

CONSOLIDATED AND BANK  
FINANCIAL STATEMENTS  
2011.

DNB

The logo for DNB (De Nederlandsche Bank) is displayed in a teal color. It consists of the letters 'DNB' in a sans-serif font. A vertical line of the same color extends from the top of the page, passing through the 'N' and ending at the bottom of the page.

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# A REPORT FROM THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL

During the course of 2011, DNB banka continued to build up its foundations for sustainable growth while navigating through the stormy economic waters of Latvia and the rest of the world. Our financial results continued to be influenced by the consequences of distorted economic development before the year 2009. Major achievements during this period included a strengthening of our market share among universal banks in Latvia, as well as an increase in customer satisfaction and loyalty.

Rebranding was one of the most important events of the year for us. In order to expand our operations and ensure more intensive integration of the banking group, the entire DnB NOR Group, including the bank in Latvia and in other countries, began to use a new brand name – DNB – on November 11, 2011. The new brand includes not just changes in our visual identity, but also a new vision, set of values and organisational culture, as well as new products and services. All of this is aimed at an even stronger focus toward our customers and their financial needs.

## Results summary

In 2011 GDP in Latvia grew by some 5.5%, particularly thanks to rapid gains in the manufacturing and transport sectors, nevertheless the added value in the area of financial services stagnated. The overall volume of the lending portfolio related to non-financial enterprises and households declined by LVL 1.03 billion or 8.3%, while very low interest rates squeezed net interest income to an even greater degree. Despite all of this, DNB earned operating revenues of LVL 41.1 million on the year, while operating profits before provisions and taxes amounted to LVL 15.3 million.

The total assets of DNB Group in Latvia at the end of 2011 amounted to LVL 1.6 billion. The group's lending portfolio, before provisions, totalled LVL 1.522 billion at year's end, which was a bit less than a year ago. At the same time, however, the group increased its market share in lending.

Against the background of a slightly declining deposit value in the overall banking system in 2011, DNB Group saw its deposit portfolio grow by 17% to LVL 561 million. Household deposits increased particularly quickly, expanding by one-quarter since the beginning of the year.

A revaluation of the bank's mortgage lending portfolio and a reassessment of the market value of mortgages after the economic crisis led DNB in Latvia to make provisions in the amount of LVL 89 million on the year. The group's losses after provisions and taxes attained a level of LVL 74 million at the end of 2011.

The capital base of DNB banka was increased to LVL 142 million in 2011, with an investment of LVL 104 million coming from the parent company.

A significant increase in the equity and revaluation of the loan portfolio and the number of provisions that were made – these created a stable basis for DNB for sustainable performance under a very broad range of global economic scenarios.

## High evaluation by existing and potential customers

The significance of DNB's 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. The number of customers of DNB banka increased by 13% in 2011. The number of small, medium and large companies which signed up for the bank's services increased by 25%.

According to the "Baltic Banking 2011" study, which was conducted by the independent EPSI Rating research firm, among the country's top 5 banks DNB banka received the top rating from both legal entities and private individuals in terms of both satisfaction and loyalty.

DNB 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 in 2011 that are of importance to the people of Latvia. For four 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 socio-economic issues.

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.

DNB banka also established the [www.nekrize.lv](http://www.nekrize.lv) Internet portal at the beginning of the country's economic crisis. The name of the portal means “NO to crisis.” The portal has attracted a great deal of attention, and people use it to find answers to questions, to share experiences, and to receive the views of recognised economic, sociological, financial and other specialists about ways of better overcoming the consequences of the economic crisis so as to improve the quality of people's lives.

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Terje Turnes  
Chairman of the  
Supervisory Council

-----  
Andris Ozolins  
CEO, Chairman of the  
Management Board

Riga  
22 March 2012

# The Supervisory Council and the Management Board of the Bank as of 31 December 2011

## The Supervisory Council

Name	Institution	Position	Date of appointment
Terje Turnes	DNB Bank ASA	Chairman of the Supervisory Council	28 June 2011*
Jekaterina Titarenko	DNB Bank ASA	Vice Chairman of the Supervisory Council	28 June 2011**
Ola Landmark	DNB Bank ASA	Member of the Supervisory Council	26 May 2011
Margrethe Melbye Grønn	DNB Bank ASA	Member of the Supervisory Council	22 February 2010
Tony Samuelsen	DNB Bank ASA	Member of the Supervisory Council	26 March 2008

\* From 26 May 2011 till 28 June 2011 Terje Turnes was a member of the Supervisory Council

\*\* From 22 February 2010 till 28 June 2011 Jekaterina Titarenko was a member of the Supervisory Council

## The following members of the Supervisory Council have left their positions since 31 December 2010:

Name	Institution	Position	Date of resignation
Torstein Hagen	Bank DnB NORD A/S	Member of the Supervisory Council	1 July 2011*
Thomas Buerkle	Bank DnB NORD A/S	Chairman of the Supervisory Council	26 May 2011**

\* From 6 June 2007 till 28 June 2011 Torstein Hagen was the Vice Chairman of the Supervisory Council

\*\* From 16 March 2009 till 18 March 2009 Thomas Buerkle was a member of the Supervisory council

## The Management Board

Name	Position	Date of appointment
Andris Ozolins	Chairman of the Management Board	1 January 2004*
Tom Erdal	Member of the Management Board	1 January 2012
Sigfred Andersen	Member of the Management Board	1 May 2010
Janis Teteris	Member of the Management Board	1 August 2009
Ivars Kapitovics	Member of the Management Board	10 August 2006

\* From 29 March 2001 till 1 January 2004 Andris Ozolins was the Vice Chairman of the Management Board; from 10 September 1999 till 29 March 2001 Andris Ozolins was a member of the Management Board.

## The following members of the Management Board have left their positions since 31 December 2010:

Name	Position	Date of resignation
Rudolf Karges	Member of the Management Board	1 January 2012

# 1. 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 76 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2011 and the results of their operations and cash flows for the year ended 31 December 2011.

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.

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Andris Ozolins  
CEO, Chairman of the  
Management Board

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Tom Erdal  
Member of the  
Management Board

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Ivars Kapitovics  
Member of the  
Management Board

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Sigfreds Andersens  
Member of the  
Management Board

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Jānis Teteris  
Member of the  
Management Board

Riga  
22 March 2012

# INDEPENDENT AUDITORS' REPORT



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## NEATKARĪGU REVIDENTU ZIŅOJUMS

AS DNB banka akcionāram

### Ziņojums par finanšu pārskatu

Mēs esam veikuši AS DNB banka un tās meitas uzņēmumu (turpmāk tekstā - „Grupa”) konsolidēto 2011. gada finanšu pārskatu un AS DNB banka (turpmāk tekstā – Banka) 2011. gada finanšu pārskatu revīziju, kas atspoguļots pievienotajā 2011. gada pārskatā no 7. līdz 73. lappusei. Revidētais finanšu pārskats ietver 2011. gada 31. decembra finanšu stāvokli, 2011. gada apvienoto ienākumu pārskatu, naudas plūsmas pārskatu un pašu kapitāla izmaiņu pārskatu, kā arī nozīmīgu grāmatvedības uzskaites principu kopsavilkumu un citu paskaidrojošu informāciju pielikumā.

### Vadības atbildība par finanšu pārskata sagatavošanu

Vadība ir atbildīga par šī finanšu pārskata sagatavošanu un tajā sniegtās informācijas patiesu atspoguļošanu saskaņā ar Eiropas Savienībā pieņemtajiem Starptautiskajiem finanšu pārskatu standartiem, kā arī par tādām iekšējām kontrolēm, kādas vadība uzskata par nepieciešamām, lai nodrošinātu finanšu pārskata sagatavošanu, kas nesatur ne krāpšanas, ne kļūdu izraisītas būtiskas neatbilstības.

### Revidentu atbildība

Mēs esam atbildīgi par atzinumu, ko, pamatojoties uz mūsu veikto revīziju, izsakām par šo finanšu pārskatu. Mēs veicām revīziju saskaņā ar Starptautiskajiem revīzijas standartiem. Šie standarti nosaka, ka mums jāievēro ētikas prasības un jāplāno un jāveic revīzija tā, lai iegūtu pietiekamu pārliecību par to, ka finanšu pārskatos nav būtisku neatbilstību.

Revīzija ietver procedūras, kas tiek veiktas, lai gūtu revīzijas pierādījumus par finanšu pārskatā uzrādīto summu un atklātās informācijas pamatotību. Procedūras tiek izvēlētas, pamatojoties uz revidentu profesionālu vērtējumu, ieskaitot krāpšanas vai kļūdu izraisītu būtisku neatbilstību riska novērtējumu finanšu pārskatā. Veicot šo riska novērtējumu, revidenti ņem vērā iekšējo kontroli, kas izveidota, lai nodrošinātu finanšu pārskata sagatavošanu un tajā sniegtās informācijas patiesu atspoguļošanu, ar mērķi noteikt apstākļiem piemērotas revīzijas procedūras, bet nevis lai izteiktu atzinumu par kontroles efektivitāti. Revīzija ietver arī pielietoto grāmatvedības uzskaites principu un nozīmīgu uzņēmuma vadības izdarīto pieņēmumu pamatotības, kā arī finanšu pārskatā sniegtās informācijas vispārēju izvērtējumu.

Uzskatām, ka mūsu iegūtie revīzijas pierādījumi ir pietiekami un atbilstoši mūsu revidentu atzinuma izteikšanai.

### Atzinums

Mūsaprāt, iepriekš minētais finanšu pārskats sniedz skaidru un patiesu priekšstatu par Grupas un Bankas finansiālo stāvokli 2011. gada 31. decembrī, kā arī par tās finanšu rezultātiem un naudas plūsmām 2011. gadā saskaņā ar Eiropas Savienībā pieņemtajiem Starptautiskajiem finanšu pārskatu standartiem.

### Ziņojums par citu juridisko un regulējošo prasību izpildi

Mēs esam iepazinušies arī ar vadības ziņojumu par 2011. gadu, kas atspoguļots pievienotajā 2011. gada pārskatā no 2. līdz 3. lappusei, un neesam atklājuši būtiskas neatbilstības starp šajā vadības ziņojumā un 2011. gada finanšu pārskatā atspoguļoto finanšu informāciju

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Licence Nr. 17

Diāna Krišjāne  
Valdes priekšsēdētāja

Mārtiņš Valters  
LR zvērināts revidents  
Sertifikāts Nr. 185

Rīgā,  
2012. gada 22. martā

## Consolidated statement of comprehensive income for the year ended 31 December 2011

	Notes	2011 Group LVL'000	2010 Group LVL'000	2011 Bank LVL'000	2010 Bank LVL'000
Interest income	5	65,182	71,483	61,984	67,095
Interest expense	6	(33,417)	(32,834)	(31,148)	(30,918)
<b>Net interest income</b>		<b>31,765</b>	<b>38,649</b>	<b>30,836</b>	<b>36,177</b>
Fees and commission income	7	11,073	13,251	10,748	15,634
Fees and commission expense	8	(3,513)	(4,622)	(3,512)	(4,621)
<b>Net fees and commissions</b>		<b>7,560</b>	<b>8,629</b>	<b>7,236</b>	<b>11,013</b>
Net gain/ (loss) from operations with foreign currency, trading securities and derivative financial instruments	9	1,948	4,053	1,983	4,239
Net result from operations with investment property	10	(316)	-	2,358	
Other operating income	11	3,274	3,122	2,845	597
Dividends		2	3	424	83
<b>Operating income</b>		<b>44,233</b>	<b>54,456</b>	<b>45,682</b>	<b>52,109</b>
Personnel expenses	12	(11,952)	(11,128)	(11,657)	(10,516)
Other administrative expenses	12	(12,091)	(10,603)	(11,699)	(9,690)
Depreciation	23	(3,892)	(4,784)	(2,406)	(2,523)
Other operating expenses	13	(969)	(3,621)	(619)	(3,402)
Net allowances for impairment loss	27	(89,361)	(55,742)	(92,079)	(54,138)
<b>(Loss) before income tax</b>		<b>(74,032)</b>	<b>(31,422)</b>	<b>(72,778)</b>	<b>(28,160)</b>
Corporate income tax	14	(13)	120	(2)	-
<b>(Loss) for the period from continuing operations</b>		<b>(74,045)</b>	<b>(31,302)</b>	<b>(72,780)</b>	<b>(28,160)</b>
<b>Total comprehensive (loss)</b>		<b>(74,045)</b>	<b>(31,302)</b>	<b>(72,780)</b>	<b>(28,160)</b>
<b>(Loss) attributable to:</b>					
Equity holders of the Bank		(74,045)	(31,302)	(72,780)	(28,160)
<b>Total comprehensive (loss) attributable to:</b>					
Equity holders of the Bank		(74,045)	(31,302)	(72,780)	(28,160)

The financial statements on pages 7 to 76 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes

Chairman of the Supervisory Council

Andris Ozolins

CEO, Chairman of the Management Board

Tom Erdal

Member of the Management Board

Riga,  
22 March 2012



## Consolidated statement of financial position at 31 December 2011

Assets	Notes	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Cash and balances with central banks	16	76,907	72,736	76,907	72,736
Due from other credit institutions (demand)	17	24,793	16,493	24,562	16,164
Derivatives	21	11,812	8,512	11,812	8,512
Financial assets designated at fair value through profit or loss	19	59,125	138,767	59,125	138,767
Debt securities and other fixed income securities		58,746	138,392	58,746	138,392
Investment funds		379	375	379	375
Financial assets available-for-sale	10	10	10	10	10
Loans and advances		1,376,458	1,499,658	1,351,235	1,454,110
Due from other credit institutions (term)	17	93,662	54,877	93,662	54,877
Loans to customers	18	1,282,796	1,444,781	1,257,573	1,399,233
Accrued income and deferred expenses	24	622	680	492	580
Investment property	25	38,375	15,448	17,287	-
Property and equipment	23	26,133	29,746	5,787	6,629
Intangible assets	22	1,187	1,207	832	861
Investments in subsidiaries	20	-	-	5,827	5,047
Deferred corporate income tax	14	6,483	6,483	6,483	6,483
Current corporate income tax		14	1,283	14	1,283
Other assets	26	10,816	13,898	6,096	7,821
<b>Total assets</b>		<b>1,632,735</b>	<b>1,804,921</b>	<b>1,566,469</b>	<b>1,719,003</b>

The financial statements on pages 7 to 76 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

\_\_\_\_\_  
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Chairman of the Supervisory  
Council

\_\_\_\_\_  
Andris Ozolins  
CEO, Chairman of the Management  
Board

\_\_\_\_\_  
Tom Erdal  
Member of the Management  
Board

Riga,  
22 March 2012

**The accompanying notes are an integral part of these financial statements**

## Consolidated statement of financial position at 31 December 2011 (continued)

Liabilities	Notes	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Liabilities to credit institutions on demand	28	12,370	41,207	12,370	41,207
Derivatives	21	13,851	15,419	13,851	15,419
Financial liabilities at amortised cost:		1,451,273	1,568,878	1,356,945	1,456,059
Due to credit institutions (term)	28	890,388	1,087,932	788,147	964,622
Deposits from customers and other financial liabilities	29	560,885	480,946	568,798	491,437
Accrued expenses and deferred income	30	2,519	758	2,426	693
Deferred tax liability	14	537	537	-	-
Income tax liability		-	28	-	-
Other liabilities	32	3,633	4,905	1,757	1,478
Provisions	33	167	383	25,496	27,366
Subordinated loans	31	-	54,488	-	54,488
<b>Total liabilities</b>		<b>1,484,350</b>	<b>1,686,603</b>	<b>1,412,845</b>	<b>1,596,710</b>
<b>Shareholders' equity</b>					
Share capital	34	134,361	134,361	134,361	134,361
Share premium		48,994	48,994	48,994	48,994
Reserve capital	35	157,511	53,302	157,511	53,302
Revaluation reserve		35	133	35	133
Accumulated result		(192,516)	(118,472)	(187,277)	(114,497)
<b>Total shareholders' equity attributable to the shareholders of the Bank</b>		<b>148,385</b>	<b>118,318</b>	<b>153,624</b>	<b>122,293</b>
<b>Total shareholders' equity</b>		<b>148,385</b>	<b>118,318</b>	<b>153,624</b>	<b>122,293</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,632,735</b>	<b>1,804,921</b>	<b>1,566,469</b>	<b>1,719,003</b>

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Riga,  
22 March 2012

The accompanying notes are an integral part of these financial statements

## Statement of changes in equity for the year ended 31 December 2011

Group	Attributable to equity holders					
	Share capital LVL'ooo	Share premium LVL'ooo	Reserve capital LVL'ooo	Revaluation reserve LVL'ooo	Accumulated result LVL'ooo	Total LVL'ooo
<b>At 1 January 2010</b>	<b>134,361</b>	<b>48,994</b>	<b>28,491</b>	<b>133</b>	<b>(87,170)</b>	<b>124,809</b>
(Loss) for the year	-	-	-	-	(31,302)	(31,302)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(31,302)</b>	<b>(31,302)</b>
Increase of reserve capital	-	-	24,811	-	-	<b>24,811</b>
<b>At 31 December 2010</b>	<b>134,361</b>	<b>48,994</b>	<b>53,302</b>	<b>133</b>	<b>(118,472)</b>	<b>118,318</b>
(Loss) for the year	-	-	-	-	(74,045)	(74,045)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(74,045)</b>	<b>(74,045)</b>
Decrease of revaluation reserve	-	-	-	(98)	-	(98)
Increase of reserve capital	-	-	104,209	-	-	<b>104,209</b>
<b>At 31 December 2011</b>	<b>134,361</b>	<b>48,994</b>	<b>157,511</b>	<b>35</b>	<b>(192,517)</b>	<b>148,385</b>

  

Bank	Share capital LVL'ooo	Share premium LVL'ooo	Reserve capital LVL'ooo	Revaluation reserve LVL'ooo	Accumulated result LVL'ooo	Total LVL'ooo
	Share capital LVL'ooo	Share premium LVL'ooo	Reserve capital LVL'ooo	Revaluation reserve LVL'ooo	Accumulated result LVL'ooo	Total LVL'ooo
<b>At 1 January 2010</b>	<b>134,361</b>	<b>48,994</b>	<b>28,491</b>	<b>133</b>	<b>(86,337)</b>	<b>125,642</b>
(Loss) for the year	-	-	-	-	(28,160)	(28,160)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,160)</b>	<b>(28,160)</b>
Increase of reserve capital	-	-	24,811	-	-	<b>24,811</b>
<b>At 31 December 2010</b>	<b>134,361</b>	<b>48,994</b>	<b>53,302</b>	<b>133</b>	<b>(114,497)</b>	<b>122,293</b>
(Loss) for the year	-	-	-	-	(72,780)	(72,780)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(72,780)</b>	<b>(72,780)</b>
Decrease of revaluation reserve	-	-	-	(98)	-	(98)
Increase of reserve capital	-	-	104,209	-	-	<b>104,209</b>
<b>At 31 December 2011</b>	<b>134,361</b>	<b>48,994</b>	<b>157,511</b>	<b>35</b>	<b>(187,277)</b>	<b>153,624</b>

The accompanying notes are an integral part of these financial statements

## Consolidated statement of cash flows for the year ended 31 December 2011

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Cash flows from operating activities</b>				
Loss before income tax and dividends	(74,032)	(31,422)	(72,778)	(28,160)
Depreciation and amortization of intangible assets and property and equipment	3,892	4,784	2,406	2,523
Provisions for doubtful debts and off-balance sheet liabilities	81,003	46,728	83,874	45,888
Loss/(Profit) from revaluation of securities, derivatives and loans	364	(2,729)	364	(2,729)
Loss/(Profit) from revaluation of fixed assets	126	-	126	-
(Profit)/loss from sale of fixed and intangible assets	(31)	(214)	(5)	(11)
Dividends received	(2)	(3)	(424)	(83)
Loss/(Profit) from foreign currency revaluation	30	69	30	71
<b>Cash flow from operating activities before changes in assets and liabilities</b>	<b>11,350</b>	<b>17,213</b>	<b>13,593</b>	<b>17,499</b>
Decrease/(Increase) in loans and advances to customers	75,118	107,767	57,752	56,346
(Increase)/Decrease/ in due from credit institutions	(8)	4,504	(8)	4,504
Decrease/(Increase) in derivatives	1,216	3,760	1,216	3,760
Decrease/(Increase) in financial assets designated at fair value through profit and loss	79,642	(17,060)	79,642	(17,060)
(Increase)/Decrease in due to credit institutions	(197,544)	(168,028)	(176,475)	(70,290)
Decrease/(Increase) in accrued income and deferred expenses	58	17	87	(18)
Decrease/(Increase) in other assets and taxes	5,887	(3,912)	2,812	(2,353)
Increase/(Decrease) in clients deposits	79,938	94,355	77,360	36,473
(Decrease)/Increase in derivatives	(1,568)	(1,326)	(1,568)	(1,326)
Increase/(Decrease) in accrued expenses and deferred income	1,761	(1,263)	1,734	(1,295)
(Decrease)/Increase in other liabilities	(1,514)	730	(2,202)	(429)
<b>Changes in cash and cash equivalents as a result of operating activities</b>				
Corporate income tax paid	(13)	-	(2)	-
<b>Increase/(decrease) in cash and cash equivalents as a result of operating activities</b>	<b>54,323</b>	<b>36,757</b>	<b>53,941</b>	<b>25,811</b>
<b>Cash flows from investing activities</b>				
(Acquisition) of property and equipment and intangible assets	(2,167)	(9,201)	(2,026)	(2,976)
Sale of property and equipment and intangible assets	1,715	4,473	272	1,360
(Acquisition) of participation in share capital of subsidiary and Business Unit	-	-	(4,280)	(3,050)
(Acquisition) of investment property	(23,479)	(10,999)	(17,839)	-
<b>(Decrease)/Increase in cash and cash equivalents as a result of investment activities</b>	<b>(23,931)</b>	<b>(15,727)</b>	<b>(23,873)</b>	<b>(4,666)</b>

The accompanying notes are an integral part of these financial statements

## Consolidated statement of cash flows for the year ended 31 December 2011 (continued)

	Note	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Cash flows from financing activities</b>					
Increase of reserve capital		104,209	24,811	104,209	24,811
Subordinated liabilities attracted		(54,488)	7	(54,488)	7
Dividends received		2	3	424	83
<b>Increase/(decrease) in cash and cash equivalents as a result of financing activities</b>		<b>49,723</b>	<b>24,821</b>	<b>50,145</b>	<b>24,901</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>80,115</b>	<b>45,851</b>	<b>80,213</b>	<b>46,046</b>
Cash and cash equivalents at the beginning of the year		102,026	56,244	101,697	55,722
(Loss)/gain of foreign currency revaluation on cash and cash equivalents		(30)	(69)	(30)	(71)
<b>Cash and cash equivalents at the end of the year</b>	16	<b>182,111</b>	<b>102,026</b>	<b>181,880</b>	<b>101,697</b>

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Cash flow from interest received	66,070	70,692	62,821	66,212
Cash flow from interest paid	35,920	33,631	33,670	31,897
Dividends received	2	3	424	83

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

#### *Going concern*

The Bank's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements (Note 2 x)

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.

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 2011	0,544	0,702804
As at 31 December 2010	0,535	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 original interest rate of the loans.

The Group first assesses whether objective evidence of impairment exists individually for significant 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.

#### *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 revaluated values of collateral, 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. Provision approach for immaterial loans always is subject for adjustment based on exercises performed for material loans. 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 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 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. 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 and treated 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. The Group leases out of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. 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.

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 or valuation less accumulated depreciation.

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.

#### *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 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.

Bank recognised income from revaluation on derivatives and interest income on interest rate swap.

#### *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 chang-

es 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%.

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 this 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 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 and other off balance sheet items. 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.

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 2011 has revised provision approach for mortgage and private RE loans, as well as changed general value assessment approach for number of real estate objects from Mark to model based approach to current market values approach
- In case of mortgage and private RE loans, in 2011 the Bank has reviewed quality of data regarding collaterals (e.g. implemented IT solution, which provides precise information about cross collaterals), performed individual and statistical revaluation of real estate collaterals, in provisioning moved from selection based approach to whole portfolio approach (previously calculation of provisions for immaterial loans was based on enough representative selection of loans). The Bank has reviewed assumptions used in calculations based on the latest experience in foreclosures (e.g. quality of foreclosed properties is below average of similar properties, expenses related to collateral realisation is higher than estimated before), adjusted assumptions to new foreclosure strategy (chosen strategy which allows to limit losses as much as possible in medium term), as well as for recovery of unsecured part (assumptions became more conservative). In total it resulted in increase in impairments by approximately LVL 50 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 recognise on profitability assumptions over three year horizon.
- Going concern:  
The Group's and the Bank's management has made assessment of the Group's and the Bank's ability to continue as going concern and despite losses over prior periods are fully convinced of stable and balanced performance onwards. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's and Bank's ability to continue as a going concern. The full integration with the sole shareholder DNB Norway, the leading Norwegian financial institution, creates large-scale synergies ensuring solid basis for new business opportunities and robust financial performance. Consequently, next years financial plans reflect stable and strong financial results, and the financial statements continue to be prepared on the going concern basis.
- 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 39.
- Investment property, property and equipment:  
Investment property is property held to earn rentals or for capital appreciation or both. The Group use the following classification of investment property:
  - land;
  - building;
  - part of building;
  - objects for commercial use.

The Group and the Bank carried its investment properties at fair value, with changes in fair value being recognized as other operating revenue or other operating expense in the statement of comprehensive income. In addition, it measures land and buildings at revaluated amounts with changes in fair value being recognized in other comprehensive income.

The Group and the Bank engaged independent valuation specialists to determine fair value as at 31 December 2011. The valuator used a valuation techniques based on comparable market data and discounted future income. More details on values of investment properties are disclosed in Note 25 and on land and buildings in 23.

### 3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

#### Changes in accounting policy and disclosures

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:

- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)**
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**
- **IAS 24 Related Party Disclosures (Amended)**
- **IAS 32 Classification on Rights Issues (Amended)**
- **Improvements to IFRSs (May 2010)**

#### **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)**

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment is applied retrospectively. The amendment has no impact on the financial position or performance of the Group, as the Group does not have such pension assets.

#### **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The amendment has no impact on the financial position or performance of the Group, as the Group does not have such equity instruments at the present, but will have in the future.

#### **IAS 24 Related Party Transactions (Amendment)**

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively. The amendment effects presentation only and has no impact on the Group's financial position or performance.

#### **IAS 32 Financial Instruments: Presentation (Amendment)**

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is applied retrospectively. The amendment effects presentation only and has no impact on the Group's financial position or performance.

#### Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

**IFRS 3 Business Combinations:** The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the



amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

The changes to IFRS 3 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2011.

**IFRS 7 Financial Instruments - Disclosures:** The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Notes 2 h, 18.

**IAS 1 Presentation of Financial Statements:** The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group reflects the revised disclosure requirements in financial statements for the year period.

**IAS 27 Consolidated and Separate Financial Statements:** This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The Group/Company has illustrated those amendments in Notes 9,38

**IAS 34 Interim Financial Reporting:** This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The Group has illustrated those amendments in financial statements for the 6 months period.

**IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirement:** The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects.

## STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

The Group has not applied the following IFRSs interpretations that have been issued but are not yet effective:

### **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income**

The amendment is effective for annual periods 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.

### **IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets**

The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group has not estimated yet the impact of the implementation of these changes.

### **IAS 19 Employee Benefits (Amended)**

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These 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. Early application is permitted. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such employee benefits.

### **IAS 27 Separate Financial Statements (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. The Group does not present separate financial statements.

**IAS 28 Investments in Associates and Joint Ventures (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. The Group has not estimated yet the impact of the implementation of these changes.

**IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods 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 amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the

IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. The Group has not yet evaluated the impact of the implementation of this standard.

**IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods 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 amendment affects presentation only and has no impact on the Group's financial position or performance.

**IFRS 9 Financial Instruments - Classification and Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. The Group has not yet evaluated the impact of the implementation of this standard.

**IFRS 10 Consolidated Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. 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, compared with the requirements that were in IAS 27. The Group has not yet evaluated the impact of the implementation of this standard.

**IFRS 11 Joint Arrangements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have joint arrangements.

**IFRS 12 Disclosures of Involvement with Other Entities**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The amendment affects presentation only and has no impact on the Group's financial position or performance.

**IFRS 13 Fair Value Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 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. This standard should be applied prospectively and early adoption is permitted. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

## 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 2011 Bank started to carry out harmonization of risk management process with 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. Reputation-al 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.



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.

## 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. Becoming fully owned by DNB Bank ASA, the Group is under active harmonization of credit processes. 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 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. 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.

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

For large loans credit decisions are made by credit committees whose credit approval powers apply to the particular committee as a whole. Lower exposures are approved based on bilateral decision making system where credit decisions are made jointly by two persons (Business + Risk) with individual credit approval authorities. 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.

During 2012 the Group plans to start implementation of parent bank's credit decision making approach. Dual credit approval system is going to be established where credit approval authority rests with the business units while final credit approval requires endorsement by relevant persons from risk area who are organizationally independent of the business units. Advisory credit committee will play a role of advisory board for giving recommendations to decision makers/ endorsers on larger commitments or exposures involving unusual/ specific risks.

## 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, 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.

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 in 2012 to 11,0%, in 2013 – 9,5% and in 2014 – 7,0%. According to severe scenario macroeconomic indicators will significantly deteriorate, indicators will come back to the level, which was reached during the latest crisis, i.e. as a result of severe scenario W type of crisis will take place. According to this scenario GDP will decrease, while unemployment will reach 17,3%.

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 in amount of LVL 10,7 mln 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 2012 the Group is going to focus more on industry strategy specialization through 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 will continue 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 will adopt DNB Group Credit Manual, continue implementation of risk-adjusted pricing tools and improve risk reports. Our focus will be on strengthening risk culture throughout the organization and corporate social responsibility.

### 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 2011 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 2011 the Bank was in compliance with all limits.

FX risk management involves the usage of derivative financial instruments, such as foreign currency forward exchange agreements.

#### 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	3,5 %
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, 2011 (December 31, 2010: LVL 50 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 monthly, 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 2011 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'ooo	
	December 31, 2011	December 31, 2010
LVL	(2,8)	(6,6)
EUR	1,3	0,2
USD	0,4	0,1

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. The table below allocates the Group's net positions based on interest rate review dates (assets less liabilities) as at 31 December 2011:

	Net position (LVL) LVL'ooo	Net position (USD) LVL'ooo	Net position (EUR) LVL'ooo
Up to 3 months	259,693	15,974	26,460
3 - 6 months	(71,895)	(5,619)	(67,620)
6 - 12 months	(18,990)	(2,597)	(17,389)
1- 5 years	19,239	(71)	28,220
Over 5 years	(60)	(67)	(72)
<b>Total</b>	<b>187,987</b>	<b>7,620</b>	<b>(30,401)</b>

The table below allocates the Group's positions as at 31 December 2010:

	Net position (LVL) LVL'ooo	Net position (USD) LVL'ooo	Net position (EUR) LVL'ooo
Up to 3 months	(119,103)	(16,934)	(78,562)
3 - 6 months	32,366	9,238	100,655
6 - 12 months	(18,534)	1,084	24,484
1- 5 years	(22,452)	(2,442)	(24,013)
Over 5 years	35	16	106
<b>Total</b>	<b>(127,688)</b>	<b>(9,038)</b>	<b>22,670</b>

The table below allocates the Bank's positions as at 31 December 2011:

	<b>Net position (LVL) LVL'000</b>	<b>Net position (USD) LVL'000</b>	<b>Net position (EUR) LVL'000</b>
Up to 3 months	279,265	15,217	92,240
3 - 6 months	(70,915)	(5,289)	(56,639)
6 - 12 months	(19,123)	(2,598)	(20,030)
1- 5 years	18,755	(79)	20,745
Over 5 years	(60)	(67)	(86)
<b>Total</b>	<b>207,922</b>	<b>7,184</b>	<b>36,231</b>

The table below allocates the Bank's positions as at 31 December 2010:

	<b>Net position (LVL) LVL'000</b>	<b>Net position (USD) LVL'000</b>	<b>Net position (EUR) LVL'000</b>
Up to 3 months	(136,856)	(16,861)	(138,055)
3 - 6 months	32,753	9,239	103,428
6 - 12 months	(18,116)	1,086	28,475
1- 5 years	(22,355)	(2,431)	(13,467)
Over 5 years	35	16	150
<b>Total</b>	<b>(144,539)</b>	<b>(8,951)</b>	<b>(19,469)</b>

### 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 December 1, 2011), 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, 2011 is 48,58% (December 31, 2010: 45,12%), 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 management in the Group is performed by following guidelines given by parent bank DNB Bank ASA as well as Operational risk management policy approved by the Bank's Supervisory Council. Policy

and guidelines set minimum requirements for operational risk management, including prescription of risk identification, definition of relevant management methods, description of controlling and reporting processes and stipulation of responsibility levels.

The Group manages operational risk by accepting it, minimizing it through implementation of internal control measures, outsourcing or avoiding. The Bank has implemented several methods for managing operational risk. Thus, main are declaration of operational risk events and losses, i.e. by registering all operational risk events and losses into centralized system and self assessment – one of risk inventory methods to evaluate operational risk potential. In 2011 the Bank implemented key risk indicators system for the early recognition of risks, however, further improvements for this system is planned to be made in 2012. The operational risk is reported to the Group's management bodies either on a monthly or quarterly basis.

The Bank dedicates much attention to ensuring business continuity; the disaster recovery and business continuity plans as well as the procedures of restoring of IT services are prepared and tested on a regular basis. Moreover, in order to ensure an uninterrupted functioning of the IT systems and data security, all critical IT components are duplicated.

All managers are responsible for knowing and managing operational risk within their own area of responsibility. Every manager is responsible for ensuring that established targets are in compliance with and support Group's risk tolerance. Operational risk management process is organised according to the three lines of defence model: business area, support units and individual employees have operational level responsibility, risk management has overall responsibility and audit has responsibility for testing sufficiency and efficiency of the whole process.

The Group's and the Bank's intention is to follow the rule that effective operational risk management as well as sound risk management in general is based on a strong risk culture. Continuous training and educational process are in place to raise risk awareness among employees.

## 5. INTEREST INCOME

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Interest income:				
Interest on financial assets measured at amortised cost:				
interest on loans and receivables to customers	62,328	64,677	59,130	60,289
interest on impaired loans	5,532	5,779	5,334	5,591
interest on balances due from credit institutions and central banks	5,296	5,779	5,296	5,779
interest on balances due from credit institutions and central banks	500	919	500	919
Interest on financial assets designated at fair value through profit or loss:				
interest on derivatives	2,854	6,806	2,854	6,806
interest on held for trading financial assets	-	-	-	-
interest on held for trading financial assets	2,854	6,806	2,854	6,806
<b>Total interest income</b>	<b>65,182</b>	<b>71,483</b>	<b>61,984</b>	<b>67,095</b>



## 6. INTEREST EXPENSES

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Interest expense:				
interest on deposits from customers	(4,051)	(6,742)	(4,201)	(7,191)
interest on balances due to credit institutions and central banks	(22,662)	(21,269)	(20,243)	(18,904)
interest on subordinated liabilities	(1,142)	(1,384)	(1,142)	(1,384)
payments on Guarantee fund and charge of financial stability	(1,426)	(966)	(1,426)	(966)
interest on derivatives	(4,136)	(2,473)	(4,136)	(2,473)
<b>Total interest expense</b>	<b>(33,417)</b>	<b>(32,834)</b>	<b>(31,148)</b>	<b>(30,918)</b>
<b>Net interest income</b>	<b>31,765</b>	<b>38,649</b>	<b>30,836</b>	<b>36,177</b>

## 7. FEES AND COMMISSION INCOME

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Credit card service	4,745	6,796	4,745	6,796
Client service	2,104	1,802	1,509	1,094
Money transfers	1,647	1,637	1,647	1,637
Commissions on loans monitoring and service	1,380	1,998	1,161	1,837
Guarantees	385	363	840*	3,577*
Other	323	198	323	198
Cash operations	321	300	321	300
Investments products	115	110	149	148
Trade finance	53	47	53	47
<b>Total fees and commission income</b>	<b>11,073</b>	<b>13,251</b>	<b>10,748</b>	<b>15,634</b>

\* Including income from Guarantee issued to Leasing company LVL 456 thou (2010: LVL 3,213 thou). Guarantee agreement was expired in February, 2011.

## 8. FEES AND COMMISSION EXPENSES

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Credit cards service	(1,940)	(3,087)	(1,940)	(3,087)
Cash operations	(447)	(370)	(447)	(370)
Money transfers	(333)	(351)	(333)	(351)
Loans monitoring expense	(283)	(219)	(283)	(219)
Other	(186)	(158)	(185)	(157)
Commissions on loans	(117)	(67)	(117)	(67)
Guarantees	(108)	(270)	(108)	(270)
Client service	(99)	(100)	(99)	(100)
<b>Total fee and commission expenses</b>	<b>(3,513)</b>	<b>(4,622)</b>	<b>(3,512)</b>	<b>(4,621)</b>
<b>Net fees and commission</b>	<b>7,560</b>	<b>8,629</b>	<b>7,236</b>	<b>11,013</b>



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

	<b>2011 Group LVL'ooo</b>	<b>2010 Group LVL'ooo</b>	<b>2011 Bank LVL'ooo</b>	<b>2010 Bank LVL'ooo</b>
Gain/(Loss) from operations with foreign currencies	3,971	2,800	4,006	2,987
(Loss)/gain from trading with financial assets at fair value through profit or loss	(1,629)	(1,406)	(1,629)	(1,406)
(Loss)/gain from revaluation of financial assets at fair value through profit or loss	(552)	2,033	(552)	2,033
(Loss)/gain from foreign currency revaluation	(30)	(70)	(30)	(71)
Gain/ (loss) from derivatives revaluation	188	696	188	696
	<b>1,948</b>	<b>4,053</b>	<b>1,983</b>	<b>4,239</b>

## 10. INCOME/EXPENSES OF INVESTMENT PROPERTY

	<b>2011 Group LVL'ooo</b>	<b>2010 Group LVL'ooo</b>	<b>2011 Bank LVL'ooo</b>	<b>2010 Bank LVL'ooo</b>
(Loss)/gain from investment property revaluation	(890)	-	1,989	-
Profit/(loss) from sale of investment property	574	-	369	-
	<b>(316)</b>	<b>-</b>	<b>2,358</b>	<b>-</b>

## 11. OTHER OPERATING INCOME

	<b>2011 Group LVL'ooo</b>	<b>2010 Group LVL'ooo</b>	<b>2011 Bank LVL'ooo</b>	<b>2010 Bank LVL'ooo</b>
Profit from sale of fixed assets	31	214	5	11
Operating lease income	1,293	2,531	-	-
Other operating income	1,950*	377	2,840*	586
	<b>3,274</b>	<b>3,122</b>	<b>2,845</b>	<b>597</b>

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

## 12. ADMINISTRATIVE EXPENSES

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Salary to Board	369	370	369	370
Salary to employees	9,220	8,546	8,983	8,053
Social insurance contributions	2,363	2,212	2,305	2,093
<b>Total salaries and related expenses</b>	<b>11,952</b>	<b>11,128</b>	<b>11,657</b>	<b>10,516</b>
Refurbishment and maintenance	4,239	3,787	4,259	3,618
Advertising	2,191	1,489	2,102	1,419
Occupancy costs	2,093	2,219	2,260	1,977
Other	921	751	740	611
Communications	736	771	703	717
Professional services	642	238	435	75
Payments for management services to Group	550	696	550	696
Insurance	336	351	304	305
Training	154	93	149	91
External audit expenses	129	126	100	101
Business travel	100	82	97	80
<b>Total other administrative expenses</b>	<b>12,091</b>	<b>10,603</b>	<b>11,699</b>	<b>9,690</b>
<b>Total administrative expenses</b>	<b>24,043</b>	<b>21,731</b>	<b>23,356</b>	<b>20,206</b>

Average number of staff employed by the Group in 2011 was 827 by the Bank was 811 (by the Group in 2010 was 827 by the Bank was 779)

## 13. OTHER OPERATING EXPENSES

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Penalty	1	2,328*	1	2,328*
Loss from write off of fixed assets	43	186	43	186
Loss from fixed assets revaluation	126	-	126	-
Other operating expenses	799	1,107	449	888
	<b>969</b>	<b>3,621</b>	<b>619</b>	<b>3,402</b>

\* Compensation fee for IT project withdrawal

## 14. CORPORATE INCOME TAX

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Corporate income tax for the year	(13)	(28)	(2)	-
Deferred tax	-	148	-	-
	<b>(13)</b>	<b>120</b>	<b>(2)</b>	<b>-</b>

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):

	<b>2011 Group LVL'000</b>	<b>2010 Group LVL'000</b>	<b>2011 Bank LVL'000</b>	<b>2010 Bank LVL'000</b>
<b>Profit before taxation</b>	<b>(74,032)</b>	<b>(31,422)</b>	<b>(72,778)</b>	<b>(28,160)</b>
Theoretically calculated tax at a tax rate of 15%	(11,105)	(4,713)	(10,917)	(4,224)
Undeductable revaluation of securities and derivatives	(259)	(409)	(225)	(409)
Impairment for debtors	270	205	156	23
Other net expenses not deductible for tax purposes	696	1,160	514	665
Non-taxable income	(63)	(12)	(63)	(12)
Tax losses used for the Group	-	-	426	63
Unrecognised deferred tax asset	10,461	3,620	10,109	3,894
	<b>-</b>	<b>(149)</b>	<b>-</b>	<b>-</b>
Deferred tax liability at the beginning of the year	(5,946)	(5,797)	(6,483)	(6,483)
Change in deferred tax asset during the year	-	(149)	-	-
Deferred tax at the end of the year	<b>(5,946)</b>	<b>(5,946)*</b>	<b>(6,483)</b>	<b>(6,483)</b>

\*Deferred tax assets LVL 6,483 thou (2010: LVL 6,483 thou)

\*Deferred tax liability LVL 537 thou (2010: LVL 537 thou)

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 2011 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.

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

	<b>2011 Group LVL'000</b>	<b>2010 Group LVL'000</b>	<b>2011 Bank LVL'000</b>	<b>2010 Bank LVL'000</b>
Gross deferred income tax liability:				
Temporary difference on property and equipment depreciation	1,176	1,433	563	633
Gross deferred income tax asset:				
Temporary difference on accruals for unused annual leave and bonuses	(157)	(101)	(156)	(91)
Other temporary differences	(537)	(181)	(371)	(181)
Change in unrecognised deferred tax asset	22,484	11,188	21,684	11,086
Tax loss carried forward	(28,912)	(18,285)	(28,203)	(17,930)
<b>Net deferred tax liability</b>	<b>(5,946)</b>	<b>(5,946)</b>	<b>(6,483)</b>	<b>(6,483)</b>

As at 31 December 2011 tax losses of the Group constituted LVL 192,7 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.

## 15. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The quantity of shares is 134,360,900.

	2011 Group LVL'000	2010 Group LVL'000
Profit attributable to equity holders of the Bank	(74,045)	(31,302)
Weighted average number of ordinary shares in issue	134,360,900	134,360,900
Basic earnings per share (expressed in LVL per share)	<u>(0,55)</u>	<u>(0,23)</u>
Diluted earnings per share (expressed in LVL per share)	<u>(0,55)</u>	<u>(0,23)</u>

## 16. CASH AND CASH EQUIVALENTS

	2011 Group LVL'000	2010 Group LVL'000	2011 Bank LVL'000	2010 Bank LVL'000
Cash	17,098	12,064	17,098	12,064
Balances on demand with the Central Banks	59,809	60,672	59,809	60,672
<b>Total cash and balances on demand with Central Banks</b>	<b>76,907</b>	<b>72,736</b>	<b>76,907</b>	<b>72,736</b>
Balances due from other credit institutions with the original maturity less than 3 months	117,574	70,497	117,343	70,168
Balances on demand due to other credit institutions	(12,370)	(41,207)	(12,370)	(41,207)
<b>Total cash and cash equivalents</b>	<b>182,111</b>	<b>102,026</b>	<b>181,880</b>	<b>101,697</b>

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.

## 17. DUE FROM CREDIT INSTITUTIONS

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Demand deposits				
Republic of Latvia credit institutions	234	331	3	1
OECD credit institutions	24,197*	15,863	24,197*	15,864
Non-OECD credit institutions	362	299	362	299
<b>Total demand deposits</b>	<b>24,793</b>	<b>16,493</b>	<b>24,562</b>	<b>16,164</b>
Term deposits				
Republic of Latvia credit institutions	-	6,183	-	6,183
OECD credit institutions	93,662**	48,394	93,662**	48,394
Non-OECD credit institutions	-	300	-	300
<b>Total term deposits</b>	<b>93,662</b>	<b>54,877</b>	<b>93,662</b>	<b>54,877</b>
<b>Total</b>	<b>118,455</b>	<b>71,370</b>	<b>118,224</b>	<b>71,041</b>

The effective interest rate on balances due from other credit institutions as at 31 December 2011 was 1,06% (2010: 1,39%).

\*Including DNB Bank ASA LVL 19,410 thou; 2010: LVL 332 thou

\*\*Including DNB Bank ASA LVL 92,770 thou; 2010: LVL 42,168 thou

## 18. LOANS AND ADVANCES TO CUSTOMERS

### A. Analysis of loans by original maturity

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Less than a year	177,130	150,253	180,870	137,370
More than a year	1,336,501	1,448,379	1,285,802	1,396,962
Accrued interest	8,051	8,599	8,025	8,547
	<b>1,521,682</b>	<b>1,607,231</b>	<b>1,474,697</b>	<b>1,542,879</b>
Less: provisions for loan impairment losses	(237,114)*	(160,880)	(215,352)*	(142,076)
Less: provisions for unpaid interest	(1,772)	(1,570)	(1,772)	(1,570)
<b>Total</b>	<b>1,282,796</b>	<b>1,444,781</b>	<b>1,257,573</b>	<b>1,399,233</b>

Loan portfolio includes loans secured by the Republic of Latvia Government guarantees of LVL 1,495 thousand. The effective interest rate on loans as at 31 December 2011 was 3,95% (2010: 3,75%).

\*One of the main reasons of increasing is due to revised estimates and assumptions of provision calculation (Note 2 x).

## B. Analysis of loans by client type

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Individuals	889,576	922,445	868,550	898,883
Private companies	598,580	653,985	569,653	612,846
Management/employees of Bank	11,465	12,575	10,479	11,943
Local government	7,538	9,308	7,357	9,158
Public companies	6,472	319	5,828	21
Finance institutions	-	-	4,805	1,481
Accrued interest	8,051	8,599	8,025	8,547
	<b>1,521,682</b>	<b>1,607,231</b>	<b>1,474,697</b>	<b>1,542,879</b>
Less: provisions for loan impairment losses	(237,114)	(160,880)	(215,352)	(142,076)
Less: provisions for unpaid interest	(1,772)	(1,570)	(1,772)	(1,570)
<b>Total</b>	<b>1,282,796</b>	<b>1,444,781</b>	<b>1,257,573</b>	<b>1,399,233</b>

## C. Analysis of loans by products

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Mortgage loans	739,005	761,559	739,005	761,559
Commercial loans	547,174	591,085	589,907	625,489
Private loans	123,729	132,761	123,729	132,761
Leasing	89,919	99,022	227	318
Card loans	8,120	7,805	8,120	7,805
Accrued interest	8,051	8,599	8,025	8,547
Other	165	459	165	459
Consumer loans	5,519	5,941	5,519	5,941
	<b>1,521,682</b>	<b>1,607,231</b>	<b>1,474,697</b>	<b>1,542,879</b>
Less: provisions for loan impairment losses	(237,114)	(160,880)	(215,352)	(142,076)
Less: provisions for unpaid interest	(1,772)	(1,570)	(1,772)	(1,570)
<b>Total</b>	<b>1,282,796</b>	<b>1,444,781</b>	<b>1,257,573</b>	<b>1,399,233</b>

## D. Analysis of loans by industry

	2011 Group LVL'000	2010 Group LVL'000	2011 Bank LVL'000	2010 Bank LVL'000
Individuals	889,563	922,494	864,900	894,395
Management of real estate	188,870	212,420	236,772	249,775
Manufacturing	109,759	105,560	90,294	86,960
Other	108,890	108,521	99,749	96,863
Trade	87,081	108,560	74,853	92,443
Transport	65,358	74,943	48,550	59,072
Construction	16,147	18,593	9,355	11,669
Agriculture	14,377	10,407	9,155	6,564
Management/employees of Bank	11,021	12,486	10,479	11,943
Non-profit and religious organizations	1,090	1,822	1,090	1,822
<b>Total loans to residents</b>	<b>1,492,156</b>	<b>1,575,806</b>	<b>1,445,197</b>	<b>1,511,506</b>
Loans issued to non-residents	21,475	22,826	21,475	22,826
Accrued interest	8,051	8,599	8,025	8,547
	<b>1,521,682</b>	<b>1,607,231</b>	<b>1,474,697</b>	<b>1,542,879</b>
Less: provisions for loan impairment losses	(237,114)	(160,880)	(215,352)	(142,076)
Less: provisions for unpaid interest	(1,772)	(1,570)	(1,772)	(1,570)
<b>Total</b>	<b>1,282,796</b>	<b>1,444,781</b>	<b>1,257,573</b>	<b>1,399,233</b>

## E. Analysis of loans by countries

	2011 Group LVL'000	2010 Group LVL'000	2011 Bank LVL'000	2010 Bank LVL'000
Latvia	1,492,156	1,575,774	1,445,197	1,511,474
Other countries	21,475	22,858	21,475	22,858
Accrued interest	8,051	8,599	8,025	8,547
<b>Total</b>	<b>1,521,682</b>	<b>1,607,231</b>	<b>1,474,697</b>	<b>1,542,879</b>
Less: allowance for loan impairment losses	(237,114)	(160,880)	(215,352)	(142,076)
Less: allowance for unpaid interest	(1,772)	(1,570)	(1,772)	(1,570)
<b>Total</b>	<b>1,282,796</b>	<b>1,444,781</b>	<b>1,257,573</b>	<b>1,399,233</b>

## F. Gross investment in finance lease

	2011 Group LVL'000	2010 Group LVL'000	2011 Bank LVL'000	2010 Bank LVL'000
Not later than 1 year	33,045	34,544	4	3
1 – 5 years	53,730	55,365	-	-
More than 5 years	103	327	-	-
<b>Total gross finance lease receivables</b>	<b>86,878</b>	<b>90,236</b>	<b>4</b>	<b>3</b>

## Unearned future interest income from investments in finance lease

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Not later than 1 year	3,054	2,826	1	-
1 – 5 years	3,197	2,793	-	-
More than 5 years	-	6	-	-
<b>Total unearned future interest income</b>	<b>6,251</b>	<b>5,625</b>	<b>1</b>	<b>-</b>

## Net investment in finance lease

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Not later than 1 year	29,991	31,718	3	3
1 – 5 years	50,533	52,572	-	-
More than 5 years	103	321	-	-
<b>Total investment in finance lease</b>	<b>80,627</b>	<b>84,611</b>	<b>3</b>	<b>3</b>
Less allowances for loan impairment	(16,005)	(13,452)	-	-
Less allowances for homogenous groups of loans	(1,675)	(1,637)	-	-
<b>Total net investment in finance lease</b>	<b>62,947</b>	<b>69,522</b>	<b>3</b>	<b>3</b>

G. The following table provides the division of loans and advances to customers by quality:

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Neither past due nor impaired	1,019,688	1,051,244	1,011,090	1,028,348
Past due but not impaired	112,339	154,138	94,383	133,883
Impaired	381,604	393,250	361,199	372,101
Accrued interest	<b>8,051</b>	<b>8,599</b>	<b>8,025</b>	<b>8,547</b>
Total gross loans and advances to customers	1,521,682	1,607,231	1,474,697	1,542,879
Less allowances for loan impairment	(207,898)	(147,169)	(187,811)	(130,002)
Less allowances for homogenous groups of loans	(29,216)	(13,711)	(27,541)	(12,074)
Less unpaid interest	(1,772)	(1,570)	(1,772)	(1,570)
<b>Total net loans and advances to customers</b>	<b>1,282,796</b>	<b>1,444,781</b>	<b>1,257,573</b>	<b>1,399,233</b>



H. The following table provides the division of loans and advances to customers neither past due nor impaired:

Grades	Risk classes	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Large Corporate</b> (turnover more than 20MEUR)	<b>Low</b>	10,549	-	10,549	-
	<b>Medium</b>	79,087	76,711	79,087	78,191
	<b>High</b>	11,291	31,811	11,291	31,811
<b>SME</b> (turnover less than 20MEUR)	<b>Low</b>	8,598	165	62,557	39,091
	<b>Medium</b>	172,905	176,096	125,400	128,304
	<b>High</b>	90,427	94,212	90,427	94,213
<b>Private individuals</b>	<b>Low</b>	310,743	315,577	310,743	315,577
	<b>Medium</b>	255,852	273,882	255,852	273,882
	<b>High</b>	65,184	67,279	65,184	67,279
	Not rated	15,052	15,511	-	-
<b>Total</b>		<b>1,019,688</b>	<b>1,051,244</b>	<b>1,011,090</b>	<b>1,028,348</b>
		<b>2011 Group LVL'ooo</b>	<b>2010 Group LVL'ooo</b>	<b>2011 Bank LVL'ooo</b>	<b>2010 Bank LVL'ooo</b>
Mortgage loans		553,055	573,038	553,055	573,038
Commercial		330,669	335,083	382,280	373,991
Private loans		65,512	71,590	65,512	71,590
Leasing		60,212	61,858	3	54
Card loans		5,120	4,253	5,120	4,253
Consumer loans		5,101	5,076	5,101	5,076
Other		19	346	19	346
<b>Total</b>		<b>1,019,688</b>	<b>1,051,244</b>	<b>1,011,090</b>	<b>1,028,348</b>

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

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Commercial loans</b>				
Past due up to 30 days	5,370	24,242	5,024	24,078
Past due 31-60 days	2,224	1,491	2,188	1,491
Past due 61-90 days	312	819	312	819
Past due over 90 days	2,974	4,429	2,974	4,429
<b>Total</b>	<b>10,880</b>	<b>30,981</b>	<b>10,498</b>	<b>30,817</b>
<b>Mortgage loans (issued to private individuals secured with real estate collateral)</b>				
Past due up to 30 days	43,250	54,368	43,250	54,368
Past due 31-60 days	17,683	18,917	17,683	18,917
Past due 61-90 days	5,559	6,587	5,559	6,587
Past due over 90 days	78	1,164	78	1,164
<b>Total</b>	<b>66,570</b>	<b>81,036</b>	<b>66,570</b>	<b>81,036</b>
<b>Private loans (issued to private individuals secured with real estate collateral)</b>				
Past due up to 30 days	9,392	10,405	9,392	10,405
Past due 31-60 days	3,195	4,475	3,195	4,475
Past due 61-90 days	1,254	1,566	1,254	1,566
Past due over 90 days	805	2,528	805	2,528
<b>Total</b>	<b>14,646</b>	<b>18,974</b>	<b>14,646</b>	<b>18,974</b>
<b>Consumer loans</b>				
Past due up to 30 days	162	280	162	280
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	-	-	-	-
<b>Total</b>	<b>162</b>	<b>280</b>	<b>162</b>	<b>280</b>
<b>Leasing</b>				
Past due up to 30 days	12,085	13,173	4	11
Past due 31-60 days	2,988	2,729	-	3
Past due 61-90 days	2,505	4,210	-	7
Past due over 90 days	-	-	-	-
<b>Total</b>	<b>17,578</b>	<b>20,112</b>	<b>4</b>	<b>21</b>

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Card loans</b>				
Past due up to 30 days	2,435	2,727	2,435	2,727
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	-	-	-	-
<b>Total</b>	<b>2,435</b>	<b>2,727</b>	<b>2,435</b>	<b>2,727</b>
<b>Other loans</b>				
Past due up to 30 days	68	23	68	23
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	-	4	-	4
<b>Total</b>	<b>68</b>	<b>27</b>	<b>68</b>	<b>27</b>
Past due up to 30 days	72,762	105,218	60,335	91,892
Past due 31-60 days	26,090	27,613	23,066	24,887
Past due 61-90 days	9,630	13,183	7,125	8,980
Past due over 90 days	3,857	8,124	3,857	8,124
<b>Total</b>	<b>112,339</b>	<b>154,138</b>	<b>94,383</b>	<b>133,883</b>
<b>Total gross loans and advances to customers past due but not impaired</b>	<b>112,339</b>	<b>154,138</b>	<b>94,383</b>	<b>133,883</b>
<b>Fair value of collateral</b>	<b>102,115</b>	<b>156,851</b>	<b>98,190</b>	<b>156,851</b>

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

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Commercial	200,821	225,020	197,130	220,680
Mortgage loans	119,380	107,484	119,380	107,484
Private loans	43,571	42,195	43,571	42,195
Consumer loans	255	586	255	586
Leasing	16,935	17,052	221	243
Card loans	565	825	565	825
Other	77	88	77	88
<b>Total</b>	<b>381,604</b>	<b>393,250</b>	<b>361,199</b>	<b>372,101</b>

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

	Commercial loans LVL'ooo	Mortgage loans LVL'ooo	Private loans LVL'ooo	Consumer loans LVL'ooo	Leasing LVL'ooo	Card loans LVL'ooo	Other loans LVL'ooo	Total LVL'ooo
<b>31 December 2011</b>								
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
<b>31 December 2010</b>								
Impaired loans	225,020	107,484	42,195	586	17,053	825	87	393,250
Fair value of collateral	139,230	75,198	27,056	169	106	-	-	241,759

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

	Commercial loans LVL'ooo	Mortgage loans LVL'ooo	Private loans LVL'ooo	Consumer loans LVL'ooo	Leasing LVL'ooo	Card Loans LVL'ooo	Other loans LVL'ooo	Total LVL'ooo
<b>31 December 2011</b>								
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
<b>31 December 2010</b>								
Impaired loans	220,680	107,484	42,195	586	244	825	87	372,101
Fair value of collateral	139,230	75,198	27,056	169	106	-	-	241,759

Status past due defined based on maximum number of delay days (principal or interest).

If the borrower delays repayment of both interest and principal amount of the loan (or share thereof), the longest of the both delay periods is specified.

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)

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Commercial	139,782	195,493	139,782	195,493
Mortgage loans	137,141	134,053	137,141	134,053
Private loans	30,314	30,440	30,314	30,440
Consumer loans	283	572	283	572
Leasing	4,571	23	15	23
Other	68	72	68	72
<b>Total</b>	<b>312,159</b>	<b>360,653</b>	<b>307,603</b>	<b>360,653</b>

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'ooo	Past due but not impaired LVL'ooo	Impaired LVL'ooo	Total LVL'ooo
Commercial	42,017	4,836	92,929	139,782
Mortgage loans	56,345	34,501	46,295	137,141
Private loans	9,975	7,410	12,929	30,314
Consumer loans	161	41	81	283
Leasing	1,820	1,328	1,423	4,571
Other	-	68	-	68
<b>Total</b>	<b>110,318</b>	<b>48,184</b>	<b>153,657</b>	<b>312,159</b>

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'ooo	Past due but not impaired LVL'ooo	Impaired LVL'ooo	Total LVL'ooo
Commercial	42,017	4,836	92,929	139,782
Mortgage loans	56,345	34,501	46,295	137,141
Private loans	9,975	7,410	12,929	30,314
Consumer loans	161	41	81	283
Leasing	1	1	13	15
Other	-	68	-	68
<b>Total</b>	<b>108,499</b>	<b>46,857</b>	<b>152,247</b>	<b>307,603</b>

The following table provides the division of Group's and Bank's restructured loans and advances to customers as at 31 December 2010

	Neither past due nor impaired LVL'ooo	Past due but not impaired LVL'ooo	Impaired LVL'ooo	Total LVL'ooo
Commercial	68,665	6,470	120,358	195,493
Mortgage loans	62,126	39,152	32,775	134,053
Private loans	11,587	7,630	11,223	30,440
Consumer loans	326	62	184	572
Leasing	2	7	14	23
Other	69	-	3	72
<b>Total</b>	<b>142,775</b>	<b>53,321</b>	<b>164,557</b>	<b>360,653</b>

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.

## 19. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Debt securities</b>				
Latvian government securities	58,746	110,248	58,746	110,248
OECD financial institutions bonds	-	28,144	-	28,144
<b>Total debt securities</b>	<b>58,746</b>	<b>138,392</b>	<b>58,746</b>	<b>138,392</b>
<b>Investment funds</b>				
DNB Rezerves fonds	379	375	379	375
<b>Total investment funds</b>	<b>379</b>	<b>375</b>	<b>379</b>	<b>375</b>
<b>Total</b>	<b>59,125</b>	<b>138,767</b>	<b>59,125</b>	<b>138,767</b>

	Moody's equivalent grades	2011 LVL'000	%	2010 LVL'000	%
<b>High grade</b>					
Risk rating class 1	<b>Aaa</b>	-	-	-	0%
Risk rating class 2	<b>Aa1-A3</b>	-	-	28,144	20%
Risk rating class 3	<b>Baa1-Baa2</b>	-	-	-	0%
Risk rating class 4	<b>Baa3</b>	12,787	22	21,774	16%
Not rated		46,338*	78	88,849*	64%
<b>Total</b>		<b>59,125</b>	<b>100</b>	<b>138,767</b>	<b>100%</b>

\* Latvian Government T-bills as at December 31, 2011 – LVL 45,960 thou (2010: LVL 78,963 thou)

The effective interest rate on securities at fair value through profit or loss as at December 31, 2011 was 2,84% (2010: 3,36%).

## 20. INVESTMENTS IN SUBSIDIARIES

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

	Share capital	Bank's share	Investment value	Impairment	Net Investment value	Investment value
	LVL'000	(%)	2011 LVL'000	2011 LVL'000	2011 LVL'000	2010 LVL'000
SIA DNB līzings	3,400	100	3,400	-	3,400	2,700
IPAS DNB Asset Management	420	100	666	-	666	666
SIA Skanstes 12	830	100	830	-	830	830
SIA SALVUS*	2,261	100	2,261	1,450	811	811
SIA SALVUS 2*	2,130	100	2,130	2,050	80	20
SIA SALVUS 3*	40	100	40	-	40	20
	<b>9,081</b>	<b>100</b>	<b>9,327</b>	<b>3,500</b>	<b>5,827</b>	<b>5,047</b>

\* 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.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

**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 following derivative instruments:

- **Currency forward**, which represent commitments to purchase and/or sell foreign and domestic currency in the future at a fixed price
- **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** - contractual agreements according to which a cash flow based on the fixed interest rate calculated on the notional amount is replaced with a cash flow based on the floating interest rate calculated on the same notional amount or vice versa
- **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** - contractual agreements that sets limits on a variable interest rate payable by the buyer: the buyer has the right to receive compensation when an interest rate exceeds a certain level (cap). For this right the buyer of interest rate cap option has to pay an initial payment - a premium
- **Interest rate collars** - contractual agreements that sets limits on a variable interest rate payable by the buyer: the buyer has the right to receive compensation when an interest rate exceeds a certain level (cap) and an obligation to pay compensation when an interest rate falls below a certain level (floor). For this right the buyer of interest rate collar option has 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 the forward or swap contracts if counterparties fail to perform their obligation. To control the level of credit risk taken, the Group and the Bank assesses counterparties using the same techniques as for its lending activities.

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 or foreign exchange rates relative to their terms.

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

	2011			2010		
	Contract / notional amount	Fair value		Contract / notional amount	Fair value	
	LVL'000	Assets LVL'000	Liabilities LVL'000	LVL'000	Assets LVL'000	Liabilities LVL'000
Derivatives held for trading:						
currency swaps	419,325*	6,986	5,068	212,338	4,215	1,357
interest rate swaps	216,051	2,362	4,562	295,895	2,263	5,566
forwards	105,418**	80	70	3,711	3	15
options	170,900	1,819	1,818	184,294	2,031	2,178
commodity	9,095	565	509	-	-	-
Derivatives designated as fair value hedges						
interest rate swaps	44,487	-	1,824	97,198	-	6,303
<b>Total</b>		<b>11,812</b>	<b>13,851</b>		<b>8,512</b>	<b>15,419</b>

\*increase is due to growth of deposit base and as a result increase of amount of deals with customers

\*\* customers used forwards to hedge their FX exposures

## 22. INTANGIBLE ASSETS

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

	Licences and soft- ware Group LVL'ooo	Goodwill Group LVL'ooo	Total intan- gible assets Group LVL'ooo	Licences and soft- ware Bank LVL'ooo	Total intan- gible assets Bank LVL'ooo
<u>Historical cost</u>					
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)
<b>31 December 2011</b>	<b>3,811</b>	<b>-</b>	<b>4,058</b>	<b>3,408</b>	<b>3,408</b>
<u>Amortisation</u>					
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)
<b>31 December 2011</b>	<b>2,871</b>	<b>-</b>	<b>2,871</b>	<b>2,576</b>	<b>2,576</b>
<b>Net book value</b>					
<b>31 December 2010</b>	<b>960</b>	<b>247</b>	<b>1,207</b>	<b>861</b>	<b>861</b>
<b>31 December 2011</b>	<b>940</b>	<b>247</b>	<b>1,187</b>	<b>832</b>	<b>832</b>

Intangible assets include advance payments for acquired intangible assets as of 31 December 2011 in amount of LVL 20,6 thousand (2010: LVL 2,7 thousand).

Movement table of intangible assets of the Group and the Bank for 2010 is as follows:

	Licences and soft- ware Group LVL'ooo	Goodwill Group LVL'ooo	Total intan- gible assets Group LVL'ooo	Licences and soft- ware Bank LVL'ooo	Total intan- gible assets Bank LVL'ooo
<u>Historical cost</u>					
31 December 2009	3,245	247	3,492	2,892	2,892
Additions	189	-	189	175	175
Disposals and write-offs	(51)	-	(51)	(24)	(24)
<b>31 December 2010</b>	<b>3,383</b>	<b>247</b>	<b>3,630</b>	<b>3,043</b>	<b>3,043</b>
<u>Amortisation</u>					
31 December 2009	1,953	-	1,953	1,746	1,746
Amortisation for the period	517	-	517	460	460
Disposals and write-offs	(47)	-	(47)	(24)	(24)
<b>31 December 2010</b>	<b>2,423</b>	<b>-</b>	<b>2,423</b>	<b>2,182</b>	<b>2,182</b>
<b>Net book value</b>					
<b>31 December 2009</b>	<b>1,292</b>	<b>247</b>	<b>1,539</b>	<b>1,146</b>	<b>1,146</b>
<b>31 December 2010</b>	<b>960</b>	<b>247</b>	<b>1,207</b>	<b>861</b>	<b>861</b>

## 23. PROPERTY AND EQUIPMENT

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
<u>Historical cost or valuation</u>						
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)
<b>31 December 2011</b>	<b>20,499</b>	<b>11,984</b>	<b>307</b>	<b>2,375</b>	<b>3,266</b>	<b>38,431</b>
<u>Depreciation</u>						
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
<b>31 December 2011</b>	<b>904</b>	<b>7,924</b>	<b>271</b>	<b>1,176</b>	<b>2,023</b>	<b>12,298</b>
<b>Net book value</b>						
<b>31 December 2010</b>	<b>20,246</b>	<b>4,533</b>	<b>73</b>	<b>1,342</b>	<b>3,552</b>	<b>29,746</b>
<b>31 December 2011</b>	<b>19,595</b>	<b>4,060</b>	<b>36</b>	<b>1,199</b>	<b>1,243</b>	<b>26,133</b>

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

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improve- ments LVL'000	Total LVL'000
<u>Historical cost or valuation</u>					
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)
<b>31 December 2011</b>	<b>991</b>	<b>11,911</b>	<b>307</b>	<b>2,115</b>	<b>15,324</b>
<u>Depreciation</u>					
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
<b>31 December 2011</b>	<b>254</b>	<b>7,903</b>	<b>271</b>	<b>1,109</b>	<b>9,537</b>
<b>Net book value</b>					
<b>31 December 2010</b>	<b>971</b>	<b>4,455</b>	<b>73</b>	<b>1,130</b>	<b>6,629</b>
<b>31 December 2011</b>	<b>737*</b>	<b>4,008</b>	<b>36</b>	<b>1,006</b>	<b>5,787</b>

Property and equipment include advance payments as of 31 December 2011 in amount of LVL 233,4 thousand (2010: LVL 174,7 thousand).

\*including revaluation reserve in amount of LVL 35 thou.

Movement table of property and equipment of the Group for 2010 is as follows:

	Land and buildings LVL'000	Construc- tion LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improve- ments LVL'000	Operating lease LVL'000	Total LVL'000
<u>Historical cost or valuation</u>							
31 December 2009	3,507	2,128	9,175	339	2,620	25,516	43,285
Additions	26	9,004	870	21	45	-	9,966
Disposals and write-offs	-	-	(339)	(27)	(146)	(7,264)	(7,776)
<b>31 December 2010</b>	<b>3,533</b>	<b>11,132</b>	<b>9,706</b>	<b>333</b>	<b>2,519</b>	<b>18,252</b>	<b>45,475</b>
<u>Depreciation</u>							
31 December 2009	98	-	4,750	210	815	8,416	14,289
Depreciation for the year	10	-	1,702	50	303	3,568	5,633
Disposals and write-offs	-	-	(332)	(27)	(117)	(3,226)	(3,702)
<b>31 December 2010</b>	<b>108</b>	<b>-</b>	<b>6,120</b>	<b>233</b>	<b>1,001</b>	<b>8,758</b>	<b>16,220</b>
<b>Net book value</b>							
<b>31 December 2009</b>	<b>3,409</b>	<b>2,128</b>	<b>4,425</b>	<b>129</b>	<b>1,805</b>	<b>17,100</b>	<b>28,996</b>
<b>31 December 2010</b>	<b>3,425</b>	<b>11,132</b>	<b>3,586</b>	<b>100</b>	<b>1,518</b>	<b>9,494</b>	<b>29,255</b>

Movement table of property and equipment of the Bank for 2010 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
<u>Historical cost or valuation</u>					
31 December 2009	1,050	9,012	339	2,620	13,021
Additions	26	858	21	4	909
Disposals and write-offs	-	(316)	(27)	(146)	(489)
<b>31 December 2010</b>	<b>1,076</b>	<b>9,554</b>	<b>333</b>	<b>2,478</b>	<b>13,441</b>
<u>Depreciation</u>					
31 December 2009	98	4,665	210	815	5,788
Depreciation for the year	10	1,674	50	295	2,029
Disposals and write-offs	-	(309)	(27)	(117)	(453)
<b>31 December 2010</b>	<b>108</b>	<b>6,030</b>	<b>233</b>	<b>993</b>	<b>7,364</b>
<b>Net book value</b>					
<b>31 December 2009</b>	<b>952</b>	<b>4,347</b>	<b>129</b>	<b>1,805</b>	<b>7,233</b>
<b>31 December 2010</b>	<b>968</b>	<b>3,524</b>	<b>100</b>	<b>1,485</b>	<b>6,077</b>

Minimum lease payments receivable under operating leases

	2011 Group LVL'000	2010 Group LVL'000
Not later than 1 year	837	2,171
Later than 1 year and not later than 5 years	406	1,378
Later than 5 years	-	-
<b>Total</b>	<b>1,243</b>	<b>3,549</b>

## 24. ACCRUED INCOME AND DEFERRED EXPENSES

	2011 Group LVL'000	2010 Group LVL'000	2011 Bank LVL'000	2010 Bank LVL'000
Accrued income	269	187	163	114
Deferred expenses	353	493	329	466
	<b>622</b>	<b>680</b>	<b>492</b>	<b>580</b>

## 25. 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 – in range of 10%, estimated benchmark for market growth – in range of 5% yearly.

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

- 36% - apartments, parking places;
- 17% - private houses;
- 18% - empty land plots;
- 29% - objects for commercial use.

The structure of investment property by geographic location:

- 70% - of investment property are located in Riga and Riga region (incl. Jurmala);
- 30% - other regions.

	Group LVL'000	Bank LVL'000
<b>Investment property book value as at 31 December 2010</b>	<b>15,448</b>	-
Reclassification from foreclosed property to investment property	-	3,253*
Additions, purchases of new properties	33,019	14,908
Additions, capitalised investments	19	-
Net gains resulting from adjustment to fair value of projects	(890)	1,989
Disposals	(9,221)	(2,863)
<b>Investment property book value as at 31 December 2011</b>	<b>38,375</b>	<b>17,287</b>

\*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.

## 26. OTHER ASSETS

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Foreclosed properties*	-	3,253	-	3,253
Guarantee deposits for auctions and prepayments for investment property	3,927	4,445	649	1,184
Prepayments and overpaid taxes	1,572	2,096	388	275
Credit card claims and other payment services	1,175	999	1,175	999
Short term debts	3,758**	737	3,758**	737
Other	5,967	11,822***	239	1,373***
<b>Total</b>	<b>16,399</b>	<b>23,352</b>	<b>6,209</b>	<b>7,821</b>
Less provision for debtors	5,583	9,454	113	-
<b>Total</b>	<b>10,816</b>	<b>13,898</b>	<b>6,096</b>	<b>7,821</b>

\* As at 31 December 2011 foreclosed properties were treated as investment property

\*\* Including cash in transit in amount of LVL 3,682 thousand

\*\*\* Including LVL 962 thou one client short-term debt (Bank) and some not received invoices for investment property deals (Group)

## 27. PROVISIONS FOR CREDIT LOSSES

Group provisions for impairment loans and other assets	Loans Total LVL'000	Com- mercial LVL'000	Mort- gage loans LVL'000	Consu- mer loans LVL'000	Leasing LVL'000	Card loans LVL'000	Private and other LVL'000	IBNR LVL'000	Other assets LVL'000	Total LVL'000
<b>31 December 2009</b>	<b>132,310</b>	<b>71,904</b>	<b>30,678</b>	<b>1,257</b>	<b>9,597</b>	<b>701</b>	<b>14,454</b>	<b>3,719</b>	<b>14,554</b>	<b>146,864</b>
Fully provided for and written off	(22,123)	(19,173)	-	(1,654)	-	(754)	(542)	-	-	(22,123)
Charge to income statement :	<b>67,970</b>	50,292	10,213	908	1,046	688	4,823	-	<b>849</b>	<b>68,819</b>
individual loans and assets	<b>67,970</b>	50,292	10,213	908	1,046	688	4,823	-	<b>849</b>	<b>68,819</b>
homogenous groups of loans	-	-	-	-	-	-	-	-	-	-
Interest income due to shortening of dis- counting period	(5,191)	(4,250)	(407)	-	-	-	(534)	-	-	(5,191)
Released during the year	(16,900)	(13,310)	(118)	(80)	(1,578)	(149)	(880)	(785)	-	(16,900)
Provisions internal movement	<b>6,024</b>	-	-	-	6,024	-	-	-	(6,024)	-
Exchange rate difference	<b>359</b>	352	-	-	-	-	7	-	<b>75</b>	<b>434</b>
<b>31 December 2010</b>	<b>162,449</b>	<b>85,815</b>	<b>40,366</b>	<b>431</b>	<b>15,089</b>	<b>486</b>	<b>17,328</b>	<b>2,934</b>	<b>9,454</b>	<b>171,903</b>
Fully provided for and written off	(6,103)	(4,447)	(559)	(486)	-	(441)	(170)	-	(2,335)	(8,438)
Charge to income statement:	<b>100,848</b>	26,250	54,351	311	1,122	462	14,663	3,689	<b>294</b>	<b>101,142</b>
individual loans and assets	<b>83,526</b>	25,560	43,743	311	261	462	13,189	-	<b>294</b>	<b>83,820</b>
homogenous groups of loans	<b>17,322</b>	690	10,608	-	861	-	1,474	3,689	-	<b>17,322</b>
Interest income due to shortening of dis- counting 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	<b>1,830</b>	-	-	-	1,830	-	-	-	(1,830)	-
Exchange rate difference	(48)	(122)	95	-	2	(2)	(21)	-	-	(48)
<b>31 December 2011</b>	<b>238,886</b>	<b>95,625</b>	<b>90,905</b>	<b>212</b>	<b>17,680</b>	<b>356</b>	<b>28,476</b>	<b>5,632</b>	<b>5,583</b>	<b>244,469</b>

Income statement item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of LVL 3,241 thousand.



## PROVISIONS FOR CREDIT LOSSES

Bank provisions for impairment loans and other assets	Loans Total LVL'000	Com- mercial LVL'000	Mort- gage loans LVL'000	Consu- mer loans LVL'000	Card loans LVL'000	Private and other LVL'000	IBNR LVL'000	Other assets LVL'000	Off- balance sheet li- abilities LVL'000	Total LVL'000
<b>31 December 2009</b>	<b>118,998</b>	<b>68,189</b>	<b>30,678</b>	<b>1,257</b>	<b>701</b>	<b>14,454</b>	<b>3,719</b>	<b>-</b>	<b>27,866</b>	<b>146,864</b>
Fully provided for and written off	(22,123)	(19,173)	-	(1,654)	(754)	(542)	-	-	-	(22,123)
Charge to income statement :	<b>66,924</b>	50,292	10,213	908	688	4,823	-	-	<b>696</b>	<b>67,620</b>
individual loans and assets	<b>66,924</b>	50,292	10,213	908	688	4,823	-	-	<b>696</b>	<b>67,620</b>
homogenous groups of loans	-	-	-	-	-	-	-	-	-	-
Interest income due to shortening of discounting period	(5,191)	(4,250)	(407)	-	-	(534)	-	-	-	(5,191)
Released during the year	(15,322)	(13,310)	(118)	(80)	(149)	(880)	(785)	-	(1,578)	(16,900)
Exchange rate difference	<b>359</b>	352	-	-	-	7	-	-	-	<b>359</b>
<b>31 December 2010</b>	<b>143,645</b>	<b>82,100</b>	<b>40,366</b>	<b>431</b>	<b>486</b>	<b>17,328</b>	<b>2,934</b>	<b>-</b>	<b>26,984</b>	<b>170,629</b>
Fully provided for and written off	(6,103)	(4,447)	(559)	(486)	(441)	(170)	-	(181)	(2,154)	(8,438)
Charge to income statement:	<b>99,359</b>	25,883	54,351	311	462	14,663	3,689	<b>3,794*</b>	<b>861</b>	<b>104,014</b>
individual loans and assets	<b>82,898</b>	25,193	43,743	311	462	13,189	-	<b>3,794</b>	-	<b>86,692</b>
homogenous groups of loans	<b>16,461</b>	690	10,608	-	-	1,474	3,689	-	<b>861</b>	<b>17,322</b>
Interest income due to shortening of discounting period	(5,297)	(4,467)	(365)	-	-	(465)	-	-	-	(5,297)
Released during the period	(14,430)	(7,404)	(2,983)	(44)	(149)	(2,859)	(991)	-	(363)	(14,793)
Exchange rate difference	(50)	(122)	95	-	(2)	(21)	-	-	<b>1</b>	(49)
<b>31 December 2011</b>	<b>217,124</b>	<b>91,543</b>	<b>90,905</b>	<b>212</b>	<b>356</b>	<b>28,476</b>	<b>5,632</b>	<b>3,613</b>	<b>25,329</b>	<b>246,066</b>

\*Including provisions in subsidiaries in amount of LVL 3,500 thou

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 229 thousand (2010: LVL 79 thousand).

Income statement item "Net allowances for impairment loss" includes expenses for non-performing commitments in amount of LVL 3,087 thousand.

## 28. DUE TO OTHER CREDIT INSTITUTIONS

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Demand deposits</b>				
Republic of Latvia credit institutions	10,871	9,536	10,871	9,536
OECD credit institutions	1,257*	31,307	1,257*	31,307
Non-OECD credit institutions	242	364	242	364
<b>Total demand deposits</b>	<b>12,370</b>	<b>41,207</b>	<b>12,370</b>	<b>41,207</b>
<b>Term deposits</b>				
Republic of Latvia credit institutions	24,673	25,622	24,673	25,622
OECD credit institutions	860,618**	1,055,066	758,712**	932,075
Non-OECD credit institutions	2,136	3,283	2,136	3,283
	<b>887,427</b>	<b>1,083,971</b>	<b>785,521</b>	<b>960,980</b>
Accrued interest	2,961	3,961	2,626	3,642
<b>Total term deposits</b>	<b>890,388</b>	<b>1,087,932</b>	<b>788,147</b>	<b>964,622</b>
<b>Total deposits</b>	<b>902,758</b>	<b>1,129,139</b>	<b>800,517</b>	<b>1,005,829</b>

\*Including DNB Bank ASA LVL 97 thou, 2010: LVL 30,785 thou

\*\*Including DNB Bank ASA for the Group LVL 860,618 thou (Bank – LVL 758,712 thou); 2010: LVL 569,581 thou

## 29. DUE TO CUSTOMERS

### Analysis of deposits by maturity and client type

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Demand deposits</b>				
Private companies	135,138	98,503	142,331	108,182
Individuals	101,090	71,308	101,090	71,308
State institutions	10,782	3,569	10,782	3,569
Funds in transit	7,263	6,265	7,263	6,265
Non-residents non-OECD	3,434	4,846	3,434	4,846
Non-residents OECD	3,265	4,804	3,265	4,804
<b>Total demand deposits</b>	<b>260,972</b>	<b>189,295</b>	<b>268,165</b>	<b>198,974</b>
<b>Term deposit accounts</b>				
Private companies	163,714	182,294	164,428	183,099
Individuals	117,815	86,580	117,815	86,580
State institutions	948	48	948	48
Non-residents non-OECD	249	19,587	249	19,587
Non-residents OECD	16,187	1,872	16,187	1,872
Accrued interest	1,000	1,270	1,006	1,277
<b>Total term deposits</b>	<b>299,913</b>	<b>291,651</b>	<b>300,633</b>	<b>292,463</b>
<b>Total deposits and transit funds</b>	<b>560,885</b>	<b>480,946</b>	<b>568,798</b>	<b>491,437</b>

### 30. ACCRUED EXPENSES AND DEFERRED INCOME

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Accrued expenses	2,502*	758	2,409*	693
Other deferred income	17	-	17	-
	<b>2,519</b>	<b>758</b>	<b>2,426</b>	<b>693</b>

\*Increase is due to growth of activities – LVL 914 thou refer to related companies, LVL 440 thou refer to expenses for non-performing commitments

### 31. SUBORDINATED LOANS

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Loan providers</b>				
Bank DNB A/S	-	35,386	-	35,386
DNB Bank ASA	-	19,102	-	19,102
	<b>-*</b>	<b>54,488</b>	<b>-</b>	<b>54,488</b>

\* In order to increase the Tier I Capital of AS DNB banka it was decided to increase the reserve capital of the Bank by conversion of all the subordinated loans granted by Bank DNB A/S to the Bank and transferred by Bank DNB A/S to DNB Bank ASA (the subordinated loans) into the reserve capital of the Bank

### 32. OTHER LIABILITIES

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Accrued liabilities	1,638	1,271	1,251	1,015
Accounts payable	1,198	1,394	11	-
Other short-term liabilities	797	2,240	495	463
	<b>3,633</b>	<b>4,905</b>	<b>1,757</b>	<b>1,478</b>

### 33. PROVISIONS

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
Provisions for Leasing company obligations	-	-	25,329	26,983
Other provisions	167	383	167	383
	<b>167</b>	<b>383</b>	<b>25,496</b>	<b>27,366</b>

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

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

## 34. SHARE CAPITAL

As of December 31, 2011 100% of AS DNB banka shares were owned by DNB Bank ASA.

## 35. RESERVE CAPITAL

In order to increase the Tier I Capital by way of increasing the reserve capital of the Bank, DNB Bank ASA in 2011 made two payments totalling to EUR 147 million.

## 36. OFF-BALANCE SHEET ITEMS

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Memorandum items</b>				
Contingent liabilities				
<i>guarantees</i>	30,069	23,960	30,069	146,951
Commitments				
<i>Loan issuing commitments</i>	116,751	69,387	146,580	97,934
<i>other liabilities*</i>	8,924	2,504	8,924	2,504
<i>letters of credit</i>	2,355	349	2,355	349

\* guarantee issue agreements

## 37. MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Credit risk exposures relating to on-balance sheet assets are as follows:</b>				
Balances due from banks	118,455	71,370	118,224	71,041
Loans and advances to customers	1,280,919	1,439,799	1,255,696	1,394,251
Securities designated at fair value through profit and loss	59,125	138,767	59,125	138,767
Derivative financial instruments	11,812	8,512	11,812	8,512
Other assets	3,562	8,550	3,304	4,216
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>				
Contingent liabilities	30,069	23,960	30,069	146,951
Financial commitments	2,355	349	2,355	349

There is no collateral to balance items except item Loans and advances to customers (Note 18 j)

## 38. 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:

<b>Due from related parties</b>	<b>2011 Group LVL'ooo</b>	<b>2010 Group LVL'ooo</b>	<b>2011 Bank LVL'ooo</b>	<b>2010 Bank LVL'ooo</b>
Due from parent companies:				
DNB Bank ASA	115,797	43,332	115,797	43,332
Bank DNB A/S *	-	50	-	50
Due from subsidiaries:				
SIA DNB lizings	-	-	4,813	1,482
SIA Skanstes 12	-	-	20,397	20,892
SIA Salvus	-	-	24,108	17,929
SIA Salvus 2	-	-	4,579	-
SIA Salvus 3	-	-	142	139
IPAS DNB Asset Management	-	-	2	-
Due from other related parties:				
AB DNB bankas	140	314	140	314
BANK DNB Polska S.A.	18	6	18	6
DNB Pank (Bank DNB A/S Eesti filial)	79	183	79	183
Bank DNB A/S *	2	-	2	-
<b>Balances due from related parties</b>	<b>116,036</b>	<b>43,885</b>	<b>170,077</b>	<b>84,327</b>

*Due to related parties*

	<b>2011 Group LVL'ooo</b>	<b>2010 Group LVL'ooo</b>	<b>2011 Bank LVL'ooo</b>	<b>2010 Bank LVL'ooo</b>
Due to parent companies:				
DNB Bank ASA	826,730	629,636	724,489	629,636
Bank DNB A/S *	-	35,454	-	35,454
Due to subsidiaries:				
SIA DNB lizings	231	-	3,118	9,242
IPAS DNB Asset Management	-	-	719	840
SIA Skanstes 12	-	-	5	6
SIA Salvus	-	-	1,906	375
SIA Salvus 2	-	-	2,143	14
SIA Salvus 3	-	-	21	13
Due to other related parties:				
AB DNB bankas	2,418	3,701	2,418	3,701
DNB Pank (Bank DNB A/S Eesti filiaal)	719	387	719	387
Bank DNB A/S*	890	-	890	-
<b>Balances due to related parties</b>	<b>830,988</b>	<b>669,178</b>	<b>736,428</b>	<b>679,668</b>

\* On June, 30th, 2011 DNB Bank ASA (Norway) has acquired from Bank DNB A/S (Denmark) 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.

During the reporting period Bank sold investment property to SIA Salvus in amount of LVL 1,590 thousand, as a result Bank recognise profit amounted to LVL 256 thousand.

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

	2011	2010	2011	2010
	Group	Group	Bank	Bank
	LVL'ooo	LVL'ooo	LVL'ooo	LVL'ooo
<b>Interest received for money market deposits/ loans</b>	<b>2,449</b>	<b>2,604</b>	<b>1,288</b>	<b>1,041</b>
Parent companies	270	21	270	21
Subsidiaries	2,173	2,365	1,012	802
Other Related parties	6	218	6	218
<b>Income received from derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Parent companies	-	-	-	-
Subsidiaries	-	-	-	-
Other Related parties	-	-	-	-
<b>Derivative revaluation result</b>	<b>4,043</b>	<b>2,186</b>	<b>4,043</b>	<b>2,186</b>
Parent companies	4,140	2,030	4,140	2,030
Subsidiaries	-	-	-	-
Other Related parties	(97)	156	(97)	156
<b>Commission received</b>	<b>156</b>	<b>74</b>	<b>1,078</b>	<b>3,523</b>
Parent companies	-	-	-	-
Subsidiaries	-	-	922	3,449
Other Related parties	156	74	156	74
<b>Dividends</b>	<b>-</b>	<b>-</b>	<b>422</b>	<b>80</b>
Parent companies	-	-	-	-
Subsidiaries	-	-	422	80
Other Related parties	-	-	-	-
<b>Other income</b>	<b>1,013</b>	<b>7</b>	<b>2,218</b>	<b>243</b>
Parent companies	1,010	-	1,010	-
Subsidiaries	-	-	1,205	236
Other Related parties	3	7	3	7
<b>Interest paid on money market deposits/loans</b>	<b>(18,684)</b>	<b>(16,213)</b>	<b>(18,834)</b>	<b>(16,662)</b>
Parent companies	(18,586)	(15,803)	(18,586)	(15,803)
Subsidiaries	-	-	(150)	(449)
Other Related parties	(98)	(410)	(98)	(410)
<b>Expenses from derivatives</b>	<b>(3,219)</b>	<b>(6,266)</b>	<b>(3,219)</b>	<b>(6,266)</b>
Parent companies	(3,320)	(6,268)	(3,320)	(6,268)
Subsidiaries	-	-	-	-
Other Related parties	101	2	101	2
<b>Derivative revaluation result</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Parent companies	-	-	-	-
Subsidiaries	-	-	-	-
Other Related parties	-	-	-	-
<b>Interest paid on subordinated loan</b>	<b>(1,142)</b>	<b>(1,384)</b>	<b>(1,142)</b>	<b>(1,384)</b>
Parent companies	(1,142)	(1,384)	(1,142)	(1,384)
Subsidiaries	-	-	-	-
Other Related parties	-	-	-	-
<b>Commission paid</b>	<b>(78)</b>	<b>(82)</b>	<b>(78)</b>	<b>(82)</b>
Parent companies	(77)	(79)	(77)	(79)
Subsidiaries	-	-	-	-
Other Related parties	(1)	(3)	(1)	(3)
<b>Other expenses</b>	<b>(1,610)</b>	<b>(3,240)</b>	<b>(2,639)</b>	<b>(3,691)</b>
Parent companies	(590)	(558)	(590)	(558)
Subsidiaries	-	-	(1,029)	(451)
Other Related parties	(1,020)	(2,682)	(1,020)	(2,682)
	<b>(17,072)</b>	<b>(22,314)</b>	<b>(16,863)</b>	<b>(21,012)</b>

As at 31 December 2011 loans issued to key management personnel amounted to LVL 1,153 thousand (2010: LVL 1,401 thousand).

As at 31 December 2011 the provision for investment in subsidiaries were made in amount LVL 3,5 mln.

According to agreement the Bank made settlement for debtor in Leasing company in amount of LVL 2,2 mln for debts covering and write-off.

### 39. 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, 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 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	2011		2010	
	Carrying value LVL'000	Fair value LVL'000	Carrying value LVL'000	Fair value LVL'000
<b>Assets</b>				
Cash and balances with central banks	76,907	76,907	72,736	72,736
Due from other credit institutions (demand)	24,793	24,793	16,493	16,493
Derivatives	11,812	11,812	8,512	8,512
Financial assets designated at fair value through profit or loss	59,125	59,125	138,767	138,767
Financial assets available-for-sale	10	10	10	10
Due from other credit institutions (term)	93,662	93,662	54,877	54,877
Loans to customers	1,282,796	1,250,698	1,444,781	1,366,037
Other assets	3,562	3,562	8,550	8,550
<b>Total financial assets</b>	<b>1,552,667</b>	<b>1,520,569</b>	<b>1,744,726</b>	<b>1,665,982</b>
<b>Liabilities</b>				
Due to credit institutions	902,758	902,758	1,129,139	1,129,139
Derivatives	13,851	13,851	15,419	15,419
Deposits and other financial liabilities	560,885	558,965	480,946	480,343
Subordinated loan	-	-	54,488	54,488
Other liabilities	3,633	3,633	5,186	5,186
<b>Total financial liabilities</b>	<b>1,481,127</b>	<b>1,479,207</b>	<b>1,685,178</b>	<b>1,684,575</b>



Bank	2011		2010	
	Carrying value LVL'000	Fair value LVL'000	Carrying value LVL'000	Fair value LVL'000
<b>Assets</b>				
Cash and balances with central banks	76,907	76,907	72,736	72,736
Due from other credit institutions (demand)	24,562	24,562	16,164	16,164
Derivatives	11,812	11,812	8,512	8,512
Financial assets designated at fair value through profit or loss	59,125	59,125	138,767	138,767
Financial assets available-for-sale	10	10	10	10
Due from other credit institutions (term)	93,662	93,662	54,877	54,877
Loans to customers	1,257,573	1,224,559	1,399,233	1,272,283
Other assets	3,304	3,304	4,216	4,216
<b>Total financial assets</b>	<b>1,526,955</b>	<b>1,493,941</b>	<b>1,694,515</b>	<b>1,567,565</b>
<b>Liabilities</b>				
Due to credit institutions	800,517	800,517	1,005,829	1,005,829
Derivatives	13,851	13,851	15,419	15,419
Deposits and other financial liabilities	568,798	566,866	491,437	490,832
Subordinated loan	-	-	54,488	54,488
Other liabilities	1,757	1,757	1,759	1,759
<b>Total financial liabilities</b>	<b>1,384,923</b>	<b>1,382,991</b>	<b>1,568,932</b>	<b>1,568,327</b>

Group	2011				Balance sheet LVL'000
	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total LVL'000	
<b>Assets</b>					
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
<b>Total</b>	<b>-</b>	<b>70,568</b>	<b>379</b>	<b>70,947</b>	<b>70,947</b>
<b>Liabilities</b>					
Derivatives	-	13,851	-	13,851	13,851
<b>Total</b>	<b>-</b>	<b>13,851</b>	<b>-</b>	<b>13,851</b>	<b>13,851</b>
<b>Bank</b>	<b>2011</b>				Balance sheet LVL'000
	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total LVL'000	
<b>Assets</b>					
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
<b>Total</b>	<b>-</b>	<b>70,568</b>	<b>379</b>	<b>70,947</b>	<b>70,497</b>
<b>Liabilities</b>					
Derivatives	-	13,851	-	13,851	13,851
<b>Total</b>	<b>-</b>	<b>13,851</b>	<b>-</b>	<b>13,851</b>	<b>13,851</b>
<b>Group and Bank</b>	<b>2010</b>				Balance sheet LVL'000
	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total LVL'000	
<b>Assets</b>					
Derivatives	-	8,512	-	8,512	8,512
Financial assets designated at fair value through profit or loss	36,794	101,598	375	138,767	138,767
Financial assets available-for-sale	-	10	-	10	10
<b>Total</b>	<b>36,794</b>	<b>110,120</b>	<b>375</b>	<b>147,289</b>	<b>147,289</b>
<b>Liabilities</b>					
Derivatives	-	15,419	-	15,419	15,419
<b>Total</b>	<b>-</b>	<b>15,419</b>	<b>-</b>	<b>15,419</b>	<b>15,419</b>

## 40. 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 divided into two tiers:

1. tier 1 capital 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;
2. tier 2 capital consists of other reserves.

In 2011 the Group's capital adequacy ratio is 11,30% and the Bank's – 12,60% (2010: 11,40%; 11,58%). 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.

	2011 Group LVL'ooo	2010 Group LVL'ooo	2011 Bank LVL'ooo	2010 Bank LVL'ooo
<b>Total own funds for solvency purposes</b>	<b>142,112</b>	<b>162,613</b>	<b>150,794</b>	<b>166,935</b>
Tier 1: Original own funds	142,088	116,979	150,769	121,300
Paid up capital	134,361	134,361	134,361	134,361
Share premium	48,994	48,994	48,994	48,994
Reserves	39,040	(33,868)	43,014	(33,035)
Loss from the current year	(74,045)	(31,302)	(72,780)	(28,160)
Part of the unaudited income from the current year to be filtered out to valuation differences	(5,075)	-	(1,989)	-
Other deductions from Original Own Funds				
Intangible assets	(1,187)	(1,207)	(832)	(861)
Tier 2: Additional own funds	24	45,635	24	46,635
Revaluation reserves	24	93	24	93
Subordinated loan capital	-	45,542	-	45,542
<b>Total own funds for solvency purposes</b>	<b>142,112</b>	<b>162,613</b>	<b>150,794</b>	<b>166,935</b>
<b>Capital requirements</b>	<b>100,593</b>	<b>114,151</b>	<b>95,774</b>	<b>115,351</b>
Standardised approach (SA)	92,332	105,852	87,666	107,612
Capital requirements for position foreign exchange and commodity risks	550	447	481	62
Capital requirements for operational risks (OpR )	7,711	7,853	7,627	7,677
Surplus /(Deficit) of own funds, before other and transitional capital requirements	41,520	48,462	55,020	51,583
<b>Solvency ratio (%)</b>	<b>11,30%</b>	<b>11,40%</b>	<b>12,60%</b>	<b>11,58%</b>
<b>Internal assessment of capital</b>	<b>142,112</b>	<b>162,613</b>	<b>150,794</b>	<b>166,935</b>

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. During capital adequacy assessment and planning in 2011 several improvements have been done, including carrying out in-depth analysis of the loan portfolio since loan portfolio is the main risk source in the Group. 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 2011 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 add-on is estimated by taking into account the result of actual and potential loss registered in the Bank's operational risk data base and by comparing the result with the one calculated by using basic indicator approach. The most conservative off the two values is included in the internal capital adequacy assessment.

#### **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.

## 41. 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 2011 was as follows:

	Up to 1 month LVL'ooo	1 – 3 months LVL'ooo	3 – 12 months LVL'ooo	Over 12 months LVL'ooo	Total LVL'ooo
<b>Assets</b>					
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
Property and equipment	101	174	596	25,262	26,133
Intangible assets	-	-	-	1,187	1,187
Other assets	10,816	-	14	44,858	55,688
<b>Total assets</b>	<b>311,804</b>	<b>47,459</b>	<b>155,674</b>	<b>1,117,798</b>	<b>1,632,735</b>
<b>Liabilities</b>					
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
<b>Total liabilities</b>	<b>437,976</b>	<b>84,797</b>	<b>217,413</b>	<b>744,164</b>	<b>1,484,350</b>
<b>Shareholders` equity</b>	-	-	-	148,385	148,385
<b>Total liabilities and shareholders` equity</b>	<b>437,976</b>	<b>84,797</b>	<b>217,413</b>	<b>892,549</b>	<b>1,632,735</b>
Contingent liabilities	1,122	1,505	5,475	21,967	30,069
Commitments	41,713	36,354	33,977	15,987	128,031
<b>Liquidity risk</b>	<b>(169,007)</b>	<b>(75,197)</b>	<b>(101,191)</b>	<b>(187,295)</b>	<b>-</b>

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 assets and liabilities as at 31 December 2010 was as follows:

	Up to 1 month LVL'ooo	1 – 3 months LVL'ooo	3 – 12 months LVL'ooo	Over 12 months LVL'ooo	Total LVL'ooo
<b>Assets</b>					
Cash and balances with the Central banks	72,736	-	-	-	72,736
Due from other credit institutions (demand)	16,493	-	-	-	16,493
Derivatives	7,830	394	288	-	8,512
Financial assets at fair value through profit or loss	10,188	28,121	47,153	53,305	138,767
Financial assets available-for-sale	-	-	-	10	10
Loans and advances	163,794	82,618	151,583	1,101,663	1,499,658
Due from other credit institutions (term)	54,004	-	-	873	54,877
Loans to customers	109,790	82,618	151,583	1,100,790	1,444,781
Accrued income and deferred expenses	105	223	345	7	680
Property and equipment	214	315	4,029	40,636	45,194
Intangible assets	-	-	-	1,207	1,207
Other assets	1,076	1,162	3,849	15,577	21,664
<b>Total assets</b>	<b>272,436</b>	<b>112,833</b>	<b>207,247</b>	<b>1,212,405</b>	<b>1,804,921</b>
<b>Liabilities</b>					
Liabilities to credit institutions (demand)	41,207	-	-	-	41,207
Derivatives	13,191	1,125	750	353	15,419
Financial liabilities at amortised cost:	510,789	723,355	99,977	234,757	1,568,878
Due to credit institutions (term)	175,805	658,852	26,669	226,606	1,087,932
Deposits from customers	328,721	64,503	73,308	8,151	474,683
Other financial liabilities	6,263	-	-	-	6,263
Accrued expenses and deferred income	758	-	-	-	758
Other liabilities	102	1,394	2,703	1,654	5,853
Subordinated loan	79	152	141	54,116	54,488
<b>Total liabilities</b>	<b>566,126</b>	<b>726,026</b>	<b>103,571</b>	<b>290,880</b>	<b>1,686,603</b>
<b>Shareholders` equity</b>	-	-	-	118,318	118,318
<b>Total liabilities and shareholders` equity</b>	<b>566,126</b>	<b>726,026</b>	<b>103,571</b>	<b>409,198</b>	<b>1,804,921</b>
Contingent liabilities	2,208	2,341	3,069	16,342	23,960
Commitments	11,868	30,272	27,876	2,224	72,240
<b>Liquidity risk</b>	<b>(307,765)</b>	<b>(645,806)</b>	<b>72,731</b>	<b>784,642</b>	<b>-</b>



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'ooo	1 – 3 months LVL'ooo	3 – 12 months LVL'ooo	Over 12 months LVL'ooo	Total LVL'ooo
<b>Assets</b>					
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
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	23,770	29,880
<b>Total assets</b>	<b>355,250</b>	<b>36,929</b>	<b>125,173</b>	<b>1,049,117</b>	<b>1,566,469</b>
<b>Liabilities</b>					
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
<b>Total liabilities</b>	<b>444,125</b>	<b>86,189</b>	<b>224,777</b>	<b>657,754</b>	<b>1,412,845</b>
<b>Shareholders` equity</b>	-	-	-	153,624	153,624
<b>Total liabilities and shareholders` equity</b>	<b>444,125</b>	<b>86,189</b>	<b>224,777</b>	<b>811,378</b>	<b>1,566,469</b>
Contingent liabilities	1,122	1,505	5,475	21,967	30,069
Commitments	71,542	36,354	33,977	15,987	157,860
<b>Liquidity risk</b>	<b>(161,539)</b>	<b>(87,119)</b>	<b>(139,056)</b>	<b>199,785</b>	<b>-</b>

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 2010 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
<b>Assets</b>					
Cash and balances with the Central banks	72,736	-	-	-	72,736
Due from other credit institutions (demand)	16,164	-	-	-	16,164
Derivatives	7,830	394	288	-	8,512
Financial assets at fair value through profit or loss	10,188	28,121	47,153	53,305	138,767
Financial assets available-for-sale				10	10
Loans and advances	211,245	73,909	124,419	1,044,537	1,454,110
Due from other credit institutions (term)	54,004			873	54,877
Loans to customers	157,241	73,909	124,419	1,043,664	1,399,233
Accrued income and deferred expenses	105	123	345	7	580
Property and equipment	-	-	-	6,629	6,629
Intangible assets	-	-	-	861	861
Investments in the share capital of related companies	-	-	-	5,047	5,047
Other assets	3,776	771	22	11,018	15,587
<b>Total assets</b>	<b>322,044</b>	<b>103,318</b>	<b>172,227</b>	<b>1,121,414</b>	<b>1,719,003</b>
<b>Liabilities</b>					
Liabilities to credit institutions (demand)	41,207	-	-	-	41,207
Derivatives	13,191	1,125	750	353	15,419
Financial liabilities at amortised cost:	520,470	600,090	100,742	234,757	1,456,059
Due to credit institutions (term)	175,805	535,542	26,669	226,606	964,622
Deposits from customers	338,402	64,548	74,073	8,151	485,174
Other financial liabilities	6,263	-	-	-	6,263
Accrued expenses and deferred income	693	-	-	-	693
Other liabilities	102	-	361	28,381	28,844
Subordinated loan	79	152	141	54,116	54,488
<b>Total liabilities</b>	<b>575,742</b>	<b>601,367</b>	<b>101,994</b>	<b>317,607</b>	<b>1,596,710</b>
<b>Shareholders` equity</b>	-	-	-	122,293	122,293
<b>Total liabilities and shareholders` equity</b>	<b>575,742</b>	<b>601,367</b>	<b>101,994</b>	<b>439,900</b>	<b>1,719,003</b>
Contingent liabilities	2,208	2,342	3,069	139,333	146,951
Commitments	40,415	30,272	27,876	2,224	100,787
<b>Liquidity risk</b>	<b>(298,807)</b>	<b>(528,175)</b>	<b>39,289</b>	<b>539,956</b>	<b>-</b>

The table below allocates the Group's financial liabilities undiscounted 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)
<b>Derivatives:</b>						
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)
<b>Total</b>	<b>(228,114)</b>	<b>521,136</b>	<b>(230,949)</b>	<b>(713,115)</b>	<b>81,694</b>	<b>(569,348)</b>

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)
<b>Derivatives:</b>						
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)
<b>Total</b>	<b>(235,173)</b>	<b>521,412</b>	<b>(229,719)</b>	<b>(610,944)</b>	<b>81,694</b>	<b>(472,730)</b>

The table below allocates the Group's financial liabilities cash flows as at 31 December 2010:

	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	(244,270)	(220,503)	(14,076)	-	-	(478,849)
Long term funding	(163,119)	(249,109)	(17,962)	(223,664)	(10,639)	(664,493)
Subordinated loans	(124)	(236)	(1,100)	(37,992)	(21,392)	(60,844)
Demand deposits	(189,295)	-	-	-	-	(189,295)
Term deposits	(82,451)	(25,243)	(123,432)	(67,948)	(364)	(299,438)
<b>Derivatives:</b>						
Derivatives settled on a gross basis						
Currency SWAPs						
inflow	82,431	43,726	30,813	63,630	-	220,600
outflow	80,913	46,864	26,716	61,311	-	215,804
Foreign exchange derivatives						
inflow	234	2,158	1,330	-	-	3,722
outflow	237	2,143	1,341	-	-	3,721
Derivatives settled on a net basis						
	(227)	(1,359)	(4,025)	(6,546)	(913)	(13,070)
<b>Total</b>	<b>(515,671)</b>	<b>(401,559)</b>	<b>(100,395)</b>	<b>(211,209)</b>	<b>(33,308)</b>	<b>(1,262,142)</b>

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2010:

	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	(244,270)	(220,503)	(14,076)	-	-	(478,849)
Long term funding	(162,928)	(126,063)	(17,962)	(223,664)	(10,639)	(541,256)
Subordinated loans	(124)	(236)	(1,100)	(37,992)	(21,392)	(60,844)
Demand deposits	(198,974)	-	-	-	-	(198,974)
Term deposits	(82,478)	(25,288)	(124,201)	(67,948)	(364)	(300,279)
<b>Derivatives:</b>						
Derivatives settled on a gross basis						
Currency SWAPs						
inflow	82,431	43,726	30,813	63,630	-	220,600
outflow	80,913	46,864	26,716	61,311	-	215,804
Foreign exchange derivatives						
inflow	234	2,158	1,330	-	-	3,722
outflow	237	2,143	1,341	-	-	3,721
Derivatives settled on a net basis						
	(227)	(1,359)	(4,025)	(6,546)	(913)	(13,070)
<b>Total</b>	<b>(525,186)</b>	<b>(278,558)</b>	<b>(101,164)</b>	<b>(211,209)</b>	<b>(33,308)</b>	<b>(1,149,425)</b>

## 42. CURRENCY ANALYSIS

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'ooo
<b>Assets</b>					
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
<i>Due from other credit institutions (term)</i>	-	510	93,149	3	93,662
<i>Loans to customers</i>	8,182	17,524	1,256,365	724	1,282,796
Accrued income and deferred expenses	453	7	162	-	622
Property and equipment	24,890	-	1,243	-	26,133
Intangible assets	1,187	-	-	-	1,187
Other assets	33,099	193	22,202	194	55,688
<b>Total assets</b>	<b>199,310</b>	<b>28,090</b>	<b>1,400,021</b>	<b>5,314</b>	<b>1,632,735</b>
<b>Liabilities</b>					
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
<i>Due to credit institutions (term)</i>	9,999	6,714	873,624	51	890,388
<i>Deposits from customers</i>	236,189	46,145	253,331	17,957	553,622
<i>Other financial liabilities</i>	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
<b>Total liabilities</b>	<b>261,577</b>	<b>60,730</b>	<b>1,143,610</b>	<b>18,433</b>	<b>1,484,350</b>
<b>Shareholders` equity</b>	<b>148,385</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>148,385</b>
<b>Total liabilities and shareholders` equity</b>	<b>409,962</b>	<b>60,730</b>	<b>1,143,610</b>	<b>18,433</b>	<b>1,632,735</b>
<i>Net long/(short) position on balance sheet</i>	(210,652)	(32,640)	256,411	(13,119)	-
<b>Off-balance sheet claims arising from foreign exchange</b>					
<i>Net long/(short) position on foreign exchange</i>	214,980	35,203	(260,154)	13,508	3,537
<b>Net long/(short) position</b>	<b>4,328</b>	<b>2,563</b>	<b>(3,743)</b>	<b>389</b>	<b>-</b>

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2010 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'ooo
<b>Assets</b>					
Cash and balances with the Central banks	68,412	873	3,092	359	72,736
Due from other credit institutions (demand)	57	6,291	7,060	3,085	16,493
Derivatives	6,524	1,009	975	4	8,512
Financial assets at fair value through profit or loss	102,821	-	35,946	-	138,767
Financial assets available-for-sale	-	-	10	-	10
Loans and advances	23,753	37,448	1,437,726	731	1,499,658
<i>Due from other credit institutions (term)</i>	6,483	5,852	42,542	-	54,877
<i>Loans to customers</i>	17,270	31,596	1,395,184	731	1,444,781
Accrued income and deferred expenses	569	70	41	-	680
Property and equipment	28,128	-	17,066	-	45,194
Intangible assets	1,207	-	-	-	1,207
Other assets	17,465	887	3,309	3	21,664
<b>Total assets</b>	<b>248,936</b>	<b>46,578</b>	<b>1,505,225</b>	<b>4,182</b>	<b>1,804,921</b>
<b>Liabilities</b>					
Liabilities to credit institutions (demand)	774	324	40,061	48	41,207
Derivatives	11,503	871	3,039	6	15,419
Financial liabilities at amortised cost:	216,550	51,435	1,296,042	4,851	1,568,878
<i>Due to credit institutions (term)</i>	12,961	10,309	1,064,352	310	1,087,932
<i>Deposits from customers</i>	201,341	38,744	230,104	4,494	474,683
<i>Other financial liabilities</i>	2,248	2,382	1,586	47	6,263
Accrued expenses and deferred income	520	65	173	-	758
Income tax liabilities	2,841	2	3,010	-	5,853
Other liabilities	-	-	54,488	-	54,488
Subordinated loan	232,188	52,697	1,396,813	4,905	1,686,603
<b>Total liabilities</b>	<b>118,318</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>118,318</b>
<b>Shareholders` equity</b>	<b>350,506</b>	<b>52,697</b>	<b>1,396,813</b>	<b>4,905</b>	<b>1,804,921</b>
<b>Total liabilities and shareholders` equity</b>	<b>350,506</b>	<b>52,697</b>	<b>1,396,813</b>	<b>4,905</b>	<b>1,804,921</b>
<i>Net long/ (short) position on balance sheet</i>	(101,570)	(6,119)	108,412	(723)	-
<b>Off-balance sheet claims arising from foreign exchange</b>					
<i>Net long/(short) position on foreign exchange</i>	111,830	6,308	(116,309)	717	2,546
<b>Net long/(short) position</b>	<b>10,260</b>	<b>189</b>	<b>(7,897)</b>	<b>(6)</b>	<b>-</b>

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'ooo
<b>Assets</b>					
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
<i>Due from other credit institutions (term)</i>	-	510	93,149	3	93,662
<i>Loans to customers</i>	29,595	17,462	1,209,792	724	1,257,573
Accrued income and deferred expenses	429	7	56	-	492
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	27,657	194	1,835	194	29,880
<b>Total assets</b>	<b>201,546</b>	<b>28,022</b>	<b>1,331,587</b>	<b>5,314</b>	<b>1,566,469</b>
<b>Liabilities</b>					
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
<i>Due to credit institutions (term)</i>	9,999	6,714	771,383	51	788,147
<i>Deposits from customers</i>	240,993	46,146	256,439	17,957	561,535
<i>Other financial liabilities</i>	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
<b>Total liabilities</b>	<b>268,939</b>	<b>60,740</b>	<b>1,064,733</b>	<b>18,433</b>	<b>1,412,845</b>
<b>Shareholders` equity</b>	<b>153,624</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,624</b>
<b>Total liabilities and shareholders` equity</b>	<b>422,563</b>	<b>60,740</b>	<b>1,064,733</b>	<b>18,433</b>	<b>1,566,469</b>
<i>Net long (short) position on balance sheet</i>	(221,017)	(32,718)	266,854	(13,119)	-
<b>Off-balance sheet claims arising from foreign exchange</b>					
<i>Net long (short) position on foreign exchange</i>	214,980	35,203	(260,154)	13,508	3,537
<b>Net long/(short) position</b>	<b>(6,037)</b>	<b>2,485</b>	<b>6,700</b>	<b>389</b>	<b>-</b>

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2010 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'ooo
<b>Assets</b>					
Cash and balances with the Central banks	68,412	873	3,092	359	72,736
Due from other credit institutions (demand)	25	6,289	6,765	3,085	16,164
Derivatives	6,524	1,009	975	4	8,512
Financial assets at fair value through profit or loss	102,821	-	35,946	-	138,767
Financial assets available-for-sale	-	-	10	-	10
Loans and advances	45,333	37,363	1,370,683	731	1,454,110
<i>Due from other credit institutions (term)</i>	6,483	5,852	42,542	-	54,877
<i>Loans to customers</i>	38,850	31,511	1,328,141	731	1,399,233
Accrued income and deferred expenses	483	70	27	-	580
Property and equipment	6,629	-	-	-	6,629
Intangible assets	861	-	-	-	861
Investments in the share capital of related companies	5,047	-	-	-	5,047
Other assets	13,626	884	1,074	3	15,587
<b>Total assets</b>	<b>249,761</b>	<b>46,488</b>	<b>1,418,572</b>	<b>4,182</b>	<b>1,719,003</b>
<b>Liabilities</b>					
Liabilities to credit institutions (demand)	774	324	40,061	48	41,207
Derivatives	11,503	871	3,039	6	15,419
Financial liabilities at amortised cost:	218,207	51,436	1,181,565	4,851	1,456,059
<i>Due to credit institutions (term)</i>	12,961	10,309	941,042	310	964,622
<i>Deposits from customers</i>	202,998	38,745	238,937	4,494	485,174
<i>Other financial liabilities</i>	2,248	2,382	1,586	47	6,263
Accrued expenses and deferred income	456	65	172	-	693
Other liabilities	5,785	7	23,052	-	28,844
Subordinated loan	-	-	54,488	-	54,488
<b>Total liabilities</b>	<b>236,725</b>	<b>52,703</b>	<b>1,302,377</b>	<b>4,905</b>	<b>1,596,710</b>
<b>Shareholders` equity</b>	<b>122,293</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>122,293</b>
<b>Total liabilities and shareholders` equity</b>	<b>359,018</b>	<b>52,703</b>	<b>1,302,377</b>	<b>4,905</b>	<b>1,719,003</b>
<i>Net long/(short) position on balance sheet</i>	(109,257)	(6,215)	116,195	(723)	-
<b>Off-balance sheet claims arising from foreign exchange</b>					
<i>Net long/(short) position on foreign exchange</i>	118,830	6,308	(116,309)	717	2,546
<b>Net long/(short) position</b>	<b>2,573</b>	<b>93</b>	<b>(114)</b>	<b>(6)</b>	<b>-</b>



### 43. 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 receive-variable, pay-fixes IRS as the derivative hedging instruments. The Bank identified and aggregated the portfolio/group of fixed interest rate loans (mortgage and private) as the hedged item.

LVL'ooo	Notional amount	Notional amount	Item attributable to the hedge risk		Hedging instrument	
	2011	2010	2011	2010	2011	2010
Hedged items	44,487	97,198	(1,154)	(1,186)	1,261	1,073

### 44. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals. The Management of the Bank believes that any legal proceedings pending as at 31 December 2011 will not result in material losses for the Bank and/ or Group.

### 45. 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.