

Joint Stock Company **Parex banka**

**PAREX  
BANKA**

Unaudited

# Public Financial Report

for the year ended 31 December 2011



**MAXIMUM RECOVERY OF STATE AID**

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## Management report

### Dear Shareholders and Collaboration Partners,

In 2011 joint stock company Parex banka worked intensively on achieving its main goal recovering funds once invested by the state as a bail. The results clearly evidence that within a short period of time Parex banka has become a high level manager of distressed assets with a strong team which is able to achieve notable results also in working with sophisticated multi-million projects in specific and even extraordinary situations. Since 1 August 2010, Parex banka has in total recovered more than 220 million lats, mainly by restructuring distressed loans and selling securities. It is important to note that due to its long sighted strategy Parex banka has continuously and consistently managed to prevent a forced sale of its assets.

Parex banka's activity is focused in three main directions during the period of account – loan restructuring, debt recovery and real estate management. In 2011 the bank has concluded several very sophisticated loan restructuring transactions which enabled Parex banka to fully recover the loans once granted to it.

However Parex banka's main achievement in 2011 was repayment of the State guaranteed international syndicated loan worth 164 million lats. The bank repaid this sum without receiving additional aid from the State. This enabled to protect the interests of the State and tax payers, and completely settle Parex banka's prior and substantial liabilities.

During the period of account Parex banka launched preparation and implementation of a large scale project with the aim to sell its subsidiary leasing companies in CIS countries. First results were achieved at the end of September 2011 when the bank made an exit from the Russian leasing market by entering into a beneficial agreement concerning the sale of its Russian subsidiaries Parex Leasing and Extroleasing. The first payment already recovered more than 14.5 million US dollars or 7.5 million lats. Until the end of 2013 Parex banka is going to continue receiving payments from gradual selling of the leasing company's problematic asset portfolio. Following the successful sale of the Parex banka leasing companies in Russia, a deal involving sale of Pareks Lizing and Faktoring in Azerbaijan was closed in October 2011. As a result of this deal the bank has recovered additional 3.4 million US dollars or 1.8 million lats. The prudently thought-out structure and conditions of the transaction will ensure the flow of funds necessary for repayment of the State investments thus facilitating accomplishment of the goals determined in the restructuring plan.

On 22 November 2011 the Cabinet of Ministers approved the model for Parex banka's further activity which provided for the bank's change of status. On 28 December 2011 Parex banka's extraordinary shareholder meeting adopted a decision on voluntary giving up of a bank license and determined a task for the bank's Board of Directors to start preparatory works for successful change of the company's status.

It is important to emphasize that the decision on Parex banka's change of status is a natural and logical step because it no longer provides banking services since 1 August 2010. After the bank's change status it will continue working as a joint stock company – manager of distressed assets, mainly focusing on working with distressed assets, recovery of issued loans, and selling of assets as well as asset value maintenance. The former structure of Parex banka's assets and liabilities, including clients' existing liabilities, will be preserved. The new activity model of Parex banka will be acquired after receiving a permit from the Finance and Capital Market Commission.

Parex banka's real estate portfolio has significantly increased as a result of efficient work – it exceeded the number of 800 objects at the end of reporting period. These are apartments and private buildings of various categories as well as a wide range of commercial premises in the Baltic States. Ensuring professional management of overtaken real estate, Parex banka maintains or increases the value of these assets and sells them on beneficial conditions.

In 2011 the share capital of the Parex banka was increased by 39.8 million lats. At the end of August the share capital was increased by 20 million lats by issuing 20 million ordinary registered shares with voting rights, and nominal value 1 lat per share. The second increase of the share capital took place in late November when the capital was increased by 19.8 million lats. At the end of the reporting period the amount of Parex banka's share capital was 311'027'295 lats and it consisted of 250'883'439 registered shares with voting rights and 60'143'856 registered shares without voting rights.

In December 2011 Parex banka repaid the principal of deposits made by the State in the amount of 7 million lats to the Ministry of Finance before deadline.

In December 2011 Parex banka and Privatization Agency filed a petition against Valērijs Kargins and Viktors Krasovickis, former shareholders of the bank, demanding compensation of damages to Privatization Agency in the amount of more than 12 million lats, and collection of more than 82.7 million lats and default of 4.5 million lats in favour of Parex banka. The total sum of the claim equals nearly 100 million lats.

**Most significant events after the accounting period**

In February 2012 after more than 17 months of professionally hard and demanding work Parex banka recovered 27.8 million euros or 19.5 million lats by selling their right to claim toward department store «Универмаг Москва» and related companies. Thus the Bank has successfully recovered the remaining principal amount from the complex exposure in full.

On February 15, 2012 Parex banka repaid the deposits made by the State in the amount of 8 million lats to the Ministry of Finance. The repaid sum included principal sum of 5 million lats and 3 million lats of interest for using State aid.

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Christopher Gwilliam, Chairman of the Board

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Solvita Deglava, Member of the Board

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Jurijs Adamovičs, Member of the Board

Riga, 28 February 2012

*The report has been approved by the Management Board of the Bank on February 28, 2012. More detailed information on the financial results of the Bank and the Group are available in the audited reports published on Bank's Internet site [www.parex.lv](http://www.parex.lv)*

## Management of the Bank

### Council of the Bank

<b>Name</b>	<b>Position</b>
Michael Joseph Bourke	Chairman of the Council
Sarmīte Jumīte	Deputy Chairman of the Council
Vladimirs Loginovs	Member of the Council
Mary Ellen Collins	Member of the Council

### Management of the bank

<b>Name</b>	<b>Position</b>
Christopher John Gwilliam	Chairman of the Management Board, p.p.
Solvita Deglava	Member of the Management Board, p.p.
Jurijs Adamovičs	Member of the Management Board



## Statement of Responsibility of the Management

The Management of AS Parex banka is responsible for the preparation of the unaudited financial information for 2011 of the Bank and the Group.

The unaudited financial information for 2011 is prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2011 and the results of their operations, changes in shareholders' equity and cash flows for the twelve month period ended 31 December 2011.

The unaudited financial information for 2011 is prepared in accordance with requirements of the Law on Financial Instruments Market and the Financial and Capital Market Commission's regulations No. 145 "Regulations on Preparation of Public Quarterly Reports of Credit Institutions".

Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the report.

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

## Balance Sheets

as at 31 December 2011 and 31 December 2010

	Reporting period Unaudited (LVL 000's)	Preceding reporting year Audited* (LVL 000's)	Reporting period Unaudited (LVL 000's)	Preceding reporting year Audited* (LVL 000's)
	Group	Group	Bank	Bank
Cash and deposits with central banks	5	26 944	5	26 944
Balances due from credit institutions	25 623	67 687	25 475	65 837
Financial assets held for trading	31	1 248	31	1 248
Financial assets designated at fair value through profit and loss	-	-	-	-
Available-for-sale financial assets	4 436	59 410	4 436	59 410
Loans and receivables	423 609	541 550	452 679	566 280
Held-to-maturity investments	24 318	24 208	24 318	41 365
Change in fair value of interest risk hedged portfolio	-	-	-	-
Prepayments and accrued income	1 225	3 857	1 218	3 855
Fixed assets	283	1 756	279	1 754
Investment property	40 461	19 810	18 597	13 627
Intangible assets	139	152	139	152
Investments in subsidiaries	-	-	62	60
Income tax assets	-	-	-	-
Other assets	14 417	45 464	8 293	8 749
<b>Total assets</b>	<b>534 547</b>	<b>792 086</b>	<b>535 532</b>	<b>789 281</b>
Due to central banks	-	-	-	-
Demand liabilities to credit institutions	16	-	16	-
Financial liabilities held for trading	1 688	2 002	1 688	2 002
Financial liabilities designated at fair value through profit and loss	-	-	-	-
Financial liabilities measured at amortised cost	521 103	727 510	521 103	727 520
Liabilities due to transfer of financial assets	-	-	-	-
Change in fair value of interest risk hedged portfolio	-	-	-	-
Accrued expenses and deferred income	1 080	1 821	1 051	1 794
Provisions	-	-	-	-
Income tax liabilities	-	-	-	-
Other liabilities	1 850	23 840	723	20 666
<b>Total liabilities</b>	<b>525 737</b>	<b>755 173</b>	<b>524 581</b>	<b>751 982</b>
Shareholders' equity	8 810	36 913	10 951	37 299
<b>Total liabilities and shareholders' equity</b>	<b>534 547</b>	<b>792 086</b>	<b>535 532</b>	<b>789 281</b>
<b>Memorandum items</b>				
Contingent liabilities	885	885	2 399	2 618
Financial commitments	160	198	16 055	19 863
* Auditors: SIA „PricewaterhouseCoopers”				



## Statements of Income

for the years ended 31 December 2011 and 2010

	Reporting period Unaudited (LVL 000's)	Respective period of the preceding reporting year Audited* (LVL 000's)	Reporting period Unaudited (LVL 000's)	Respective period of the preceding reporting year Audited* (LVL 000's)
	Group	Group	Bank	Bank
Interest income	11 412	71 621	10 821	64 248
Interest expense	(33 080)	(83 495)	(32 996)	(80 297)
Dividends received	-	-	-	-
Commission and fee income	322	15 853	4	11 569
Commission and fee expense	(140)	(4 786)	(58)	(3 602)
Net gain/ (loss) on financial assets measured at amortised cost	-	-	-	-
Net gain/ (loss) on available for sale financial assets and financial liabilities	(3 645)	(141)	(3 840)	(1 119)
Net gain/ (loss) on held for trading financial assets and financial liabilities	-	717	-	803
Net gain/ (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(533)	65	(583)	-
Change in fair value in hedge accounting	-	-	-	-
Gain/ (loss) from foreign exchange trading and revaluation of open positions	-	-	-	-
Profit/(loss) due to discontinued recognition of property, plant, equipment, investment properties or intangible assets	-	(12 148)	-	(11 192)
Other income	3 842	9 253	1 877	6 317
Other expense	(3 541)	(4 065)	(2 048)	(1 693)
Administrative expense	(11 160)	(41 306)	(7 786)	(30 427)
Amortisation and depreciation charge	(373)	(5 882)	(272)	(2 740)
Impairment charge and reversals, net	(35 205)	(108 826)	(35 465)	(115 731)
Impairment losses	-	-	-	-
Restructuring	-	12 270	-	-
<b>(Loss)/ profit for the reporting period</b>	<b>(72 101)</b>	<b>(150 870)</b>	<b>(70 346)</b>	<b>(163 864)</b>
<b>Statements of Comprehensive Income:</b>				
Net change in fair value revaluation reserve of securities	4 198	7 633	4 198	7 294
<b>Other comprehensive income / (loss) for the period</b>	<b>4 198</b>	<b>7 633</b>	<b>4 198</b>	<b>7 294</b>
<b>Total comprehensive income / (loss) for the period</b>	<b>(67 903)</b>	<b>(143 237)</b>	<b>(66 148)</b>	<b>(156 570)</b>
* Auditors: SIA „PricewaterhouseCoopers”				

## Statements of Changes in Equity are as follows:

Group	Issued share capital (LVL 000's)	Share premium (LVL 000's)	Fair value revaluation reserve (LVL 000's)	Retained earnings (LVL 000's)	Total equity (LVL 000's)
<b>Balance as at 31 December 2009*</b>	<b>230 027</b>	<b>12 694</b>	<b>(12 318)</b>	<b>(91 453)</b>	<b>138 950</b>
Issue of new shares	41 200	-	-	-	41 200
Net loss for the period	-	-	-	(150 870)	(150 870)
Other comprehensive income for the period	-	-	7 633	-	7 633
<b>Balance as at 31 December 2010</b>	<b>271 227</b>	<b>12 694</b>	<b>(4 685)</b>	<b>(242 323)</b>	<b>36 913</b>
Issue of new shares	39 800	-	-	-	39 800
Net loss for the period	-	-	-	(72 101)	(72 101)
Other comprehensive income for the period	-	-	4 198	-	4 198
<b>Balance as at 31 December 2011</b>	<b>311 027</b>	<b>12 694</b>	<b>(487)</b>	<b>(314 424)</b>	<b>8 810</b>

Bank	Issued share capital (LVL 000's)	Share premium (LVL 000's)	Fair value revaluation reserve (LVL 000's)	Retained earnings (LVL 000's)	Total equity (LVL 000's)
<b>Balance as at 31 December 2009*</b>	<b>230 027</b>	<b>12 694</b>	<b>(11 979)</b>	<b>(78 073)</b>	<b>152 669</b>
Issue of new shares	41 200	-	-	-	41 200
Net loss for the period	-	-	-	(163 864)	(163 864)
Other comprehensive income for the period	-	-	7 294	-	7 294
<b>Balance as at 31 December 2010</b>	<b>271 227</b>	<b>12 694</b>	<b>(4 685)</b>	<b>(241 937)</b>	<b>37 299</b>
Issue of new shares	39 800	-	-	-	39 800
Net loss for the period	-	-	-	(70 346)	(70 346)
Other comprehensive income for the period	-	-	4 198	-	4 198
<b>Balance as at 31 December 2011</b>	<b>311 027</b>	<b>12 694</b>	<b>(487)</b>	<b>(312 283)</b>	<b>10 951</b>

\*Before the transfer of undertaking

## Statements of Cash Flows for the years ended 31 December 2011 and 2010

	Reporting period Unaudited (LVL 000's)	Respective period of the preceding reporting year Audited* (LVL 000's)	Reporting period Unaudited (LVL 000's)	Respective period of the preceding reporting year Audited* (LVL 000's)
	Group	Group	Bank	Bank
<b>Cash flows from operating activities</b>				
Profit/ (loss) before tax	(71 469)	(148 987)	(70 154)	(162 914)
Amortisation of intangible assets, depreciation of fixed assets	373	5 882	272	2 740
Change in impairment allowances and other provisions	41 575	112 193	33 362	118 832
Other non-cash items	(309)	(5 509)	(211)	300
<b>Cash generated before changes in assets and liabilities</b>	<b>(29 830)</b>	<b>(36 421)</b>	<b>(36 731)</b>	<b>(41 042)</b>
Change in derivative financial instruments	(195)	2 468	(195)	2 402
Decrease /(increase) in other assets	1 349	(3 583)	2 210	(9 681)
(Decrease)/ increase in other liabilities	(15 602)	23 194	(13 545)	28 120
Decrease in trading investments	821	2 116	821	1 784
Decrease in balances due from credit institutions	-	1 569	-	129 948
Decrease in loans and receivables from customers	75 088	96 869	77 568	17 615
Increase/ (decrease) in balances due to credit institutions	7 232	(40 172)	7 217	(47 507)
(Decrease)/ increase in deposits from customers	(39 987)	119 551	(39 987)	99 450
<b>Cash generated from/ (used in) operating activities before corporate income tax</b>	<b>(1 124)</b>	<b>165 591</b>	<b>(2 642)</b>	<b>181 089</b>
Corporate income tax paid	(632)	(1 908)	(192)	(75)
<b>Net cash flow generated from/ (used in) operating activities</b>	<b>(1 756)</b>	<b>163 683</b>	<b>(2 834)</b>	<b>181 014</b>
<b>Cash flows from investing activities</b>				
(Purchase) of intangible and fixed assets	(91)	(546)	(89)	(379)
Proceeds from disposal of subsidiaries	8 870	2 925	8 868	2 798
Acquisitions and investments in subsidiaries	-	-	-	(9 200)
Sale of available-for-sale securities, net	61 138	70 719	63 918	93 114
<b>Net cash flow from investing activities</b>	<b>69 917</b>	<b>73 098</b>	<b>72 697</b>	<b>86 333</b>
<b>Cash flows from financing activities</b>				
Paid in share capital	39 800	9 700	39 800	9 700
Repayment of syndicated loan	(169 044)	(219 684)	(169 044)	(219 684)
<b>Net cash flow from financing activities</b>	<b>(129 244)</b>	<b>(209 984)</b>	<b>(129 244)</b>	<b>(209 984)</b>
Transferred to Citadele banka	-	(314 902)	-	(303 411)
<b>Net cash flow for the year</b>	<b>(61 083)</b>	<b>(288 105)</b>	<b>(59 381)</b>	<b>(246 048)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>86 671</b>	<b>374 776</b>	<b>84 821</b>	<b>330 869</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>25 588</b>	<b>86 671</b>	<b>25 440</b>	<b>84 821</b>
* Auditors: SIA „PricewaterhouseCoopers”				

## Consolidation Group as at 31 December 2011

No.	Name of company	Registration number	Registration address	Country of domicile	Company type*	% of total paid-in share capital	% of total voting rights	Basis for inclusion in the group**
1	AS "Parex banka"	LV-40003074590	Latvia, Riga LV-1010, Republikas laukums 2A	LV	BNK	100	100	MAS
2	Regalite Holdings Limited	CY-HE93438	Cyprus, Nicosia 1075, 58 Arch. Makarios 3 Avenue, Iris Tower, 6th floor, office 602	CY	PLS	100	100	MS
3	OOO "Ekspress Lizing"	RU-1037867006726	Russia, St. Petersburg 192019, Sedova 11, liter A	RU	LIZ	100	100	MS
4	OOO "Laska Lizing"	UA-33104543	Ukraine, Kiev 03150, Dimitrova 5	UA	LIZ	100	100	MS
5	SIA "Parex Private Banking"	LV-40003103438	Latvia, Riga LV-1050, Smilšu 7	LV	PLS	100	100	MS
6	OOO "Parex Leasing and Factoring"	GE-205224461	Georgia, Tbilisi, Kazbegi avenue 44	GE	LIZ	100	100	MS
7	SIA "NIF"	LV-40103250571	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
8	SIA "NIF Dzīvojamie īpašumi"	LV-40103253915	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
9	SIA "NIF Komerģipašumi"	LV-40103254003	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
10	SIA "NIF Zemes īpašumi"	LV-40103255348	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
11	UAB "NIF Lietuva"	LT-302462108	Lithuania, Vilnius LT03107, K.Kalinausko 13	LT	PLS	100	100	MMS
12	OÜ "NIF Eesti"	EE-11788043	Estonia, Tallinn 10119, Roosikrantsi 2	EE	PLS	100	100	MMS
13	SIA "NIF Projekts 1"	LV-50103300111	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
14	SIA "NIF Projekts 2"	LV-40103353475	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
15	SIA "NIF Projekts 3"	LV-40103353511	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
16	SIA "NIF Projekts 4"	LV-40103398418	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
17	SIA "NIF Projekts 5"	LV-40103398850	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
18	SIA "NIF Projekts 6"	LV-40103398865	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS

\*BNK – bank, CFI – other financial institution, LIZ – leasing company, PLS – company providing various support services.

\*\* MS – subsidiary company, MMS – subsidiary of the subsidiary company, MAS – parent company.

## Notes

### Information about Parex banka's structure

As at 31 December 2011 the Bank had 2 foreign branches and 4 representative offices.

### Issued share capital as at 31 December 2011

Shareholders	Nominal value (LVL)	Number of shares	Paid-in share capital (LVL)	Voting rights	Paid-in share capital (%)
SJSC "Privatizācijas Aģentūra"	1	261 733 152	261 733 152	205 783 152	84.15%
EBRD	1	39 631 824	39 631 824	39 631 824	12.74%
Other	1	9 662 319	9 662 319	5 468 463	3.11%
<b>Total</b>		<b>311 027 295</b>	<b>311 027 295</b>	<b>250 883 439</b>	<b>100%</b>

### Information on certain parties that were related to the Banka at the moment it received state aid

Pursuant to FCMC regulations on preparation of quarterly public reports of banks (Article 14<sup>1</sup>) the following table represents summary of material transactions with certain parties that were related to the Bank at the moment it received the State Aid:

	LVL 000's					
	Period-end balance	2011 year Average interest rate *	Interest income/ (expense)	Period-end balance	2010 year Average interest rate *	Interest income/ (expense)
Loans issued by the Bank	1 901	0.00%	-	1 893	0.00%	534
Deposits placed with the Bank	-	-	-	-	-	(1 109)
Subordinated financing provided to the bank	36 005	4.52%	(2 194)	36 005	6.00%	(3 084)

\* According to period-end rates

Subordinated financing contracts were entered into force in 2008 and have maturities ranging 2015 through 2018. Subordinated financing is LVL and EUR denominated. Prior repayment can be unilaterally requested only upon liquidation of the Bank.

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

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised cost (LVL 000's) 31/12/2011	Amortised cost (LVL 000's) 31/12/2010
Notes-private placement	UK	EUR	20,000	5.954%	28/12/2007	28/12/2022	13 247	13 204
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7 501	7 502
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7 501	7 502
Notes – public issue	n/a	EUR	5,050	11%	08/05/2008	08/05/2018	3 829	3 820
Private person	Latvia	EUR	15,000	12%	20/06/2008	14/05/2015	10 602	10 602
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1 500	1 500
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1 500	1 500
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2 285	2 284
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2 285	2 284
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1 416	1 416
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1 416	1 416
<b>Total</b>							<b>53 082</b>	<b>53 030</b>

## Financial instruments as at 31 December 2011 and 31 December 2010

	LVL 000's			
	Reporting period <i>Unaudited</i> Group	Preceding reporting year <i>Audited*</i> Group	Reporting period <i>Unaudited</i> Bank	Preceding reporting year <i>Audited*</i> Bank
<b>Financial assets held for trading (net):</b>	<b>31</b>	<b>1 248</b>	<b>31</b>	<b>1 248</b>
<b>Available-for-sale financial assets (net):</b>	<b>4 436</b>	<b>59 410</b>	<b>4 436</b>	<b>59 410</b>
<i>Russia (gross)</i>	5 402	-	5 402	-
<i>Impairment allowance</i>	(3 509)	-	(3 509)	-
Russia (net)	1 893	14 777	1 893	14 777
Germany	-	16 547	-	16 547
Great Britain	-	9 416	-	9 416
Republic of Kazakhstan	-	10 041	-	10 041
Other	-	6 161	-	6 161
Latvia	2 543	2 468	2 543	2 468
<b>Held-to-maturity investments (net)**:</b>	<b>24 318</b>	<b>24 208</b>	<b>24 318</b>	<b>41 365</b>
<i>Russia (gross)</i>	-	-	-	23 330
<i>Impairment allowance</i>	-	-	-	(6 173)
Russia (net)	-	-	-	17 157
Latvia	24 318	24 208	24 318	24 208
<b>Total</b>	<b>28 785</b>	<b>84 866</b>	<b>28 785</b>	<b>102 023</b>

\* Auditors: SIA „PricewaterhouseCoopers”

\*\*The fair value of held-to-maturity investments as at 31 December 2011 was LVL 20 331 (31.12.2010 – 36 425 ) thousand for the bank and LVL 20 331 (31.12.2010 - 19 267) thousand for the group.

## Financial liabilities measured at amortised cost as at 31 December 2011 and 31 December 2010

	LVL 000's			
	Reporting period <i>Unaudited</i> Group	Preceding reporting year <i>Audited*</i> Group	Reporting period <i>Unaudited</i> Bank	Preceding reporting year <i>Audited*</i> Bank
Loans from credit institutions	13 279	178 615	13 279	178 615
Deposits from customers	26 714	495 865	26 714	495 875
Debt securities	428 028	-	428 028	-
Subordinated liabilities	53 082	53 030	53 082	53 030
<b>Total</b>	<b>521 103</b>	<b>727 510</b>	<b>521 103</b>	<b>727 520</b>

\* Auditors: SIA „PricewaterhouseCoopers”

## Risk management

The Group's risk is managed according to principles set out in Group's Risk Management Policy. The Group adheres to the following key risk management principles:

- Undertaking an acceptable risk level is one of the Group's main functions in all areas of operation. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are, where possible, avoided, limited or hedged;
- The Group does not assume new high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- Risk management is based on awareness of each and every Group's employee about the nature of transactions he/she carries out and related risks;
- The Group aims to ensure as low as possible risk exposure and low level of operational risk.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by an independent unit unrelated to customer servicing - Risk Management Division.

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

### Credit risk

Credit risk is the risk that the Group will incur losses from debtor's non-performance or default. The group is exposed to credit risk in its lending and loan restructuring activities.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent Risk Management Division. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes analysis of the industry, the company, and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. All decisions about loan restructuring or changes in loan agreements are made by the Credit Committee and further reviewed by the Bank's Management Board.

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

Credit risk identification, monitoring and reporting is the responsibility of Risk Management Division.



## Liquidity risk

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

Under ordinary circumstances the Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management, as well as liquidity risk measurement, monitoring and reporting, is ensured by the Finance, Risk Management & Operational Department. Liquidity risk management in the Group is coordinated by the Finance, Risk Management & Operational Department. The main source of liquidity is the funding provided by the Ministry of Finance. In 2011 the Bank was in compliance with liquidity ratio requirements.

## Operational risk

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

The Group does not undertake / accept operational risks with unquantifiable impact that are concurrently unmanageable (it is impossible to prevent such risks or provide for their consequences – e.g. non-compliance with legal regulations etc.), irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- “Four-eye-principle” and segregation of duties;
- Business continuity planning;
- Insurance;
- Investments in appropriate data processing and information protection technologies.

## Currency risk

Currency risk is related to mismatch in foreign currency asset and liability positions that impact the Group's cash flow and financial results via fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Day-to-day currency risk monitoring, management and reporting is the responsibility Finance, Risk Management & Operational Department. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation.