AS “AKCIJU KOMERCBANKA “BALTIKUMS”” GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

CONTENTS

REPORT OF THE MANAGEMENT

Dear Shareholders, customers and partners,

AS "Akciju komercbanka "Baltikums"" (Baltikums Bank) presents its Group consolidated and Bank separate financial statements for 2010. Financial statements reflect the Bank's and Groups performance throughout the year, which is related with processes going on in Latvian and global economy and society.

In 2010, Latvia experienced a range of drastic changes to various dimensions. We witnessed growing unemployment, introduction of new taxes, deflation, and pessimistic forecasts articulated by both businesses and public. However, end of the year showed some growth of the GDP, an increase in consumer prices, and decline of unemployment.

These economic and social fluctuations affected the banking sector and, of course, Baltikums Bank. Yet despite the general turmoil, the Bank's main financial indicators prove that its performance in the chosen niches has been stable and consistent.

The conservative risk management, consistent strategic goals, and establishment of long-term relations with customers – these are the three pillars of success of Baltikums Bank.

On the threshold of its 10th anniversary, the Bank successfully operates in Riga, Limassol, Almaty, and Kyiv, as well as has representative offices in Russia. Baltikums Bank and its foreign branches employ an international team of 180 professionals. Following the Bank's development policy, its employees are active participants of many international forums including the respected International Investment Forum of Turkmenistan and VTB Capital Investment Forum "Russia Calling!" where Baltikums Bank was invited as the largest and most active trader in the Baltic states in the area of Eurobonds issued by CIS countries.

Baltikums Bank proved the stability of its development again and finished its 10th financial year with the audited profit of LVL 139 thousand (EUR 198 thousand).

During the year 2010, the Bank made significant investments in improving the quality of its customer service, improving of business processes, development and training of personnel, and widening of the offering of products and services with the added value

Total assets of the Bank increased by 12% in 2010 to LVL 125 million (EUR 178 million). Customer deposits increased by 25% reaching LVL 103 million (EUR 147 million) by 31 December 2010. Growing confidence of customers in the Bank is confirmed by the increase in assets under management that grew fife fold and amounted to LVL 36 million (EUR 51 million) by 31 December 2010, which is the one of the highest results in Latvia.

In the area of customer financing, the Bank adhered to a balanced and conservative approach, as usual, and, as a result, its loan portfolio decreased from LVL 29 million (EUR 42 million) to LVL 20 million (EUR 28 million). The Bank plans to expand its customer financing activities in 2011, particularly in the area of short-term financing, taking into account the activation of international operations of its customers.

As of 31 December 2010, the Bank's capital adequacy ratio was 15.40% (FCMC requirement 8%), and the liquidity ratio was – 71.38% (FCMC requirement 30%).

Baltikums Bank keeps improving its business model introducing latest technologies and methodology. However, our philosophy and approach to business remain unchanged. As an independent private bank and family business Baltikums Bank has built its reputation with establishing and developing fruitful and mutually beneficial relations with its customers. We pay close attention to research and new trends and create products, services, and solutions that are our response to the customers' needs and wishes. Such outgoing attitude results in high demand of our offered products.

Besides, the Bank's aim is not only to render professional and high-quality services but also, together with its customers create business, capital, asset, and risk management infrastructure that, in addition to financial rewards, would give customers more stability and security about the future for themselves, their relatives and partners.

Our values remain unchanged: independence and objective approach, security, responsibility, and comprehensive protection of our customers' interest. We are grateful to all our customers for cooperation and trust expressed to us at these complicated times and will look forward to conducting successful business together.

Baltikums Bank is an international private bank with headquarters in Riga (Latvia) and representative offices in 6 countries. Our goal is to provide top value and quality services for business development and preservation and growth of welfare of our customers. Thanks to our customers, it is possible to ensure flourishing of business contributing to growth of welfare of our employees and shareholders and the countries where we live and work.

Aldis Reims,
Chairman of the Board
AS "Akciju komercbanka "Baltikums""

30 March 2011

THE SUPERVISORY COUNCIL AND BOARD OF THE BANK

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

Council as of 31 December 2010

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

There have been no changes in the Supervisory Council during the reporting year.

Management Board as of 31 December 2010

Name, Surname	Position	Date of Appointment
Aldis Reims	Member of the Board	20 August 2001
	Acting Chairman of the Board	1 July 2002
	Chairman of the Board	25 April 2003
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
Leonarda Višņevska	Member of the Board	25 April 2003
Tatjana Drobina	Member of the Board	30 April 2008
Aleksandrs Halturins	Member of the Board	30 April 2008

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2011

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

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

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

The Group consolidated and Bank separate financial statements on pages 8 - 71 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2010 and the results of its performance and cash flows for the year ended 31 December 2010 as well as the financial position of the Bank as at 31 December 2010 and the results of its performance and cash flows for the year ended 31 December 2010.

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

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

Riga, 30 March 2011

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Latvia

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Independent Auditors' Report

To the shareholders of AS "Akciju Komercbanka "Baltikums""

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS „Akciju Komercbanka „Baltikums"" ("the Bank"), which comprise the separate statement of financial position as at 31 December 2010, the separate income statement, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 71. We have also audited the accompanying consolidated financial statements of AS „Akciju Komercbanka „Baltikums"" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 71.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the AS „Akciju Komercbanka „Baltikums"" as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the AS „Akciju Komercbanka „Baltikums"" and its subsidiaries as at 31 December 2010, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 2 to 3, the preparation of which is the responsibility of management, is consistent with the separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the separate and consolidated financial statements. In our opinion, the management report is consistent with the separate and consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
30 March 2011

Inga Lipšāne
Sworn Auditor
Certificate No 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

GROUP CONSOLIDATED AND BANK SEPARATE INCOME STATEMENT

	Notes	2010		2009	
		Group LVL ’000	Bank LVL ’000	Group LVL ’000	Bank LVL ’000
Interest income	6	4 047	3 991	5 650	5 554
Interest expense	7	(534)	(502)	(962)	(884)
Net interest income		**3 513**	**3 489**	**4 688**	**4 670**
Fee and commission income	8	5 233	5 191	4 493	4 460
Fee and commission expense	9	(652)	(652)	(783)	(736)
Net commission and fee income		**4 581**	**4 539**	**3 710**	**3 724**
Profit (loss) from financial assets and liabilities carried at fair value through profit or loss	10	(1 128)	(1 128)	548	548
Net foreign exchange gains	11	1 734	1 709	143	143
Share of profit of equity accounted investees	23	125	-	155	-
Other operating income	12	1 542	284	499	209
Operating income		**10 367**	**8 893**	**9 743**	**9 294**
Administrative expenses	13	(5 603)	(5 308)	(5 681)	(5 469)
Other operating expenses	14	(2 057)	(626)	(217)	(190)
Impairment of financial assets	15	(2 220)	(2 342)	(2 621)	(2 879)
Revaluation of investment property		191	-	-	-
Total operating expenses		**(9 689)**	**(8 276)**	**(8 519)**	**(8 538)**
Profit before income tax		**678**	**617**	**1 224**	**756**
Income tax expense	16	(478)	(478)	(151)	(118)
Profit for the period		**200**	**139**	**1 073**	**638**
Attributable to:					
Equity holders of the Bank		*200*	*139*	*1 073*	*638*
Profit for the period		**200**	**139**	**1 073**	**638**

The accompanying notes on pages 15 - 71 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 71 on 30 March 2011. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2011

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF COMPREHENSIVE INCOME

		2010		2009	
		Group	**Bank**	**Group**	**Bank**
	Notes	**LVL ’000**	**LVL ’000**	**LVL ’000**	**LVL ’000**
Profit for the period		**200**	**139**	**1 073**	**638**
Other comprehensive income					
Revaluation of vessels	28	1 030	**-**	**-**	**-**
Total other comprehensive income					
Total comprehensive income		**1 230**	**139**	**1 073**	**638**
Attributable to:					
Equity holders of the Bank		1 230	139	1 073	638
Non-controlling interest		-	-	-	-

The accompanying notes on pages 15 - 71 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 71 on 30 March 2011. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

30 March 2011

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

		2010		2009	
Assets	**Notes**	**Group LVL '000**	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Cash and balances with the Bank of Latvia	17	7 639	7 635	6 043	6 043
Deposits with credit institutions	18	50 347	50 345	33 112	33 102
Demand deposits with credit institutions		*42 820*	*42 818*	*29 492*	*29 482*
Term deposits with credit institutions		*7 527*	*7 527*	*3 620*	*3 620*
Financial assets at fair value through profit or loss		20 076	20 076	15 498	15 498
Fixed income securities	*19*	*17 471*	*17 471*	*13 689*	*13 689*
Non-fixed income securities	*19*	*1 646*	*1 646*	*1 440*	*1 440*
Derivative financial instruments	*36*	*959*	*959*	*369*	*369*
Available-for-sale financial assets	20	34	34	2 327	34
Fixed income securities		-	-	*2 293*	-
Non-fixed income securities		*34*	*34*	*34*	*34*
Loans and receivables	21	19 620	19 856	29 500	29 339
Financial assets held-to-maturity	22	10 918	10 918	12 530	12 530
Non-current assets held for sale	27	-	-	1 772	1 406
Income tax receivable		-	-	867	892
Investments in associates	23	4 244	2 820	4 265	2 820
Investments in subsidiaries	23	-	8 699	-	6 667
Investment property	26	6 884	2 594	4 707	647
Property and equipment	25	1 636	1 631	1 610	1 604
Intangible assets	24	661	224	276	255
Prepayments and accrued income		41	38	40	40
Other assets	28	3 687	275	861	838
Total assets		**125 787**	**125 145**	**113 408**	**111 715**

The accompanying notes on pages 15 - 71 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 71 on 30 March 2011. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2011

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

Liabilities and Equity	**Notes**	**2010**		**2009**	
		Group	**Bank**	**Group**	**Bank**
		LVL '000	**LVL '000**	**LVL '000**	**LVL '000**
Due to credit institutions on demand	29	676	676	53	53
Derivatives	36	575	575	170	170
Financial liabilities carried at amortized cost		102 211	103 049	87 940	86 931
Loans received from credit institutions	*30*	*984*	*-*	*1 127*	*-*
Customers' deposits	*31*	*101 227*	*103 049*	*82 423*	*82 541*
Notes payable	*32*	*-*	*-*	*4 390*	*4 390*
Deferred income and accrued expenses	33	223	114	168	168
Provisions	34	147	139	130	126
Current tax liabilities		365	341	36	36
Other liabilities	35	355	238	582	33
Total liabilities		**104 552**	**105 132**	**89 079**	**87 517**
Equity					
Share capital	37	19 118	19 118	23 442	23 442
Reserves	37	17	17	17	17
Revaluation of other assets		1 030	-	-	-
Retained earnings		1 070	878	870	739
Total equity attributable to equity holders of the Bank		**21 235**	**20 013**	**24 329**	**24 198**
Total liabilities and equity		**125 787**	**125 145**	**113 408**	**111 715**
Contingent liabilities and commitments					
Contingent liabilities and commitments	39	4 462	4 462	5 907	5 907

The accompanying notes on pages 15 - 71 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 71 on 30 March 2011. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2011

GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Reserve capital	Revaluation of vessels	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
Balance as at 31 December 2008	**15 178**	**17**	**-**	**3 137**	**18 332**	**2 281**	**20 613**
Total comprehensive income							
Net profit for the period	-	-	-	1 073	**1 073**	-	**1 073**
Total comprehensive income	**-**	**-**	**-**	**1 073**	**1 073**	**-**	**1 073**
Effect of acquisition of non-controlling interest	**-**	**-**	**-**	**-**	**-**	(2 281)	**(2 281)**
Transactions with owners, recorded directly in equity							
Share capital increase	8 264	**-**	**-**	**-**	**8 264**	**-**	**8 264**
Dividends paid	-	-	-	(3 340)	**(3 340)**	-	**(3 340)**
Balance as at 31 December 2009	**23 442**	**17**	**-**	**870**	**24 329**	**-**	**24 329**
Total comprehensive income for the period							
Net profit for the period	**-**	**-**	-	200	**200**	**-**	**200**
Other comprehensive income – revaluation of vessels	**-**	**-**	1 030	-	**1 030**	**-**	**1 030**
Total comprehensive income for the period	**-**	**-**	**1 030**	**200**	**1 230**	**-**	**1 230**
Transactions with owners, recorded directly in equity							
Share capital decrease	(4 324)	**-**	**-**	**-**	**(4 324)**	**-**	**(4 324)**
Balance as at 31 December 2010	**19 118**	**17**	**1 030**	**1 070**	**21 235**	**-**	**21 235**

The accompanying notes on pages 15 - 71 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 71 on 30 March 2011. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council
30 March 2011

Aldis Reims
Chairman of the Board

	Share capital LVL '000	Reserve capital LVL '000	Retained earnings LVL '000	Total LVL '000
Balance as at 31 December 2008	**15 178**	**17**	**3 441**	**18 636**
Comprehensive income				
Profit for the period	**-**	**-**	638	**638**
Total comprehensive income	-	-	638	638
Transactions with owners, recorded directly in equity				
Dividends paid	**-**	**-**	(3 340)	**(3 340)**
Increase in share capital	8 264	**-**	**-**	**8 264**
Balance as at 31 December 2009	**23 442**	**17**	**739**	**24 198**
Total comprehensive income				
Profit for the period	**-**	**-**	139	**139**
Total comprehensive income	**-**	**-**	**139**	**139**
Transactions with owners, recorded directly in equity				
Share capital decrease	(4 324)	**-**	**-**	**(4 324)**
Balance as at 31 December 2010	**19 118**	**17**	**878**	**20 013**

The accompanying notes on pages 15 - 71 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 71 on 30 March 2011. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2011

GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF CASH FLOWS

	Note	2010		2009	
		Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Cash flow from operating activities					
Profit before income tax		678	617	1 224	756
Amortization and depreciation		230	260	332	244
Impairment of financial assets		(347)	(45)	2 374	2 879
Foreign exchange (gain)/loss		59	100	89	89
Revaluation of assets		(437)	-	-	-
Loss from the sale of subsidiaries		160	354	-	-
		343	**1 286**	**4 019**	**3 968**
(Increase)/Decrease in loans and receivables		7 827	5 754	1 759	1 763
(Increase)/Decrease in available-for-sale financial assets		2 293	-	(2 317)	(24)
Increase in financial assets at fair value through profit or loss		(4 061)	(4 061)	(7 641)	(7 641)
(Increase)/Decrease in financial assets held-to-maturity		1 466	1 609	1 063	1 063
(Increase)/Decrease in prepayments and accrued income		(1)	2	7	7
Increase in other assets		1 433	1 455	(542)	(561)
Increase in customers’ deposits		18 804	20 508	3 337	3 337
Increase/(Decrease) in derivative liabilities		405	405	35	35
Increase/(Decrease) in other and current tax liabilities		(1 356)	163	283	(226)
Increase in deferred income and accrued expenses		55	(54)	67	67
Net cash from/(used in) operating activities before tax		**27 208**	**27 067**	**70**	**1 788**
Corporate income tax paid		(151)	(118)	(1 198)	(1 191)
Net cash from/(used in) operating activities		**27 057**	**26 949**	**(1 128)**	**597**
Cash flow from investing activities					
Acquisition of property and equipment and intangible assets		(225)	(225)	(174)	(193)
Proceeds from sale of property and equipment		-	-	63	63
Acquisition of subsidiaries net of cash acquired		(11)	-	(2 671)	(2 659)
Proceeds from sale of subsidiaries net of cash disposed of		2	299	-	-
Other cash inflow/(outflow) from investment activities		-	-	1 551	(167)
Dividends received		155	-	-	-
Net cash from/(used in) investing activities		**(79)**	**74**	**(1 231)**	**(2 956)**
Cash flow from financing activities					
Repayments / Proceeds from (decrease) increase of share capital		(4 324)	(4 324)	8 264	8 264
Cash outflow from repayment of notes payable		(4 390)	(4 390)	(6 094)	(6 094)
Dividends paid		-	-	(3 340)	(3 340)
Net cash from/(used in) financing activities		**(8 714)**	**(8 714)**	**(1 170)**	**(1 170)**
Net changes in cash and cash equivalents		**18 264**	**18 309**	**(3 529)**	**(3 529)**
Cash and cash equivalents at the beginning of the year		**39 078**	**39 068**	**42 696**	**42 686**
Effects of exchange rates fluctuations on cash held		(59)	(100)	(89)	(89)
Cash and cash equivalents at the end of the year	38	**57 283**	**57 277**	**39 078**	**39 068**

The accompanying notes on pages 15 - 71 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 71 on 30 March 2011. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2011

1. GENERAL INFORMATION

JSC "Akciju komercbanka "Baltikums"" (the Bank) was established on 22 June 2001, when it was incorporated in the Republic of Latvia as a joint stock company. The address of the Bank is Maza Pils iela 13, Riga, LV 1050. The Bank is a commercial bank specializing in the financing of export and import operations, trade and shipping finance as well as investment management. The Bank operates in accordance with Latvian legislation and the license issued by the Bank of Latvia.

The immediate controlling party of the Bank is AS "Baltikums Bankas Grupa", which owns 100% of shares of the Bank's total voting shares. AS "Baltikums Bankas Grupa" is owned in equal portions by four Latvian entities and 2 individuals. The Bank and Group have a number of subsidiaries and investment in associate companies:

Company	State of registration	Business activity	Share in equity as at 31.12.2010,%	Share in equity as at 31.12.2009, %
AS IPS „Baltikums Asset Management"	Latvia	Financial services	100	100
SIA „Baltikums Līzings"	Latvia	Financial services	100	100
SIA „Konsalting Invest"	Latvia	Financial services	100	100
"Rostman Ltd."	Belize	Freight	100	-
"Hartmile Projects S.A"	Panama	Freight	100	-
„Benmar Maritime S.A."	Panama	Freight	100	-
SIA „CityCap Service"	Latvia	Real estate development	100	100
SIA „Zapdvina Development"	Latvia	Real estate development	100	100
„KamalyDevelopment EOOD"	Bulgaria	Real estate development	100	-

Investment in associates (Bank and Group):

Company	State of registration	Business activity	Share in equity as at 31.12.2010, %	Share in equity as at 31.12.2009, %
AAS "Baltikums"	Latvia	Insurance services	49,86	49,86
AS Termo biznesa Centrs	Latvia	Real estate Development	26,15	26,15

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at 31 December 2010.

The Groups` consolidated and Banks` separate financial statements were authorized for issue by the Board of Directors on 30 March 2011. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

(2) Functional and presentation currency

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

(3) Basis of measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting principles used in the preparation of the consolidated and the Bank’s and Group’s financial statements are consistent with those used in 2009, except as noted in note 3 (33).

(1) Consolidation

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

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(2) Goodwill

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

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

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

(3) Foreign currency

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

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

	31 December 2010	31 December 2009
EUR	0.7028	0.7028
USD	0.535	0.4890

Foreign operations

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

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

(4) Financial instruments

Classification:

Financial instruments are classified into one of the following categories:

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

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

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

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed term with respect to which the Bank and the Group have a positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale. Held-to-maturity financial instruments include certain debt securities.

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

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

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

(5) Recognition

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

(6) Amortized cost measurement

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

(7) Measurement

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

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

All financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost using the effective interest rate method. All instruments are subject to revaluation when impaired.

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

(8) Derecognition

The Group and the Bank derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by The Group and the Bank is recognized as a separate asset or liability.

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

(9) Offsetting

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

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

(10) Identification and measurement of impairment of financial assets

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

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

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

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

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

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

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

(11) Fair value measurement

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

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

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

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

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

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

Group

2010	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss			
Fixed income securities	17 471	-	**17 471**
Non-fixed income securities	1 646	-	**1 646**
Derivative financial instruments	-	959	**959**
Available for sale assets			
Non-fixed income securities	-	34	**34**
	19 117	**993**	**20 110**
Financial liabilities			
Derivatives	-	575	**575**
	-	**575**	**575**
2009			
Financial assets			
Financial assets at fair value through profit or loss			
Fixed income securities	13 689	-	**13 689**
Non-fixed income securities	1 440	-	**1 440**
Derivative financial instruments	-	369	**369**
Available for sale assets			
Fixed income securities	-	2 293	**2 293**
Non-fixed income securities	-	34	**34**
	15 129	**2 696**	**17 825**
Financial liabilities			
Derivatives	-	170	**170**
	-	**170**	**170**

Bank

2010	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss			
Fixed income securities	17 471	-	**17 471**
Non-fixed income securities	1 646	-	**1 646**
Derivative financial instruments	-	959	**959**
Available for sale assets			
Non-fixed income securities	-	34	**34**
	19 117	**993**	**20 110**
Financial liabilities			
Derivatives	-	575	**575**
	-	**575**	**575**
2009			
Financial assets			
Financial assets at fair value through profit or loss			
Fixed income securities	13 689	-	**13 689**
Non-fixed income securities	1 440	-	**1 440**
Available for sale assets			
Derivative financial instruments	-	369	**369**
Non-fixed income securities	-	34	**34**
	15 129	**403**	**15 532**
Financial liabilities			
Derivatives	-	170	**170**
	-	**170**	**170**

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

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

(12) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank classifies all derivative financial instruments as trading.

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

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

(13) Repo transactions

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

(14) Investment in subsidiaries

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

(15) Impairment of non-financial assets

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

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

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

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

(16) Investment property

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

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

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

(17) Repossessed assets

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

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

Other types of collateral (repossessed vessels) are classified as other assets. Vessels are valued at fair value with changes in fair value recorded in other comprehensive income.

(18) Non-current assets held for sale

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

(19) Property and equipment

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

Furniture and equipment	20%
Computers	25%
Other	20%

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

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

(20) Investments in associates

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

(21) Funds management

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

(22) Intangible assets

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

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

(23) Income and expense recognition

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

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

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

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

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

(24) Credit-related commitments

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

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

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

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

(25) Taxes

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

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

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

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

(26) Dividends

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

(27) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with original maturity of less than 3 months less balances due to the Bank of Latvia and credit institutions with original maturity of less than 3 months. The balances under sale and repurchase agreements are not included in the cash and cash equivalents.

(28) Leases

Finance lease

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

Operating lease

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

(29) Provisions

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

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

(30) Short-term employee benefits

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

(31) Assets under management

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

(32) Fair values of financial assets and liabilities

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

Due from other credit institutions

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

Loans to customers

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

Shares and other securities with non-fixed income

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

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

Derivative financial instruments

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

Liabilities to other credit institutions and customers

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

(33) New standards and interpretations

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group and Bank:

- IFRS 3 (revised), „Business combinations’, and consequential amendments to IAS 27, „Consolidated and separate financial statements’, IAS 28, „Investments in associates’, and IAS 31, „Interests in joint ventures’, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs are expensed. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.
- IFRIC 17, „Distribution of non-cash assets to owners’ (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.
- IFRIC 18, „Transfers of assets from customers’, effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).
- IFRIC 9, „Reassessment of embedded derivatives’ and IAS 39, „Financial instruments: Recognition and measurement’, effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the „fair value through profit or loss’ category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.
- IFRIC 16, „Hedges of a net investment in a foreign operation’ effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation

itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Group and Bank should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group and Bank. IAS 38 (amendment), „Intangible assets', effective 1 January 2010.

- The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.
- IAS 1 (amendment), „Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- IAS 36 (amendment), „Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, „Operating segments' (that is, before the aggregation of segments with similar economic characteristics).
- IFRS 2 (amendments), „Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating IFRIC 8, „Scope of IFRS 2', and IFRIC 11, „IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), „Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements:

- Revised IAS 24 „Related Party Disclosure' (effective for annual periods beginning on or after 1 January 2011). The amendment exempts government-related entities from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 is not expected to result in new relations requiring disclosure in the Group's and Bank's financial statements.
- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant

to the Group's and Bank's financial statements as the Bank does not have any defined benefit plans with minimum funding requirements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a „debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Group and Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's and Bank's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.
- Amendment to IAS 32 „Financial Instruments: Presentation – Classification of Rights Issues' (effective for annual periods beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's and Bank's financial statements as the Group and Bank have not issued such instruments at any time in the past.

4. RISK MANAGEMENT

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

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

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

(1) Credit risk

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

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

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

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

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

(2) Foreign exchange risk

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

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

As at 31 December 2010 and 2009 respectively, the lat was pegged to the EUR.

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

An analysis of sensitivity of the Bank’s net profit or loss for the year and comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 5% change in USD or EUR to LVL exchange rates is as follows:

	2010		**2009**	
’000 LVL	**Profit or loss**	**Total comprehensive income**	**Profit or loss**	**Total comprehensive income**
5% appreciation of USD against LVL	(35)	(35)	7	7
5% depreciation of USD against LVL	35	35	(7)	(7)
5% appreciation of EUR against LVL	(53)	(53)	(1)	(1)
5% depreciation of EUR against LVL	53	53	1	1

(3) Interest rate risk

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

For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analyses of assets and liabilities by maturity and type of interest. An increase of interest rates by 100 basis points would result in the following change to profit or loss and total comprehensive income:

	2010 LVL ’000	**2009 LVL ’000**
LVL	104	107
EUR	133	(105)
USD	132	(195)

The interest reprising analysis is disclosed in Note 47.

(4) Liquidity risk

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

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

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

	2010	**2009**
At 31 December	71.38%	59.6%

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

(5) Country risk

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

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

(6) Operational risks

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

(7) Reputational risk

The Bank and the Group recognize the importance of the prevention of money laundering and prevention of terrorism financing. The Reputation Risk Management Department was set up in the Bank to implement an internal control system, which monitors the timely control of clients and their business partners. IAS regularly monitors execution of money laundering and terrorism financing prevention policy and procedures.

(8) Capital management

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

The Financial and Capital Market Commission (FCMC) sets and monitors capital requirements for the Bank.

According to the requirements of the FCMC, the capital adequacy ratio should be maintained at 8% at least. As of 31 December 2010, the Bank and the Group were in compliance with the law "On Credit Institutions" and the requirements of the Financial and Capital Market Commission for capital adequacy and minimum equity. For the calculation of capital adequacy ratio refer to Note 48.

(9) Know-your-Client („KYC') policies

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

The Bank's KYC policy includes, apart from obligatory identification of the customer, an interview and the completion of the customer's form. Based on this information, a new basic profile of the customer emerges, which becomes the keystone for the customer's file.

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

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

5. USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty:

(i) Allowances for credit losses

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

(ii) Valuation of financial instruments

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

(iii) Impairment of financial instruments

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

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

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

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

(v) Impairment of goodwill

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

(vi) Valuation of repossessed collateral

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

(vii) Fair value of assets and liabilities at acquisition

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

(viii) Fair value of vessels

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

6. INTEREST INCOME

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest income on assets at amortized cost:	1 754	1 710	2 853	2 794
Deposits with credit institutions	*134*	*162*	*564*	*593*
Loans and receivables	*1 620*	*1 548*	*2 289*	*2 201*
Interest income from securities at fair value through profit or loss	1 166	1 166	1 011	1 011
Interest income from available-for-sale securities	12	-	37	-
Interest income from held-to-maturity securities	1 115	1 115	1 749	1 749
Total interest income	**4 047**	**3 991**	**5 650**	**5 554**

7. INTEREST EXPENSE

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest expense from liabilities measured at amortized cost:	335	303	763	728
Due to credit institutions	*31*	*-*	*38*	*1*
Customers' deposits	*290*	*289*	*365*	*367*
Notes payable	*14*	*14*	*360*	*360*
Other interest expense	199	199	199	156
Total interest expense	**534**	**502**	**962**	**884**

8. FEE AND COMMISSION INCOME

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Payment transactions	3 962	3 967	3 610	3 610
Corporate banking fee income	144	144	156	156
Securities transactions	169	169	194	194
Trust operation	354	354	51	51
Account servicing	320	320	290	290
Management of investment funds and plans	47	-	22	-
Other	237	237	170	159
Total fee and commission income	**5 233**	**5 191**	**4 493**	**4 460**

9. FEE AND COMMISSION EXPENSE

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Correspondent accounts	495	495	568	568
Cash transactions and payment card transaction	84	84	64	64
Customer acquisition and distribution of fund shares	2	2	39	39
Brokerage fee and commission for investment distribution	-	-	47	-
Securities transactions	71	71	65	65
Total fee and commission expense	**652**	**652**	**783**	**736**

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

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Net loss from trading on financial assets and liabilities held-for-trading	(606)	(606)	(2 135)	(2 135)
Net profit/(loss) from revaluation of financial assets and liabilities	(522)	(522)	2 683	2 683
Net profit/(loss) from financial assets and liabilities at fair value through profit or loss	**(1 128)**	**(1 128)**	**548**	**548**

11. NET FOREIGN EXCHANGE GAINS

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Net gain from trading with foreign currency	1 793	1 809	232	232
Net loss from revaluation of foreign currency	(59)	(100)	(89)	(89)
Net foreign exchange gains	**1 734**	**1 709**	**143**	**143**

12. OTHER OPERATING INCOME

	2010		2009	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Penalties received	31	31	140	140
Rental income from real estate	316	68	229	53
Gain on sale of subsidiaries, sale of investment property	-	-	49	-
Dividend income	-	155	-	-
Income from shipping business	1 061	-	-	-
Goodwill	85	-	-	-
Other	49	30	81	16
Total other operating income	**1 542**	**284**	**499**	**209**

13. ADMINISTRATIVE EXPENSES

	2010		2009	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Remuneration of the Council and the Board	241	212	369	350
Salaries and remuneration of the staff	2 187	2 171	1 994	1 978
Social contributions	565	554	541	533
Other staff costs	165	165	167	167
Communications and transport	208	204	198	195
Professional services	622	572	635	592
Rent, utilities and maintenance	762	763	948	947
Depreciation and amortization	399	261	332	244
Computer network	141	141	132	131
Advertising and marketing	92	92	122	122
Other taxes	108	100	98	94
Insurance	44	40	65	52
Other	69	33	80	64
Total administrative expenses	**5 603**	**5 308**	**5 681**	**5 469**

The average number of employees in the Bank in 2010 was 180 (2009: 149).

14. OTHER OPERATING EXPENSES

	2010		2009	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Membership fees	20	20	28	27
Fee on real estate management	45	7	25	6
Loss from disposal of subsidiary companies	158	354	-	-
Penalty	32	32	-	-
Operating costs of shipping business	1 589	-	-	-
Other	213	213	164	157
Total other operating expenses	**2 057**	**626**	**217**	**190**

15. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of assets for the Bank

	2010 LVL '000	2009 LVL '000
Total allowances as at the beginning of the period	**3 241**	**413**
Increase in loan and other assets loss allowances	2 497	1 710
Increase in securities' loss allowances	293	988
Increase in investment in subsidiaries value loss allowance	-	186
Reversal of previously established allowances for loans and financial assets held-to-maturity	(448)	(5)
Change for the year	**2 342**	**2 879**
Assets written off during the year	(2 635)	-
Change of previously established allowances due to currency fluctuations	53	(51)
Total allowance as at the end of the period	**3 001**	**3 241**

Impairment of assets for the Group

	2010 LVL '000	2009 LVL '000
Total allowance as of 1 January	**3 266**	**943**
Increase in loan loss allowances	2 375	1 896
Increase in securities' loss allowances	293	988
Non-current assets held for sale value recovery by the sale of assets (part of which refers to Group)	-	(258)
Release of previously established allowances for loans and financial assets held-to-maturity	(448)	(5)
Change for the year	**2 220**	**2 621**
Assets written off during the year	(2 513)	-
Non-current assets held for sale value recovery by the sale of assets (part of which refers to minority shareholders, the sale of a subsidiary company)	-	(247)
Change of previously established allowances due to currency fluctuations	53	(51)
Total allowance as at the end of the period	**3 026**	**3 266**

16. INCOME TAX EXPENSE

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Current year tax expense	478	478	151	118
Total current year tax expense	**478**	**478**	**151**	**118**

The table below shows the reconciliation between the current tax expense and the theoretically calculated tax amount using the basic tax rate, which was 15% in 2010 and 2009.

	2010		2009	
	Group LVL ’000	Bank LVL ’000	Group LVL ’000	Bank LVL ’000
Profit before tax	678	617	1 224	756
Theoretically calculated tax at rate 15%	102	93	184	113
Non-deductible expenses and exempt income, net	376	385	14	5
Effect of tax losses utilized, not previously recognized	-	-	(47)	-
Total income tax expense	**478**	**478**	**151**	**118**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2010 and 2009.

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

	Assets		Liabilities		Net	
’000 LVL	2010	2009	2010	2009	2010	2009
Financial instruments at fair value through profit or loss	60	7	-	-	60	7
Property and equipment	-	-	(92)	(62)	(92)	(62)
Other liabilities	20	19	-	-	20	19
Total deferred tax assets/(liabilities)	**80**	**26**	**(92)**	**(62)**	**(12)**	**(36)**
Unrecognised deferred tax liability	**(80)**	**(26)**	**92**	**62**	**12**	**36**
Recognised net deferred tax assets/(liabilities)	**-**	**-**	**-**	**-**	**-**	**-**

No deferred tax arises on revaluation of vessels, as shipping companies are registered in countries, where no corporate income tax is payable.

The rate of tax applicable for deferred taxes was 15% (2009: 15%).

17. CASH AND BALANCES WITH THE BANK OF LATVIA

	2010		2009	
	Group LVL ’000	Bank LVL ’000	Group LVL ’000	Bank LVL ’000
Cash	374	370	608	608
Balance with the Bank of Latvia (including minimum reserve deposit)	7 265	7 265	5 435	5 435
Total	**7 639**	**7 635**	**6 043**	**6 043**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. As at 31 December 2010, the determined amount of obligatory reserves was LVL 5 681 thousand (2009: LVL 4 093 thousand).

18. DEPOSITS WITH CREDIT INSTITUTIONS

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	4 044	4 042	367	357
Credit institutions registered in OECD countries	27 584	27 584	19 648	19 648
Credit institutions of other countries	11 192	11 192	9 477	9 477
Total demand deposits with credit institutions	**42 820**	**42 818**	**29 492**	**29 482**
Term deposits with credit institutions	**7 527**	**7 527**	**3 620**	**3 620**
Total deposits with credit institutions	**50 347**	**50 345**	**33 112**	**33 102**

As at 31 December 2010, the Bank had correspondent accounts with 43 banks (2009: 40). The largest account balances are due from Sberbank (Russia) of LVL 7 436 thousand (2009: LVL 6 851 thousand) and Raiffeisen Zentralbank Oesterreich – LVL 3 975 thousand (2009: LVL 7 199 thousand), Deutsche Bank AG – LVL 11 299 thousand (2009: LVL 7 665 thousand).

As at 31 December 2010 the Bank had amounts due from 4 banks and other financial institutions (2009: 3), which exceeded 10% of total due from credit institutions. The aggregate value of these balances as of 31 December 2010 was LVL 32 104 thousand (2009: LVL 21 715 thousand).

The average effective interest rate on amounts due from credit institutions is 0.96% (2009: 6.14%).

As at 31 December 2010 the amount of LVL 1 500 thousand was pledged as collateral for OTC futures exchange contract (2009: LVL 527 thousand).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Fixed income securities				
Latvian government bonds	-	-	1 625	1 625
Eurobonds issued by companies and credit institutions of OECD countries	-	-	585	585
Eurobonds issued by companies and credit institutions of non-OECD countries	17 471	17 471	11 479	11 479
Total	**17 471**	**17 471**	**13 689**	**13 689**
Investments in non-fixed income securities				
Shares isssued by companies and credit institutions of non-OECD countries	10	10	-	-
Investment fund certificates	1 636	1 636	1 440	1 440
Total	**1 646**	**1 646**	**1 440**	**1 440**
Total securities at fair value through profit or loss	**19 117**	**19 117**	**15 129**	**15 129**

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

	2010 '000 LVL	2009 '000 LVL
Fixed and non-fixed income securities		
- Government and municipal bonds		
Rated from BB+ to BB-	-	1 625
Total government and municipal bonds	**-**	**1 625**
- Corporate bonds		
Rated from AAA to A-	-	585
Rated from BBB+ to BBB-	6 279	8 217
Rated from BB- to BB+	7 946	2 008
Rated below B+	3 256	1 254
Not rated	1 636	1 440
Total corporate bonds	**19 117**	**13 504**
Total fixed and non-fixed income securities	**19 117**	**15 129**

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010		2009	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Fixed income securities				
Debt securities issued by financial institutions	-	-	2 293	-
Investments in non-fixed income securities				
SWIFT shares	34	34	34	34
Total financial assets available-for-sale	**34**	**34**	**2 327**	**34**

21. LOANS AND RECEIVABLES

(a) Loans	2010		2009	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Financial institutions	-	-	128	360
Corporates	21 767	22 066	29 964	29 738
Individuals	597	323	1 666	1 288
Total loans and receivables	**22 364**	**22 389**	**31 758**	**31 386**
Impairment allowance	(2 744)	(2 533)	(2 258)	(2 047)
Net loans and receivables	**19 620**	**19 856**	**29 500**	**29 339**

(b) Analysis of loans by type	2010		2009	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Loan portfolio				
Corporate loans	7 135	7 135	11 216	11 101
Industrial loans	8 342	8 342	13 037	13 038
Payment cards loans	112	112	99	99
Mortgage loans	12	12	272	14
Other loans	427	452	994	994
Total Loan portfolio	**16 028**	**16 053**	**25 618**	**25 246**
Securities loans				
Reverse repo	6 336	6 336	6 140	6 140
Total securities loans	**6 336**	**6 336**	**6 140**	**6 140**
Total loans and receivables	**22 364**	**22 389**	**31 758**	**31 386**
Impairment allowance	(2 744)	(2 533)	(2 258)	(2 047)
Net loans and receivables	**19 620**	**19 856**	**29 500**	**29 339**

(c) Geographical segmentation of the loans

	2010		2009	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Loans to residents of Latvia	5 046	4 867	6 966	6 689
Loans to residents of OECD countries	3 693	3 482	5 346	5 251
Loans to residents of non-OECD countries	13 625	14 040	19 446	19 446
Total loans and receivables	**22 364**	**22 389**	**31 758**	**31 386**
Impairment allowance	(2 744)	(2 533)	(2 258)	(2 047)
Net loans and receivables	**19 620**	**19 856**	**29 500**	**29 339**

(d) Ageing structure of loan portfolio

Bank	**Total**	**Of which not past due on the reporting date**	**Of which past due by the following terms**				**Net carrying value of overdue loans**
As at 31 Dec 2010	**LVL'000**		**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	
Net carrying amount	**19 856**	17 686	-	115	1 733	322	2 170
Out of which impaired	**5 279**	3 109	-	115	1 733	322	2 170
As at 31 Dec 2009							
Net carrying amount	**29 339**	24 307	6	690	1 652	2 684	5 032
Out of which impaired	**4 814**	86	-	392	1 652	2 684	4 728

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

(e) Impaired loans

	2010		2009	
	'000 LVL		'000 LVL	
	Group	Bank	Group	Bank
Impaired loans gross	8 023	7 812	7 072	6 861
Impairment allowance	(2 744)	(2 533)	(2 258)	(2 047)
Net loans and receivables	**5 279**	**5 279**	**4 814**	**4 814**

(f) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2010 and 2009 are as follows:

	2010		2009	
	Group LVL „000	**Bank LVL „000**	**Group LVL „000**	**Bank LVL „000**
Impairment allowance				
Balance at the beginning of the period	2 258	2 047	400	375
Charge for the year, net	2 375	2 497	1 896	1 710
Reversal of impairment loss	(146)	(146)	(5)	(5)
Loans written off	(1 757)	(1 879)	-	-
Effect of foreign currency translation	14	14	(33)	(33)
Balance at the end of period	**2 744**	**2 533**	**2 258**	**2 047**

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

	2010 '000 LVL	**2009 '000 LVL**
Water transport	8 135	14 179
Financial services	6 336	6 140
Wholesale	253	437
Real estate	-	420
Leisure, recreation, sports	1 050	3 438
Other services	4 082	4 725
Net loans and receivables	**19 856**	**29 339**

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

LVL'000	**31 December 2010**	**% of loan portfolio**	**31 December 2009**	**% of loan portfolio**
Commercial buildings	1 192	6	4 213	14
Commercial assets pledge	3 508	18	4 267	15
Commercial assets: water transport	8 135	41	13 452	46
Traded securities	6 336	32	6 140	21
Other	685	3	1 267	4
Net loans and receivables	**19 856**	**100**	**29 339**	**100**

The amounts shown in the table above refer to the carrying value of the respective loans, and do not necessarily represent the fair value of the collateral.

(j) Restructured loans

As at 31 December 2010, the Bank restructured loans in the total amount of:

LVL'000	2010 '000 LVL	2009 '000 LVL
Reduced interest rate	1 903	3 357
Extended repayment period	1 703	2 350
Total restructured loans	**3 606**	**5 707**

(k) Repossessed assets

During the reporting year the Bank took over 100% of share capital pledged as collateral for loans issued to shipping company „Benmar Maritime S.A.". For details refer to Note 23.

(l) Significant credit exposures

As at 31 December 2010 the Bank had one borrower or group of related borrowers, respectively, whose loan balances exceeded 10 % of loans and receivables from customers. The borrower's loan balance amounted to LVL 2 525 thousand. As at 31 December 2009 the Bank had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients of more than 25% of Bank's equity. As at 31 December 2010 and 2009 the Bank was in compliance with this requirement.

22. FINANCIAL ASSETS HELD-TO-MATURITY

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Debt securities and other fixed income securities				
Eurobonds issued by Latvian credit institutions	963	963	914	914
Eurobonds issued by companies and credit institutions of other countries	10 237	10 237	12 624	12 624
Total debt securities	**11 200**	**11 200**	13 538	13 538
Impairment allowance	(282)	(282)	(1 008)	(1 008)
Debt securities, net	**10 918**	**10 918**	**12 530**	**12 530**

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

	2010 '000 LVL	2009 '000 LVL
Debt securities and other fixed income securities		
- Corporate bonds		
Rated from BBB+ to BBB-	2 110	1 744
Rated from BB- to BB+	2 326	1 170
Rated below B+	5 757	8 228
Not rated	725	1 388
Total corporate bonds	**10 918**	**12 530**
Debt securities and other fixed income securities	**10 918**	**12 530**

Analysis of movements in the impairment allowance

	2010 '000 LVL	2009 '000 LVL
Balance at the beginning of the period	1 008	38
Charge for the year	293	988
Reversal of previously established allowances	(302)	-
Securities value write-off	(756)	-
Currency exchange rate differences	39	(18)
Balance at the end of the period	**282**	**1 008**

Reclassification out of held for trading financial instruments

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

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

	1 July 2008		31 December 2010	
„000 LVL	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Trading assets reclassified to held-to-maturity financial assets	5 755	5 755	2 963	3 101
	5 755	**5 755**	**2 963**	**3 101**

The table below sets out the amounts actually recognized in profit or loss and equity during 2010 in respect of financial assets reclassified out of trading assets:

„000LVL	**Net income**	**Equity**
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	-	-
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	1	-
Coupon income	257	-
Savings on coupon income	-	-
Net impairment loss	4	-

The table below sets out the amounts that would have been recognized in the period following reclassification during 2010 if the reclassifications had not been made:

LVL „000	**Profit or loss**
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	(138)

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	Share in equity	Cost, 31 December 2010 LVL '000	Cost, 31 December 2009 LVL '000
SIA "Baltikums Līzings"	100%	345	345
Impairment allowance		(186)	(186)
AS IPS "Baltikums Asset Management"	100%	136	136
SIA "Konsalting Invest"	100%	5 295	5 295
SIA "Zapdvina Development"	100%	690	690
SIA "CityCap Service"	100%	380	380
"Rostman Ltd."	100%	1 083	-
„Benmar Maritime S.A."	100%	956	-
SIA „Baltikums Direct"	-	-	7
		8 699	**6 667**

Investments in subsidiaries (Group)

Company	Share in equity	Cost, 31 December 2010 LVL '000	Cost, 31 December 2009 LVL '000
"Hartmile Projects S.A"	100%	5	-
„KamalyDevelopment EOOD"	100%	486	-
		491	**-**

(b) Summary of acquisitions and disposals of subsidiaries during 2010

Acquisitions/reclassifications in 2010:	Shareholding acquired	Net assets at the date of the deal LVL '000	Repossession offset/ reclassification LVL '000	Goodwill LVL '000
"Saleno Trans Inc."	100%	413	464	51
"Rostman Ltd."	100%	1 027	942	(85)
"Firegold Express AG "	100%	(96)	5	101
"Hartmile Projects S.A"	100%	(17)	5	22
„Benmar Maritime S.A."	100%	948	956	8
„KamalyDevelopment EOOD"	100%	92	486	394
		2 367	**2 858**	**491**

Summary of acquisitions of subsidiaries during 2009

Acquisitions in 2009:	Shareholding acquired	Net assets at the date of the deal LVL '000	Consideration received/(paid) LVL '000	Goodwill LVL '000
SIA "Konsalting Invest"	49%	2 611	(2 587)	(24)

During 2010 the Bank reclassified shares in "Saleno Trans Inc" and "Rostman Ltd ", which were initially considered to be non-current assets held for sale to investments in subsidiaries. The Bank's management has reviewed the recoverable value of the asset repossession date and believes that the recoverable value of assets does not differ significantly from the carrying values of LVL 464 thousand

and LVL 942 thousand. In December 2010 the Bank sold 100% of share capital of subsidiaries "Saleno Trans Inc" and "Firegold Express AG". Loss incurred on sale of subsidiaries was LVL 347 thousand.

During 2010 the Bank repossessed shares pledged as collateral for loans issued to "Benmar Maritime S.A". The Bank's management has reviewed the recoverable value of the asset reclassification date and believes that the recoverable value of assets does not differ significantly from the carrying values of LVL 956 thousand.

The Bank liquidated a subsidiary „Baltikums Direct" in 2010, the loss from liquidation being LVL 7 thousand.

A subsidiary of the Bank SIA "Konsalting Invest" in 2010 reclassified its investment in KamalyDevelopment EOOD from assets held for sale to investment in subsidiaries.

	Book value before acquisition						
	"Saleno Trans Inc."	"Rostman Ltd."	Firegold Express AG	"Hartmile Projects S.A"	„Benmar Maritime S.A."	KamalyDevelopment EOOD	**Recognized value on acquisition**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Non-current assets	-	1 029	211	-	950	92	**2 282**
Loans and receivables	609	64	-	150	8	-	**831**
Current assets	67	261	59	9	5	1	**402**
Non-current liabilities	-142	-141	-276	-132	-	-	**-691**
Current liabilities	-121	-186	-90	-44	-15	1	**-455**
Net identifiable assets	**413**	**1 027**	**-96**	**-17**	**948**	**92**	**2 367**
Goodwill on acquisition	51	-	101	22	8	394	**576**
Negative goodwill	**-**	-85	**-**	**-**	**-**	**-**	**-85**
Acquisition cost	**464**	**942**	**5**	**5**	**956**	**486**	**2 372**

Shares in subsidiaries were formally acquired as a result of repossession of collateral on defaulted loans or as a result from reclassification from the non-current assets held for sale category. On classification as investment in subsidiaries the Bank estimated fair value of net assets of the entities. Goodwill was recognised on acquisition as a result of expected capital appreciation of investment property.

(c) Sale and liquidation of subsidiaries during 2010

Sale and liquidation of subsidiaries and associates in 2010	Share in equity sold	Net assets at the date of the deal LVL '000	Goodwill LVL '000	Consideration received LVL '000	Loss on sale of subsidiaries and associates LVL '000
"Saleno Trans Inc."	100%	-	(51)	1	(50)
"Firegold Express AG "	100%	-	(101)	1	(100)
"Baltikums Direct" SIA (liquidated)	100%	-	(8)	-	(8)
ООО„Балтикумс Траст", Kyiv (liquidated)	25%	-	-	-	-
		-	**(160)**	**2**	**(158)**
Cash of subsidiaries				-	
Net cash received				2	

(d) Investments in associates (Bank and Group)

Company	Share in equity	Cost, 31 December 2010 LVL'000		Cost, 31 December 2009 LVL'000	
		Group	Bank	Group	Bank
ООО„Балтикумс Траст", Kyiv	25%	-	-	2	-
AAS „Baltikums"	49,86%	2 945	2 820	2 975	2 820
AS Termo biznesa Centrs	26,15 %	1 299	-	1 288	-
Total		**4 244**	**2 820**	**4 265**	**2 820**

Increase in the share of the associates	ООО„Балтикумс Траст", Kiev	AS „Termo"	AAS „Baltikums"	Total
Value as at 31 December 2008	**2**	**1 264**	**2 820**	**4 086**
Purchased (payment in cash)	**-**	24	-	**24**
Share in net profit of associated companies	-	-	155	**155**
Value as at 31 December 2009	**2**	**1 288**	**2 975**	**4 265**
Acquisitions (Payment in cash)	**-**	11	-	**11**
Dividend income	**-**	-	(155)	(155)
Share in net profit of associated companies	-	-	125	**125**
Liquidation	(2)	**-**	**-**	**(2)**
Value as at 31 December 2010	**-**	**1 299**	**2 945**	**4 244**

24. INTANGIBLE ASSETS

Group	Goodwill LVL ’000	Software LVL ’000	Total LVL ’000
Acquisition cost			
As of 31 December 2008	**45**	**415**	**460**
Additions for the period	(24)	105	81
Disposals during the period	-	(1)	(1)
As of 31 December 2009	**21**	**519**	**540**
Additions for the period	576	45	**621**
Disposals during the period	(160)	**-**	**(160)**
As of 31 December 2010	**437**	**564**	**1 001**
Amortization for the period			
As of 31 December 2008	**-**	**203**	**203**
Amortization for the period	**-**	62	62
Disposals during the period	-	(1)	(1)
As of 31 December 2009	-	**264**	**264**
Amortization for the period	-	76	76
As of 31 December 2010	-	**340**	**340**
Net book value			
As of 31 December 2008	**45**	**212**	**257**
As of 31 December 2009	**21**	**255**	**276**
As of 31 December 2010	**437**	**224**	**661**

Bank	Software LVL ’000	Total LVL ’000
Acquisition cost		
As of 31 December 2008	**412**	**412**
Additions for the period	105	105
Disposals during the period	(1)	(1)
As of 31 December 2009	**516**	**516**
Additions for the period	45	45
As of 31 December 2010	**561**	**561**
Amortization		
As of 31 December 2008	**200**	**200**
Amortization for the period	62	62
Disposals during the period	(1)	(1)
As of 31 December 2009	**261**	**261**
Amortization for the period	76	76
As of 31 December 2010	**337**	**337**
Net book value		
As of 31 December 2008	**212**	**212**
As of 31 December 2009	**255**	**255**
As of 31 December 2010	**224**	**224**

25. PROPERTY AND EQUIPMENT

	Land for own use LVL '000		Leasehold improvement LVL '000		Vehicles LVL '000		Office equipment LVL '000		Total LVL '000	
	Group	**Bank**	**Group**	**Bank**	**Group**	**Bank**	**Group**	**Bank**	**Group**	**Bank**
Cost										
As of 31 December 2008	**1 255**	**1 255**	**169**	**169**	**98**	**98**	**566**	**563**	**2 088**	**2085**
Additions	-	-	-	-	-	-	93	88	93	88
Disposals	-	-	-	-	(8)	(8)	(174)	(174)	(182)	(182)
As of 31 December 2009	**1 255**	**1 255**	**169**	**169**	**90**	**90**	**485**	**477**	**1 999**	**1 991**
Additions	-	-	-	-	-	-	181	180	181	180
Disposals	-	-	-	-	-	-	(26)	(26)	(26)	(26)
As of 31 December 2010	**1 255**	**1 255**	**169**	**169**	**90**	**90**	**640**	**631**	**2 154**	**2 145**
Depreciation										
As of 31 December 2008	**-**	**-**	**53**	**53**	**34**	**34**	**263**	**263**	**350**	**350**
Depreciation			41	41	18	18	99	97	158	156
Disposals	-	-	-	-	(8)	(8)	(111)	(111)	(119)	(119)
As of 31 December 2009	**-**	**-**	**94**	**94**	**44**	**44**	**251**	**249**	**389**	**387**
Depreciation	-	-	43	43	17	17	95	93	155	153
Disposals	-	-	-	-	-	-	(26)	(26)	(26)	(26)
As of 31 December 2010	**-**	**-**	**137**	**137**	**61**	**61**	**320**	**316**	**518**	**514**
Net book value										
As of 31 December 2008	**1 255**	**1 255**	**116**	**116**	**64**	**64**	**303**	**300**	**1 738**	**1 735**
As of 31 December 2009	**1 255**	**1 255**	**75**	**75**	**46**	**46**	**234**	**228**	**1 610**	**1 604**
As of 31 December 2010	**1 255**	**1 255**	**32**	**32**	**29**	**29**	**320**	**315**	**1 636**	**1 631**

26. INVESTMENT PROPERTY

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

	2010		2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Land and building Ūdens street 12, Riga	3 049	233	3 196	244
Land and building Raiņa street 28, Daugavpils	245	245	260	260
Rooms Tallinn, Estonia	96	96	102	102
Land plot Akācijas 5, Daugavpils	708	-	708	-
Land plot Mūkupurva, Riga	400	-	400	-
Land plot in Liepaja	42	42	-	-
Land in Klaipeda, Lithuania	1 978	1 978	-	-
Pre-payment for land plot in Liepaja	-	-	41	41
Real estate in Bulgaria	366	-	-	-
	6 884	**2 594**	**4 707**	**647**

	Group LVL '000	Bank LVL '000
As of 31 December 2008	**3 619**	**530**
Depreciation	(112)	(26)
Depreciation of building on 12 Ūdens street, Riga(part of which refers to another company, the sale of a subsidiary company)	(51)	-
Advances	41	41
Acquisition of investment property	1 210	102
As of 31 December 2009	**4 707**	**647**
Acquisition of investment property	134	42
Repossessed collateral	1 978	1 978
Transfer from advances	(41)	(41)
Depreciation of buildings	(168)	(32)
Revaluation of investment property in Bulgaria	274	-
As of 31 December 2010	**6 884**	**2 594**

Valuation of investment property was performed by a certified real estate appraiser. The Bank does not hold legal title to the repossessed collateral; however, the Bank manages the asset based on fiduciary agreement.

27. NON-CURRENT ASSETS HELD FOR SALE

	2010		2009	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Assets held for sale	-	-	1 772	1 406
	-	**-**	**1 772**	**1 406**

Non-current assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell, and include real estate investment and unlisted shipping companies' shares. During the reporting year the Bank and Group reclassified shares held as non-current assets to investment in subsidiaries.

Changes in non-current assets held for sale during the period:

	Group LVL'000	Bank LVL'000
As of 31 December 2009	**1 772**	**1 406**
Shares of shipping companies reclassified to investment in subsidiaries	(1 406)	(1 406)
Participation of the increase in the share capital of Kamaly Development	120	-
Shares of Kamaly Development reclassified to investment in subsidiaries	(486)	-
As of 31 December 2010	-	-

28. OTHER ASSETS

	2010		2009	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Repossessed collateral – vessels	3 000	-	-	-
Cash with brokers for securities settlements	46	46	38	38
VAT receivable	128	128	179	179
Receivables from SPOT deals	-	-	143	143
Receivables from securities transactions	-	-	309	309
Other debtors	513	101	192	169
Total other assets	**3 687**	**275**	**861**	**838**

Addition of vessels occurred by repossessing of shares of companies, which were pledged as collateral for loans issued by the Bank. Market value of repossessed vessels was appraised by independent appraiser on 9 June 2010. As a result, revaluation in amount of LVL 1 030 thousand was recognized.

29. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2010		2009	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Credit institutions registered in other countries (non-OECD)	676	676	53	53
	676	**676**	**53**	**53**

As at 31 December 2010 the Bank had one bank or credit institution (2009: 1) whose account balances exceeded 10% of total due to credit institutions. Total bank or credit institution account balance as at 31 December 2010 was LVL 488 thousand (2009: LVL 40)

The average interest rate on amounts due to credit institutions registered in Latvia in 2010 was 4.5% (4.22% in 2009).

30. LOANS RECEIVED FROM CREDIT INSTITUTIONS

	2010		2009	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Credit institutions registered in Latvia	984	-	1 127	-
	984	**-**	**1 127**	**-**

Annual interest rate on amounts due to credit institutions registered in Latvia (SEB) in 2010 was EURIBOR 6M + 1.75%, (2009: EURIBOR 6M + 1.75%).

31. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: CUSTOMERS' DEPOSITS

	2010		2009	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Current accounts:				
Financial institutions	3 407	3 540	957	961
Corporate	83 456	83 474	60 420	60 433
Individuals	5 135	5 135	5 972	5 972
	91 998	**92 149**	**67 349**	**67 366**
Term deposits:				
Financial institutions	518	2 189	346	447
Corporate	6 118	6 118	12 679	12 679
Individuals	2 593	2 593	2 049	2 049
	9 229	**10 900**	**15 074**	**15 175**
Deposits total	**101 227**	**103 049**	**82 423**	**82 541**

As of 31 December 2010, the Bank maintained customer deposit balances of LVL 411 thousand (2009: LVL 427 thousand) which were blocked by the Bank as collateral for loans and other credit instruments granted by the Bank.

The average term deposits rate was 2.51% in 2010 (2.13% in 2009). The average demand deposits rate was 0.26% in 2010 (0.16% in 2009).

As at 31 December 2010 the Bank had one customer/customer group with deposits exceeding 10% of the total customer deposits with the balance of LVL 13 300 LVL. As at 31 December 2009 the Bank had no customer/customer group with deposits exceeding 10 % of the total customer deposits.

32. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: NOTES PAYABLE

In February 2007 the Bank carried out the third issue of bonds. The size of the issue was EUR 10 million (LVL 7 028 thousand), and a floating coupon rate of 3 month EURIBOR + 3.0%. The Bank has repaid bonds at maturity –2 February 2010. All bonds were publicly traded at Riga Stock Exchange.

	2010		2009	
	Group LVL ’000	Bank LVL ’000	Group LVL ’000	Bank LVL ’000
Notes payable	-	-	4 392	4 392
Non-amortized commission on issue	-	-	(2)	(2)
Total	**-**	**-**	**4 390**	**4 390**

33. DEFERRED INCOME AND ACCRUED EXPENSES

	2010		2009	
	Group LVL ’000	Bank LVL ’000	Group LVL ’000	Bank LVL ’000
Prepaid income	46	8	48	48
Accrued expenses	177	106	120	120
	223	**114**	**168**	**168**

34. PROVISIONS

	Group LVL ’000	Bank LVL ’000
As of 31 December 2008	**87**	**86**
Increase in provisions	43	40
As of 31 December 2009	**130**	**126**
Increase in provisions	17	13
As of 31 December 2010	**147**	**139**

Provisions consist of provisions for unused vacations of employees.

35. OTHER LIABILITIES

	2010		2009	
	Group LVL ’000	Bank LVL ’000	Group LVL ’000	Bank LVL ’000
Settlements related to credit cards	3	3	13	13
Other borrowed funds	-	-	524	-
Settlements related to placing investments	195	195	-	-
Advances received	32	-	-	-
Other creditors	125	40	45	20
	355	**238**	**582**	**33**

36. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group and Bank

	2010 '000 LVL		2009 '000 LVL	
	Carrying value	**Notional value**	**Carrying value**	**Notional value**
Assets				
Forward contracts	959	46 026	369	24 953
Total derivative financial assets	**959**	**46 026**	**369**	**24 953**
Liabilities				
Forward contracts	575	45 643	170	24 754
Total derivative financial liabilities	**575**	**45 643**	**170**	**24 754**

As of 31 December 2010 the Bank had 25 foreign exchange forward contracts outstanding (2009: 21 contracts).

37. SHARE CAPITAL AND RESERVES

During year 2009 the share capital was increased and 8 264 000 shares were issued at LVL 1 per share. As of 31 December 2009 the authorized share capital comprised 23 442 200 ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

On 17 August 2010, AS "Baltikums Bankas Grupa", the Bank's shareholder, made a decision to reduce the Bank's share capital from LVL 23 442 200 to LVL 19 118 200 and repaid to the shareholders.

The decision on the reduction of share capital is connected with restructuring of the parent group and its regulatory compliance.

	2010		2009	
	Quantity	**'000 LVL**	**Quantity**	**'000 LVL**
Share capital				
Ordinary shares with voting rights	19 118 200	19 118	23 442 200	23 442
	19 118 200	**19 118**	**23 442 200**	**23 442**

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of Latvia, at the end of reporting period, reserves available for distribution amount to LVL 878 thousand (2009: LVL 638 thousand).

Reserve capital amounting to LVL 17 thousand (2009: LVL 17 thousand) represents a historically-established reserve accumulated from retained earnings in accordance with the legislation of the Republic of Latvia. The reserve capital is not subject to any restrictions and can be distributed to the shareholders on the appropriate decision.

38. CASH AND CASH EQUIVALENTS

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Cash and due from the Bank of Latvia	7 639	7 635	6 043	6 043
Due from credit institutions on demand and within 3 months	50 320	50 318	33 088	33 078
Due to credit institutions on demand and within 3 months	(676)	(676)	(53)	(53)
Total cash and cash equivalents	**57 283**	**57 277**	**39 078**	**39 068**

39. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

	2010		2009	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Unutilized loan facilities	3 939	3 939	5 535	5 535
Unutilized credit card facilities	450	450	339	339
Letters of credit	-	-	29	29
Guarantees	73	73	4	4
	4 462	**4 462**	**5 907**	**5 907**

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

40. LITIGATION

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

41. ASSETS UNDER MANAGEMENT

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Assets under management	**LVL ’000**	**LVL ’000**	**LVL ’000**	**LVL ’000**
Due from Latvian credit institutions	1 675	1 675	5	5
Due from foreign credit institutions	880	880	-	-
Loans	703	703	1 370	1 370
Non-fixed income securities	667	667	192	192
Fixed-income securities,	29 465	29 465	3 981	3 981
of which pledged in repo transactions	*5 645*	*5 645*	*3 178*	*3 178*
Other assets	2 414	2 414	204	204
Total assets under management	**35 804**	**35 804**	**5 752**	**5 752**
Liabilities under management				
Non-resident trust liabilities	34 008	34 008	504	504
Resident trust liabilities	1 796	1 796	5 248	5 248
Total liabilities under management	**35 804**	**35 804**	**5 752**	**5 752**

As of 31 December 2010 assets under management include transactions with related parties of the Bank in amount of LVL 1 529 thousand. As at 31 December 2009 there were no assets under management from related parties.

42. TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the 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. All transactions with related parties have been carried out at an arm’s length basis.

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

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
	LVL ’000	**LVL ’000**	**LVL ’000**	**LVL ’000**
Loans to related parties	127	646	816	1 048
Derivatives	28	28	-	-
Credit lines	-	-	2 438	2 590
Total loans and other claims	**155**	**674**	**3 254**	**3 638**
Term and demand deposits	3 157	4 980	1 822	1 940
Total deposits and other liabilities	**3 157**	**4 980**	**1 822**	**1 940**

	2010		2009	
	Group Interest rate %	**Bank Interest rate %**	**Group Interest rate %**	**Bank Interest rate %**
Loans to related parties	6,77	6,77	7.82	7.82
Term and demand deposits	3,67	3,67	0.76	0.76

The Council and the Board remuneration in 2010 was LVL 212 thousand (2009: LVL 350 thousand).

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Income from related party transactions	**LVL ,,000**	**LVL ,,000**	**LVL ,,000**	**LVL ,,000**
Commission income	6	11	24	25
Interest income	56	82	50	79
Other	50	59	50	52
Expenses from related party transactions				
Interest expenses	26	29	48	50
Other	21	179	7	76
Rent	258	258	417	417

43. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (BANK)

LVL,000 31 December 2010	Amortized cost	Fair value through profit or loss	Available-for-sale	Total
Financial assets				
Cash and balances with the Bank of Latvia	7 635	-	-	**7 635**
Deposits with credit institutions	50 345	-	-	**50 345**
Financial assets at fair value through profit or loss	-	20 076	-	**20 076**
Available-for-sale financial assets	-	-	34	**34**
Loans and receivables	19 856	-	-	**19 856**
Financial assets held-to-maturity	10 918	-	-	**10 918**
Total financial assets	**88 754**	**20 076**	**34**	**108 864**
Financial liabilities				
Due to credit institutions on demand	676	-	-	**676**
Derivatives	-	575	-	**575**
Financial liabilities carried at amortized cost	103 049	-	-	**103 049**
Total financial liabilities	**103 725**	**575**	**-**	**104 300**

LVL,000 31 December 2009	Amortized cost	Fair value through profit or loss	Available-for-sale	Total
Financial assets				
Cash and balances with the Bank of Latvia	6 043	-	-	**6 043**
Deposits with credit institutions	33 102	-	-	**33 102**
Financial assets at fair value through profit or loss	-	15 498	-	**15 498**
Available-for-sale financial assets	-	-	34	**34**
Loans and receivables	29 339	-	-	**29 339**
Financial assets held-to-maturity	12 530	-	-	**12 530**
Total financial assets	**81 014**	**15 498**	**34**	**96 546**
Financial liabilities				
Due to credit institutions on demand	53	-	-	**53**
Derivatives	-	170	-	**170**
Financial liabilities carried at amortized cost	86 931	-	-	**86 931**
Total financial liabilities	**86 984**	**170**	**-**	**87 154**

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

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

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

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

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

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

The table below reflects the maturity analysis of assets and liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as of 31 December 2009 was as follows:

2009 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
Financial assets							
Cash and balances with the Bank of Latvia	6 043	-	-	-	-	-	**6 043**
Deposits with credit institutions	32 074	1 028	-	-	-	-	**33 102**
Financial assets at fair value through profit or loss	15 449	49	-	-	-	-	**15 498**
Available-for-sale financial assets	-	-	-	-	-	34	**34**
Loans and receivables	8 728	250	2 462	3 427	8 779	5 693	**29 339**
Financial assets held-to-maturity	695	1 214	988	711	4 420	4 502	**12 530**
Total financial assets	**62 989**	**2 541**	**3 450**	**4 138**	**13 199**	**10 229**	**96 546**
Financial liabilities							
Due to credit institutions on demand	53	-	-	-	-	-	**53**
Derivatives	121	49	-	-	-	-	**170**
Financial liabilities carried at amortized cost	79 460	5 397	1 734	94	246	-	**86 931**
Total financial liabilities	**79 634**	**5 446**	**1 734**	**94**	**246**	**-**	**87 154**
Maturity gap	**(22 548)**	**(2 909)**	**1 716**	**4 044**	**12 953**	**10 229**	**3 485**
Contingent liabilities and commitments	**5 903**	**4**	**-**	**-**	**-**	**-**	**5 907**

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

45. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

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

LVL '000

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

LVL '000

31 December 2009	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**
Non-derivative liabilities						
Due to credit institutions on demand	53	(53)	(53)	-	-	-
Customers' deposits	82 541	(82 597)	(79 463)	(1 014)	(1 859)	(261)
Notes payable	4 390	(4 406)	-	(4 406)	-	-
Total non-derivative liabilities	**86 984**	**(87 056)**	**(79 516)**	**(5 420)**	**(1 859)**	**(261)**
Derivative liabilities						
Trading: outflow	24 754	(24 754)	(22 466)	(2 288)	-	-
Trading: inflow	(24 584)	24 584	22 345	2 239	-	-
Total derivative liabilities	**170**	**(170)**	**(121)**	**(49)**	-	-
Contingent liabilities and commitments	5 907	(5 907)	(5 907)	-	-	-
Total liabilities	**92 721**	**(93 133)**	**(85 544)**	**(5 469)**	**(1 859)**	**(261)**

46. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity.

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

2010 **LVL '000**	**LVL** **LVL '000**	**USD** **LVL '000**	**EUR** **LVL '000**	**Other currencies** **LVL '000**	**Total** **LVL '0 00**
Financial assets					
Cash and balances with the Bank of Latvia	5 488	147	1 988	12	**7 635**
Deposits with credit institutions	7 504	14 830	18 530	9 481	**50 345**
Financial assets at fair value through profit or loss	959	17 427	1 690	-	**20 076**
Available-for-sale financial assets	-	-	34	-	**34**
Loans and receivables	200	12 701	6 955	-	**19 856**
Financial assets held-to-maturity	-	9 182	1 736	-	**10 918**
Total financial assets	**14 151**	**54 287**	**30 933**	**9 493**	**108 864**
Financial liabilities					
Due to credit institutions on demand	-	195	453	28	**676**
Derivatives	575	-	-	-	**575**
Financial liabilities carried at amortized cost	2 546	53 970	36 955	9 578	**103 049**
Total financial liabilities	**3 121**	**54 165**	**37 408**	**9 606**	**104 300**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	2 141	40 902	42 034	815	**85 892**
Spot and forward transaction liabilities	(3 100)	(41 767)	(40 485)	(350)	**(85 702)**
Net long/short currency position	**10 071**	**(743)**	**(4 926)**	**352**	**4 754**

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

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

The LVL equivalent of assets and liabilities as at 31 December 2009 by the currencies in which they are denominated is as follows:

2009				**Other**	
LVL '000	**LVL**	**USD**	**EUR**	**currencies**	**Total**
	LVL '000	**LVL '000**	**LVL '000**	**LVL '000**	**LVL '000**
Financial assets					
Cash and balances with the Bank of Latvia	4 978	259	752	54	**6 043**
Deposits with credit institutions	3 074	9 993	11 921	8 114	**33 102**
Financial assets at fair value through profit or loss	1 994	11 267	1 767	470	**15 498**
Available-for-sale financial assets	-	-	34	-	**34**
Loans and receivables	409	14 863	14 067	-	**29 339**
Financial assets held-to-maturity	-	10 160	2 370	-	**12 530**
Total financial assets	**10 455**	**46 542**	**30 911**	**8 638**	**96 546**
Financial liabilities					
Due to credit institutions on demand	-	(50)	(3)	-	**(53)**
Derivatives	(170)	-	-	-	**(170)**
Financial liabilities carried at amortized cost	(800)	(41 542)	(36 121)	(8 468)	**(86 931)**
Total financial liabilities	**(970)**	**(41 592)**	**(36 124)**	**(8 468)**	**(87 154)**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	8 944	12 577	17 110	2 681	**41 312**
Spot and forward transaction liabilities	(6 352)	(17 694)	(14 661)	(2 605)	**(41 312)**
Net long/short currency position	**12 077**	**(167)**	**(2 764)**	**246**	**9 392**

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

47. REPRICING MATURITY ANALYSIS (BANK)

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

2010 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL '000
ASSETS								
Cash and balances with the Bank of Latvia	7 265	-	-	-	-	-	370	**7 635**
Deposits with credit institutions	50 317	-	-	-	27	-	1	**50 345**
Financial assets at fair value through profit or loss	958	509	816	3 434	9 997	4 135	227	**20 076**
Available-for-sale financial assets	-	-	-	-	-	-	34	**34**
Loans and receivables	10 719	66	315	2 815	4 661	1 002	278	**19 856**
Financial assets held-to-maturity	-	401	3 166	1 717	5 172	256	206	**10 918**
Investments in subsidiaries	-	-	-	-	-	-	8 699	**8 699**
Investments in associates	-	-	-	-	-	-	2 820	**2 820**
Intangible assets	-	-	-	-	-	-	224	**224**
Property and equipment	-	-	-	-	-	-	1 631	**1 631**
Investment property	-	-	-	-	-	-	2 594	**2 594**
Non-current assets held for sale	-	-	-	-	-	-	-	**-**
Other assets	-	-	-	-	-	-	275	**275**
Prepayments and accrued income	-	-	-	-	-	-	38	**38**
Total assets	**69 259**	**976**	**4 297**	**7 966**	**19 857**	**5 393**	**17 397**	**125 145**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	(676)	-	-	-	-	-	-	**(676)**
Derivatives	(575)	-	-	-	-	-	-	**(575)**
Financial liabilities carried at amortized cost	(21 957)	(621)	(1 434)	(445)	(1 230)	-	(77 362)	**(103 049)**
Deferred income and accrued expenses	-	-	-	-	-	-	(114)	**(114)**
Provisions	-	-	-	-	-	-	(139)	**(139)**
Current tax liabilities	-	-	-	-	-	-	(341)	**(341)**
Other liabilities	-	-	-	-	-	-	(238)	**(238)**
Total equity attributable to equity holders of the Bank	-	-	-	-	-	-	(20 013)	**(20 013)**
Total liabilities and equity	**(23 208)**	**(621)**	**(1 434)**	**(445)**	**(1 230)**	**-**	**(98 207)**	**(125 145)**
Interest rate risk net position	**46 051**	**355**	**2 863**	**7 521**	**18 627**	**5 393**	**(80 810)**	**-**
Interest rate risk gross (cumulative) position	**46 051**	**46 406**	**49 269**	**56 790**	**75 417**	**80 810**	**-**	**-**

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

49. REPRICING MATURITY ANALYSIS (BANK) (continued)

Interest rate risk relates to changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2009, interest rate re-pricing categories were:

2009 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL '000
ASSETS								
Cash and balances with the Bank of Latvia	5 435	-	-	-	-	-	608	**6 043**
Deposits with credit institutions	32 078	1 024	-	-	-	-	-	**33 102**
Financial assets at fair value through profit or loss	413	3 162	958	682	5 066	5 217	-	**15 498**
Available-for-sale financial assets	-	-	-	-	-	-	34	**34**
Loans and receivables	18 420	63	2 284	2 868	1 260	4 444	-	**29 339**
Financial assets held-to-maturity	696	1 198	988	711	8 212	725	-	**12 530**
Investments in subsidiaries	-	-	-	-	-	-	6 667	**6 667**
Investments in associates							2 820	**2 820**
Intangible assets	-	-	-	-	-	-	255	**255**
Property and equipment	-	-	-	-	-	-	1 604	**1 604**
Investment property	-	-	-	-	-	-	647	**647**
Non-current assets held for sale	-	-	-	-	-	-	1 406	**1 406**
Income tax receivable	-	-	-	-	-	-	892	**892**
Other assets	-	-	-	-	-	-	838	**838**
Prepayments and accrued income	-	-	-	-	-	-	40	**40**
Total assets	**57 042**	**5 447**	**4 230**	**4 261**	**14 538**	**10 386**	**15 811**	**111 715**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	53	-	-	-	-	-	-	**53**
Derivatives	170	-	-	-	-	-	-	**170**
Financial liabilities carried at amortized cost	79 503	5 362	1 727	93	246	-	-	**86 931**
Deferred income and accrued expenses	-	-	-	-	-	-	168	**168**
Provisions	-	-	-	-	-	-	126	**126**
Current tax liabilities	-	-	-	-	-	-	36	**36**
Other liabilities	-	-	-	-	-	-	33	**33**
Total equity attributable to equity holders of the Bank	-	-	-	-	-	-	24 198	**24 198**
Total liabilities and equity	**79 726**	**5 362**	**1 727**	**93**	**246**	**-**	**24 561**	**111 715**
Interest rate risk net position	**(22 684)**	**85**	**2 503**	**4 168**	**14 292**	**10 386**	**(8 750)**	**-**
Interest rate risk gross (cumulative) position	**(22 684)**	**(22 599)**	**(20 096)**	**(15 928)**	**(1 636)**	**8 750**	**-**	**-**

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

48. CAPITAL ADEQUACY CALCULATION (BANK)

	2010 ’000 LVL	2009 ’000 LVL
Tier 1 capital		
Share capital	19 118	23 442
Reserves	17	17
Retained earnings for the previous periods	739	101
Profit for the year	139	638
Intangible assets	(224)	(255)
Other deductions	(1 416)	(1 226)
Total tier 1 capital	**18 373**	**22 717**
Tier 2 capital		**-**
Reduction of Tier 1 capital and Tier 2 capital	(2 820)	(2 820)
Shareholder s equity	**15 553**	**19 897**
Risk-weighted value		
Bank s portfolio	58 038	66 525
Trading portfolio	28 288	21 025
Operational risk	14 663	10 738
Total risk weighted assets	**100 989**	**98 288**
Total capital as percentage of risk weighted assets (total capital ratio)	**15%**	**20%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (“Tier 1 capital ratio”)	**15%**	**20%**

As of 31 December 2010, the Bank’s capital adequacy ratio was 15% (2009: 20%) which is above the minimum required ratio of 8% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission of Latvia.

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The estimated fair values of all financial instruments approximate their carrying values at 31 December 2010 and 2009.

50. AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2010 and 2009 and their corresponding average effective interest rates as at these dates. These interest rates represent the estimated profitability of the above assets and liabilities.

The Group's average effective interest rates have not been presented as the difference to the Bank's analysis is insignificant.

	2010		**2009**	
	Average value LVL „000	**Average effective interest rate**	**Average value LVL „000**	**Average effective interest rate**
Interest bearing assets				
Demand deposits with credit institutions	44 319	0.24%	33 195	0.46%
Financial assets held for trading: *Fixed income securities*	29 046	7.85%	26 696	10.34%
Loans and receivables excluding repo	21 907	6.32%	26 141	8.49%
Loans and receivables (repo)	5 827	3.31%	3 772	3.11%
Held-to-maturity financial investments (term deposits due from credit institutions)	5 904	0.96%	7 165	6.14%
Total interest bearing assets	**107 003**		**96 969**	
Interest bearing liabilities				
Balances due to credit institutions (short-term)	34	0.13%	19	4.22%
Customers' deposits	98 619	0.50%	81 036	0.64%
Notes payable	380	4.35%	7 548	4.77%
Total interest bearing liabilities	**99 033**		**88 603**	

51. SUBSEQUENT EVENTS

On 17 January 2011 the shareholder of the Bank has decided to increase Bank's share capital by LVL 638 thousand.