4,836	92,929	**139,782**
Private loans	9,975	7,410	12,929	**30,314**
Consumer loans	161	41	81	**283**
Leasing	1	1	13	**15**
Other	-	68	-	**68**
Total	**108,499**	**46,857**	**152,247**	**307,603**

Loan is considered as restructured if at least one of following action has been performed:

- There are postponed or cancelled principal payment for the Loan for period that is longer than 90 calendar days or repeatedly postponed or cancelled principal payments and total period in last year exceeds 90 calendar days;
- There are postponed, cancelled or capitalized interest payments for the Loan for period that is longer than 90 calendar days or repeatedly postponed, cancelled or capitalized interest payments and total period in last year exceeds 90 calendar days;
- Change of Loan principal repayment schedule that result in decrease of monthly payments by more than 30%;
- There is repossessed collateral or other assets for full or partial loan repayment;
- Substitution of initial borrower or attraction of additional borrower if in case attraction of additional borrower would not be performed that would result in overdue of payments more than 90 days;
- Decrease of loan interest rate due to financial difficulties of the customer.

Notes to the Financial Statements *(continued)*

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Debt securities				
Latvian government securities	65,714	58,746	65,714	58,746
Total debt securities	**65,714**	**58,746**	**65,714**	**58,746**
Investment funds				
DNB Rezerves fonds	383	379	383	379
Total investment funds	**383**	**379**	**383**	**379**
Total	**66,097**	**59,125**	**66,097**	**59,125**

	Moody's equivalent grades	2012 LVL'000	2012 %	2011 LVL'000	2011 %
High grade					
Risk rating class 1	**Aaa**	-	-	-	-
Risk rating class 2	**Aa1-A3**	-	-	-	-
Risk rating class 3	**Baa1-Baa2**	-	-	-	-
Risk rating class 4	**Baa3**	9,890	15	12,787	22
Not rated		56,207	85	46,338	78
Total		**66,097**	**100**	**59,125**	**100**

The effective interest rate on securities at fair value through profit or loss as at December 31, 2012 was 2,79% (2011: 2,84%).

19 INVESTMENTS IN SUBSIDIARIES

The Bank's investments in subsidiaries are specified as follows:

	Share capital LVL'000	Bank's share %	Investment value 2012 LVL'000	Impairment 2012 LVL'000	Net investment Value 2012 LVL'000	Investment value 2011 LVL'000	Impairment 2011 LVL'000	Net investment value 2011 LVL'000
SIA DNB līzings	3,400	100	3,400	-	3,400	3,400	-	3,400
IPAS DNB Asset Managemant	420	100	666	-	666	666	-	666
SIA Skanstes 12	830	100	830	-	830	830	-	830
SIA SALVUS*	2,261	100	2,261	1,450	811	2,261	1,450	811
SIA SALVUS 2*	2,130	100	2,130	2,050	80	2,130	2,050	80
SIA SALVUS 3*	40	100	40	-	40	40	-	40
SIA SALVUS 4*	200	100	200	-	200	-	-	-
	9,281		**9,527**	**3,500**	**6,027**	**9,327**	**3,500**	**5,827**

* Subsidiaries of AS DNB banka established with an aim to ensure sales and/or management of real estate foreclosed in the course of compulsory and/or voluntary collection proceedings.

Notes to the Financial Statements *(continued)*

20 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments whose value depends on the value of one or more underlying assets defined in the contract. The prices of the derivatives are related to those of the underlying spot market instruments through several important mechanisms.

Derivatives are financial instruments predominantly used for hedging against risks under the Group's risk management positions. The Group and the Bank enters into transactions involving the foreign exchange, interest rate and commodity derivative instruments. Currency derivatives are primarily designated as hedges of the foreign currency risk. Interest rate derivatives can be used to hedge the exposure to cash flow variability from interest rates of variable rate loans to banks and customers and financing transactions, also could be designated as fair value hedges to hedge the interest rate risk of fixed rate positions.

Types of derivatives held:

- **Foreign exchange forward contracts -** agreements to buy or sell a specified quantity of foreign or domestic currency on a specified future date at an agreed rate.

- **Foreign exchange swaps** – agreements to exchange different currencies at an agreed rate for a certain period of time. It is agreed to buy/sell certain amount of the same currency and simultaneously make the opposite trade at a later date.

- **Interest rate swaps**. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

- **Cross-currency interest rate swaps** - contractual agreements according to which a cash flow based on the fixed interest rate calculated on the notional amount in one currency is replaced with a cash flow based on the floating interest rate calculated on the same notional amount in another currency or vice versa. In addition, cross-currency swaps of floating rate and notional amount in one currency vs. floating rate and notional amount in another currency or fixed rate and notional amount in one currency vs. fixed rate and notional amount in another currency can be contracted.

- **Interest rate caps** – an interest rate cap is a combination of interest rate calls designed to protect a borrower in a floating-rate loan against increases in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate exceeds agreed level of rate.

- **Interest rate floors** – an interest rate floor is a combination of interest rate puts designed to protect buyer from losses resulting from a decrease in interest rates. The option buyer has to pay an initial payment – premium to owe the right to receive compensation when an interest rate is below agreed level of rate.

- **Interest rate collars** – An interest rate collar is combination of an interest rate cap and an interest rate floor. For this right the buyer of interest rate collar option pays or receives (depending on the terms) an initial payment – a premium.

- **Commodity swaps** - contractual agreements according to which a cash flow based on the fixed price calculated on the notional amount of commodity is replaced with a cash flow based on the floating price calculated on the same notional amount of commodity or vice versa.

The Group's and the Bank's credit risk represents the potential cost to replace derivative contracts if counterparties fail to perform their obligation. Credit risk divides into current and potential credit risk. Current credit risk is the risk that the party owing more than the bank in a derivative contract will default right now. Potential credit risk is the risk that the counterparty will default at any time during the life of the contract.

To control the level of credit risk taken, the Group and the Bank assess counterparties using similar techniques as for its lending activities. The primary method used to manage credit risk is to limit the amount of exposure to a given party.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on off balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Group's and the Bank's exposure to credit risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates, foreign exchange rates or commodity prices relative to their terms.

***Notes to the Financial Statements** (continued)*

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional amounts and fair values of derivative instruments held are set out in the following table:

	2012			2011		
	Contract/ notional amount	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Derivatives held for trading:						
- currency swaps	658,800	6,651	8,197	419,325	6,986	5,068
- interest rate swaps	172,437	3,361	4,023	216,051	2,362	4,562
- forwards	85,877	1,017	928	105,418	80	70
- options	123,565	1,987	1,610	170,900	1,819	1,818
- commodity	33,904	1,038	944	9,095	565	509
Derivatives designated as fair value hedges						
- interest rate swaps	16,305	-	491	44,487	-	1,824
Total		**14,054**	**16,193**		**11,812**	**13,851**

21 INTANGIBLE ASSETS

Movement table of intangible assets of the Group and the Bank for 2012 is as follows:

	Licences and software Group LVL'000	Goodwill Group LVL'000	Total intangible assets Group LVL'000	Licences and software Bank LVL'000	Total intangible assets Bank LVL'000
Historical cost					
31 December 2011	**3,811**	**247**	**4,058**	**3,408**	**3,408**
Additions	1,039		1,039	982	**982**
Disposals and write-offs	(102)		(102)	(59)	**(59)**
31 December 2012	**4,748**	**247**	**4,995**	**4,331**	**4,331**
Amortisation					
31 December 2011	**2,871**	**-**	**2,871**	**2,576**	**2,576**
Amortisation for the period	558	-	558	503	**503**
Disposals and write-offs	(103)	-	(103)	(59)	**(59)**
31 December 2012	**3,326**	**-**	**3,326**	**3,020**	**3,020**
Net book value					
31 December 2011	**940**	**247**	**1,187**	**832**	**832**
31 December 2012	**1,422**	**247**	**1,669**	**1,311**	**1,311**

Intangible assets include advance payments for acquired intangible assets as of 31 December 2012 in amount of LVL 212,7 thou (2011: LVL 20,6 thou).

Notes to the Financial Statements *(continued)*

21 INTANGIBLE ASSETS (continued)

Movement table of intangible assets of the Group and the Bank for 2011 is as follows:

	Licences and software Group LVL'000	Goodwill Group LVL'000	Total intangible assets Group LVL'000	Licences and software Bank LVL'000	Total intangible assets Bank LVL'000
Historical cost					
31 December 2010	**3,383**	**247**	**3,630**	**3,043**	**3,043**
Additions	508	-	508	445	445
Disposals and write-offs	(80)	-	(80)	(80)	(80)
31 December 2011	**3,811**	**-**	**4,058**	**3,408**	**3,408**
Amortisation					
31 December 2010	**2,423**	**-**	**2,423**	**2,182**	**2,182**
Amortisation for the period	528	-	528	474	474
Disposals and write-offs	(80)	-	(80)	(80)	(80)
31 December 2011	**2,871**	**-**	**2,871**	**2,576**	**2,576**
Net book value					
31 December 2010	**960**	**247**	**1,207**	**861**	**861**
31 December 2011	**940**	**247**	**1,187**	**832**	**832**

22 PROPERTY AND EQUIPMENT

Movement table of property and equipment of the Group for 2012 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improve-ments LVL'000	Operating lease LVL'000	Total LVL'000
Historical cost or revaluation						
31 December 2011	**20,499**	**11,984**	**307**	**2,375**	**3,266**	**38,431**
Additions	79	1,419	-	75	-	1,573
Disposals and write-offs	(126)	(283)	(285)	(113)	(2,264)	(3,071)
31 December 2012	**20,452**	**13,120**	**22**	**2,337**	**1,002**	**36933**
Depreciation						
31 December 2011	**904**	**7,924**	**271**	**1,176**	**2,023**	**12,298**
Depreciation for the year	502	1,537	13	243	220	2,515
Disposals and write-offs	(126)	(281)	(262)	(66)	(1,593)	(2,328)
31 December 2012	**1,280**	**9,180**	**22**	**1,353**	**650**	**12,485**
Net book value						
31 December 2011	**19,595**	**4,060**	**36**	**1,199**	**1,243**	**26,133**
31 December 2012	**19,172**	**3,940**	**-**	**984**	**352**	**24,448**

***Notes to the Financial Statements** (continued)*

22 PROPERTY AND EQUIPMENT (continued)

Movement table of property and equipment of the Group for 2011 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improve-ments LVL'000	Operating lease LVL'000	Total LVL'000
Historical cost or revaluation						
31 December 2010	**20,523**	**11,392**	**346**	**2,424**	**8,515**	**43,200**
Additions	74	1,249	-	112	-	1,435
Disposals and write-offs	(98)	(657)	(39)	(161)	(5,249)	(6,204)
31 December 2011	**20,499**	**11,984**	**307**	**2,375**	**3,266**	**38,431**
Depreciation						
31 December 2010	**277**	**6,859**	**273**	**1,082**	**4,963**	**13,454**
Depreciation for the year	501	1,668	37	254	904	3,364
Disposals and write-offs	-	(603)	(39)	(160)	(3,844)	(4,646)
Property revaluation	126	-	-	-	-	126
31 December 2011	**904**	**7,924**	**271**	**1,176**	**2,023**	**12,298**
Net book value						
31 December 2010	**20,246**	**4,533**	**73**	**1,342**	**3,552**	**29,746**
31 December 2011	**19,595**	**4,060**	**36**	**1,199**	**1,243**	**26,133**

Movement table of property and equipment of the Bank for 2012 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improve-ments LVL'000	Total LVL'000
Historical cost or revaluation					
31 December 2011	**991**	**11,911**	**307**	**2,115**	**15,324**
Additions	10	1,402	-	4	1,416
Disposals and write-offs	(126)	(283)	(285)	(113)	(807)
31 December 2012	**875**	**13,030**	**22**	**2,006**	**15,933**
Depreciation					
31 December 2011	**254**	**7903**	**271**	**1,109**	**9,537**
Depreciation for the year	8	1 524	13	218	1,763
Disposals and write-offs	(126)	(281)	(262)	(66)	(735)
31 December 2012	**136**	**9,146**	**22**	**1,261**	**10,565**
Net book value					
31 December 2011	**737**	**4,008**	**36**	**1,006**	**5,787**
31 December 2012	**739**	**3,884**	**-**	**745**	**5,368**

***Notes to the Financial Statements** (continued)*

22 PROPERTY AND EQUIPMENT (continued)

Movement table of property and equipment of the Bank for 2011 is as follows:

	Land and buildings	Office equipment	Vehicles	Leasehold improve-ments	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Historical cost or revaluation					
31 December 2010	**1,089**	**11,292**	**346**	**2,167**	**14,894**
Additions	-	1,248	-	108	1,356
Disposals and write-offs	(98)	(629)	(39)	(160)	(926)
31 December 2011	**991**	**11,911**	**307**	**2,115**	**15,324**
Depreciation					
31 December 2010	**118**	**6,837**	**273**	**1,037**	**8,265**
Depreciation for the year	10	1,653	37	232	1,932
Disposals and write-offs	-	(587)	(39)	(160)	(786)
Property revaluation	126	-	-	-	126
31 December 2011	**254**	**7,903**	**271**	**1,109**	**9,537**
Net book value					
31 December 2010	**971**	**4,455**	**73**	**1,130**	**6,629**
31 December 2011	**737**	**4,008**	**36**	**1,006**	**5,787**

Property and equipment include advance payments as of 31 December 2011 in amount of LVL 233,4 thou

Minimum lease payments receivable under operating leases	**2012 Group**	**2011 Group**
	LVL'000	**LVL'000**
Not later than 1 year	186	837
Later than 1 year and not later than 5 years	166	406
Later than 5 years	-	-
Total	**352**	**1,243**

Notes to the Financial Statements *(continued)*

23 INVESTMENT PROPERTY

SPV (Special Purpose Vehicle/Entity) chooses the fair value model as measurement of real estate property. All of its investment property is measured at fair value. FV is determined based on evaluation of external and certificated internal experts and market prices. Evaluation is made for each real estate property. Assumptions for future NPV calculations: discount rate, depending on quality of the property (locations, technical condition, type of use etc.) – up to 15%; market growth, depending on quality of the property, up to 3% yearly.

The structure of investment property by type (based on investment amount) is following:

	2012 Group	2011 Group
Apartments, parking places	59%	36%
Empty land plots	17%	18%
Private house	14%	17%
Objects for commercial use	10%	29%

The structure of investment property by geographic location:

	2012 Group	2011 Group
Riga and Riga region (incl. Jurmala)	70%	77%
Other regions	30%	23%

	Group LVL'000	Bank LVL'000
Investment property book value as at 31 December 2010	**15,448**	**-**
Reclassification from foreclosed property to investment property	3,253*	3,253*
Additions, purchases of new properties	29,766	14,908
Additions, capitalized investments	19	-
Net gains resulting from adjustment to fair value of projects	(890)	1,989
Disposals	(9,221)	(2,863)
Investment property book value as at 31 December 2011	**38,375**	**17,287**
Additions, purchases of new properties	8,759	3,284
Additions, capitalized investments	179	-
Net gains resulting from adjustment to fair value of projects	2,463	1,157
Disposals	(9,241)	(4,950)
Investment property book value as at 31 December 2012	**40,535**	**16,778**

* Reclassification from foreclosed property to investment property was made based on the analysis of the real estate, according to the new segmentation of the real estate and approval of the sale strategy.

24 OTHER ASSETS

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Guarantee deposits for auctions and prepayments for investment property	2,270	3,927	51	649
Prepayments and overpaid taxes	707	1,572	-	388
Credit card claims and other payment services	1,757	1,175	1,757	1,175
Short term debts	274	3,758*	274	3,758*
Other	1,949	5,967	618	239
Total	**6,957**	**16,399**	**2,700**	**6,209**
Less provisions for debtors	(1,016)	(5,583)	(98)	(113)
Total	**5,941**	**10,816**	**2,602**	**6,096**

* Including cash in transit in amount of LVL 3,682 thou

***Notes to the Financial Statements** (continued)*

25 PROVISIONS FOR CREDIT LOSSES

Group provisions for impairment loans and other assets	**Loans Total**	Com-mercial	Mort-gage loans	Consu-mer loans	Leasing	Card loans	Private and other	IBNR	**Other assets**	**Total**
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'00(**	**LVL'000**
31 December 2010	**162,449**	**85,815**	**40,366**	**431**	**15,089**	**486**	**17,328**	**2,934**	**9,454**	**171,903**
Fully provided for and written off	**(6,103)**	(4,447)	(559)	(486)	-	(441)	(170)	-	**(2,335)**	**(8,438)**
Charge to income statement:	**100,848**	26,250	54,351	311	1,122	462	14,663	3,689	**294**	**101,142**
- individual loans and assets	**83,526**	25,560	43,743	311	261	462	13,189	-	**294**	**83,820**
- homogenous groups of loans	**17,322**	690	10,608	-	861	-	1,474	3,689	**-**	**17,322**
Interest income due to shortening of discounting period	**(5,297)**	(4,467)	(365)	-	-	-	(465)	-	**-**	**(5,297)**
Released during the period	**(14,793)**	(7,404)	(2,983)	(44)	(363)	(149)	(2,859)	(991)	**-**	**(14,793)**
Provisions internal movement	**1,830**	-	-	-	1,830	-	-	-	**(1,830)**	**-**
Exchange rate difference	**(48)**	(122)	95	-	2	(2)	(21)	-	**-**	**(48)**
31 December 2011	**238,886**	**95,625**	**90,905**	**212**	**17,680**	**356**	**28,476**	**5,632**	**5,583**	**244,469**
Fully provided for and written off	**(26,237)**	(22,827)	(464)	(82)	(13)	(106)	(2,745)	-	**(136)**	**(26,373)**
Charge to income statement:	**37,480**	18,785	13,997	188	112	397	3,429	572	**186**	**37,666**
- individual loans and assets	**36,918**	18,785	13,997	188	122	397	3,429	-	**186**	**37,104**
- homogenous groups of loans	**562**	-	-	-	(10)	-	-	572	**-**	**562**
Interest income due to shortening of discounting period	**(3,764)**	(3,233)	(224)	-	-	-	(307)	-	**-**	**(3,764)**
Released during the period	**(27,825)**	(8,174)	(9,725)	(29)	(1,473)	(112)	(2,724)	(5,588)	**-**	**(27,825)**
Provisions internal movement	**4,386**	44	-	-	4 239	-	-	103	**(4,617)**	**(231)**
Exchange rate difference	**2**	8	(12)	-	11	(1)	(3)	(1)	**-**	**2**
31 December 2012	**222,928**	**80,228**	**94,477**	**289**	**20,556**	**534**	**26,126**	**718**	**1,016**	**223,944**

Income statement item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of LVL 981 thou (2011: LVL 3,241 thou).

***Notes to the Financial Statements** (continued)*

25 PROVISIONS FOR CREDIT LOSSES

Bank provisions for impairment loans and other assets	Loans Total	Com-mercial	Mort-gage loans	Consu-mer loans	Card loans	Private and other	IBNR	Other assets	Off-balance sheet liabilities	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
31 December 2010	**143,645**	**82,100**	**40,366**	**431**	**486**	**17,328**	**2,934**	**-**	**26,984**	**170,629**
Fully provided for and written off	**(6,103)**	(4,447)	(559)	(486)	(441)	(170)	-	**(181)**	**(2,154)**	**(8,438)**
Charge to income statement :	**99,359**	25,883	54,351	311	462	14,663	3,689	**3,794**	**861**	**104,014**
- individual loans and assets	**82,898**	25,193	43,743	311	462	13,189	-	**3,794**	**-**	**86,692**
- homogenous groups of loans	**16,461**	690	10,608	-	-	1,474	3,689	**-**	**861**	**17,322**
Interest income due to shortening of discounting period	**(5,297)**	(4,467)	(365)	-	-	(465)	-	**-**	**-**	**(5,297)**
Released during the year	**(14,430)**	(7,404)	(2,983)	(44)	(149)	(2,859)	(991)	**-**	**(363)**	**(14,793)**
Exchange rate difference	**(50)**	(122)	95	-	(2)	(21)	-	**-**	**1**	**(49)**
31 December 2011	**217,124**	**91,543**	**90,905**	**212**	**356**	**28,476**	**5,632**	**3,613**	**25,329**	**246,066**
Fully provided for and written off	**(26,046)**	(22,649)	(464)	(82)	(106)	(2,745)	-	**(136)**	**(178)**	**(26,360)**
Charge to income statement:	**37,316**	18,785	13,997	188	397	3,429	520	**121**	**-**	**37,437**
- individual loans and assets	**36,796**	18,785	13,997	188	397	3,429	-	**121**	**-**	**36,917**
- homogenous groups of loans	**520**	-	-	-	-	-	520	**-**	**-**	**520**
Interest income due to shortening of discounting period	**(3,764)**	(3,233)	(224)	-	-	(307)	-	**-**	**-**	**(3,764)**
Released during the period	**(26,300)**	(8,174)	(9,725)	(29)	(112)	(2,724)	(5 536)	**-**	**(1,525)**	**(27,825)**
Exchange rate difference	**4**	21	(12)	-	(1)	(3)	(1)	**-**	**(1)**	3
31 December 2012	**198,334**	**76,293**	**94,477**	**289**	**534**	**26,126**	**615**	**3,598**	**23,625**	**225,557**

Income statement item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of LVL 528 thou (2011: LVL 229 thou).

Income statement item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of LVL 901 thou (2011: LVL 3,087 thou)

***Notes to the Financial Statements** (continued)*

26 DUE TO OTHER CREDIT INSTITUTIONS

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions	17,387	10,871	17,387	10,871
OECD credit institutions	2,392*	1,257*	2,392*	1,257*
Non-OECD credit institutions	756	242	756	242
Total demand deposits	**20,535**	**12,370**	**20,535**	**12,370**
Term deposits				
Republic of Latvia credit institutions	28,940	24,673	28,940	24,673
OECD credit institutions	759,028**	860,618**	660,636**	758,712**
Non-OECD credit institutions	1,352	2,136	1,352	2,136
	789,320	**887,427**	**690,928**	**785,521**
Accrued interest	576	2,961	440	2,626
Total term deposits	**789,896**	**890,388**	**691,368**	**788,147**
Total deposits	**810,431**	**902,758**	**711,903**	**800,517**

*Including DNB Bank ASA LVL 1,809 thou (2011: LVL 97 thou)
**Including DNB Bank ASA for the Group LVL 723,888 thou, Bank – LVL 625,496 thou (2011: Group - LVL 860,618 thou, Bank - LVL 758,712 thou)

27 DUE TO CUSTOMERS

Analysis of deposits by maturity and client type

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Demand deposits				
Private companies	145,359	135,138	148,115	142,331
Individuals	131,261	101,090	131,261	101,090
State institutions	8,964	10,782	8,964	10,782
Funds in transit	12,125	7,263	12,125	7,263
Non-residents non-OECD	4,833	3,434	4,833	3,434
Non-residents OECD	4,033	3,265	4,033	3,265
Total demand deposits	**306,575**	**260,972**	**309,331**	**268,165**
Term deposit accounts				
Private companies	176,374	163,714	177,333	164,428
Individuals	125,289	117,815	125,289	117,815
State institutions	32,294	948	32,294	948
Non-residents non-OECD	827	249	827	249
Non-residents OECD	14,706	16,187	14,706	16,187
Accrued interest	1,348	1,000	1,356	1,006
Total term deposits	**350,838**	**299,913**	**351,805**	**300,633**
Total deposits and transit funds	**657,413**	**560,885**	**661,136**	**568,798**

Notes to the Financial Statements (continued)

28 ACCRUED EXPENSES AND DEFERRED INCOME

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Accrued expenses	3,835	2,502	3,703	2,409
Other deferred income	-	17	-	17
	3,835	**2,519**	**3,703**	**2,426**

29 OTHER LIABILITIES

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Accrued liabilities	2,101	1,638	1,415	1,251
Accounts payable	1,257	1,198	257	11
VAT	-	-	69	-
Other short-term liabilities	487	797	159	495
	3,845	**3,633**	**1,900**	**1,757**

30 PROVISIONS

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Provisions for SIA DNB līzings obligations	-	-	23,625	25,329
Other provisions	167	167	167	167
	167	**167**	**23,792**	**25,496**

Provisions were made for SIA DNB līzings obligations for the loan portfolio issued by SIA DNB līzings based on Bank's guarantee.

Calculations of the write downs were made based on the quality of the assets of the SIA DNB līzings using the same approach as in the Bank.

31 SHARE CAPITAL

As of December 31, 2012 100% of AS DNB banka shares were owned by DNB Bank ASA.

Notes to the Financial Statements *(continued)*

32 OFF-BALANCE SHEET ITEMS

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Memorandum items				
Contingent liabilities				
guarantees	28,048	30,069	28,048	30,069
Commitments				
Loan issuing commitments	94,774	116,751	127,454	146,581
*other liabilities**	8,744	8,925	8,743	8,924
letters of credit	2,925	2,355	2,925	2,355

* guarantee issue agreements

33 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Balances due from banks	178,815	118,455	178,428	118,224
Loans and advances to customers	1,244,900	1,280,919	1,216,478	1,255,696
Securities designated at fair value through profit and loss	66,097	59,125	66,097	59,125
Derivative financial instruments	14,054	11,812	14,054	11,812
Other assets	3,745	3,562	1,757	3,304
Credit risk exposures relating to off-balance sheet items are as follows:				
Contingent liabilities	28,048	30,069	28,048	30,069
Financial commitments	2,925	2,355	2,925	2,355

There is no collateral to balance items except item Loans and advances to customers (Note 17 j)

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

***Notes to the Financial Statements** (continued)*

34 RELATED PARTY TRANSACTIONS (continued)

Due from related parties	**2012 Group LVL'000**	**2011 Group LVL'000**	**2012 Bank LVL'000**	**2011 Bank LVL'000**
Due from parent companies:				
DNB Bank ASA	174,150	115,797	174,150	115,797
Due from subsidiaries	-	-	54,827	54,041
Due from other related parties:				
AB DNB bankas	1,351	140	1,351	140
Bank DnB NORD Polska S.A.	10	18	10	18
DNB Pank (Bank DNB A/S Eesti filiaal)	-	79	-	79
DNB Baltic IT A/S	11	-	11	-
Bank DNB A/S	-	2	-	2
Balances due from related parties	**175,522**	**116,036**	**230,349**	**170,077**

Due to related parties

	2012 Group LVL'000	**2011 Group LVL'000**	**2012 Bank LVL'000**	**2011 Bank LVL'000**
Due to parent companies:				
DNB Bank ASA	732,330	826,730	633,802	724,489
Due to subsidiaries	387	231	3,723	7,912
Due to other related parties:				
AB DNB bankas	2,136	2,418	2,136	2,418
DNB Pank (Bank DNB A/S Eesti filiaal)	472	719	472	719
DNB Bank ASA Latvijas filiale	-	-	3,423	-
Bank DNB A/S	-	890	-	890
Balances due to related parties	**735,325**	**830,988**	**643,556**	**736,428**

Notes to the Financial Statements *(continued)*

34 RELATED PARTY TRANSACTIONS (continued)

The Group's and Bank's income/expenses from transactions with related parties are analysed as follows:

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Interest received for money market deposits/ loans	**2,091**	**2,449**	**1,565**	**1,288**
Parent companies	543	270	543	270
Subsidiaries	1,546	2,173	1,020	1,012
Other related parties	2	6	2	6
Income received from derivatives	**-**	**-**	**-**	**-**
Parent companies	-	-	-	-
Subsidiaries	-	-	-	-
Other related parties	-	-	-	-
Derivative revaluation result	**-**	**4,043**	**-**	**4,043**
Parent companies	-	4,140	-	4,140
Subsidiaries	-	-	-	-
Other related parties	-	(97)	-	(97)
Commission received	**394**	**156**	**795**	**1,078**
Parent companies	-	-	-	-
Subsidiaries		-	401	922
Other related parties	394	156	394	156
Dividends	**-**	**-**	**397**	**422**
Parent companies	-	-	-	-
Subsidiaries	-	-	397	422
Other related parties	-	-	-	-
Other income	**8**	**1,013**	**1,482**	**2,218**
Parent companies	8	1,010	8	1,010
Subsidiaries	-	-	1,474	1,205
Other related parties	-	3	-	3
Interest paid on money market deposits/loans	**(12,448)**	**(18,684)**	**(12,484)**	**(18,834)**
Parent companies	(12,391)	(18,586)	(12,391)	(18,586)
Subsidiaries	-	-	(36)	(150)
Other related parties	(57)	(98)	(57)	(98)
Expenses from derivatives	**(1,708)**	**(3,219)**	**(1,708)**	**(3,219)**
Parent companies	(1,775)	(3,320)	(1,775)	(3,320)
Subsidiaries	-	-	-	-
Other related parties	67	101	67	101
Derivative revaluation result	**(4,846)**	**-**	**(4,846)**	**-**
Parent companies	(4,786)	-	(4,786)	-
Subsidiaries	-	-	-	-
Other related parties	(60)	-	(60)	-
Interest paid on subordinated loan	**-**	**(1,142)**	**-**	**(1,142)**
Parent companies	-	(1,142)	-	(1,142)
Subsidiaries	-	-	-	-
Other related parties	-	-	-	-
Commission paid	**(80)**	**(78)**	**(80)**	**(78)**
Parent companies	(4)	(77)	(4)	(77)
Subsidiaries	-	-	-	-
Other related parties	(76)	(1)	(76)	(1)
Other expenses	**(4,301)**	**(1,610)**	**(6,064)**	**(2,639)**
Parent companies	(1,551)	(590)	(1,551)	(590)
Subsidiaries	(17)	-	(1,780)	(1,029)
Other related parties	(2,733)	(1,020)	(2,733)	(1,020)
	(20,890)	**(17,072)**	**(20,943)**	**(16,863)**

As at 31 December 2012 loans issued to key management personnel amounted to LVL 1,005 thou (2011: LVL 1,153 thou).

As at 31 December 2011 the provision for investment in subsidiaries were made in amount LVL 3,500 thou.

According to agreement the Bank made settlement for debtor in SIA DNB līzings in amount of LVL 178 thou (2011: LVL 2,2 mln) for debts covering and write-off.

***Notes to the Financial Statements** (continued)*

35 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, there are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Group	**2012**		**2011**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Cash and balances with central banks	65,616	65,616	76,907	76,907
Due from other credit institutions (demand)	19,000	19,000	24,793	24,793
Derivatives	14,054	14,054	11,812	11,812
Financial assets designated at fair value through profit or loss	66,097	66,097	59,125	59,125
Financial assets available-for-sale	26	26	10	10
Due from other credit institutions (term)	159,815	159,815	93,662	93,662
Loans to customers	1,245,477	1,045,065	1,282,796	1,250,698
Other assets	3,745	3,745	3,562	3,562
Total financial assets	**1,573,830**	**1,373,418**	**1,552,667**	**1, 520,569**
Liabilities				
Due to credit institutions	810,431	810,431	902,758	902,758
Derivatives	16,193	16,193	13,851	13,851
Deposits and other financial liabilities	657,413	656,178	560,885	558,965
Other liabilities	3,845	3,845	3,633	3,633
Total financial liabilities	**1,487,882**	**1,486,647**	**1,481,127**	**1,479,207**

***Notes to the Financial Statements** (continued)*

35 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Bank	**2012**		**2011**	
	Carrying value LVL'000	**Fair value LVL'000**	**Carrying value LVL'000**	**Fair value LVL'000**
Assets				
Cash and balances with central banks	65,616	65,616	76,907	76,907
Due from other credit institutions (demand)	18,613	18,613	24,562	24,562
Derivatives	14,054	14,054	11,812	11,812
Financial assets designated at fair value through profit or loss	66,097	66,097	59,125	59,125
Financial assets available-for-sale	26	26	10	10
Due from other credit institutions (term)	159,815	159,815	93,662	93,662
Loans to customers	1,217,055	1,000,394	1,257,573	1,224,559
Other assets	1,757	1,757	3,304	3,304
Total financial assets	**1,543,033**	**1,326,372**	**1,526,955**	**1,493,941**
Liabilities				
Due to credit institutions	711,903	711,903	800,517	800,517
Derivatives	16,193	16,193	13,851	13,851
Deposits and other financial liabilities	661,136	659,895	568,798	566,866
Other liabilities	1,900	1,900	1,757	1,757
Total financial liabilities	**1,391,132**	**1,389,891**	**1,384,923**	**1,382,991**

Group and Bank	**2012**				
	Level 1 LVL'000	**Level 2 LVL'000**	**Level 3 LVL'000**	**Total LVL'000**	**Balance sheet LVL'000**
Assets					
Derivatives	-	14,054	-	**14,054**	**14,054**
Financial assets designated at fair value through profit or loss	-	65,714	383	**66,097**	**66,097**
Financial assets available-for-sale	-	26		**26**	**26**
Total	**-**	**79,794**	**383**	**80,177**	**80,177**
Liabilities					
Derivatives	-	16,193	-	**16,193**	**16,193**
Total	**-**	**16,193**	**-**	**16,193**	**16,193**

Notes to the Financial Statements *(continued)*

35 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Group and Bank	**2011**				
	Level 1 LVL'000	**Level 2 LVL'000**	**Level 3 LVL'000**	**Total LVL'000**	**Balance sheet LVL'000**
Assets					
Derivatives	-	11,812	-	**11,812**	**11,812**
Financial assets designated at fair value through profit or loss	-	58,746	379	**59,125**	**59,125**
Financial assets available-for-sale	-	10		**10**	**10**
Total	**-**	**70,568**	**379**	**70,947**	**70,497**
Liabilities					
Derivatives	-	13,851	-	**13,851**	**13,851**
Total	**-**	**13,851**	**-**	**13,851**	**13,851**

36 CAPITAL ADEQUACY

The Basel II regulations were introduced on January 1, 2007. The capital adequacy regulations now imply greater consistency between the authorities' capital adequacy requirements and the method applied by the institutions themselves. The Group from year to year concentrates its' attention to continuously improve capital adequacy assessment processes and is looking forward to meet possible challenges raised by introduction of Basel III in upcoming years.

The capital of the Group is calculated and allocated for the risk coverage following Capital Adequacy Assessment Policy and Minimum Capital Requirements Calculation Regulations. The Group's objectives when managing capital are:

1) to comply with the capital requirements set by the Financial and Capital Market Commission as well as the internal targets set by the Bank's senior management;
2) to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;
3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy report is submitted to the supervising authority monthly in accordance with the Financial and Capital Market Commission requirements. Internally reports on capital adequacy are available on call, however, usually prepared on a monthly or quarterly basis and submitted to the senior management afterwards.

The Group's regulatory capital is equal to Tier 1 capital which consists of the ordinary shares, share premium, mandatory reserve, retained earnings of the previous financial year, the audited profit of current financial year and less the intangible assets, revaluation profit of investment properties and current year losses, if any;

In 2012 the Group's capital adequacy ratio is 11,78% and the Bank's – 13,00% (2011: 11,30%; 12,60%). Legislation determines minimum capital as at least 8% of the sum of the risk–weighted exposure.

According to the Financial and Capital Market Commission Regulations for Calculating the Minimum Capital Requirements, bank shall provide own funds which shall at all times exceed or equal the sum of the capital requirements for:

- credit risk;
- market risk;
- operational risk.

In compliance with these regulations the Group calculate credit risk minimum capital requirement by using standardised approach, the Group do not apply any VaR or other internal models for the calculation of market risk capital requirement and apply Basic Indicators Approach for calculating of operational risk capital requirement.

The risk-weighted assets are measured by means of risk weights classified according to the nature of each assets and counterparty. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

The Group review and improve the risk identification and management policies and procedures according to the changes in the Group's activities and financial situation at least once a year. Amendments and updates mostly are done during annual internal capital adequacy assessment process when significant risks are to be reassessed or identified and assessed.

***Notes to the Financial Statements** (continued)*

36 CAPITAL ADEQUACY (continued)

	2012 Group LVL'000	2011 Group LVL'000	2012 Bank LVL'000	2011 Bank LVL'000
Total own funds for solvency purposes	**146,041**	**142,112**	**156,253**	**150,794**
Tier 1: Original own funds	146,041	142,088	156,253	150,770
--Paid up capital	134,361	134,361	134,361	134,361
--Share premium	48,994	48,994	48,994	48,994
Reserves	(26,445)	(35,005)	(24,703)	(29,765)
-Valuation differences to eligible as original own funds	(9,200)	(5,075)	(1,088)	(1,988)
Other deductions from Original Own Funds				
-- Intangible assets	(1,669)	(1,187)	(1,311)	(832)
Tier 2: Additional own funds	-	24	-	24
--Revaluation reserves	-	24	-	24
Total own funds for solvency purposes	**146,041**	**142,112**	**156,253**	**150,794**

Capital requirements	**99,139**	**100,593**	**96,157**	**95,774**
Standardised approach (SA)	91,357	92,332	88,560	87,666
Capital requirements for position foreign exchange and commodity risks	598	550	491	481
Capital requirements for operational risks (OpR)	7,184	7,711	7,106	7,627
Surplus /(Deficit) of own funds, before other and transitional capital requirements	46,902	41,519	60,096	55,020
Solvency ratio (%)	**11,78%**	**11,30%**	**13,00%**	**12,60%**
Internal assessment of capital	**146,041**	**142,112**	**156,253**	**150,794**

Notes to the Financial Statements *(continued)*

36 CAPITAL ADEQUACY (continued)

The Group use „Pillar 1 +" approach for internal capital adequacy assessment, at first minimum regulatory capital requirements are analyzed and after then internal capital add-ons are calculated without taking into account any diversification effects between particular risks.

During internal capital adequacy assessment process, the Group usually perform actions as follows:

- analyzes available amount of own funds and its historical volatility, including in the breakdown of certain capital elements;
- analyzes amount of minimum and internal capital requirements and its historical volatility in the breakdown of the risk types;
- analyzes significant risks for whom capital need to be maintained;
- analyzes asset and off-balance sheet items, including analysis of loan portfolio volume, structure, quality, amount of provisions made as well as estimates appropriate forecasts for following periods;
- calculates minimum and internal capital requirements by taking into account planned changes in the Group's activities and financial situation;
- performs stress testing and estimates capital buffer;
- prepare forecast of available own funds by taking into account planned incomes and expenses, including provision amount to be made, planned capital injections and other significant factors;
- prepare regulatory and internal capital adequacy forecast, including setting appropriate strategic goals.

Regular monitoring and control of capital adequacy has been carried out in the Group. In capital adequacy assessment and planning process during 2012 was proceeded integration process started in 2011. According to DNB Bank ASA (Norway) policies and guidelines were adjusted processes, models and methods adaptation to DNB Bank ASA requirements. Improvement of internal capital adequacy assessment process will continue in the coming years by taking into account changes in internal and external factors.

There were several risks that have been assessed as significant for 2012 and for whom adequate internal capital has been kept in addition to the set of minimum regulatory capital requirements.

Concentration risk
Internal capital requirements for individual and inter-connected party's concentration, industries concentration, collateral concentration and concentration of currencies are calculated. Group applies its internal methodology based on standardized Herfindahl-Hirshmann Index to calculate add-ons to the regulatory capital for specific concentration dimensions.

Operational risk
The basic indicator approach is used for the regulatory capital requirement calculation for the operational risk. The internal capital requirement is calculated by comparing regulatory capital requirement with the amount evaluated during the Internal Capital Adequacy Assessment Process. The most conservative of the two values is used for the capital requirement.

Business risk and Strategic risk
Business and strategic risks are mitigated through annual budgeting and strategic planning processes. However, according to the requirements stipulated by Financial and Capital Market Commission, the Group keep capital not less than 5% of the sum of minimum capital requirements to cover these risks.

Interest rate risk
For daily interest rate risk management the Group uses internal model based on Basis Point Value method, which covers the most significant interest rate risk sources and allows assessing influence on the Group's income and economic value. The Group has set internal parameters for possible changes in interest rates for each significant currency. Capital add-on is calculated as absolute maximum impact on the Group's economic value.

As ICAAP is an integral part of risk management framework, the risk definitions used are the same as in overall risk management.

***Notes to the Financial Statements** (continued)*

37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of discounted assets and liabilities as at 31 December 2012 was as follows:

	Up to 1 month LVL'000	1 – 3 months LVL'000	3 – 12 months LVL'000	Over 12 months LVL'000	Total LVL'000
Assets					
Cash and balances with the central banks	65,616	-	-	-	**65,616**
Due from other credit institutions (demand)	19,000	-	-	-	**19,000**
Derivatives	5,112	446	1,790	6,706	**14,054**
Financial assets at fair value through profit or loss	65,332	270	495	-	**66,097**
Financial assets available-for-sale	-	-	-	26	**26**
Loans and advances	207,462	45,610	131,608	1,020,612	**1,405,292**
-- Due from other credit institutions (term)	*158,211*	*-*	*1*	*1,603*	***159,815***
-- Loans to customers	*49,251*	*45,610*	*131,607*	*1,019,009*	***1,245,477***
Accrued income and deferred expenses	364	14	289	5	**672**
Investment property	-	-	-	40,535	**40,535**
Property and equipment	10	20	150	24,268	**24,448**
Intangible assets	-	-	-	1,669	**1,669**
Other assets	2,591	95	4,579	5,047	**12,312**
Total assets	**365,487**	**46,455**	**138,911**	**1,098,868**	**1,649,721**
Liabilities					
Liabilities to credit institutions (demand)	20,535	-	-	-	**20,535**
Derivatives	7,804	620	2,792	4,977	**16,193**
Financial liabilities at amortised cost:	484,246	289,197	194,796	479,070	**1,447,309**
-- Due to credit institutions (term)	*35,996*	*194,050*	*96,000*	*463,850*	***789,896***
-- Deposits from customers	*436,133**	*95,147*	*98,796*	*15,212*	***645,288***
-- Other financial liabilities	*12,117*	*-*	*-*	*8*	***12,125***
Accrued expenses and deferred income	1,870	176	1,789	-	**3,835**
Other liabilities	1,182	889	1,046	1,220	**4,337**
Total liabilities	**515,637**	**290,882**	**200,423**	**485,267**	**1,492,209**
Shareholders' equity	**-**	**-**	**-**	**157,512**	**157,512**
Total liabilities and shareholders' equity	**515,637**	**290,882**	**200,423**	**642,779**	**1,649,721**
Contingent liabilities	1,190	1,276	3,758	21,824	**28,048**
Commitments	53,065	3,184	25,320	24,874	**106,443**
Liquidity risk	**(204,405)**	**(248,887)**	**(90,590)**	**409,391**	**(134,491)**

* Including demand deposits from customers in amount of LVL 307,922 thou

Notes to the Financial Statements *(continued)*

37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of discounted assets and liabilities as at 31 December 2011 was as follows:

	Up to 1 month LVL'000	**1 – 3 months LVL'000**	**3 – 12 months LVL'000**	**Over 12 months LVL'000**	**Total LVL'000**
Assets					
Cash and balances with the central banks	76,907	-	-	-	**76,907**
Due from other credit institutions (demand)	24,793	-	-	-	**24,793**
Derivatives	4,434	422	565	6,391	**11,812**
Financial assets at fair value through profit or loss	6,997	18,913	15,913	17,302	**59,125**
Financial assets available-for-sale				10	**10**
Loans and advances	187,748	27,941	138,054	1,022,715	**1,376,458**
-- Due from other credit institutions (term)	*92,782*	*-*	*372*	*508*	***93,662***
-- Loans to customers	*94,966*	*27,941*	*137,682*	*1,022,207*	***1,282,796***
Accrued income and deferred expenses	8	9	532	73	**622**
Investment property	-	-	-	38,375	**38,375**
Property and equipment	101	174	596	25,262	**26,133**
Intangible assets	-	-	-	1,187	**1,187**
Other assets	10,816	-	14	6,483	**17,313**
Total assets	**311,804**	**47,459**	**155,674**	**1,117,798**	**1,632,735**
Liabilities					
Liabilities to credit institutions (demand)	12,370	-	-	-	**12,370**
Derivatives	3,489	568	2,084	7,710	**13,851**
Financial liabilities at amortised cost:	415,965	84,229	215,162	735,917	**1,451,273**
-- Due to credit institutions (term)	*25,441*	*14,040*	*129,182*	*721,725*	***890,389***
-- Deposits from customers	*383,261**	*70,189*	*85,980*	*14,192*	***553,622***
-- Other financial liabilities	*7,263*	*-*	*-*	*-*	***7,263***
Accrued expenses and deferred income	2,519	-	-	-	**2,519**
Other liabilities	3,633	-	167	537	**4,337**
Total liabilities	**437,976**	**84,797**	**217,413**	**744,164**	**1,484,350**
Shareholders' equity	-	-	-	148,385	**148,385**
Total liabilities and shareholders' equity	**437,976**	**84,797**	**217,413**	**892,549**	**1,632,735**
Contingent liabilities	1,122	1,505	5,475	21,967	**30,069**
Commitments	41,713	36,354	33,977	15,987	**128,031**
Liquidity risk	**(169,007)**	**(75,197)**	**(101,191)**	**187,295**	**(158,100)**

* Including demand deposits from customers in amount of LVL 253,710 thou

***Notes to the Financial Statements** (continued)*

37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2012 was as follows:

	Up to 1 month LVL'000	1 – 3 months LVL'000	3 – 12 months LVL'000	Over 12 months LVL'000	Total LVL'000
Assets					
Cash and balances with the central banks	65,616	-	-	-	**65,616**
Due from other credit institutions (demand)	18,613	-	-	-	**18,613**
Derivatives	5,112	446	1,790	6,706	**14,054**
Financial assets at fair value through profit or loss	65,332	270	495	-	**66,097**
Financial assets available-for-sale	-	-	-	26	**26**
Loans and advances	204,167	33,934	102,674	1,036,095	**1,376,870**
-- Due from other credit institutions (term)	*158,211*	*-*	*1*	*1,603*	***159,815***
-- Loans to customers	*45,956*	*33,934*	*102,673*	*1,034,492*	***1,217,055***
Accrued income and deferred expenses	179	5	267	1	**452**
Investment property	-	-	-	16,778	**16,778**
Property and equipment	-	-	-	5,368	**5,368**
Intangible assets	-	-	-	1,311	**1,311**
Investments in the share capital of related companies	-	-	-	6,027	**6,027**
Other assets	2,694	-	1	5,947	**8,642**
Total assets	**361,713**	**34,655**	**105,227**	**1,078,259**	**1,579,854**
Liabilities					
Liabilities to credit institutions (demand)	20,535	-	-	-	**20,535**
Derivatives	7,804	620	2,792	4,977	**16,193**
Financial liabilities at amortised cost:	487,017	289,061	195,748	380,678	**1,352,504**
-- Due to credit institutions (term)	*35,996*	*193,914*	*96,000*	*365,458*	***691,368***
-- Deposits from customers	*438,904**	*95,147*	*99,748*	*15,212*	***649,011***
-- Other financial liabilities	*12,117*	*-*	*-*	*8*	***12,125***
Accrued expenses and deferred income	1,793	145	1,765	-	**3,703**
Other liabilities	2,170	3,305	8,426	11,791	**25,692**
Total liabilities	**519,319**	**293,131**	**208,731**	**397,446**	**1,418,627**
Shareholders' equity	**-**	**-**	**-**	**161,227**	**161,227**
Total liabilities and shareholders' equity	**519,319**	**293,131**	**208,731**	**558,673**	**1,579,854**
Contingent liabilities	1,190	1,276	3,758	21,824	**28,048**
Commitments	53,065	35,863	25,320	24,874	**139,122**
Liquidity risk	**(211,861)**	**(295,615)**	**(132,582)**	**472,888**	**(167,170)**

* Including demand deposits from customers in amount of LVL 310,680 thou

***Notes to the Financial Statements** (continued)*

37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2011 was as follows:

	Up to 1 month LVL'000	1 – 3 months LVL'000	3 – 12 months LVL'000	Over 12 months LVL'000	Total LVL'000
Assets					
Cash and balances with the central banks	76,907	-	-	-	**76,907**
Due from other credit institutions (demand)	24,562	-	-	-	**24,562**
Derivatives	4,434	422	565	6,391	**11,812**
Financial assets at fair value through profit or loss	6,997	18,913	15,913	17,302	**59,125**
Financial assets available-for-sale				10	**10**
Loans and advances	236,246	17,585	108,254	989,150	**1,351,235**
-- Due from other credit institutions (term)	*92,782*		*372*	*508*	***93,662***
-- Loans to customers	*143,464*	*17,585*	*107,882*	*988,642*	***1,257,573***
Accrued income and deferred expenses	8	9	427	48	**492**
Investment property				17,287	**17,287**
Property and equipment	-	-	-	5,787	**5,787**
Intangible assets	-	-	-	832	**832**
Investments in the share capital of related companies	-	-	-	5,827	**5,827**
Other assets	6,096	-	14	6,483	**12,593**
Total assets	**355,250**	**36,929**	**125,173**	**1,049,117**	**1,566,469**
Liabilities					
Liabilities to credit institutions (demand)	12,370	-	-	-	**12,370**
Derivatives	3,489	568	2,084	7,710	**13,851**
Financial liabilities at amortised cost:	423,228	84,004	215,702	634,011	**1,356,945**
-- Due to credit institutions (term)	*25,441*	*13,705*	*129,182*	*619,819*	***788,147***
-- Deposits from customers	*390,524**	*70,299*	*86,520*	*14,192*	***561,535***
-- Other financial liabilities	*7,263*	-	-	-	***7,263***
Accrued expenses and deferred income	2,426	-	-	-	**2,426**
Other liabilities	2,612	1,617	6,991	16,033	**27,253**
Total liabilities	**444,125**	**86,189**	**224,777**	**657,754**	**1,412,845**
Shareholders' equity	**-**	**-**	**-**	**153,624**	**153,624**
Total liabilities and shareholders' equity	**444,125**	**86,189**	**224,777**	**811,378**	**1,566,469**
Contingent liabilities	1,122	1,505	5,475	21,967	**30,069**
Commitments	71,542	36,354	33,977	15,987	**157,860**
Liquidity risk	**(161,539)**	**(87,119)**	**(139,056)**	**199,785**	**(187,929)**

* Including demand deposits from customers in amount of LVL 260,904 thou

Notes to the Financial Statements *(continued)*

37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the remaining cash flows of financial liabilities.

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2012:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	Total LVL'000
Short term funding	(46,316)	(1)	(3,145)	-	-	**(49,462)**
Long term funding	(10,905)	(292,069)	(93,424)	(366,584)	-	**(762,982)**
Demand deposits	(306,575)	-	-	-	-	**(306,575)**
Term deposits	(72,616)	(54,058)	(115,944)	(117,738)	(887)	**(361,243)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	117,753	206,267	61,483	17,347	254,250	**657,100**
outflow	(118,425)	(207,936)	(61,852)	(17,292)	(254,250)	**(659,755)**
Foreign exchange derivatives						
inflow	4,628	81,250	-	-	-	**85,878**
outflow	(4,644)	(81,234)	-	-	-	**(85,878)**
Derivatives settled on a net basis	(422)	(717)	(547)	2,912	1,189	**2,415**
Total	**(437,522)**	**(348,498)**	**(213,429)**	**(481,355)**	**302**	**(1,480,502)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2012:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	Total LVL'000
Short term funding	(46,316)	(1)	(3,145)	-	-	**(49,462)**
Long term funding	(10,821)	(193,649)	(93,424)	(366,584)	-	**(664,478)**
Demand deposits	(309,331)	-	-	-	-	**(309,331)**
Term deposits	(72,629)	(54,058)	(116,889)	(117,738)	(887)	**(362,201)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	117,753	206,267	61,483	17,347	254,250	**657,100**
outflow	(118,425)	(207,936)	(61,852)	(17,292)	(254,250)	**(659,755)**
Foreign exchange derivatives						
inflow	4,628	81,250	-	-	-	**85,878**
outflow	(4,644)	(81,234)	-	-	-	**(85,878)**
Derivatives settled on a net basis	(422)	(717)	(547)	2,912	1,189	**2,415**
Total	**(440,207)**	**(250,078)**	**(214,374)**	**(481,355)**	**302**	**(1,385,712)**

Notes to the Financial Statements *(continued)*

37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's financial liabilities cash flows as at 31 December 2011:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	Total LVL'000
Short term funding	(33,445)	(2,254)	(1,366)	-	-	**(37,065)**
Long term funding	(68,246)	(13,449)	(137,348)	(666,754)	-	**(885,797)**
Demand deposits	(260,972)	-	-	-	-	**(260,972)**
Term deposits	(79,310)	(32,539)	(116,289)	(79,031)	(574)	**(307,743)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	94,289	195,856	10,007	17,042	41,134	**358,328**
outflow	(93,126)	(195,664)	(9,916)	(17,042)	(41,134)	**(356,882)**
Foreign exchange derivatives						
inflow	13,577	89,150	3,351	-	-	**106,078**
outflow	(13,558)	(89,115)	(3,349)	-	-	**(106,022)**
Derivatives settled on a net basis	(691)	(407)	(2,569)	(1,414)	-	**(5,081)**
Total	**(441,482)**	**(48,422)**	**(257,479)**	**(747,199)**	**(574)**	**(1,495,156)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2011:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	Total LVL'000
Short term funding	(33,445)	(2,254)	(1,366)	-	-	**(37,065)**
Long term funding	(68,046)	(13,063)	(135,578)	(564,583)	-	**(781,270)**
Demand deposits	(268,165)	-	-	-	-	**(268,165)**
Term deposits	(79,376)	(32,649)	(116,829)	(79,031)	(574)	**(308,459)**
Derivatives:						
Derivatives settled on a gross basis						
Currency swaps						
inflow	94,289	195,856	10,007	17,042	41,134	**358,328**
outflow	(93,126)	(195,664)	(9,916)	(17,042)	(41,134)	**(356,882)**
Foreign exchange derivatives						
inflow	13,577	89,150	3,351	-	-	**106,078**
outflow	(13,558)	(89,115)	(3,349)	-	-	**(106,022)**
Derivatives settled on a net basis	(691)	(407)	(2,569)	(1,414)	-	**(5,081)**
Total	**(448,541)**	**(48,146)**	**(256,249)**	**(645,028)**	**(574)**	**(1,398,538)**

***Notes to the Financial Statements** (continued)*

38 CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2012 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the central banks	57,064	2,079	5,786	687	65,616
Due from other credit institutions (demand)	777	1,168	9,546	7,509	19,000
Derivatives	5,692	6,043	2,312	7	14,054
Financial assets at fair value through profit or loss	65,714	-	383	-	66,097
Financial assets available-for-sale	-	-	26	-	26
Loans and advances	43,369	13,650	1,347,419	854	1,405,292
-- Due from other credit institutions (term)	*7,801*	*2*	*152,012*	*-*	*159,815*
-- Loans to customers	*35,568*	*13,648*	*1,195,407*	*854*	*1,245,477*
Accrued income and deferred expenses	654	5	13	-	672
Investment property	16,778	-	23,757	-	40,535
Property and equipment	24,448	-	-	-	24,448
Intangible assets	1,669	-	-	-	1,669
Other assets	9,828	711	1,765	8	12,312
Total assets	**225,993**	**23,656**	**1,391,007**	**9,065**	**1,649,721**
Liabilities					
Liabilities to credit institutions (demand)	6,415	12,833	1,228	59	20,535
Derivatives	5,726	1,585	8,880	2	16,193
Financial liabilities at amortised cost:	243,830	57,378	1,119,081	27,020	1,447,309
-- Due to credit institutions (term)	*7,558*	*-*	*782,283*	*55*	*789,896*
-- Deposits from customers	*236,272*	*57,378*	*336,798*	*26,965*	*657,413*
Accrued expenses and deferred income	3,668	33	134	-	3,835
Other liabilities	3,098	9	1,230	-	4,337
Total liabilities	**262,737**	**71,838**	**1,130,553**	**27,081**	**1,492,209**
Shareholders' equity	**157,512**	**-**	-	-	**157,512**
Total liabilities and shareholders' equity	**420,249**	**71,838**	**1,130,553**	**27,081**	**1,649,721**
Net long/(short) position on balance sheet	*(194,256)*	*(48,182)*	*260,454*	*(18,016)*	*-*
Off-balance sheet claims arising from foreign exchange					
Net long/(short) position on foreign exchange	*186,547*	*52,868*	*(259,850)*	*17,865*	*(2,570)*
Net long/(short) position	***(7,709)***	***4,686***	***604***	***(151)***	***(2,570)***

***Notes to the Financial Statements** (continued)*

38 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2011 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the central banks	67,867	1,285	7,232	523	76,907
Due from other credit institutions (demand)	1,091	2,013	18,150	3,539	24,793
Derivatives	3,795	6,557	1,129	331	11,812
Financial assets at fair value through profit or loss	58,746	-	379	-	59,125
Financial assets available-for-sale	-	-	10	-	10
Loans and advances	8,182	18,034	1,349,514	727	1,376,458
-- Due from other credit institutions (term)	*-*	*510*	*93,149*	*3*	*93,662*
-- Loans to customers	*8,182*	*17,524*	*1,256,365*	*724*	*1,282,796*
Accrued income and deferred expenses	453	7	162	-	622
Investment property	21,862	-	16,513	-	38,375
Property and equipment	24,890	-	1,243	-	26,133
Intangible assets	1,187	-	-	-	1,187
Other assets	11,237	193	5,689	194	17,313
Total assets	**199,310**	**28,090**	**1,400,021**	**5,314**	**1,632,735**
Liabilities					
Liabilities to credit institutions (demand)	940	1,963	9,442	25	12,370
Derivatives	6,528	3,933	3,154	236	13,851
Financial liabilities at amortised cost:	248,443	54,776	1,129,882	18,172	1,451,273
-- Due to credit institutions (term)	*9,999*	*6,714*	*873,624*	*51*	*890,388*
-- Deposits from customers	*236,189*	*46,145*	*253,331*	*17,957*	*553,622*
-- Other financial liabilities	*2,255*	*1,917*	*2,927*	*164*	*7,263*
Accrued expenses and deferred income	2,342	58	119	-	2,519
Other liabilities	3,324	-	1,013	-	4,337
Total liabilities	**261,577**	**60,730**	**1,143,610**	**18,433**	**1,484,350**
Shareholders' equity	**148,385**	**-**	-	-	**148,385**
Total liabilities and shareholders' equity	**409,962**	**60,730**	**1,143,610**	**18,433**	**1,632,735**
Net long/(short) position on balance sheet	*(210,652)*	*(32,640)*	*256,411*	*(13,119)*	*-*
Off-balance sheet claims arising from foreign exchange					
Net long/(short) position on foreign exchange	*214,980*	*35,203*	*(260,154)*	*13,508*	*3,537*
Net long/(short) position	**4,328**	**2,563**	**(3,743)**	**389**	**3,357**

***Notes to the Financial Statements** (continued)*

38 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2012 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the central banks	57,064	2,079	5,786	687	65,616
Due from other credit institutions (demand)	700	1,159	9,245	7,509	18,613
Derivatives	5,692	6,043	2,312	7	14,054
Financial assets at fair value through profit or loss	65,714	-	383	-	66,097
Financial assets available-for-sale			26		26
Loans and advances	69,068	13,560	1,293,402	840	1,376,870
-- Due from other credit institutions (term)	*7,801*	*2*	*152,012*		*159,815*
-- Loans to customers	*61,267*	*13,558*	*1,141,390*	*840*	*1,217,055*
Accrued income and deferred expenses	444	5	3	-	452
Investment property	16,778	-	-	-	16,778
Property and equipment	5,368	-	-	-	5,368
Intangible assets	1,311	-	-	-	1,311
Investments in the share capital of related companies	6,027	-	-	-	6,027
Other assets	7,472	711	451	8	8,642
Total assets	**235,638**	**23,557**	**1,311,608**	**9,051**	**1,579,854**
Liabilities					
Liabilities to credit institutions (demand)	6,415	12,833	1,228	59	20,535
Derivatives	5,726	1,585	8,880	2	16,193
Financial liabilities at amortised cost:	247,149	57,419	1,020,916	27,020	1,352,504
-- Due to credit institutions (term)	*7,558*	*-*	*683,755*	*55*	*691,368*
-- Deposits from customers	*239,591*	*57,419*	*337,161*	*26,965*	*661,136*
Accrued expenses and deferred income	3,536	33	134		3,703
Other liabilities	4,862	9	20,821		25,692
Total liabilities	**267,688**	**71,879**	**1,051,979**	**27,081**	**1,418,627**
Shareholders' equity	**161,227**	**-**	**-**	**-**	**161,227**
Total liabilities and shareholders' equity	**428,915**	**71,879**	**1,051,979**	**27,081**	**1,579,854**
Net long (short) position on balance sheet	*(193,277)*	*(48,322)*	*259,629*	*(18,030)*	*-*
Off-balance sheet claims arising from foreign exchange					
Net long (short) position on foreign exchange	*186,547*	*52,868*	*(259,850)*	*17,865*	*(2,570)*
Net long/(short) position	**(6,730)**	**4,546**	**(221)**	**(165)**	**(2,570)**

Notes to the Financial Statements *(continued)*

38 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2011 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the central banks	67,867	1,285	7,232	523	76,907
Due from other credit institutions (demand)	1,011	2,007	18,005	3,539	24,562
Derivatives	3,795	6,557	1,129	331	11,812
Financial assets at fair value through profit or loss	58,746	-	379	-	59,125
Financial assets available-for-sale	-	-	10	-	10
Loans and advances	29,595	17,972	1,302,941	727	1,351,235
-- Due from other credit institutions (term)	*-*	*510*	*93,149*	*3*	*93,662*
-- Loans to customers	*29,595*	*17,462*	*1,209,792*	*724*	*1,257,573*
Accrued income and deferred expenses	429	7	56	-	492
Investment property	17,287	-	-	-	17,287
Property and equipment	5,787	-	-	-	5,787
Intangible assets	832	-	-	-	832
Investments in the share capital of related companies	5,827	-	-	-	5,827
Other assets	10,370	194	1,835	194	12,593
Total assets	**201,546**	**28,022**	**1,331,587**	**5,314**	**1,566,469**
Liabilities					
Liabilities to credit institutions (demand)	940	1,963	9,442	25	12,370
Derivatives	6,528	3,933	3,154	236	13,851
Financial liabilities at amortised cost:	253,247	54,777	1,030,749	18,172	1,356,945
-- Due to credit institutions (term)	*9,999*	*6,714*	*771,383*	*51*	*788,147*
-- Deposits from customers	*240,993*	*46,146*	*256,439*	*17,957*	*561,535*
-- Other financial liabilities	*2,255*	*1,917*	*2,927*	*164*	*7,263*
Accrued expenses and deferred income	2,249	58	119	-	2,426
Other liabilities	5,975	9	21,269	-	27,253
Total liabilities	**268,939**	**60,740**	**1,064,733**	**18,433**	**1,412,845**
Shareholders' equity	**153,624**	**-**	**-**	**-**	**153,624**
Total liabilities and shareholders' equity	**422,563**	**60,740**	**1,064,733**	**18,433**	**1,566,469**
Net long (short) position on balance sheet	*(221,017)*	*(32,718)*	*266,854*	*(13,119)*	*-*
Off-balance sheet claims arising from foreign exchange					
Net long (short) position on foreign exchange	*214,980*	*35,203*	*(260,154)*	*13,508*	*3,537*
Net long/(short) position	**(6,037)**	**2,485**	**6,700**	**389**	**3,537**

***Notes to the Financial Statements** (continued)*

39 HEDGE ACCOUNTING

As at part of risk management process, management identifies the financial risk to which the bank is exposed. A common strategy in risk management is reduction or elimination of the risks that the bank faces by entering into transaction that gives an offsetting risk profile.

The Bank uses a fair value accounting model in accounting for the instruments used to manage interest rate risk. Fair value hedge is a hedge of the exposure to changes in the fair value of a recognised asset or liability, or an identified portion of such an asset or liability that is attributable to a particular risk and that will affect reported net income.

The bank entered and designated the following receive-variable, pay-fixed IRS as the derivative hedging instrument: the bank identified and aggregated the portfolio/group of fixed interest rate loans (mortgage, private, etc.) which interest rate is fixed as the hedged item.

LVL'000	Notional amount	Notional amount	Change in fair value attributable to the hedged risk		Change in fair value of hedging instrument	
	2012	2011	2012	2011	2012	2011
Hedged items	16,305	44,487	(987)	(1,154)	831	1,261

40 LITIGATION AND CLAIMS

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

41 EVENTS AFTER BALANCE SHEET DATE

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto.