ABLV

BANKING / INVESTMENTS \ ADVISORY

Annual Report 2010

Contents

FINANCIAL STATEMENTS

Report of the Council and the Board

Ladies and Gentlemen,

Dear Shareholders, Customers and Business Partners of Aizkraukles Banka,

The Group's and the Bank's management is highly satisfied with the results for the year 2010. The Group's and the Bank's financial performance has improved significantly, in line with fully restored investor confidence the deposit growth has been outstanding, and high level of liquidity and a solid capital adequacy ratio have been maintained all through 2010. The Group and the Bank have overfulfilled the financial objectives set for the reporting period.

Over the year 2010, the volumes in all the Group's core business segments have enlarged substantially: tailor-made services to affluent individuals and their businesses, asset management, and investment operations. We are proud to announce that the Bank has become the largest privately-owned bank in Latvia.

Global economy still was on the track of recovery in 2010. However, growth rates varied considerably across the globe. Most rapid growth was observed in developing countries of Asia, whereas the economic development in USA and Japan decelerated, whilst European countries, especially, Germany, performed unexpectedly well. Nevertheless, several European Union member states, Greece, Ireland, Portugal and Spain in particular, found themselves in financial struggles.

In Latvia, the lowest point of economic downturn passed in 2009 and macroeconomic indicators were on the upward trend since the very beginning of 2010. On a quarterly basis the seasonally adjusted GDP growth ranged between 0.3 – 1.4% in 2010. In the third quarter of 2010, an increase of GDP on the annual basis was recorded as well, reaching a 3.7% figure at the year-end. Over the first three quarters of 2010, the production output increased by 13% and volume of exports by 29%. Retail indicators have also improved. The decline in unemployment rate is gradual, but consistent. The government of Latvia foresees a 3.3% and 4.0% GDP growth in 2011 and 2012, respectively.

One more positive sign appeared at the end of 2010, when international rating agency Standard & Poor's raised the Republic of Latvia's foreign and local currency long-term sovereign credit rating to 'BB+' from 'BB'. The outlook is stable. The rating changes state that the Latvian economy is rebalancing quickly, though public debt remains at moderate levels. We estimate the rating action to be a material appraise of the country's creditworthiness, as well as a signal for investors confirming that past economic imbalances have rapidly unwound.

Due to consistent implementation of a deliberative business strategy, performance of all the scheduled tasks and operational optimisation processes, the financial performance of the Group and the Bank was enhanced in 2010:

- The amount of customer deposits rose at an exceptional pace (a 43.6% increase for the Bank). Aizkraukles Banka contributed one fourth or 25.5% of the total deposit growth within the Latvian banking industry in the year of 2010.
- Operating efficiency of the Bank was boosted (operating profit before allowances for credit losses equalled

LVL 46.2 million, which is 17% above that in 2009);
- The Bank ensured high liquidity ratio of 68.1% and capital adequacy ratio of 12.45%, as at 31 December 2010;
- The Bank's share capital was increased by LVL 6.5 million.

The major event of 2010 was the issue of the Bank's ordinary shares, which was completed in July 2010. There were 10 000 shares, issued in addition to those 100 000 that constituted the Bank's share capital until then. Afterwards, the new shares represent 9.09% of the total Bank's share capital. The shares were sold at the price of LVL 650. Two thirds of the new issue were obtained by the current shareholders, the Bank's management and employees as well as those private banking customers, who are Latvian residents. The rest of the shares were obtained by non-resident customers, mainly private individuals. Although this was a private issue targeted at narrow circle of participants, the total volume of paid-up applications surpassed LVL 9 million – it was a 40% oversubscription, therefore several bids were satisfied partially. As a result of the issuance, the Bank obtained 30 new shareholders. Both the successful share issuance and non-resident deposit growth in 2010 show customer reliance on the Aizkraukles Banka and the Latvian financial system in general.

Considering the course of events in Latvia and across the globe, the management of the Group and the Bank is confident that Aizkraukles Banka is in a strong position to continue successfully in operational existence and fully meet its obligations in the foreseeable future.

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, and financial position of the Bank and the Group as of 31 December 2010 and 31 December 2009, and results of their operations, changes in the shareholders' equity and cash flows for the years 2010 and 2009.

As of the end of 2010, the following subsidiaries of the Bank constituted the Group: brokerage joint stock company "AB.LV Capital Markets", investment management joint stock company "AB.LV Asset Management", SIA "AB.LV Private Equity Management", KS "AB.LV Private Equity Fund 2010", SIA "AB.LV Corporate Services", KS "AB.LV Transform Partnership", SIA "AB.LV Transform 1", AS "AB Konsultācijas", SIA "New Hanza City", and SIA "Elizabetes 21a".

Financial results

As at 31 December 2010, total assets of the Bank amounted to LVL 1.38 billion.

Substantial deposit increase was observed all through 2010. Over the year deposits grew by LVL 379 million or 43.6%, thus reaching the total volume of LVL 1.25 billion. This figure significantly exceeds the ambitious sales targets set in the beginning of year 2010. For the second consecutive year the Bank ranks number one in the Latvian banking industry in terms of corporate deposit amount.

Following the strategic goals, the Bank continued reduction of its mortgage loan portfolio. In the course of 2010, the mortgage loan portfolio was decreased by LVL 18.3 million and amounted to LVL 408 million at the year-end.

With an average balance being LVL 217 million, the Bank's debt securities portfolio earned a solid annual yield of 5.53% in 2010. The Bank's securities portfolio is mainly composed of debt securities issued by central governments of OECD countries, credit institutions and corporate companies of other countries.

The share of non-interest income in the total operating income before allowances for credit losses enlarged notably from 50% to 55% during the

As at 31 December 2010, total assets of the Bank amounted to LVL 1.38 billion. As of 31 December 2010, the Bank's shareholders equity amounted to LVL 75.4 million.

reporting period. In monetary terms, non-interest income increased by 27% in 2010. Such a remarkable outcome resulted from heightened customer activity, primarily in the areas being commission and fee based. In 2010, an all-time high was observed in terms of number of commission related transactions, which means the Bank has not only regained the level of its pre-crisis operations, but even exceeded it.

The Bank's operating income before allowances for credit losses comprised LVL 46.2 million for the year 2010. Having a prudent and conservative approach to loan portfolio quality assessment in place, the Bank proceeded with additional allowances for credit losses. As at 31 December 2010, total allowances for credit losses equalled LVL 65.4 million. In the period from 2007 to 2010, the Bank has provided allowance in the amount of LVL 86.2 million in the aggregate. Given consistent implementation of the above allowance policy, the Bank recorded a loss of LVL 6.9 million in 2010.

As of 31 December 2010, the Bank's shareholders equity amounted to LVL 75.4 million.

Improvement of services

During the reporting period in line with the aforeset course of action the Bank established a subsidiary company for risk capital investment fund management – SIA "AB.LV Private Equity Management". Accordingly for private capital investment there was created a fund, hence named AB.LV Private Equity Fund 2010.

The fund has been started at the time when economy of the country has insufficient capacity to attract investment capital and funding provided by banks remains suspended. Thus the Bank emphasizes the inclination to trigger financing of entrepreneurs in Latvia. The venture will foster the businesses to switch the direction of the development curve upwards and help the economy to regain the sustainable permanent growth.

Last year AB.LV Private Equity Fund 2010 obtained 60% of the share capital in limited liability companies "Bio Future" and "Gas Stream". In the neighbourhood of Vaiņode the companies have made arrangements to build two biogas plants with the total electricity production capacity of 2MW.

Moreover, at the end of 2010, in a form of a structured deal AB.LV Private Equity Fund financed an acquisition of 11.38% stake into the leading Latvian pharmaceutical company AS "Grindeks".

In the reporting period, the Bank continued to issue subordinated bonds according to the programme implemented back in 2008. The Bank's third issue of subordinated bonds was successfully completed in September 2010.

In 2011 Aizkraukles Banka will run at a profit and will be successful at broadening its business and boosting its efficiency. Return on equity (ROE) is anticipated to advance to a 15% level.

The deal closed with a 16% oversubscription. The bank issued 200 000 bonds in total, with each bond's par value being equal to USD 100. The overall amount of the bond issue totalled USD 20 million. The initial two subordinated bond issues of the Bank took place in 2008. The bonds were denominated in US dollars and euros, the total amount being equal to USD 20 million and EUR 12.5 million accordingly. Considering great interest of the Bank's customers in acquiring the bonds, it is planned to continue issuing subordinated bonds in future.

Pursuant to amendments to the Republic of Latvia Immigration Law, starting from 1 July 2010, the Bank's foreign customers are offered new service – assistance in receiving Latvian residence permit. The residence permit allows non-EU citizens to reside in the Republic of Latvia pro tempore or permanently. The aforementioned service has already become rather popular, and it is rendered by the Bank's subsidiary SIA "AB.LV Corporate Services".

In 2010, the network of the Group's representative offices abroad expanded. In December, a new AS "AB Konsultācijas" representative office was registered in Russia, in Yekaterinburg. The representative office will begin its operations in this important region of Russia in 2011.

Currently, the Group has representative offices in Azerbaijan (Baku), Belarus (Minsk), Kazakhstan (Almaty), Russia (Moscow, St. Petersburg, and Yekaterinburg), Tajikistan (Dushanbe), Uzbekistan (Tashkent), and Ukraine (Kiev, with its branch in Odessa). The main task of the representative offices is to provide information about the Group and the Bank and their services, thus promoting international economic cooperation in various areas of business. In the coming years the Group will continue to broaden its network of representative offices overseas.

The Group's and the Bank's plans and intentions for 2011

The core objectives for 2011, likewise in the reporting period, will be to ensure uttermore expansion of the Group's and the Bank's business and boost profitability, whilst developing and enhancing operational risk management framework.

On the ground of pace of economic recovery found at the Group's and the Bank's target markets and limited need for additional allowances, the Bank is in a position to increase the issuance of commercial loans in 2011.

In 2011, the Group's and the Bank's management will also focus on restructuring of the loans issued under the Bank's mortgage lending programmes and loan portfolio quality.

Deposits are expected to grow by 15% in 2011.

Taking into account the foreseen increment in commercial loan portfolio, deposits and commission and fee income, the Group and the Bank Management is confident that in 2011 Aizkraukles Banka will run at a profit and will be successful at broadening its business and boosting its efficiency. Return on equity (ROE) is anticipated to advance to a 15% level.

Bank for society

In 2010, Aizkraukles Banka continued supporting various socially important projects.

Aizkraukles Banka provided financial assistance to "Art Deco – the fashion style" of interwar period exhibition opened in Riga Museum of Decorative Arts and Design, where dress collection of famous fashion historian Alexandre Vassiliev was presented. It was the second time Alexandre Vassiliev's dress collection has been exhibited in Riga. The first exhibition, "Victorian Fashion", took place in 2009 and was exceptionally popular among visitors. That exhibition has also been funded by our Bank.

Aizkraukles Banka continued its tradition to provide support to the Republic of Latvia Embassies abroad in arranging the commemoration of Proclamation Day of the Republic of Latvia. This year, the Bank sponsored celebration events in the Republic of Latvia Embassies in Russia, Kazakhstan, and Azerbaijan.

AB.LV Sabiedriskā labuma fonds contributed to nine contemporary art exhibitions in Latvia that had different concepts, but were equally outstanding events. The Fund has been supporting contemporary art exhibitions since 2007. During the last four years, the Fund allocated more than LVL 100 000 to arranging contemporary art exhibitions.

In the last year, the holdings of the Latvian Contemporary Art Museum, which are compiled with the Bank's assistance, have been supplemented. Two new paintings by Imants Lancmanis were purchased. Therefore, the holdings now comprise 10 pictures by Imants Lancmanis, and the total number of the works of art is 96. The Bank's total input in supplementing and popularizing the contemporary art collection exceeds LVL 230 000.

In August 2010, the Bank held AB.LV Charity Golf Tournament 2010 for the Bank's customers, inviting them to participate in "Skolas soma" fund drive, making donations for buying school goods for junior schoolchildren from low-income families. The funds raised during the tournament were used to equip 52 schoolchildren.

At the end of the year, the Bank together with AB.LV Sabiedriskā labuma fonds held a traditional fund drive "Palīdzēsim bērniem dzirdēt!". The funds raised during this campaign will be used to supply children with necessary hearing devices.

We express our gratitude to the Bank's shareholders and customers for their loyalty and confidence and to the Bank's employees for their contribution to the Bank's development!

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

The Council and the Board

The Council of the Bank:

Chairman of the Council: Aleksandrs Bergmanis	Date of re-appointment: 14/12/2010
Deputy Chairman of the Council: Jānis Krīgers	Date of re-appointment: 14/12/2010
Council Member: Igors Rapoports	Date of appointment: 14/12/2010
Resigned as Council Member: Vladimirs Kutovojs	Date of resignation: 13/12/2010

The Board of the Bank:

Chairman of the Board: Ernests Bernis – Chief Executive Officer (CEO)	Date of re-appointment: 14/12/2010
Deputy Chairman of the Board: Oļegs Fiļs – Deputy Chief Executive Officer (dCEO)	Date of re-appointment: 14/12/2010
Board Members:	Date of re-appointment:
Aleksandrs Pāže – Chief Compliance Officer (CCO)	14/12/2010
Edgars Pavlovičs – Chief Risk Officer (CRO)	14/12/2010
Māris Kannenieks – Chief Financial Officer (CFO)	14/12/2010
Rolands Citajevs – Chief IT Officer (CIO)	14/12/2010
Vadims Reinfelds – Chief Operating Officer (COO)	14/12/2010

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

Statement of Responsibility of the Council and the Board

The Council and the Board of the Bank (hereinafter – the Management) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group). The financial statements are prepared in compliance with the requirements of the Law of the Republic of Latvia on Credit Institutions, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

The financial statements set out on pages 9 to 85 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2010 and 2009, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis, consistently applying International Financial Reporting Standards adopted in the European Union and accounting policies in conformity with such Standards. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

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

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

The core objectives for 2011, likewise in the reporting period, will be to ensure uttermore expansion of the Group's and the Bank's business and boost profitability, whilst developing and enhancing operational risk management framework.

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Income statements and other comprehensive income statements for the years ended 31 December 2010 and 2009

	Notes	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Interest income	4	36,431	40,118	36,375	40,909
Interest expense	4	(18,850)	(22,321)	(18,808)	(22,466)
Net interest income		**17,581**	**17,797**	**17,567**	**18,443**
Commission and fee income	5	22,876	16,072	20,146	14,901
Commission and fee expense	5	(3,241)	(2,867)	(2,979)	(2,696)
Net commission and fee income		**19,635**	**13,205**	**17,167**	**12,205**
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	6	12,589	(1,539)	12,589	(1,539)
Net realised (loss)/gain from available-for-sale financial assets	6	418	363	418	363
Net realised gain/(loss) from financial assets at amortised cost	6	(1,823)	528	(1,823)	528
Net result from foreign exchange trading and revaluation	6	(1,153)	8,424	(1,209)	8,496
Other income		1,873	2,129	1,457	628
Income from dividends		4	62	52	261
Change in allowances for credit losses	7	(28,917)	(36,859)	(28,917)	(36,859)
Operating income		**20,207**	**4,110**	**17,301**	**2,526**
Administrative expense	9	(22,494)	(20,641)	(20,186)	(18,597)
Depreciation		(1,692)	(1,815)	(1,587)	(1,725)
Other expense		(1,672)	(1,971)	(2,499)	(1,595)
Gain/(loss) from sale of tangible and intangible fixed assets		270	(204)	(10)	(204)
Impairment of financial instruments	15	(14)	(3,035)	(14)	(3,035)
Impairment of non-financial assets	8	(2,867)	(2,154)	(832)	(122)
Total operating expense		**(28,469)**	**(29,820)**	**(25,128)**	**(25,278)**
(Loss) before corporate income tax		(8,262)	(25,710)	(7,827)	(22,752)
Corporate income tax	10	703	3,541	880	3,532
Net loss for the year		**(7,559)**	**(22,169)**	**(6,947)**	**(19,220)**
Attributable to:					
Equity holders of the Bank		(7 519)	(21 358)		
Non-controlling interests		(40)	(811)		
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		31	16,178	31	16,178
Charge to income statement as a result of sale of available-for-sale securities		1,405	(891)	1,405	(891)
Change in deferred corporate income tax		305	(2,267)	305	(2,267)
Other comprehensive income, total		**1,741**	**13,020**	**1,741**	**13,020**
Total comprehensive income:		**(5,818)**	**(9,149)**	**(5,206)**	**(6,200)**
Attributable to:					
Equity holders of the Bank		(5,778)	(8,338)		
Non-controlling interests		(40)	(811)		

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

Statements of financial position as at 31 December 2010 and 2009

Assets	Notes	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Cash and deposits with central banks	13	82,120	44,986	82,120	44,986
Balances due from credit institutions	14	325,352	203,569	325,326	203,537
Financial assets at fair value through profit or loss		23,372	9,499	23,372	9,499
Debt securities and other fixed income securities	*15*	*19,367*	*12*	*19,367*	*12*
Shares and other non-fixed income securities	*17*	*674*	*52*	*674*	*52*
Derivatives	*16*	*3,331*	*9,435*	*3,331*	*9,435*
Available-for-sale financial assets		168,657	104,523	168,657	104,523
Debt securities and other fixed income securities	*15*	*166,431*	*102,376*	*166,431*	*102,376*
Shares and other non-fixed income securities	*17*	*2,226*	*2,147*	*2,226*	*2,147*
Loans and receivables		528,872	550,580	528,561	553,475
Loans	*18*	*517,811*	*531,444*	*517,500*	*534,339*
Debt securities and other fixed income securities	*15*	*11,061*	*19,136*	*11,061*	*19,136*
Held-to-maturity investments		155,112	-	155,112	-
Debt securities and other fixed income securities	*15*	*155,112*	-	*155,112*	-
Prepaid expense and accrued income		339	505	292	451
Investments in subsidiaries	19	-	-	58,661	36,066
Investment properties	20	20,658	20,371	16,670	16,622
Tangible fixed assets	21	7,954	6,077	5,253	5,747
Intangible fixed assets	21	3,701	3,491	3,548	3,337
Current corporate income tax receivables		266	2,024	176	1,936
Deferred corporate income tax	10	5,736	5,458	5,718	5,079
Other assets	22	45,388	26,644	5,099	6,871
Total assets		**1,367,527**	**977,727**	**1,378,565**	**992,129**

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

Statements of financial position as at 31 December 2010 and 2009

Liabilities	Notes	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Demand deposits from credit institutions	23	1,906	1,027	1,906	1,027
Financial liabilities at fair value through profit or loss		226	176	226	176
Derivatives	*16*	*226*	*176*	*226*	*176*
Term deposits from credit institutions	23	3,502	4,929	550	1,958
Deposits	24	1,236,791	858,503	1,248,190	869,017
Deferred income and accrued expense		2,769	1,816	2,460	1,749
Current corporate income tax liabilities		150	15	-	-
Deferred corporate income tax	10	21	22	-	-
Issued securities	26	22,921	12,995	22,921	12,995
Subordinated deposits	26	23,962	28,669	23,962	28,669
Other liabilities		4,328	589	2,973	2,455
Total liabilities		**1,296,576**	**908,741**	**1,303,188**	**918,046**
Shareholders' equity					
Paid-in share capital	27	16,500	15,000	16,500	15,000
Share premium		5,255	255	5,255	255
Reserve capital and other reserves		1,500	1,500	1,500	1,500
Fair value revaluation reserve of available-for-sale financial assets		1,829	88	1,829	88
Retained earnings brought forward		52,804	74,162	57,240	76,460
Retained earnings for the period		(7,519)	(21,358)	(6,947)	(19,220)
Attributable to the equity holders of the Bank		70,369	69,647	75,377	74,083
Attributable to non-controlling interests		582	(661)	-	-
Total shareholders' equity		**70,951**	**68,986**	**75,377**	**74,083**
Total liabilities and shareholders' equity		**1,367,527**	**977,727**	**1,378,565**	**992,129**
Memorandum items					
Funds under trust management	29	116,823	71,845	84,167	55,796
Contingent liabilities	29	21,125	16,884	21,125	16,884
Financial commitments	29	12,934	10,210	12,934	10,210

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

The accompanying notes form an integral part of these consolidated financial statements.

Statements of changes in shareholders' equity of the Group for the years ended 31 December 2010 and 2009

	Paid-in share capital LVL '000	Share premium LVL '000	Reserve capital LVL '000	Fair value revaluation reserve LVL '000	Retained earnings LVL '000	*Attributable to the equity holders of the Bank LVL '000*	*Non-controlling interests LVL '000*	Total shareholders' equity LVL '000
As at 1 January 2009	**15,000**	**255**	**1,500**	**(12,933)**	**74,162**	***77,984***	***184***	**78,168**
Total comprehensive income for the year 2009	-	-	-	13,021	(21,358)	*(8,337)*	*(811)*	(9,148)
Decrease of non-controlling interests	-	-	-	-	-	-	*(34)*	(34)
As at 31 December 2009	**15,000**	**255**	**1,500**	**88**	**52,804**	***69,647***	***(661)***	**68,986**
Total comprehensive income for the year 2010	-	-	-	1,741	(7,519)	*(5,778)*	*(40)*	(5,818)
Issue of shares	1,500	5,000	-	-	-	*6,500*	-	6,500
Increase of non-controlling interests	-	-	-	-	-	-	*1,283*	1,283
As at 31 December 2010	**16,500**	**5,255**	**1,500**	**1,829**	**45,285**	***70,369***	***582***	**70,951**

Statements of changes in shareholders' equity of the Bank for the years ended 31 December 2010 and 2009

	Paid-in share capital LVL '000	Share premium LVL '000	Reserve capital LVL '000	Fair value revaluation reserve LVL '000	Retained earnings LVL '000	Total shareholders' equity LVL '000
As at 1 January 2009	**15,000**	**255**	**1,500**	**(12,933)**	**76,460**	**80,282**
Total comprehensive income for the year 2009	-	-	-	13,021	(19,220)	(6,199)
As at 31 December 2009	**15,000**	**255**	**1,500**	**88**	**57,240**	**74,083**
Total comprehensive income for the year 2010	-	-	-	1,741	(6,947)	(5,206)
Issue of shares	1,500	5,000	-	-	-	6,500
As at 31 December 2010	**16,500**	**5,255**	**1,500**	**1,829**	**50,293**	**75,377**

The accompanying notes form an integral part of these consolidated financial statements.

Cash flow statements of the Group and the Bank for the years ended 31 December 2010 and 2009

Cash flow from operating activities	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
(Loss) before corporate income tax	(8,262)	(25,710)	(7,827)	(22,752)
Amortisation and depreciation of fixed assets	1,692	1,815	1,587	1,725
Increase in allowances for credit losses	28,917	36,859	28,917	36,859
Decrease in non-financial assets	2,867	2,154	832	122
(Increase) in financial assets at fair value through profit or loss	(1,029)	(6,679)	(1,029)	(6,679)
(Decrease)/increase of investments in other entities	2,125	(34)	-	-
Unrealised loss/(gain) from revaluation of foreign currency positions	9,377	(798)	9,377	(798)
Net cash flow from operating activities before changes in assets and liabilities	**35,687**	**7,607**	**31,857**	**8,477**
Decrease in balances due from credit institutions	22,836	4,175	22,836	4,176
(Increase)/decrease in loans	(15,244)	63,067	(12,038)	60,170
(Increase)/decrease in financial assets at fair value through profit or loss	(12,842)	1,777	(12,842)	1,777
Decrease/(increase) in prepaid expense and accrued income	166	(169)	159	(177)
(Increase) in other assets	(19,266)	(23,764)	3,375	(3,646)
(Decrease)/increase in balances due to credit institutions	(1,977)	3,776	(1,958)	3,761
Increase in deposits	378,288	146,188	379,173	155,010
Increase/(decrease) in financial liabilities at fair value through profit or loss	50	(19,062)	50	(19,062)
Increase/(decrease) in deferred income and accrued expense	953	(312)	711	(329)
Increase/(decrease) in other liabilities	3,739	(452)	518	862
Net cash flow from operating activities before corporate income tax	**392,390**	**182,831**	**411,841**	**211,019**
Corporate income tax (paid)	(262)	(1,478)	(250)	(1,444)
Net cash flow from operating activities	**392,128**	**181,353**	**411,591**	**209,575**

Cash flow from investing activities	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
(Purchase) of held-to-maturity investments	(146,302)	-	(146,302)	-
(Purchase) of available-for-sale financial assets	(202,624)	(150,887)	(202,624)	(150,887)
Sale of available-for-sale financial assets	140,024	116,410	140,024	116,410
(Purchase) of intangible and tangible fixed assets and investment properties	(4,621)	(2,594)	(1,380)	(1,772)
Sale of intangible and tangible fixed assets	220	425	28	3,614
(Purchase) of investments in other entities	(842)	-	(23,949)	(32,236)
Decrease in investments in other entities	-	-	600	-
Net cash flow from investing activities	**(214,145)**	**(36,646)**	**(233,603)**	**(64,871)**

Cash flow from financing activities	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Proceeds from (repayment)/issuance of subordinated liabilities	(4,707)	728	(4,707)	728
Issue of shares	6,500	-	6,500	-
Issue of debt securities	9,926	-	9,926	-
Syndicated loan (repaid)	-	(111,364)	-	(111,364)
Net cash flow from financing activities	**11,719**	**(110,636)**	**11,719**	**(110,636)**
Net cash flow	**189,702**	**34,071**	**189,707**	**34,068**
Cash and cash equivalents at the beginning of the year	**210,926**	**176,057**	**210,895**	**176,029**
Gain/(loss) from revaluation of foreign currency positions	(9,377)	798	(9,377)	798
Cash and cash equivalents at the end of the year	**391,251**	**210,926**	**391,225**	**210,895**

Cash flow statements of the Group and the Bank for the years ended 31 December 2010 and 2009

Operational cash flows from interest and dividends	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Interest received	27,853	31,164	27,853	31,955
Interest paid	(15,694)	(20,271)	(15,694)	(20,416)
Dividends received	3	18	52	217
Dividends paid	-	-	-	-

Cash and cash equivalents	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Cash and deposits with the Bank of Latvia	82,120	44,986	82,120	44,986
Balances due from credit institutions	311,587	166,967	311,561	166,936
Balances due to credit institutions	(2,456)	(1,027)	(2,456)	(1,027)
Total cash and cash equivalents	**391,251**	**210,926**	**391,225**	**210,895**

The accompanying notes form an integral part of these consolidated financial statements.

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Notes to the financial statements for the year ended 31 December 2010

Note 1

General information

AS "Aizkraukles Banka" (hereinafter – the Bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company, under unified registration number 50003149401. The legal address of the Bank is 23 Elizabetes Street, Riga.

The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia that allows the Bank to render all the financial services specified in the Law on Credit Institutions.

The Group's and Bank's main scope of activity is investment services, settlement products, asset management, financial consultations, and real estate management.

The Group and the Bank operate the central office and two lending centres in Riga, as well as foreign representation offices in Azerbaijan – Baku, in Belarus – Minsk, in Kazakhstan – Almaty, in Russia – Moscow, St. Petersburg and Yekaterinburg, in Ukraine – Kyiv with its branch in Odessa, in Uzbekistan – Tashkent and Tajikistan – Dushanbe.

The following abbreviations are used in these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

These consolidated and separate financial statements contain the financial information about the Bank and its subsidiaries (jointly – the Group), as well as separately about the Bank. The Bank's separate financial statements are included in these financial statements in compliance with legal requirements. The Bank is the parent of the Group.

The consolidated financial statements of the Group and the separate financial statements of the Bank for the year 2010 were approved by the Bank's Board on 23 February 2011.

The Group comprises the following subsidiaries:

Company	Registration number	Registered office	Business profile	Bank's equity share (%)
IPAS "AB.LV Asset Management"	40003814724	23 Elizabetes Street, Riga, LV-1010	Financial services	100
IBAS "AB.LV Capital Market"	40003814705	23 Elizabetes Street, Riga, LV-1010	Financial services	100
AS "AB Konsultācijas"	40003540368	23 Elizabetes Street, Riga, LV-1010	Consulting services	100
SIA "AB.LV Corporate Services"	40103283479	23 Elizabetes Street, Riga, LV-1010	Consulting services	100
KS "AB.LV Transform Partnership"	40103260921	23 Elizabetes Street, Riga, LV-1010	Holding company	99,9997
SIA "AB.LV Transform Investments"	40103191969	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 1"	40103193211	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 2"	40103193033	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 3"	40103193067	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 4"	40103210494	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 6"	40103237323	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 7"	40103237304	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 8"	40103240484	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 9"	40103241210	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 10"	50103247681	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 11"	40103258310	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 12"	40103290273	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 13"	40103300849	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 14"	50103313991	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "AB.LV Transform 15"	40103344858	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA "Elizabetes 21a"	50003831571	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	91,6
SIA "New Hanza City"	40103222826	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
KS "AB.LV Private Equity Fund 2010"	40103307758	23 Elizabetes Street, Riga, LV-1010	Holding company	100
SIA "AB.LV Private Equity Management"	40103286757	23 Elizabetes Street, Riga, LV-1010	Investment project management	100
SIA "Gas Stream"	42103047436	23 Elizabetes Street, Riga, LV-1010	Electricity generation	60
SIA "Bio Future"	42103047421	23 Elizabetes Street, Riga, LV-1010	Electricity generation	60

Note 2

Information on principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2010 and 2009, is set out below.

a) Statement of compliance

These consolidated and separate financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted in the EU.

The accounting policies are applied consistently by all entities of the Group.

During the year ended 31 December 2010, the Group and the Bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in adoption of new and/or changed IFRSs and IFRIC interpretations in the reporting year.

Adoption of new and/or changed IFRSs and IFRIC interpretations in the reporting year

The Group/Bank has adopted the following new and amended IFRS and IFRIC interpretations during the year:

The accompanying notes form an integral part of these consolidated financial statements.

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations and IAS 27 Consolidated and Separate Financial Statements*
- Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- IFRIC *12 Service Concession Arrangements*
- IFRIC *17 Distributions of Non-cash Assets to Owners*
- IFRIC *18 Transfers of Assets from Customers*
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

The principal effects of these changes are as follows:

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after coming into force. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes to IFRS 3 and IAS 27 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

Standards and interpretations that have been issued but are not yet effective

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

Amendments to IFRS 7 Financial instruments: Disclosures (effective for financial years beginning on or after 1 July 2011, once adopted by the EU) The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Group does not have these kinds of transfers.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2013, once adopted by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 12 Income Taxes (effective for financial years beginning on or after 1 January 2012, once adopted by the EU). The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Group has not estimated yet the impact of the implementation of these changes.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011). The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010). The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

Improvements to IFRSs

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- IFRS 3 *Business Combinations;*
- IFRS 7 *Financial instruments: Disclosures;*
- IAS 1 *Presentation of Financial Statements;*
- IAS 27 *Consolidated and Separate Financial Statements;*
- IFRIC 13 *Customer Loyalty Programmes.*

Amendment to IFRIC *14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011). The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010). The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

Significant accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to depreciation rates of tangible fixed assets *(paragraph (r))* and intangible fixed assets *(paragraph (q))*, valuation and depreciation rates of investment properties *(paragraph (s))*, calculation of deferred corporate income tax *(paragraph (u))*, determining the allowance for credit losses and the collateral value *(paragraph (p))*, and the fair value of financial assets and liabilities *(paragraph (e))*.

b) Basis of Preparation

These consolidated and separate financial statements are reported in thousands of lats (LVL'000), unless otherwise stated.

These consolidated and separate financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value (see Note 31).

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia, unless otherwise stated, which is the functional and presentation currency of the Bank.

Information given herein in brackets represents comparative figures for the year ended 31 December 2009, unless otherwise stated.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the Bank's and the Group's financial statements were as follows:

Reporting date	USD	EUR	RUB
31 December 2010	0,535	0,7028	0,0176
31 December 2009	0,489	0,7028	0,0164

The accompanying notes form an integral part of these consolidated financial statements.

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As described in the Report of the Council and the Board (pages 1 to 5), given the current economic situation, the management of the Bank has a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, these consolidated and separate financial statements for the year ended 31 December 2010 are prepared on a going concern basis, consistently applying IFRS as adopted in the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

c) Basis of Consolidation
Consolidated financial statements include all subsidiaries controlled by the parent. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases.

Control is presumed to exist when the parent controls more than half of the voting power of the subsidiary, or owns the power to govern the financial and operating policies of the subsidiary or the power to appoint or remove the majority of the members of the board of the subsidiary.

The Bank's and its subsidiaries' financial statements are consolidated in the Group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication of impairment. Non-controlling interests represent the portion of profit or loss, as well as the equity in a subsidiary not attributable, directly or indirectly, to the Bank. The profit or loss attributable to non-controlling interests is separately disclosed in the statement of comprehensive income. Non-controlling interests are also presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

The Bank's subsidiaries comply with the Bank's policies and risk management methods.

Investments in subsidiaries are presented in the Bank's separate financial statements in accordance with the cost method.

In the consolidated financial statements, the acquisition price of a subsidiary is attributed to the fair value of the subsidiary's assets, liabilities, and contingent liabilities upon acquisition. An acquisition price, which exceeds the fair value of the subsidiary's acquired assets and liabilities, is recorded as goodwill.

d) Recognition and Derecognition of Financial Assets and Liabilities
A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The accompanying notes form an integral part of these consolidated financial statements.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The Group recognises financial assets and liabilities in its statement of financial position when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Group and the Bank have transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.
A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account.

e) Fair Value of Financial Assets and Liabilities
Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the Group's and Bank's financial assets and liabilities is presented in Note 31.

f) Income and Expense Recognition
All major income and expense items are recognised on an accrual basis. Interest income/expense is recognised in the statement of comprehensive income for financial assets/liabilities measured at amortised cost using the effective interest method.
Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income/expense directly attributable to financial assets/liabilities measured at amortised cost – for these assets/liabilities the respective commission and fee income/expense form an integral part of the effective interest rate.

Commission and fee income received once in a year for the whole reporting period is recognised in the statement of comprehensive income systematically on a straight-line basis during the period.

g) Foreign Currency Translation
Transactions denominated in foreign currencies are recorded in lats at exchange rates set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at exchange rates set by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as profit or loss from revaluation of foreign currency positions.

h) Loans and Receivables
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 the Group and the Bank intend to sell immediately or in the near term and those that the Group and the Bank upon initial recognition designate as at fair value through profit or loss;
- those that the Group and the Bank, upon initial recognition, designate as available for sale; or
- those for which the Group and the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment) as presented in Note 7. Gains or losses are recognised in the statement of comprehensive income upon recognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income/expense when the liabilities are derecognised through the amortisation process. Loans and receivables include loans and fixed income securities. Fixed income securities to be included in the respective portfolio are defined by a separate policy of the Bank.

For the purposes of these financial statements, finance lease receivables are classified as loans.
Securities included in the loans and receivables portfolio are held for the foreseeable future or to maturity with the purpose of generating profit from coupon and principal payments.

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i) Held-to-maturity Portfolio
Held-to-maturity portfolio represents non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market. The Group/Bank has the intention to hold the financial assets included in the held-to-maturity portfolio to maturity with the purpose of generating profit from coupon and principal payments.

The financial assets of the held-to-maturity portfolio are initially recognised at cost and subsequently measured at amortised cost using the effective interest method, less impairment loss. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through the amortisation process. Gains and losses are recognised in the statement of comprehensive income as interest income/expense when the liabilities are derecognised through the amortisation process.

j) Available-for-Sale Portfolio
The Group and the Bank acquire available-for-sale securities to hold them for an undefined period and generate interest income and/or profit from the increase in prices of securities. The available-for-sale portfolio includes fixed income securities, investments in shares and investment funds.

After initial recognition at fair value, including direct transaction costs, available-for-sale securities are measured at fair value. The revaluation result is charged through the statement of comprehensive income to the shareholders' equity as the fair value revaluation reserve of available-for-sale financial assets. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

For available-for-sale securities acquired at a discount (premium), the respective discount (premium) amount is amortised on a systematic basis, using the effective interest method. Amortised amounts are charged to the statement of comprehensive income as interest income from debt securities.

Any gain or loss resulting from disposal of available-for-sale securities and the fair value revaluation reserve accrued until such disposal are included in the statement of comprehensive income as net realised gain/(loss) from available-for-sale financial assets.

Available-for-sale securities are divided into two portfolios:
- liquidity portfolio, which is aimed at forming the Bank's liquidity reserve with a minimum interest rate risk and credit risk;
- investments' held for undefined period portfolio, which is aimed at gaining maximum profit from long-term investments in financial assets.

k) Financial Assets at Fair Value Through Profit or Loss
Financial assets at fair value through profit or loss are assets that are held for trading. Financial assets held for trading are included in the trading portfolio. Fixed income securities of the trading portfolio are held by the Group and the Bank for the purpose of selling and/or acquired for generating profit in the near term from the expected spread between purchasing and selling prices. The financial assets and liabilities to be included in the trading portfolio are defined by the Bank's trading portfolio policy.

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the statement of comprehensive income under "Net gain/(loss) from financial assets at fair value through profit or loss". Meanwhile, interest income earned and/or accrued is charged to the statement of comprehensive income as interest income from debt securities using the effective interest rate method (EIR) while dividend income is recorded as income from dividends if the right to the payment is established.

l) Assets taken over for sale
Assets taken over for sale represent real estate taken over by the Group/Bank for the purpose of selling as collateral for the outstanding loans. Such assets are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

m) Finance Leases – Where the Bank is Lessor
Finance lease receivables are recognised as assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Income from finance leases is recognised over the lease term to produce a constant periodic return on the remaining balance of the liability. Lease payments are charged to the statement of comprehensive income on a straight-line basis over the lease term.

n) Derivatives
In the ordinary course of business, the Group and the Bank use derivative financial instruments: currency swaps, futures, and forward foreign exchange rate contracts.

Derivative financial instruments are carried at cost and restated at fair value at the date of recognition and beyond. Derivative financial instruments are presented in the statement of financial position in a separate caption "Derivatives" under assets and liabilities respectively. The mark-to-market value is defined based on the quoted market prices or discounted cash flow models. Any gain or loss resulting from fair value movements of derivatives is recognised in the statement of comprehensive income as "Net gain/(loss) from financial assets at fair value through profit or loss ".

The accompanying notes form an integral part of these consolidated financial statements.

o) Off-balance Sheet Instruments
In the ordinary course of business, the Group and the Bank are involved in off-balance sheet financial instruments comprising loan and credit line commitments, financial guarantees, as well as commercial letters of credit. Such financial instruments do not involve outflow of the Bank's economic benefits, thus they are not recorded as the Bank's liabilities. These financial instruments are presented in the financial statements as memorandum items upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for establishing allowances on loans as described in paragraph (p) below.

p) Allowances
Allowances are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, allowances 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.

Allowances for financial assets and financial commitments
Non-performing debts are defined as financial assets and financial commitments with regard to which, based on the monitoring activities performed or other information obtained, the Management of the Group and the Bank believe that the contractual interest and principal due might not be collected or customers might default on other contractual conditions, which might result in an outflow of resources embodying economic benefits. According to the approved impairment assessment policy, the Group and the Bank determine individual and collective impairment.

The individual impairment allowance is determined after individually reviewing all credits for potentially uncollectable amounts. Individual assessment is made for credits that individually have objective evidence of impairment, based on the borrower's financial position, value of collateral, fulfilment of the loan agreement, and compliance with the credit exposure limits determined by the FCMC.

The collective (portfolio) allowance relates to existing credit losses, as well as to the impairment losses 'incurred, but not yet known to the Bank'. The collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account changes in collateral values, credit concentration risk, general economic and market conditions or events that have occurred prior to the reporting date and that indicate an adverse impact on the future cash flows from certain loans and receivable balances outstanding. This method permits attributing each group of loans to historical loss experience for groups of assets with similar credit characteristics and observable market data reflecting current circumstances.

When a loan had been classified as non-performing, an allowance for credit losses is established for that specific loan or amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the Group's and Bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advances collectability and collateral values. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance.

The above estimates are reviewed periodically. As changes of the allowance become necessary as a result of the review made, respective allowance changes are taken to the statement of comprehensive income of the reporting period. The Management of the Group and the Bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available facts and information.

When loans cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

Allowance rates for mortgage loans issued to private individuals have been reintroduced. Allowance rates for housing loans issued to private individuals (having indications of quality deterioration) have been determined considering the decrease in the collateral value. For business loans, homogeneous loan pools have been determined, which permits identification of non-performing loans, and the collective impairment allowance is established on the basis of such pools.

The Group/Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired. Based on the estimates of the Management of the Group/Bank, a decline in the fair value of the instrument by more than 20% below its cost or for more than one financial year is treated as objective evidence of significant and prolonged impairment of available-for-sale financial instruments. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

q) Intangible Fixed Assets
Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.

The Group and the Bank have applied the annual rate of 20% to amortise their intangible assets.

r) Tangible Fixed Assets
Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Fixed assets, including leasehold improvements under construction and preparation, are not depreciated. Land is not subject to depreciation.

The Group and the Bank have applied the following depreciation rates:

Category	Annual rate
Buildings and property improvements	5,5%
Vehicles	20%
EDP equipment and software	16–33%
Office equipment	10–33%

The accompanying notes form an integral part of these consolidated financial statements.

Costs of maintenance and repair are charged to the statement of comprehensive income as incurred. Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

s) Investment Properties
Investment properties comprise land and buildings, as well as costs of the investment property development project in progress, that are not used by the Group and the Bank, and are held with the main purpose to earn rentals, as well as gain on value appreciation. Such investments are classified as investment property and are accounted for using the cost model of accounting for investment properties. Investment properties are carried in the statement of financial position at their cost value less accumulated depreciation. The annual depreciation rate applied to investment properties is 5%.

t) Employee Benefits
Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and allowances, are charged to the statement of comprehensive income as administrative expense in the period when the services are provided.

The accrual for employee vacation pay is estimated for the Group's or Bank's personnel based on the total number of vacation days earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

u) Corporate Income Tax
Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% (15%) and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on fixed assets, accrual for employee vacation pay, and revaluation of items of the statement of financial position, including securities revaluation and fair value revaluation reserve, and temporary difference in securities in excess of set limits and tax losses carried forward for the subsequent eight years. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

v) Impairment of Non-financial Assets
The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase amount constitutes reversal of impairment losses.

w) Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

Note 3

Risk managment

Risks are inherent in the Group's and Bank's business and risk management is one of the Group's and Bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the Group and the Bank. Managing risks permits keeping the Group's and Bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the Group and the Bank are exposed to various risks, the most significant of them being credit risk, liquidity risk, and market risks (including interest rate risk, currency risk), as well as operational risk. Risk management stands for identification, assessment and control of potential risks.

The risk management process includes the following:

- identification, assessment and measurement of significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance

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with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the Group and the Bank;
- regular revision and enhancement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the Council. The introduction and efficiency of such policies are controlled by the Board and the Chief Risk Officer, while the practical implementation is provided by the respective business structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

To create a highly disciplined, conservative, and constructive risk management and control environment, training seminars for the staff are organised on a regular basis.

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the Group's and Bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the Group's and Bank's operational and financial market development; the improvement process is controlled by the Internal Audit Department on a regular basis.

Note 4

Interest income and expense

Interest income	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
on loans and advances to customers	26,243	32,110	26,187	32,901
non-impaired	*18,923*	*27,863*	*18,867*	*27,863*
impaired	*7,320*	*4,247*	*7,320*	*5,038*
on debt securities and other fixed income securities	9,087	6,912	9,087	6,912
financial assets at fair value through profit or loss	*18*	*91*	*18*	*91*
available-for-sale financial assets	*5,204*	*4,338*	*5,204*	*4,338*
held-to-maturity investments	*2,865*	-	*2,865*	-
non-impaired	*2,865*	-	*2,865*	-
loans and receivables	*1,000*	*2,483*	*1,000*	*2,483*
non-impaired	*963*	*2,220*	*963*	*2,220*
impaired	*37*	*263*	*37*	*263*
on balances due from credit institutions and central banks	1,034	998	1,034	998
other interest income	67	98	67	98
Total interest income	**36,431**	**40,118**	**36,375**	**40,909**
Interest expense				
on deposits from non-bank customers	13,400	15,360	13,400	15,591
on subordined deposits	1,759	2,103	1,759	2,103
on long-term debt securities issued	1,501	1,198	1,501	1,198
on balances due to credit institutions and central banks	67	2,152	25	2,066
other interest expense	2,123	1,508	2,123	1,508
Total interest expense	**18,850**	**22,321**	**18,808**	**22,466**

The decrease in the interest income is mainly due to the continuing drop in the base interest rates during the reporting year. In 2010, the base interest rates applied dropped by 1.69 (3) per cent, or 169 (300) basis points, on average against the previous year.

Note 5

Commission and fee income and expense

Commission and fee income	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
commission on payment transfer handling on behalf of customers	12,221	9,191	12,221	9,191
commission on handling of settlement cards	3,195	2,341	3,195	2,341
service fees	2,468	2,245	2,468	2,023
commission on brokerage operations	2,175	821	310	103
commission on trust transactions	926	547	397	316
commission on documentary transactions	401	299	401	299
other commission and fee income	1,490	628	1,154	628
Total commission and fee income	**22,876**	**16,072**	**20,146**	**14,901**
Commission and fee expense				
correspondent bank service charges	2,085	1,671	2,085	1,671
commission on transactions with settlement cards	888	859	888	859
other commission and fee expense	268	337	6	166
Total commission and fee expense	**3,241**	**2,867**	**2,979**	**2,696**

Note 6

Net gains/losses on financial assets

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Gain from revaluation of financial assets and liabilities at fair value through profit or loss	1,029	6,679	1,029	6,679
Derivatives	*1,008*	*6,674*	*1,008*	*6,674*
Securities	*21*	*5*	*21*	*5*
Gain/(loss) from trading with financial assets and liabilities at fair value through profit or loss	11,560	(8,218)	11,560	(8,218)
Derivatives	*11,044*	*(9,397)*	*11,044*	*(9,397)*
Debt securities	*516*	*1,179*	*516*	*1,179*
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	**12,589**	**(1,539)**	**12,589**	**(1,539)**
Gain from sale of available-for-sale securities	418	363	418	363
Net realised gain from available-for-sale financial assets	**418**	**363**	**418**	**363**
(Loss)/gain from sale of securities of the loans and receivables portfolio	(1,823)	528	(1,823)	528
Net realised (loss)/gain from sale of securities of the loans and receivables portfolio	**(1,823)**	**528**	**(1,823)**	**528**
Profit from foreign currency exchange	8,224	7,626	8,168	7,698
(Loss)/gain from revaluation of foreign currency positions	(9,377)	798	(9,377)	798
Net result from foreign exchange trading and revaluation	**(1,153)**	**8,424**	**(1,209)**	**8,496**

The accompanying notes form an integral part of these consolidated financial statements.

The result of foreign exchange transactions mainly represents currency exchange loss or gain. The procedure for managing currency risk is disclosed in Note 33. To hedge its exposure to currency risk, the Group/Bank enters into currency forwards. Therefore, to objectively assess the revaluation result of foreign currency positions, the net gain/(loss) from revaluation of and trading with Group's/Bank's derivatives as well as revaluation of currency positions should be analysed.

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Note 7

Allowances for credit losses

The table below presents changes in allowances for credit losses of the Group and the Bank in 2010:

	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Securities at fair value LVL '000	Available for sale securities LVL '000	Held to maturity securities LVL '000	Loans and receivables LVL '000	Other assets LVL '000	Total LVL '000
Individual allowances at the beginning of the year	*920*	*11,028*	*30*	*594*	*2*	*191*	-	*4,013*	*338*	*17,116*
Collective allowances at the beginning of the year	*31,960*	-	*230*	*1,674*	-	-	-	-	-	*33,864*
Total allowances at the beginning of the year	**32,880**	**11,028**	**260**	**2,268**	**2**	**191**	-	**4,013**	**338**	**50,980**
Increase/(decrease) in allowances for the year	14,824	13,035	200	818	(2)	(150)	78	(120)	234	28,917
Recovery of write-offs/asset write-off (expense)	-	-	-	-	-	-	-	-	33	33
Increase in allowances due to currency fluctuations	34	-	-	-	-	23	-	73	-	130
(Reversal) of allowances due to write-offs for the year	(1,079)	(6,092)	(224)	(2,518)	-	-	-	(2,764)	-	(12,677)
Individual allowances at the end of the year	*2,417*	*17,842*	*26*	-	-	*64*	*78*	*1,202*	*605*	*22,234*
Collective allowances at the end of the year	*44,242*	*129*	*210*	*568*	-	-	-	-	-	*45,149*
Total allowances at the end of the year	**46,659**	**17,971**	**236**	**568**	-	**64**	**78**	**1,202**	**605**	**67,383**

The table below presents changes in allowances for credit losses of the Group and the Bank in 2009:

	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Securities at fair value LVL '000	Available for sale securities LVL '000	Held to maturity securities LVL '000	Loans and receivables LVL '000	Other assets LVL '000	Total LVL '000
Individual allowances at the beginning of the year	*825*	*5,107*	*77*	*50*	-	*17*	-	-	*72*	*6,148*
Collective allowances at the beginning of the year	*13,630*	*461*	*464*	*414*	-	-	-	-	-	*14,969*
Total allowances at the beginning of the year	**14,455**	**5,568**	**541**	**464**	-	**17**	-	-	**72**	**21,117**
Increase in allowances for the year	18,458	11,104	216	2,627	2	172	-	3,970	310	36,859
Recovery of write-offs/asset write-off (expense)	-	-	-	-	-	-	-	-	(44)	(44)
Increase in allowances due to currency fluctuations	-	30	-	-	-	2	-	43	-	75
(Reversal) of allowances due to write-offs for the year	(33)	(5,674)	(497)	(823)	-	-	-	-	-	(7,027)
Individual allowances at the end of the year	*920*	*11,028*	*30*	*594*	*2*	*191*	-	*4,013*	*338*	*17,116*
Collective allowances at the end of the year	*31,960*	-	*230*	*1,674*	-	-	-	-	-	*33,864*
Total allowances at the end of the year	**32,880**	**11,028**	**260**	**2,268**	**2**	**191**	-	**4,013**	**338**	**50,980**

As at 31 December 2010 and 2009, the Group's and Bank's financial assets and liabilities were not past due, except for loans and one coupon payment from the security totalling LVL 149 (340) thousand.

Although the economic situation in Latvia showed signs of stabilisation at the end of 2009 and in 2010, the high unemployment rate and inactive real estate market where mainly forced realisation of real estate takes place – both these factors affected the collateral value and the borrowers' ability to perform timely repayment of their loans. These factors lead to the loan impairment and, as a result, the Group/Bank made additional allowances for credit losses of LVL 29 million.

The accompanying notes form an integral part of these consolidated financial statements.

Note 8

Impairment of other assets

The Group's and Bank's management have determined the fair value of the immovable properties taken over by the Bank for sale on the basis of the expected discounted future cash flow from the sale of the above properties. Based on the analysis carried out, in 2010 and 2009 the Group and the Bank recognised the impairment of non-financial assets.

The table below presents changes in impairment for non-financial assets of the Group and the Bank in 2010 and 2009:

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Non-financial assets taken over for sale	2,532	2,057	78	122
Prepayments for investment properties	335	-	-	-
Investments in subsidiaries	-	97	754	-
Total	**2,867**	**2,154**	**832**	**122**

Note 9

Administrative expense

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Remuneration to personnel	13,112	11,014	12,163	10,196
Statutory social insurance contributions	3,141	2,793	2,918	2,601
Rent of premises, repairs and maintenance costs	1,498	1,328	1,224	1,256
IT system maintenance expense	1,222	1,472	1,213	1,299
Remuneration to the Council and the Board *(incl. taxes)*	778	818	593	617
Other personnel expense	505	393	440	391
Communication expense	486	490	418	533
Advertising and marketing expense	476	533	452	490
Investment property maintenance costs	302	194	110	194
Donations	-	138	-	-
Other administrative expense	974	1,468	655	1,020
Total administrative expense	**22,494**	**20,641**	**20,186**	**18,597**

In 2010, the Group and the Bank employed an average of 514 (542) and 473 (507) persons.

The following table specifies employees of the Group and the Bank as at 31 December 2010 and 2009:

	Group 31/12/2010 number	Group 31/12/2009 number	Bank 31/12/2010 number	Bank 31/12/2009 number
Management	15	15	10	10
Heads of divisions and departments	96	90	85	82
Other personnel	427	428	397	404
Total	**538**	**533**	**492**	**496**

Note 10

Taxation

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Loss before corporate income tax	(8,262)	(25,710)	(7,827)	(22,752)
Group's profit adjustments for corporate income tax	(1,565)	187	-	-
Theoretical corporate income tax	**(1,474)**	**(3,828)**	**(1,174)**	**(3,413)**
Permanent differences	537	323	67	(83)
Actual corporate income tax expense for the reporting year	**(937)**	**(3,505)**	**(1,107)**	**(3,496)**
Adjustments to prior year corporate income tax	65	(66)	65	(66)
Adjustments to prior year deferred tax	139	-	132	-
Tax paid abroad	30	30	30	30
Total corporate income tax expense/(income) for the reporting year	**(703)**	**(3,541)**	**(880)**	**(3,532)**

The accompanying notes form an integral part of these consolidated financial statements.

Deferred corporate income tax calculation:

	Group 31/12/2010 Amounts subject to temporary differences LVL '000	Group 31/12/2009 Amounts subject to temporary differences LVL '000	Bank 31/12/2010 Amounts subject to temporary differences LVL '000	Bank 31/12/2009 Amounts subject to temporary differences LVL '000
Accumulated excess of tax depreciation over accounting depreciation	4,674	3,260	4,497	3,084
Fair value revaluation reserve of available-for-sale financial assets	2,135	(103)	2,135	(103)
Collective (portfolio) allowances and other accrued liabilities	(2,925)	(1,879)	(2,127)	(1,783)
Revaluation of assets, net	1,023	6,685	1,023	6,685
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	-	-
Tax losses	(40,766)	(41,969)	(43,646)	(41,744)
Basis for calculation of deferred corporate income tax	**(38,094)**	**(36,241)**	**(38,118)**	**(33,861)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/ liability at the end of the year	**(5,736) 21**	**(5,458) 22**	**(5,718) -**	**(5,079) -**

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Deferred corporate income tax at the beginning of the year	**(5,458) 22**	**(4,185) 5**	**(5,079) -**	**(3,850) -**
Deferred corporate income tax asset increase charged to the statement of comprehensive income during the year	(754)	(3,523)	(1,107)	(3,496)
Prior-period change	139	-	132	-
Deferred corporate income tax liability increase attributable to fair value revaluation reserve under equity	305	2,267	305	2,267
Prior-period change	31	-	31	-
Deferred corporate income tax asset/ liability at the end of the year	**(5,736) 21**	**(5,458) 22**	**(5,718) -**	**(5,079) -**

The Group's and Bank's management believes that there is reasonable certainty that future taxable profit will be sufficient to fully recover the recognised deferred tax asset in the taxation periods following the reporting year.

The Group's and Bank's tax paid:

Taxes	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Corporate income tax	262	1,472	250	1,444
Personal income tax	3,042	2,500	2,873	2,367
Statutory social insurance contributions	3,937	3,686	3,694	3,494
Real estate tax	197	111	126	97
Value added tax	27	-	17	-
Unemployment risk duty	1	1	1	1

In 2010, other taxes of LVL 1.600 (1.700) thousand and LVL 550 (0) thousand were included in statutory social insurance contributions and personal income tax of the Group and the Bank respectively.

The accompanying notes form an integral part of these consolidated financial statements.

Note 11

Classification of financial and non-financial instruments

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2010:

Assets	At fair value through profit or loss LVL `000	Available for sale LVL `000	Held to maturity LVL `000	Loans and receivables/at amortised cost LVL `000	Total LVL `000
Cash and deposits with central banks	-	-	-	82,120	82,120
Balances due from credit institutions	-	-	-	325,352	325,352
Fixed income securities	19,367	166,431	155,112	11,061	351,971
Shares and other non-fixed income securities	674	2,226	-	-	2,900
Derivatives	3,331	-	-	-	3,331
Loans and receivables	-	-	-	517,811	517,811
Total financial assets	**23,372**	**168,657**	**155,112**	**936,344**	**1,283,485**
Non-financial assets	-	-	-	-	84,042
Total assets	**23,372**	**168,657**	**155,112**	**936,344**	**1,367,527**
Liabilities					
Balances due to credit institutions	-	-	-	5,408	5,408
Derivatives	226	-	-	-	226
Deposits	-	-	-	1,236,791	1,236,791
Issued securities	-	-	-	22,921	22,921
Subordinated deposits	-	-	-	23,962	23,962
Total financial liabilities	**226**	**-**	**-**	**1,289,082**	**1,289,308**
Non-financial liabilities	-	-	-	-	7,268
Shareholders' equity	-	-	-	-	70,951
Total liabilities and shareholders' equity	**226**	**-**	**-**	**1,289,082**	**1,367,527**

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2009:

Assets	At fair value through profit or loss LVL `000	Available for sale LVL `000	Loans and receivables/at amortised cost LVL `000	Total LVL `000
Cash and deposits with central banks	-	-	44,986	44,986
Balances due from credit institutions	-	-	203,569	203,569
Fixed income securities	12	102,376	19,136	121,524
Shares and other non-fixed income securities	52	2,147	-	2,199
Derivatives	9,435	-	-	9,435
Loans and receivables	-	-	531,444	531,444
Total financial assets	**9,499**	**104,523**	**799,135**	**913,157**
Non-financial assets	-	-	-	64,570
Total assets	**9,499**	**104,523**	**799,135**	**977,727**
Liabilities				
Balances due to credit institutions	-	-	5,956	5,956
Derivatives	176	-	-	176
Deposits	-	-	858,503	858,503
Issued securities	-	-	12,995	12,995
Subordinated deposits	-	-	28,669	28,669
Total financial liabilities	**176**	**-**	**906,123**	**906,299**
Non-financial liabilities	-	-	-	2,442
Shareholders' equity	-	-	-	68,986
Total liabilities and shareholders' equity	**176**	**-**	**906,123**	**977,727**

The accompanying notes form an integral part of these consolidated financial statements.

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2010:

Assets	At fair value through profit or loss LVL `000	Available for sale LVL `000	Held to maturity LVL `000	Loans and receivables/at amortised cost LVL `000	Total LVL `000
Cash and deposits with central banks	-	-	-	82,120	82,120
Balances due from credit institutions	-	-	-	325,326	325,326
Fixed income securities	19,367	166,431	155,112	11,061	351,971
Shares and other non-fixed income securities	674	2,226	-	-	2,900
Derivatives	3,331	-	-	-	3,331
Loans and receivables	-	-	-	517,500	517,500
Total financial assets	**23,372**	**168,657**	**155,112**	**936,007**	**1,283,148**
Non-financial assets	-	-	-	-	95,417
Total assets	**23,372**	**168,657**	**155,112**	**936,007**	**1,378,565**
Liabilities					
Balances due to credit institutions	-	-	-	2,456	2,456
Derivatives	226	-	-	-	226
Deposits	-	-	-	1,248,190	1,248,190
Issued securities	-	-	-	22,921	22,921
Subordinated deposits	-	-	-	23,962	23,962
Total financial liabilities	**226**	**-**	**-**	**1,297,529**	**1,297,755**
Non-financial liabilities	-	-	-	-	5,433
Shareholders' equity	-	-	-	-	75,377
Total liabilities and shareholders' equity	**226**	**-**	**-**	**1,297,529**	**1,378,565**

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2009:

Assets	At fair value through profit or loss LVL `000	Available for sale LVL `000	Loans and receivables/at amortised cost LVL `000	Total LVL `000
Cash and deposits with central banks	-	-	44,986	44,986
Balances due from credit institutions	-	-	203,537	203,537
Fixed income securities	12	102,376	19,136	121,524
Shares and other non-fixed income securities	52	2,147	-	2,199
Derivatives	9,435	-	-	9,435
Loans and receivables	-	-	534,339	534,339
Total financial assets	**9,499**	**104,523**	**801,998**	**916,020**
Non-financial assets	-	-	-	76,109
Total assets	**9,499**	**104,523**	**801,998**	**992,129**
Liabilities				
Balances due to credit institutions	-	-	2,985	2,985
Derivatives	176	-	-	176
Deposits	-	-	869,017	869,017
Issued securities	-	-	12,995	12,995
Subordinated deposits	-	-	28,669	28,669
Total financial liabilities	**176**	**-**	**913,666**	**913,842**
Non-financial liabilities	-	-	-	4,204
Shareholders' equity	-	-	-	74,083
Total liabilities and shareholders' equity	**176**	**-**	**913,666**	**992,129**

The accompanying notes form an integral part of these consolidated financial statements.

Note 12

Financial assets by risk ratings

The tables below demonstrate the Group's and Bank's financial assets in breakdown by stated internal risk rating groups. Higher-rating financial assets are standard assets with a sound credit standing, while lower-rating financial assets are those assets which have doubtful credit quality and require close monitoring by the Group and the Bank.

Financial assets of the Group by risk rating:

	31/12/2010					31/12/2009				
Financial assets	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**
Cash and deposits with central banks	82,120	-	**82,120**	-	**82,120**	44,986	-	**44,986**	-	**44,986**
Balances due from credit institutions	325,352	-	**325,352**	-	**325,352**	203,569	-	**203,537**	-	**203,537**
Financial assets at fair value through profit or loss	23,372	-	**23,372**	-	**23,372**	9,487	14	**9,501**	(2)	**9,499**
Available for sale financial assets	168,584	137	**168,721**	(64)	**168,657**	104,098	616	**104,714**	(191)	**104,523**
Held to maturity investments	155,050	140	**155,190**	(78)	**155,112**	-	-	**-**	-	**-**
Loans and receivables	468,608	126,900	**595,508**	(66,636)	**528,872**	519,796	81,221	**601,017**	(50,437)	**550,580**
Incl. debt securites	*10,582*	*1,681*	***12,263***	*(1,202)*	***11,061***	*17,881*	*5,268*	***23,149***	*(4,013)*	***19,136***
Loans to customers	*458,026*	*125,219*	***583,245***	*(65,434)*	***517,811***	*501,915*	*75,953*	***577,868***	*(46,424)*	***531,444***
Mortgage loans	*304,892*	*103,163*	***408,055***	*(46,659)*	***361,396***	*376,264*	*50,060*	***426,324***	*(32,880)*	***393,444***
Business loans	*134,186*	*21,298*	***155,484***	*(17,971)*	***137,513***	*116,039*	*23,072*	***139,111***	*(11,019)*	***128,092***
Consumer loans	*1,067*	*258*	***1,325***	*(236)*	***1,089***	*1,060*	*229*	***1,289***	*(259)*	***1,030***
Other loans	*17,881*	*500*	***18,381***	*(568)*	***17,813***	*8,552*	*2,592*	***11,144***	*(2,266)*	***8,878***
Total financial assets	**1,223,086**	**127,177**	**1,350,263**	**(66,778)**	**1,283,485**	**881,936**	**81,851**	**963,787**	**(50,630)**	**913,157**

Financial assets of the Bank by risk rating:

	31/12/2010					31/12/2009				
Financial assets	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**
Cash and deposits with central banks	82,120	-	**82,120**	-	**82,120**	44,986	-	**44,986**	-	**44,986**
Balances due from credit institutions	325,326	-	**325,326**	-	**325,326**	203,537	-	**203,537**	-	**203,537**
Financial assets at fair value through profit or loss	23,372	-	**23,372**	-	**23,372**	9,487	14	**9,501**	(2)	**9,499**
Available for sale financial assets	168,584	137	**168,721**	(64)	**168,657**	104,098	616	**104,714**	(191)	**104,523**
Held to maturity investments	155,050	140	**155,190**	(78)	**155,112**	-	-	**-**	-	**-**
Loans and receivables	468,297	126,900	**595,197**	(66,636)	**528,561**	522,691	81,221	**603,912**	(50,437)	**553,475**
Incl. debt securites	*10,582*	*1,681*	***12,263***	*(1,202)*	***11,061***	*17,881*	*5,268*	***23,149***	*(4,013)*	***19,136***
Loans to customers	*457,715*	*125,219*	***582,934***	*(65,434)*	***517,500***	*504,810*	*75,953*	***580,763***	*(46,424)*	***534,339***
Mortgage loans	*304,892*	*103,163*	***408,055***	*(46,659)*	***361,396***	*376,264*	*50,060*	***426,324***	*(32,880)*	***393,444***
Business loans	*133,913*	*21,298*	***155,211***	*(17,971)*	***137,240***	*118,954*	*23,072*	***142,026***	*(11,019)*	***131,007***
Consumer loans	*1,067*	*258*	***1,325***	*(236)*	***1,089***	*1,060*	*229*	***1,289***	*(259)*	***1,030***
Other loans	*17,843*	*500*	***18,343***	*(568)*	***17,775***	*8,532*	*2,592*	***11,124***	*(2,266)*	***8,858***
Total financial assets	**1,222,749**	**127,177**	**1,349,926**	**(66,778)**	**1,283,148**	**884,799**	**81,851**	**966,650**	**(50,630)**	**916,020**

Note 13

Cash and deposits with central banks

	Group/Bank 31/12/2010 LVL '000	Group/Bank 31/12/2009 LVL '000
Cash	3,551	3,880
Deposits with the Bank of Latvia	78,569	41,106
Total cash and deposits with central banks	**82,120**	**44,986**

In accordance with the resolution of the Council of the Bank of Latvia, credit institutions have to comply with the obligatory reserve requirement. As at 31 December 2010, the obligatory reserve requirement for liabilities with the original maturity above two years was 3% (3%), while for other liabilities included in the reserve basis it was 5% (5%). The Group and the Bank were in compliance with this requirement as at 31 December 2010.

Note 14

Balances due from credit institutions

As at 31 December 2010, the Bank had established correspondent relationships with 29 (25) credit institutions registered in the OECD area (including EMU and EU countries), 6 (5) credit institutions registered in Latvia, and 20 (22) credit institutions incorporated in other countries.

Balances due from credit institutions to the Group by geographical area and structure in 2010:

Demand deposits with credit institutions	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Correspondent account balances	295	18,386	1,475	41,027	14,049	75,232
Overnight deposits	-	72,433	-	107,001	28	179,462
Total demand deposits with credit institutions	**295**	**90,819**	**1,475**	**148,028**	**14,077**	**254,694**
Other balances due from credit institutions						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
Total other balances due from credit institutions	**-**	**13,901**	**44,484**	**-**	**12,273**	**70,658**
Total balances due from credit institutions	**295**	**104,720**	**45,959**	**148,028**	**14,077**	**325,352**

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Balances due from credit institutions to the Group by geographical area and structure in 2009:

Demand deposits with credit institutions	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Correspondent account balances	52	19,922	1,182	17,606	8,618	47,380
Total demand deposits with credit institutions	**52**	**19,922**	**1,182**	**17,606**	**8,618**	**47,380**
Other balances due from credit institutions						
Security deposits	538	7,444	3,175	-	-	11,157
Term deposits	-	31,625	35,166	78,241	-	145,032
Total other balances due from credit institutions	**538**	**39,069**	**38,341**	**78,241**	**-**	**156,189**
Total balances due from credit institutions	**590**	**58,991**	**39,523**	**95,847**	**8,618**	**203,569**

Balances due from credit institutions to the Bank by geographical area and structure in 2010:

Demand deposits with credit institutions	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Correspondent account balances	283	18,386	1,475	41,027	14,035	75,206
Overnight deposits	-	72,433	-	107,001	28	179,462
Total demand deposits with credit institutions	**283**	**90,819**	**1,475**	**148,028**	**14,063**	**254,668**
Other balances due from credit institutions						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
Total other balances due from credit institutions	**-**	**13,901**	**44,484**	**-**	**12,273**	**70,658**
Total balances due from credit institutions	**283**	**104,720**	**45,959**	**148,028**	**14,063**	**325,326**

The accompanying notes form an integral part of these consolidated financial statements.

Balances due from credit institutions to the Bank by geographical area and structure in 2009:

Demand deposits with credit institutions	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Correspondent account balances	40	19,922	1,182	17,606	8,598	47,348
Total demand deposits with credit institutions	**40**	**19,922**	**1,182**	**17,606**	**8,598**	**47,348**
Other balances due from credit institutions						
Security deposits	538	7,444	3,175	-	-	11,157
Term deposits	-	31,625	35,166	78,241	-	145,032
Total other balances due from credit institutions	**538**	**39,069**	**38,341**	**78,241**	**-**	**156,189**
Total balances due from credit institutions	**578**	**58,991**	**39,523**	**95,847**	**8,598**	**203,537**

Concentration of balances due from credit institutions by geographical area:

Geographical area	Group 31/12/2010 number	Group 31/12/2009 number	Bank 31/12/2010 number	Bank 31/12/2009 number
Balances over LVL 15,000,000				
EU Member States	3	2	3	2
other OECD countries	1	1	1	1
Balances from LVL 5,000,000 to LVL 15,000,000				
EU Member States	2	3	2	3
other countries	2	1	2	1
other OECD countries	1	-	1	-
Balances up to LVL 5,000,000				
EU Member States	20	20	20	20
other countries	16	18	16	18
other OECD countries	7	8	7	8
Latvia	4	4	4	4
Total				
EU Member States	25	25	25	25
other countries	18	19	18	19
other OECD countries	9	9	9	9
Latvia	4	4	4	4

As at 31 December 2010, the Group's and the Bank's major balances due from credit institutions registered in the EU and OECD area were as follows: LVL 138 (90) million due from *JP Morgan Chase Bank NA*, LVL 61 (32) million due from *Commerzbank AG*, LVL 29 (22) million due from *the Bank of Montreal*, and LVL 27 million due from *DZ bank*.

Note 15

Debt securities and other fixed income securities

The Group's and Bank's investments in debt securities are classified by the investment type asfollows:

				Group/Bank 31/12/2010			Group/Bank 31/12/2009
Issuer	At fair value LVL '000	Available for sale LVL '000	Held to maturity LVL '000	Loans and receivables LVL '000	At fair value LVL '000	Available for sale LVL '000	Loans and receivables LVL '000
Latvia							
Central governments	-	-	-	3,406	-	1,984	3,376
Credit institutions	-	15	-	176	-	2,621	175
International organisations	**-**	**2,373**	**2,204**	**-**	**-**	**535**	**-**
EU Member States							
Central governments	8,134	1,429	3,351	-	-	1,259	-
Credit institutions	5,755	755	164	-	-	2,522	-
Corporate companies	-	-	-	267	-	-	253
Other OECD countries							
Central governments	-	106,985	107,185	-	-	48,715	-
Municipalities	-	-	-	-	-	-	765
Credit institutions	2,743	-	-	-	-	19,314	8,262
Financial institutions	-	-	-	-	-	449	-
Corporate companies	-	13	-	-	-	12,783	199
Other countries							
Central governments and central banks	-	5,461	3,423	247	-	4,482	1,427
Municipalities	-	457	516	501	-	692	-
Credit institutions	2,735	33,682	17,313	5,010	12	3,430	1,091
Financial institutions	-	-	-	-	-	-	243
Corporate companies	-	15,261	20,956	1,454	-	3,590	3,345
Total debt securities and other fixed income securities, net	**19,367**	**166,431**	**155,112**	**11,061**	**12**	**102,376**	**19,136**

The Group's/Bank's management decided to acquire fixed income securities to be included in the held-to-maturity portfolio. As a result, the amount of the Group's/Bank's fixed income securities grew substantially over 2010. The Group's/Bank's fixed income securities totalled LVL 352 (121) million as at 31 December 2010.

The major part of the held-to-maturity portfolio are investments in US Treasury notes amounting to LVL 107.185 thousand, Sberbank corporate bonds amounting to LVL 4.143 thousand and Germany government bonds amounting to LVL 3.351 thousand.

As at 31 December 2010, the Group's/Bank's management recognised impairment of available-for-sale securities amounting to LVL 14 (3.035) thousand.

The accompanying notes form an integral part of these consolidated financial statements.

The available-for-sale securities are classified as follows:

	Group/Bank 31/12/2010		Group/Bank 31/12/2009	
Issuer	Liquidity portfolio LVL '000	Investments held for undefined period portfolio LVL '000	Liquidity portfolio LVL '000	Investments held for undefined period portfolio LVL '000
Latvia				
Central governments	-	-	1,984	-
Credit institutions	-	15	-	2,621
International organisations	**-**	**2,373**	**-**	**535**
EU Member States				
Central governments	-	1,429	-	1,259
Credit institutions	-	755	-	2,522
Other OECD countries				
Central governments	106,985	-	48,710	5
Credit institutions	-	-	-	19,314
Financial institutions	-	-	-	449
Corporate companies	-	13	-	12,783
Other countries				
Central governments and central banks	-	5,461	-	4,482
Municipalities	-	457	-	692
Credit institutions	-	33,682	-	3,430
Corporate companies	-	15,261	-	3,590
Total available-for-sale securities, net	**106,985**	**59,446**	**50,694**	**51,682**

As at 31 December 2010, the following available-for-sale securities of the Bank were not listed on stock exchanges:

- LVL 6 (1.360) thousand – debt securities issued by companies of other countries;
- LVL 106.985 (0) thousand – debt securities issued by central governments of OECD countries.

As at 31 December 2010, the following held-to-maturity securities of the Bank were not listed on stock exchanges:

- LVL 62 (0) thousand – debt securities issued by companies of other countries;
- LVL 107.185 (0) thousand – debt securities issued by central governments of OECD countries.

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Note 16

Derivatives

The table below presents the notional amounts of foreign currency exchange contracts and other derivative financial instruments and their fair values. The notional amount of foreign currency exchange contracts is the amount receivable. The notional amount of other derivative financial instruments is the value of the underlying assets of these instruments.

	31/12/2010	Group/Bank 31/12/2009	Group/Bank 31/12/2010		Group/Bank 31/12/2009	
	Notional amount		Fair value		Fair value	
Foreign currency exchange contracts	LVL '000	LVL '000	Assets LVL '000	Liabilities LVL '000	Assets LVL '000	Liabilities LVL '000
Gold futures	289	-	-	15	-	-
Forwards	5,984	4,398	858	96	703	39
Swaps	73,508	107,863	1,451	115	2,058	137
Futures	88,770	135,133	1,022	-	6,605	-
Total foreign currency exchange contracts	**168,551**	**247,394**	**3,331**	**226**	**9,366**	**176**
Interest rate derivatives						
Futures	-	2,891	-	-	69	-
Total interest rate derivatives	**-**	**2,891**	**-**	**-**	**69**	**-**
Options						
Options	-	185	-	-	-	-
Total options	**-**	**185**	**-**	**-**	**-**	**-**
Total derivatives	**168,551**	**250,470**	**3,331**	**226**	**9,435**	**176**

The accompanying notes form an integral part of these consolidated financial statements.

Note 17

Shares and other non-fixed income securities

As at 31 December 2010 and 2009, all the Group's and Bank's investments in shares and investment funds are classified as follows:

	Group/Bank 31/12/2010			Group/Bank 31/12/2009		
At fair value	Listed LVL '000	Non-listed LVL '000	Total LVL '000	Listed LVL '000	Non-listed LVL '000	Total LVL '000
Investments in funds registered in Latvia	324	-	324	-	-	-
Equity shares in Latvian corporate entities	40	-	40	28	-	28
Equity shares in foreign corporate entities	82	-	82	24	-	24
Equity shares in foreign credit institutions	66	162	228	-	-	-
Total shares and other non-fixed income securities included at fair value throught profit or loss	**512**	**162**	**674**	**52**	**-**	**52**
Available-for-sale						
Investments in foreign funds	-	2,165	2,165	-	2,086	2,086
Equity shares in foreign financial institutions	-	61	61	-	61	61
Total shares and other non-fixed income securities included in the available-for-sale portfolio	**-**	**2,226**	**2,226**	**-**	**2,147**	**2,147**
Total shares and other non-fixed income securities	**512**	**2,388**	**2,900**	**52**	**2,147**	**2,199**

In 2010 and 2009, the Group's and Bank's management did not recognise any impairment of shares.

Note 18

Loans

The breakdown of loans issued by the Group and the Bank by customer profile:

Customer profile	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Other private individuals	427,114	451,294	427,114	451,294
Corporate companies	122,050	112,627	121,739	115,522
Financial institutions	28,986	8,263	28,986	8,263
Bank's employees	5,096	5,684	5,096	5,684
Total loans	**583,246**	**577,868**	**582,935**	**580,763**
Less allowance for credit losses	(65,435)	(46,424)	(65,435)	(46,424)
Total loans, net	**517,811**	**531,444**	**517,500**	**534,339**

The industry analysis of loans granted by the Group and the Bank and the maximum and minimum exposure based on the principles listed in Note 32 are provided below:

	Group 31/12/2010		Group 31/12/2009		Bank 31/12/2010		Bank 31/12/2009	
Industry profile*	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000
Private individuals (mortgage loans)	366,888	126,458	401,838	156,533	366,888	126,458	401,838	156,533
Real estate management	25,968	2,784	32,426	2,810	25,968	2,784	32,426	2,810
Trade	26,935	7,074	26,119	1,206	26,935	7,074	26,119	1,206
Private individuals (other loans)	9,388	2,743	15,318	3,438	9,388	2,743	15,318	3,438
Construction	6,551	76	17,055	4,828	6,551	76	17,055	4,828
Financial intermediaries	21,163	21,162	8,486	212	28,987	21,162	8,486	212
Transport and logistics	6,594	621	6,812	70	6,594	621	6,812	70
Other service industries	24,293	10,965	5,969	298	15,256	10,965	5,969	298
Manufacturing	6,139	109	2,993	16	6,139	109	2,993	16
Agriculture and forestry	36	-	67	3	36	-	67	3
Other industries	23,856	23,232	14,361	2,007	24,758	23,194	17,256	2,007
Total loans, net	**517,811**	**195,224**	**531,444**	**171,421**	**517,500**	**195,186**	**534,339**	**171,421**

* The industry profile of loans with the original maturity of up to one year is determined by the Bank based on the industry where the borrower operates, while for loans with the original maturity exceeding one year – based on the purpose of the loan granted (by the industry for the development of which the loan has been issued).

The accompanying notes form an integral part of these consolidated financial statements.

Credit quality analysis for the Group is as follows:

Not individualy impaired loans	31/12/2010 Loans, total LVL '000	31/12/2010 Incl. past due payments LVL '000	31/12/2009 Loans, total LVL '000	31/12/2009 Incl. past due payments LVL '000
Mortgage loans	321,205	1,021	333,528	1,023
Business loans	112,135	932	100,350	8,736
Consumer loans	1,029	-	862	9
Other loans	17,661	-	8,408	11
Total non-impaired loans, gross	**452,030**	**1,953**	**443,148**	**9,779**
Impaired loans				
Mortgage loans	86,850	51,898	92,796	55,082
Business loans	43,349	14,021	38,761	19,237
Consumer loans	296	44	427	224
Other loans	720	190	2,736	2,685
Total impaired loans, gross	**131,215**	**66,153**	**134,720**	**77,228**
Total loans, gross	**583,245**	**68,106**	**577,868**	**87,007**
Less allowance for credit losses	(65,434)	-	(46,424)	-
Total loans, net	**517,811**	**-**	**531,444**	**-**

Credit quality analysis for the Bank is as follows:

Not individualy impaired loans	31/12/2010 Loans, total LVL '000	31/12/2010 Incl. past due payments LVL '000	31/12/2009 Loans, total LVL '000	31/12/2009 Incl. past due payments LVL '000
Mortgage loans	321,205	1,021	333,528	1,023
Business loans	111,862	932	103,265	8,736
Consumer loans	1,029	-	862	9
Other loans	17,623	-	8,388	11
Total non-impaired loans, gross	**451,719**	**1,953**	**446,043**	**9,779**
Impaired loans				
Mortgage loans	86,850	51,898	92,796	55,082
Business loans	43,349	14,021	38,761	19,237
Consumer loans	296	44	427	224
Other loans	720	190	2,736	2,685
Total impaired loans, gross	**131,215**	**66,153**	**134,720**	**77,228**
Total loans, gross	**582,934**	**68,106**	**580,763**	**87,007**
Less allowance for credit losses	(65,434)	-	(46,424)	-
Total loans, net	**517,500**	-	**534,339**	-

The table below provides the aging analysis of the Group's and Bank's past due loans that have not been impaired individually as at 31 December 2010:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	420	63	-	-	483
31–59 days	179	13	-	-	192
60–89 days	178	17	-	-	195
More than 90 days	244	839	-	-	1,083
Total past due loans	**1,021**	**932**	**-**	**-**	**1,953**

The table below provides the aging analysis of the Group's and Bank's past due loans that have not been impaired individually as at 31 December 2009:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	188	91	-	-	279
31–59 days	82	72	-	-	154
60–89 days	167	-	-	-	167
More than 90 days	586	8,573	9	11	9,179
Total past due loans	**1,023**	**8,736**	**9**	**11**	**9,779**

The accompanying notes form an integral part of these consolidated financial statements.

The collateral analysis for the Group's and Bank's loans that have been impaired individually is provided below:

	31/12/2010		31/12/2009	
Loan type	Total loans LVL '000	Fair value of collateral LVL '000	Total loans LVL '000	Fair value of collateral LVL '000
Mortgage loans	86,850	42,093	92,796	46,784
Business loans	43,349	33,964	38,761	35,419
Consumer loans	296	-	427	-
Other loans	720	22	2,736	523
Total impaired loans, gross	**131,215**	**76,079**	**134,720**	**82,726**
Less allowance for credit losses	(61,066)	-	(41,182)	-
Total impaired loans, net	**70,149**	-	**93,538**	-

As at 31 December 2010, the gross amount of loans having the maturity date for principal or interest changed was LVL 123.674 (170.455) thousand. These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due.

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Note 19

Investments in subsidiaries

As at 31 December 2010, the Bank held shares in the following subsidiaries:

	Country of incorporation	Share capital	Equity	Bank's share (% of total share capital)	Share capital	Equity	Bank's share (% of total share capital)
				31/12/2010			31/12/2009
Company		LVL '000	LVL '000	(%)	LVL '000	LVL '000	(%)
KS "AB.LV Transform Partnership"	LV	49,196	45,345	99,9997	31,626	28,883	99,9997
SIA "Elizabetes 21a"	LV	2,500	1,828	91,6	1,750	1,238	88
SIA "New Hanza City"	LV	2,900	2,884	100	1,100	1,148	100
IPAS "AB.LV Asset Management"	LV	400	447	100	700	588	100
IBAS "AB.LV Capital Markets"	LV	400	1,060	100	700	677	100
AS "AB Konsultācijas"	LV	375	385	100	300	303	100
SIA "AB.LV Transform 1"	LV	200	(7)	100	100	32	100
SIA "AB.LV Corporate Services"	LV	20	40	100	-	-	-
SIA "AB.LV Private Equity Management"	LV	120	148	100	-	-	-
KS "AB.LV Private Equity Fund 2010"	LV	3,514	3,574	100	-	-	-
Total, gross		**59,625**	**55,704**		**36,276**	**32,869**	
Impairment expense		(754)			-		
Total, net		**58,871**			**36,276**		

During the reporting year, the Bank increased its investment in the share capital of SIA "Elizabetes 21a" from 88% to 91.6% by additionally investing LVL 750 thousand as well as its investment in KS "AB.LV Transform Partnership" by EUR 24 million. The Bank also increased the share capital of its subsidiary AS "AB Konsultācijas" by LVL 75 thousand as well as the share capital of SIA "New Hanza City" and SIA "AB.LV Transform 1" by LVL 1.800 thousand and LVL 100 thousand respectively. The above capital increases were aimed at ensuring expansion of the subsidiaries' business and their successful development.

During the reporting year, the share capital of IPAS "AB.LV" Asset Management and IBAS "AB.LV Capital Markets" was decreased by LVL 300 thousand each.

As at 31 December 2010, funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation amounted to LVL 32.619 (16.049) thousand. The value of financial instruments of the AB.LV Capital Markets customers as at 31 December 2010 was LVL 280.021 (92.314) thousand.

In the reporting year, the Bank established SIA "AB.LV Corporate Services" to expand the range of consulting services provided to corporate clients and SIA "AB.LV Private Equity Management" to establish and manage venture capital investment funds that will make investments in promising Latvian and foreign companies, providing support for their successful development. Meanwhile, in August 2010 the Bank established an investment fund named KS "AB.LV Private Equity Fund 2010" intended for private equity investments.

The accompanying notes form an integral part of these consolidated financial statements.

Note 20

Investment properties

	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Investment properties	18,426	17,812	16,535	16,492
Prepayments for investment properties	2,232	2,559	135	130
Total investment properties	**20,658**	**20,371**	**16,670**	**16,622**

The movements in the Group's and Bank's investment properties in 2010 are as follows:

	Group			Bank		
	Land LVL '000	Buildings LVL '000	Total, excl. prepayments LVL '000	Land LVL '000	Buildings LVL '000	Total, excl. prepayments LVL '000
Acquisition value as at 01/01/2010	**17,654**	**198**	**17,852**	**16,334**	**198**	**16,532**
Additions	593	-	593	22	-	22
Reclassification	-	59		-	59	59
Disposals	(1)	(40)	(41)	(1)	(40)	(41)
Acquisition value as at 31/12/2010	**18,246**	**217**	**18,404**	**16,355**	**217**	**16,572**
Accumulated depreciation as at 01/01/2010	**-**	**40**	**40**	**-**	**40**	**40**
Depreciation charge	-	10	10	-	10	10
Depreciation of disposals	-	(13)	(13)	-	(13)	(13)
Accumulated depreciation as at 31/12/2010	**-**	**37**	**37**	**-**	**37**	**37**
Net carrying amount as at 01/01/2010	**17,654**	**158**	**17,812**	**16,334**	**158**	**16,492**
Net carrying amount as at 31/12/2010	**18,246**	**180**	**18,426**	**16,355**	**180**	**16,535**

The accompanying notes form an integral part of these consolidated financial statements.

The movements in the Group's and Bank's investment properties in 2009 are as follows:

	Group			Bank		
	Land LVL '000	Buildings LVL '000	Total, excl. prepayments LVL '000	Land LVL '000	Buildings LVL '000	Total, excl. prepayments LVL '000
Acquisition value as at 01/01/2009	**16,926**	**404**	**17,330**	**16,926**	**404**	**17,330**
Additions	776	-	776	463	-	463
Disposals	(48)	(206)	(254)	(1,055)	(206)	(1,261)
Acquisition value as at 31/12/2009	**17,654**	**198**	**17,852**	**16,334**	**198**	**16,532**
Accumulated depreciation as at 01/01/2009	**-**	**70**	**70**	**-**	**70**	**70**
Depreciation charge	-	20	20	-	20	20
Depreciation of disposals	-	(50)	(50)	-	(50)	(50)
Accumulated depreciation as at 31/12/2009	**-**	**40**	**40**	**-**	**40**	**40**
Net carrying amount as at 01/01/2009	**16,926**	**334**	**17,260**	**16,926**	**334**	**17,260**
Net carrying amount as at 31/12/2009	**17,654**	**158**	**17,812**	**16,334**	**158**	**16,492**

The market value of the Group's and Bank's investment properties as at 31 December 2010 was LVL 19 (19) million.

The Management of the Bank and the Group believe that the most credible market value of investment properties was identified based on the evaluations presented by the Bank's real estate experts. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not properly developed.

Rentals from investment properties in 2010 amounted to LVL 21 (150) thousand, whereas the related property maintenance expense was LVL 110 (194) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to LVL 84 (16) thousand.

Note 21

Intangible and tangible fixed assets

	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Intangible fixed assets	3,120	1,193	2,982	1,039
Prepayments for intangible fixed assets	581	2,298	566	2,298
Total intangible fixed assets	**3,701**	**3,491**	**3,548**	**3,337**
Land	129	321	129	129
Buildings and property improvements	3,364	3,618	3,364	3,618
Leasehold improvements	190	227	190	227
Construction in progress	2,184	-	-	-
Vehicles	446	484	356	396
Office equipment	1,271	1,424	1,189	1,374
EDP equipment	*787*	*937*	*778*	*922*
Other tangible fixed assets	*484*	*487*	*411*	*452*
Prepayments for tangible fixed assets	370	3	25	3
Total tangible fixed assets	**7,954**	**6,077**	**5,253**	**5,747**

The movements in the Group's intangible and tangible fixed assets in 2010 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Construction in progress LVL '000	Vehicles LVL '000	Office equipment LVL '000	Total, less prepayments LVL '000
Acquisition value as at 01/01/2010	**3,426**	**321**	**4,921**	**666**	**-**	**921**	**6,277**	**16,532**
Additions	2,466	-	3	16	2,184	151	568	5,388
Reclassification	-	-	(59)	-	-	-	-	(59)
Disposals	(14)	(192)	-	-	-	(120)	(475)	(801)
Acquisition value as at 31/12/2010	**5,878**	**129**	**4,865**	**682**	**2,184**	**952**	**6,370**	**21,060**
Accumulated depreciation as at 01/01/2010	**2,233**	**-**	**1,303**	**439**	**-**	**437**	**4,853**	**9,265**
Depreciation charge	532	-	198	53	-	175	724	1,682
Disposals	(7)	-	-	-	-	(106)	(478)	(591)
Accumulated depreciation as at 31/12/2010	**2,758**	**-**	**1,501**	**492**	**-**	**506**	**5,099**	**10,356**
Net carrying amount as at 01/01/2010	**1,193**	**321**	**3,618**	**227**	**-**	**484**	**1,424**	**7,267**
Net carrying amount as at 31/12/2010	**3,120**	**129**	**3,364**	**190**	**2,184**	**446**	**1,271**	**10,704**

The movements in the Group's intangible and tangible fixed assets in 2009 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Vehicles LVL '000	Office equipment LVL '000	Total, less prepayments LVL '000
Acquisition value as at 01/01/2009	**3,187**	**129**	**4,806**	**653**	**879**	**6,057**	**15,711**
Additions	271	192	115	55	112	490	1,235
Disposals	(32)	-	-	(42)	(70)	(270)	(414)
Acquisition value as at 31/12/2009	**3,426**	**321**	**4,921**	**666**	**921**	**6,277**	**16,532**
Accumulated depreciation as at 01/01/2009	**1,629**	**-**	**1,104**	**407**	**322**	**4,385**	**7,847**
Depreciation charge	634	-	199	57	175	730	1,795
Disposals	(30)	-	-	(25)	(60)	(262)	(377)
Accumulated depreciation as at 31/12/2009	**2,233**	**-**	**1,303**	**439**	**437**	**4,853**	**9,265**
Net carrying amount as at 01/01/2009	**1,558**	**129**	**3,702**	**246**	**557**	**1,672**	**7,864**
Net carrying amount as at 31/12/2009	**1,193**	**321**	**3,618**	**227**	**484**	**1,424**	**7,267**

As at 31 December 2010, the Group and the Bank owned intangible and tangible fixed assets having the net carrying amount of 0 and the cost value of LVL 5.103 (4,236) thousand and LVL 5.087 (4.227) thousand.

The accompanying notes form an integral part of these consolidated financial statements.

The movements in the Bank's intangible and tangible fixed assets in 2010 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Vehicles LVL '000	Office equipment LVL '000	Total, less prepayments LVL '000
Acquisition value as at 01/01/2010	**3,225**	**129**	**4,921**	**666**	**749**	**6,184**	**15,874**
Additions	2,431	-	3	16	100	512	3,062
Reclassification	-	-	(59)	-	-	-	(59)
Disposals	(3)	-	-	-	(69)	(470)	(542)
Acquisition value as at 31/12/2010	**5,653**	**129**	**4,865**	**682**	**780**	**6,226**	**18,335**
Accumulated depreciation as at 01/01/2010	**2,186**	**-**	**1,303**	**439**	**353**	**4,810**	**9,091**
Depreciation charge	488	-	198	53	139	699	1,577
Disposals	(3)	-	-	-	(68)	(472)	(543)
Accumulated depreciation as at 31/12/2010	**2,671**	**-**	**1,501**	**492**	**424**	**5,037**	**10,125**
Net carrying amount as at 01/01/2010	**1,039**	**129**	**3,618**	**227**	**396**	**1,374**	**6,783**
Net carrying amount as at 31/12/2010	**2,982**	**129**	**3,364**	**190**	**356**	**1,189**	**8,210**

The movements in the Bank's intangible and tangible fixed assets in 2009 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Vehicles LVL '000	Office equipment LVL '000	Total, less prepayments LVL '000
Acquisition value as at 01/01/2009	**3,018**	**129**	**4,806**	**653**	**709**	**5,988**	**15,303**
Additions	239	-	115	55	92	466	967
Disposals	(32)	-	-	(42)	(52)	(270)	(396)
Acquisition value as at 31/12/2009	**3,225**	**129**	**4,921**	**666**	**749**	**6,184**	**15,874**
Accumulated depreciation as at 01/01/2009	**1,618**	**-**	**1,104**	**407**	**262**	**4,360**	**7,751**
Depreciation charge	598	-	199	57	139	712	1,705
Disposals	(30)	-	-	(25)	(48)	(262)	(365)
Accumulated depreciation as at 31/12/2009	**2,186**	**-**	**1,303**	**439**	**353**	**4,810**	**9,091**
Net carrying amount as at 01/01/2009	**1,400**	**129**	**3,702**	**246**	**447**	**1,628**	**7,552**
Net carrying amount as at 31/12/2009	**1,039**	**129**	**3,618**	**227**	**396**	**1,374**	**6,783**

Information about contractual commitments on purchase of intangible and tangible fixed assets is disclosed in Note 29.

Note 22

Other assets

	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Non-financial assets taken over for sale	44,425	25,236	585	957
Other settlements with third parties	1,429	165	3,137	3,253
Tax receivables	729	894	209	471
Clearing of payment cards	335	1,300	335	1,300
Gold	309	-	309	-
Unsettled SPOT transactions	265	389	265	389
Suspense items	1	364	1	364
Other assets	427	353	336	259
Total other assets, gross	**47,920**	**28,701**	**5,177**	**6,993**
Impairment expense	(2,532)	(2,057)	(78)	(122)
Total other assets, net	**45,388**	**26,644**	**5,099**	**6,871**

Note 23

Balances due to credit institutions

	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Other term deposits	3,502	4,929	550	1,958
Demand deposits from credit institutions	1,906	1,027	1,906	1,027
Total balances due to credit institutions	**5,408**	**5,956**	**2,456**	**2,985**

Note 24

Deposits

Customer profile	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Corporate companies	1,091,402	760,573	1,102,801	771,087
Private individuals	122,476	89,283	122,476	89,283
State-owned enterprises	16,596	2,233	16,596	2,233
Financial institutions	4,417	4,723	4,417	4,723
Non-profit institutions serving private individuals	1,500	1,390	1,500	1,390
Municipalities	400	301	400	301
Total deposits from customers	**1,236,791**	**858,503**	**1,248,190**	**869,017**

During the reporting year, the deposits with the Group and the Bank grew rapidly to exceed LVL 1 billion for the first time ever. The Group's/Bank's top 20 customers in terms of the deposit amount account for 20% (22%) of the total deposits.

The accompanying notes form an integral part of these consolidated financial statements.

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Geographical profile of customer residence	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Other countries	737,982	525,069	737,982	525,069
Other EU Member States	222,754	113,486	222,754	113,486
Other OECD countries	125,535	100,851	125,535	100,851
EMU countries	96,802	69,857	96,802	69,857
Latvia	53,718	49,240	65,117	59,754
Total deposits from customers	**1,236,791**	**858,503**	**1,248,190**	**869,017**

Of the total deposits placed with the Group and the Bank, 82.6% are from customers whose beneficiaries are CIS residents.

Note 25

Related party disclosures

Related parties are defined as shareholders who have the ability to exercise significant influence over the Group and the Bank, members of the Council and the Board, key management personnel, their close relatives, and companies in which they have a controlling interest, as well as subsidiaries and associates of the Group.

	Group		Bank		Group		Bank	
	31/12/2010				31/12/2009			
Loans issued to related parties	Amount LVL '000	Terms	Amount LVL '000	Terms	Amount LVL '000	Terms	Amount LVL '000	Terms
Management	136	0–24%	136	0–24%	163	2–15%	148	2–15%
Related legal entities	1,930	0–24%	10,694	0–24%	1,693	6–24%	4,630	6–24%
Other related private individuals	514	2–22%	514	2–22%	656	2–15%	567	2–15%
Total loans issued to related parties	**2,580**		**11,344**		**2,512**		**5,345**	
Loan commitments and other memorandum items	610		2,850		203		343	
Less allowance for credit losses	-		-		-		(182)	
Net loans, loan commitments and other memorandum items	**3,190**		**14,194**		**2,715**		**5,506**	

The Latvian banking legislation requires that any credit exposure to a non-related entity or a group of non-related entities may not exceed 25% of credit institution's equity. The total credit exposure to all related parties may not exceed 15% of Bank's equity.

As at 31 December 2010, the Bank was in compliance with the above requirements for the non-zero risk credit exposures to related parties and non-related entities.

As at 31 December 2010, the deposits of related parties with the Group amounted to LVL 4.735 (3.752) thousand, while those with the Bank amounted to LVL 16.371 (15.179) thousand. All related party deposits bear standard interest rates offered by the Bank.

Administrative and other expense from transactions with related parties for the reporting year were LVL 1.631 (1.215) thousand.

Interest income and expense from transactions with related parties:

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Interest income	139	266	211	649
Interest expense	148	81	219	324

Note 26

Subordinated liabilities

As at 31 December 2010, the Group's and Bank's subordinated liabilities of LVL 46.883 (41.664) thousand comprised subordinated bonds amounting to LVL 22.921 (12.995) thousand and subordinated loans amounting to LVL 23.962 (28.669) thousand.

In 2008, the Bank initiated two subordinated bond issues – in US dollars and euro – with the issue amount of USD 20 million (issuing 200,000 subordinated bonds, each having the par value of USD 100) and EUR 12.5 million (issuing 125.000 subordinated bonds, each having the par value of EUR 100) respectively. All the bonds issued in 2008 mature on 1 October 2018. Starting from 1 October 2013, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 13% will be paid from 1 October 2013.

In the reporting year (September 2010), the Bank issued subordinated bonds totalling USD 20 million, i.e., 200.000 subordinated bonds, each having the par value of USD 100. The bonds mature on 15 September 2020. Starting from 15 September 2015, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 8% will be paid from 16 September 2015.

As at 31 December 2010, the carrying amount of all the subordinated bonds was USD 27.1 (14.1) million and EUR 7.7 (7.7) million. The issues of the subordinated bonds were closed and these bonds are not registered with Riga Stock Exchange.

The Bank received also subordinated loans for the total amount of USD 43 (53.6) million and EUR 1.2 (3.3) million. Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the Bank's share capital.

The accompanying notes form an integral part of these consolidated financial statements.

The analysis of subordinated loans as at 31 December 2010:

Lenders	Loan amount LVL '000	Accumulated interest LVL '000	% of total subordinated capital (%)	Interest rate	Currency	Date of the agreement	Date of maturity
Harpic Group LTD	8,025	34	33,64	5,04	USD	8/14/2008	8/19/2018
Multicross LLC	5,350	32	22,43	7,14	USD	3/19/2007	4/2/2017
Euro swiss LLC	5,350	32	22,43	7,14	USD	3/19/2007	4/2/2017
Major lenders in total	**18,725**	**98**	**78,50**				
Other lenders							
residents	241	1	1,01	8,13–8,39	USD		
non-residents	4,043	10	16,95	2,83–8,39	USD		
residents	35	-	0,15	7,14	EUR		
non-residents	808	1	3,39	3,53–7,14	EUR		
Other lenders in total	**5,127**	**12**	**21,50**				
Total	**23,852**	**110**	**100,00**				

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. Their remaining weighted average maturity is 3.06 years.

Note 27

Paid-in share capital

The Bank's 10.000 shares were issued during the reporting year in addition to the existing 100.000 shares. The share issue was aimed at ensuring sustainable development of the Group/Bank in the future. As a result, the new issue shares form 9.09% of the Bank's share capital.

As at 31 December 2010, the paid-in share capital of the Bank amounted to LVL 16.5 million (15 million).

The share capital consists of ordinary shares with voting rights only. All the shares have the par value of LVL 150 (150) each.

As at 31 December 2010, the Bank had 128 (95) shareholders, including 11 (12) legal entities and 117 (83) private individuals, holding the total of 110.000 (100.000) shares.

The members of the Board directly hold 86.16% (93.81%) of the share capital, while the members of the Council – 5.73% (3.35%) of the share capital.

The major shareholders of the Bank and the groups of related shareholders are as follows:

	31/12/2010		31/12/2009	
	Paid-in share capital LVL '000	% of total paid-in share capital (%)	Paid-in share capital LVL '000	% of total paid-in share capital (%)
Olegs Fils	**7,086**	**42,95**	**7,056**	**47,04**
Group of related shareholders				
Ernests Bernis	6,932	42,01	6,902	46,01
Nika Berne	154	0,94	154	1,03
Total group of related shareholders	**7,086**	**42,95**	**7,056**	**47,04**

Note 28

Dividends proposed and paid

In 2010 and 2009, there were no dividends proposed and/or paid.

Note 29

Memorandum items

Contingent liabilities	Group/Bank 31/12/2010 LVL '000	Group/Bank 31/12/2009 LVL '000
Outstanding guarantees	20,871	16,221
Letters of credit	254	663
Total contingent liabilities	**21,125**	**16,884**
Financial commitments		
Loan commitments	3,636	1,488
Unutilised credit lines	2,877	3,659
Undrawn credit facilities on settlement cards	6,224	4,935
Contractual commitments on purchase of intangible assets	171	103
Contractual commitments on purchase of other tangible assets	26	25
Total financial commitments	**12,934**	**10,210**
Total contingent liabilities and financial commitments	**34,059**	**27,094**

As at 31 December 2010, funds under trust management by the Group amounted to LVL 116.823 (71.845) thousand, while funds under trust management by the Bank amounted to LVL 84.167 (55.796) thousand. The Bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the Bank. Meanwhile, the Group's funds under trust management include also funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation.

The related credit risk and all other risks remain fully with the customer which provided these funds to the Group and/or the Bank.

Note 30

Capital management and capital adequacy

The primary objective of the Group's and Bank's capital management is to ensure that the Group and the Bank comply with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the Group and the Bank maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

The goals of the Group's and Bank's capital management are consistent with those of the previous years, while the capital management procedures and the procedure for calculating capital adequacy were materially affected by the new Basel II requirements regarding minimum capital requirements for banks. During the reporting year, the Bank continued improving its methodology for calculating the capital requirement for credit risk. According to the capital adequacy rules of Basel II, the Group and the Bank have resolved to apply the standardised approach to calculate the capital requirements for credit risk and market risks and the basic indicator approach to calculate the capital requirement for operational risk.

Capital adequacy refers to the sufficiency of the Group's and Bank's capital resources to cover credit risk, operational risk, and market risks. As at 31 December 2010, the Bank's capital adequacy ratio in accordance with the FCMC requirements was 12.45% (15.04%), while the Group's capital adequacy ratio was 11.41% (14.56%).

The Group's and Bank's equity consists of Tier 1 and Tier 2. Tier 1 comprises paid-in share capital, share premium, reserve capital, retained earnings, including current year's profit which is not to be paid in dividends, less negative fair value revaluation reserve of available-for-sale financial assets and intangible fixed assets. Tier 2 includes subordinated capital and positive fair value revaluation reserve of available-for-sale financial assets (45%).

The reserve capital is the value of the Group's and Bank's property, which, following the defined procedure, is accrued to cover unexpected losses or for other financing needs, based on the decision of the shareholders' meeting. There are no legal restrictions on utilisation of the reserves.

Tier 1	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
paid-in share capital	16,500	15,000	16,500	15,000
share premium	5,255	255	5,255	255
reserve capital	1,500	1,500	1,500	1,500
retained earnings	52,804	74,162	57,240	76,460
intangible fixed assets	(3,701)	(3,491)	(3,548)	(3,337)
non-controlling interests	582	(661)	-	-
current year's audited (loss)/profit (not subject to distribution of dividends)	(7,519)	(21,358)	(6,947)	(19,220)
decrease in Tier 1 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS *(50%)*	(144)	(715)	(144)	(715)
Total Tier 1	**65,277**	**64,691**	**69,856**	**69,943**
Tier 2				
fair value revaluation reserve of available-for-sale financial assets (45%)	823	39	823	39
decrease in Tier 2 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS *(50%)*	(144)	(715)	(144)	(715)
subordinated capital (based on the remaining maturity, with the adjustment rate of 40%-100%)	33,122	32,458	34,999	32,458
Total Tier 2	**33,801**	**31,782**	**35,678**	**31,782**
Total eligible capital	**99,078**	**96,473**	**105,534**	**101,725**
Capital charge for credit risk on banking book	57,419	43,056	58,304	44,222
Total capital charge for market risks on trading book	4,163	1,970	1,809	1,970
capital charge for foreign currency risk	*3,151*	*871*	*797*	*871*
capital charge for position risk	*904*	*989*	*904*	*989*
capital charge for counterparty risk	*108*	*110*	*108*	*110*
Capital charge for operational risk	7,889	7,980	7,678	7,922
Total capital charge 8%	69,471	53,006	67,791	54,114
Capital adequacy ratio (%)	**11,41**	**14,56**	**12,45**	**15,04**
Minimum capital adequacy ratio (%)	8,00	8,00	8,00	8,00

The accompanying notes form an integral part of these consolidated financial statements.

The Group's and Bank's capital charge for credit risk exposures by the following exposure categories:

Exposure category	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Central governments or central banks	1,123	1,109	1,086	1,071
Regional or local governments	118	191	118	191
Institutions	9,927	5,972	9,893	6,204
Commercial companies	12,758	11,650	17,451	11,650
Low risk portfolio	2,345	10,480	2,345	10,480
Secured by real estate	861	3,958	861	3,958
Past due exposures	3,725	5,194	3,725	5,194
High risk exposures	260	250	260	250
Other items	26,302	4,252	22,565	5,224
Total capital charge for credit risk	**57,419**	**43,056**	**58,304**	**44,222**

Note 31

Fair value of financial instruments

The Group and the Bank disclose the fair values of each category of financial assets and financial liabilities in such a manner so as to be able to compare the fair values with the carrying amounts. The breakdown of the Group's and Bank's financial assets and financial liabilities by categories is presented in Note 11. The Group and the Bank assume that the fair value of liquid financial assets and liabilities or financial assets and liabilities with a short maturity (less than three months) approximates to their carrying amount. This assumption also applies to term deposits and savings accounts.

The carrying amounts and fair values of the Group's financial assets and financial liabilities are as follows:

	31/12/2010		31/12/2009	
Financial assets	Carrying amount LVL '000	Fair value LVL '000	Carrying amount LVL '000	Fair value LVL '000
Cash and deposits with central banks	82,120	82,120	44,986	44,986
Balances due from credit institutions	325,352	325,352	203,569	203,569
Financial assets at fair value through profit or loss	23,372	23,372	9,499	9,499
Available-for-sale financial assets	168,657	168,657	104,523	104,523
Held-to-maturity investments	155,112	155,605	-	-
Loans and receivables	528,872	527,821	550,580	518,047
Total financial assets	**1,283,485**	**1,282,927**	**913,157**	**880,624**
Financial liabilities				
Demand deposits from credit institutions	1,906	1,906	1,027	1,027
Financial liabilities at fair value through profit or loss	226	226	176	176
Financial liabilities at amortised cost	1,287,176	1,292,843	905,096	909,215
Total financial liabilities	**1,289,308**	**1,294,975**	**906,299**	**910,418**

The carrying amounts and fair values of the Bank's financial assets and financial liabilities are as follows:

	31/12/2010		31/12/2009	
Financial assets	Carrying amount LVL '000	Fair value LVL '000	Carrying amount LVL '000	Fair value LVL '000
Cash and deposits with central banks	82,120	82,120	44,986	44,986
Balances due from credit institutions	325,326	325,326	203,537	203,537
Financial assets at fair value through profit or loss	23,372	23,372	9,499	9,499
Available-for-sale financial assets	168,657	168,657	104,523	104,523
Held-to-maturity investments	155,112	155,605	-	-
Loans and receivables	528,561	527,510	553,475	520,942
Total financial assets	**1,283,148**	**1,282,590**	**916,020**	**883,487**
Financial liabilities				
Demand deposits from credit institutions	1,906	1,906	1,027	1,027
Financial liabilities at fair value through profit or loss	226	226	176	176
Financial liabilities at amortised cost	1,295,623	1,301,290	912,639	916,758
Total financial liabilities	**1,297,755**	**1,303,422**	**913,842**	**917,961**

Hierarchy of input data for determining the fair value of financial assets and liabilities

The Group and the Bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable.

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

Level 3 inputs, i.e. other valuation techniques, are used for available-for-sale financial assets not quoted in the market and for which no quoted prices for similar assets in active markets are available. In determining the fair value for such financial assets, valuation models are based on the assumptions and estimates regarding the potential future financials of the investment property, and the industry and geographical area risks in which the respective investment property operates.

The Group's and Bank's financial assets defined at fair value and available for sale according to the hierarchy of input data for determining the fair value:

	31/12/2010				31/12/2009			
Financial assets	Level 1 LVL '000	Level 2 LVL '000	Level 3 LVL '000	Total LVL '000	Level 1 LVL '000	Level 2 LVL '000	Level 3 LVL '000	Total LVL '000
Financial assets at fair value through profit or loss	20,901	2,471	-	23,372	6,669	2,830	-	9,499
Fixed income securities	*19,367*	-	-	*19,367*	*12*	-	-	*12*
Shares and other non-fixed income securities	*512*	*162*	-	*674*	*52*	-	-	*52*
Derivatives	*1,022*	*2,309*	-	*3,331*	*6,605*	*2,830*	-	*9,435*
Available-for-sale financial assets	165,722	709	2,226	168,657	98,158	4,218	2,147	104,523
Fixed income securities	*165,722*	*709*	-	*166,431*	*98,158*	*4,218*	-	*102,376*
Shares and other non-fixed income securities	-	-	*2,226*	*2,226*	-	-	*2,147*	*2,147*
Total financial assets	**186,623**	**3,180**	**2,226**	**192,029**	**104,827**	**7,048**	**2,147**	**114,022**
Financial liabilities								
Financial liabilities at fair value through profit or loss	-	226	-	226	-	176	-	176
Derivatives	-	*226*	-	*226*	-	*176*	-	*176*
Total financial liabilities	-	**226**	-	**226**	-	**176**	-	**176**

During the reporting year, no transfers of financial instruments between the levels of the fair value hierarchy took place.

In 2010 and 2009, the fair value of only one investment fund was determined by applying the terms of Level 3 of the fair value hierarchy. The analysis of the audited financial statements of the above mentioned fund did not show any impairment of the Group's and Bank's initial investment during the reporting year. Considering the positive financials reported in the audited financial statements of the closed investment fund, the value of the Group's and Bank's investment has increased. However, the Group's and Bank's management, having prudently assessed risks related to this investment, believe that the fair value of the investment corresponds to its net carrying amount.

Note 32

Credit risk

Credit risk is exposure to potential losses in case the Group's or Bank's counterparty or debtor will be unable to pay the contractual obligations to the Group or the Bank.

Credit risk management framework

Credit risk is managed according to the credit policy. Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral.

To assess solvency of private individuals, the Bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories.

The Group and the Bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are granted risk/monitoring factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.

Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the Bank considers such reduced value. As collateral, the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, factoring receivables, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

For effective credit risk management, the Bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The Bank analyses the quality of the loan portfolio on a regular basis. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/risk factors set, collateral value, etc.

The Group and the Bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

Before entering into any cooperation with financial institutions, the Bank assesses each potential counterparty, analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date. Credit risk concentration and the industry analysis of the maximum and minimum exposure are presented in Note 18.

The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis. Regular stress tests of the Bank's loan portfolio are performed to assess the credit risk exposure and identify potential critical situations.

Credit risk concentration

The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the Group and the Bank treat as high the credit exposure exceeding 10% of equity. Pursuant to the statutory requirements, the total credit exposure cannot be more than eight times as large as equity.

As at 31 December 2010 and 2009, the Group and the Bank were in compliance with this requirement. Ten major exposures as at 31 December 2010 amounted to 14.2% (7.4%) of the total Group's and Bank's gross loan portfolio.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank review this part of the loan portfolio on a regular basis. Low activity was still observed on the real estate market in 2010, which affected customer financing in this sector. No financing options for new real estate development projects are being considered at present. As at 31 December 2010, the amount of those properties which had been taken over during the loan restructuring process carried out by the Group/Bank with the purpose of selling those properties to recover the debts was LVL 41.940 (22.708) thousand.

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

The accompanying notes form an integral part of these consolidated financial statements.

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The credit risk inherent in the Group's and Bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers.

The analysis of maximum geographical concentration for the Group as at 31 December 2010:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and deposits with central banks	79,182	2,284	86	568	-	82,120
Balances due from credit institutions	283	104,720	45,959	148,054	26,336	325,352
Financial assets at fair value through profit or loss	1,210	5,755	8,133	5,229	3,045	23,372
Available-for-sale financial assets	15	1,194	1,985	108,668	56,795	168,657
Held-to-maturity investments	-	7,731	-	108,254	39,127	155,112
Loans and receivables	455,406	765	8,651	19,102	44,948	528,872
Total financial assets	**536,096**	**122,449**	**64,814**	**389,875**	**170,251**	**1,283,485**
Non-financial assets	83,448	3	-	590	1	84,042
Total assets	**619,544**	**122,452**	**64,814**	**390,465**	**170,252**	**1,367,527**
Contingent liabilities	19,402	188	346	54	1,135	21,125
Financial commitments	5,400	-	410	900	6,224	12,934
Total geographical concentration of assets and memorandum items	**644,346**	**122,640**	**65,570**	**391,419**	**177,611**	**1,401,586**

The analysis of maximum geographical concentration for the Group as at 31 December 2009:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and demand deposits with central banks	41,945	2,321	41	679	-	44,986
Balances due from credit institutions	589	58,992	39,523	95,847	8,618	203,569
Financial assets at fair value through profit or loss	731	-	-	8,732	36	9,499
Available-for-sale financial assets	4,605	2,101	2,275	48,740	46,802	104,523
Loans and receivables	522,525	-	1,386	16,418	10,251	550,580
Total financial assets	**570,395**	**63,414**	**43,225**	**170,416**	**65,707**	**913,157**
Non-financial assets	63,562	2	41	905	60	64,570
Total assets	**633,957**	**63,416**	**43,266**	**171,321**	**65,767**	**977,727**
Contingent liabilities	15,569	207	436	93	579	16,884
Financial commitments	4,295	-	-	772	5,143	10,210
Total geographical concentration of assets and memorandum items	**653,821**	**63,623**	**43,702**	**172,186**	**71,489**	**1,004,821**

The analysis of maximum geographical concentration for the Bank as at 31 December 2010:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and deposits with central banks	79,182	2,284	86	568	-	82,120
Balances due from credit institutions	283	104,720	45,959	148,028	26,336	325,326
Financial assets at fair value through profit or loss	1,210	5,755	8,133	5,229	3,045	23,372
Available-for-sale financial assets	15	1,194	1,985	108,668	56,795	168,657
Held-to-maturity investments	-	7,731	-	108,254	39,127	155,112
Loans and receivables	455,133	765	8,651	19,064	44,948	528,561
Total financial assets	**535,823**	**122,449**	**64,814**	**389,811**	**170,251**	**1,283,148**
Non-financial assets	94,823	3	-	590	1	95,417
Total assets	**630,646**	**122,452**	**64,814**	**390,401**	**170,252**	**1,378,565**
Contingent liabilities	19,402	188	346	54	1,135	21,125
Financial commitments	5,400	-	410	900	6,224	12,934
Total geographical concentration of assets and memorandum items	**655,448**	**122,640**	**65,570**	**391,355**	**177,611**	**1,412,624**

The analysis of maximum geographical concentration for the Bank as at 31 December 2009:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and deposits with central banks	41,945	2,321	41	679	-	44,986
Balances due from credit institutions	578	58,991	39,523	95,847	8,598	203,537
Financial assets at fair value through profit or loss	731	-	-	8,732	36	9,499
Available-for-sale financial assets	4,605	2,101	2,275	48,740	46,802	104,523
Held-to-maturity investments	525,420	-	1,386	16,418	10,251	553,475
Total financial assets	**573,279**	**63,413**	**43,225**	**170,416**	**65,687**	**916,020**
Non-financial assets	75,101	2	41	905	60	76,109
Total assets	**648,380**	**63,415**	**43,266**	**171,321**	**65,747**	**992,129**
Contingent liabilities	15,569	207	436	93	579	16,884
Financial commitments	4,295	-	-	772	5,143	10,210
Total geographical concentration of assets and memorandum items	**668,244**	**63,622**	**43,702**	**172,186**	**71,469**	**1,019,223**

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

The credit risk inherent in the Group's and Bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers.

The accompanying notes form an integral part of these consolidated financial statements.

The Group's and Bank's securities portfolios by the credit rating classes:

	Group/Bank 31/12/2010					Group/Bank 31/12/2009			
Credit ratings	At fair value LVL `000	Liquidity portfolio LVL `000	Investments held for undefined period portfolio LVL `000	Held-to-maturity LVL `000	Loans and receivables LVL `000	At fair value LVL `000	Liquidity portfolio LVL `000	Investments held for undefined period portfolio LVL `000	Loans and receivables LVL `000
AAA to AA-	19,362	106,985	2,840	111,604	-	-	48,710	2,146	-
A+ to A-	-	-	-	164	-	-	-	-	-
BBB+ to BBB-	-	-	20,590	27,484	606	-	-	16,860	761
BB+ to BB-	-	-	18,447	6,795	3,652	-	1,985	12,283	4,803
B+ to B-	5	-	16,325	9,003	4,451	-	-	16,399	6,360
Below B-	-	-	784	62	2,133	12	-	2,081	5,916
No rating	-	-	460	-	219	-	-	1,912	1,293
Shares and investments in funds	674	-	2,226	-	-	52	-	2,147	-
Securities portfolio, net	**20,041**	**106,985**	**61,672**	**155,112**	**11,061**	**64**	**50,695**	**53,828**	**19,133**

Note 33

Financial risks

a) Liquidity risk
Liquidity is the Group's and Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Group's and Bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Risk Officer (CRO) is responsible for liquidity risk management. The Risk Management Division is responsible for liquidity risk evaluation and control. The Chief Financial Officer (CFO) is responsible for liquidity management and the Financial Market Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted.

The key principles and procedures to timely identify, analyse and control liquidity risk are laid down in the liquidity management policy.

For ordinary liquidity risk management purposes, the Bank applies the following indicators having certain limits and restrictions set:
- deposit coverage ratio;
- net liquidity positions by all currencies in total and by each separate currency;
- current liquidity ratio;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

To timely identify the potential deterioration in the liquidity position, an early warning indicators system has been designed:
- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of "Less than 30 days";
- simultaneous decrease of the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease of the proportion of liquid assets in the total assets of the Bank;
- negative information reported in the mass media about the Bank or its related parties that may harm the Bank's reputation;
- the increasingly reported instances of limits reduced or annulled by counterparties.

Contingency liquidity risk
Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the Bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, the Financial Market Division and the Risk Management Division. The Group and the Bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of Bank's contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or a Bank specific event. These plans ensure that all roles and responsibilities are clearly defined and the necessary management information is in place.

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed which, if observed, also require certain actions to enhance liquidity. The Bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the Bank's liquidity management documents need to be revised. The management of the Group and the Bank continued to focus specifically on liquidity issues. Owing to the adequate liquidity risk management policy and internal control and communication system, the Bank managed to ensure and maintain high liquidity ratio – as at 31 December 2010, the liquidity ratio reached 68.10% (56.15%). The FCMC stipulates that the Bank should maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank's total current liabilities.

Liquidity ratios of the Group and the Bank:

	Group/Bank 2010			Group/Bank 2009		
Liquidity ratio	Highest %	Lowest %	Average %	Highest %	Lowest %	Average %
on demand	46,6	32,2	38,4	40,2	26,2	32,5
less than 30 days (as required by the FCMC)	71,0	59,1	64,4	57,5	33,8	43,2
less than 90 days	70,2	58,3	64,3	53,1	39,8	45,0

The accompanying notes form an integral part of these consolidated financial statements.

The distribution of the Group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2010:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and deposits with central banks	-	66,119	16,001	-	*82,120*	-	-	-	-	82,120
Balances due from credit institutions	-	267,002	37,912	20,290	*325,204*	148	-	-	*148*	325,352
Financial assets at fair value through profit or loss	-	-	4,990	18,382	*23,372*	-	-	-	-	23,372
Available-for-sale financial assets	-	206	164,192	2,019	*166,417*	2,240	-	-	*2,240*	168,657
Loans and receivables	32,131	56,415	5,656	64,702	*158,904*	148,280	221,688	-	*369,968*	528,872
Held-to-maturity	-	57	103,585	1,920	*105,562*	11,662	37,888	-	*49,550*	155,112
Other assets	-	7,935	148	6,071	*14,154*	-	-	69,888	*69,888*	84,042
Total assets	**32,131**	**397,734**	**332,484**	**113,384**	***875,733***	**162,330**	**259,576**	**69,888**	***491,794***	**1,367,527**

Liabilities		On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,906	-	-	*1,906*	-	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	-	101	125	*226*	-	-	-	-	226
Financial liabilities at amortised cost	-	774,552	146,023	300,491	*1,221,066*	24,464	41,646	-	*66,110*	1,287,176
Other liabilities	-	7,268	-	-	*7,268*	-	-	-	-	7,268
Total liabilities	**-**	**783,726**	**146,124**	**300,616**	***1,230,466***	**24,464**	**41,646**	**-**	***66,110***	**1,296,576**
Shareholders' equity	-	-	-	-	-	-	-	70,951	*70,951*	70,951
Total liabilities and shareholders' equity	**-**	**783,726**	**146,124**	**300,616**	***1,230,466***	**24,464**	**41,646**	**70,951**	***137,061***	**1,367,527**
Total memorandum items	**-**	**27,534**	**79**	**3,541**	***31,154***	**2,697**	**208**	**-**	***2,905***	**34,059**
Net liquidity position	x	(413,526)	186,281	(190,773)	*(418,018)*	135,169	217,722	(1,063)	*351,828*	x
Total liquidity position	x	(413,526)	(227,245)	(418,018)	*x*	(282,849)	(65,127)	(66,190)	*x*	x

The distribution of the Group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2009:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and demand deposits with central banks	-	44,986	-	-	*44,986*	-	-	-	-	44,986
Balances due from credit institutions	-	51,344	140,861	6,374	*198,579*	4,990	-	-	*4,990*	203,569
Financial assets at fair value through profit or loss	-	-	1,094	8,393	*9,487*	12	-	-	*12*	9,499
Available-for-sale financial assets	-	148	437	64,617	*65,202*	39,321	-	-	*39,321*	104,523
Loans and receivables	73,975	27,967	5,928	61,906	*169,776*	49,736	331,068	-	*380,804*	550,580
Other assets	-	26,679	470	7,482	*34,631*	-	-	29,939	*29,939*	64,570
Total assets	**73,975**	**151,124**	**148,790**	**148,772**	***522,661***	**94,059**	**331,068**	**29,939**	***455,066***	**977,727**

Liabilities		On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,027	-	-	*1,027*	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	42	134	*176*	-	-	-	-	176
Financial liabilities at amortised cost	-	421,564	138,051	293,821	*853,436*	23,003	28,657	-	*51,660*	905,096
Other liabilities	-	2,442	-	-	*2,442*	-	-	-	-	2,442
Total liabilities	**-**	**425,033**	**138,093**	**293,955**	***857,081***	**23,003**	**28,657**	**-**	***51,660***	**908,741**
Shareholders' equity	-	-	-	-	-	-	-	68,986	*68,986*	68,986
Total liabilities and shareholders' equity	**-**	**425,033**	**138,093**	**293,955**	***857,081***	**23,003**	**28,657**	**68,986**	***120,646***	**977,727**
Total memorandum items	**-**	**25,897**	**601**	**596**	***27,094***	**-**	**-**	**-**	***-***	**27,094**
Net liquidity position	x	(299,806)	10,096	(145,779)	*(435,489)*	71,056	302,411	(39,047)	*334,420*	x
Total liquidity position	x	(299,806)	(289,710)	(435,489)	*x*	(364,433)	(62,022)	(101,069)	*x*	x

The accompanying notes form an integral part of these consolidated financial statements.

The distribution of the Bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2010:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and deposits with central banks	-	66,119	16,001	-	*82,120*	-	-	-	-	82,120
Balances due from credit institutions	-	266,976	37,912	20,290	*325,178*	148	-	-	*148*	325,326
Financial assets at fair value through profit or loss	-	-	4,990	18,382	*23,372*	-	-	-	-	23,372
Available-for-sale financial assets	-	206	164,192	2,019	*166,417*	2,240	-	-	*2,240*	168,657
Loans and receivables	32,131	56,415	5,656	64,391	*158,593*	148,280	221,688	-	*369,968*	528,561
Held-to-maturity investments	-	57	103,585	1,920	*105,562*	11,662	37,888	-	*49,550*	155,112
Other assets	-	4,754	148	5,619	*10,521*	-	-	84,896	*84,896*	95,417
Total assets	**32,131**	**394,527**	**332,484**	**112,621**	***871,763***	**162,330**	**259,576**	**84,896**	***506,802***	**1,378,565**

Liabilities		On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,906	-	-	*1,906*	-	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	-	101	125	*226*	-	-	-	-	226
Financial liabilities at amortised cost	-	785,951	146,023	300,491	*1,232,465*	21,512	41,646	-	*63,158*	1,295,623
Other liabilities	-	5,433	-	-	*5,433*	-	-	-	-	5,433
Total liabilities	**-**	**793,290**	**146,124**	**300,616**	***1,240,030***	**21,512**	**41,646**	**-**	***63,158***	**1,303,188**
Shareholders' equity	-	-	-	-	-	-	-	75,377	*75,377*	75,377
Total liabilities and shareholders' equity	**-**	**793,290**	**146,124**	**300,616**	***1,240,030***	**21,512**	**41,646**	**75,377**	***138,535***	**1,378,565**
Total memorandum items	**-**	**27,534**	**79**	**3,541**	***31,154***	**2,697**	**208**	**-**	***2,905***	**34,059**
Net liquidity position	x	(426,297)	186,281	(191,536)	*(431,552)*	138,121	217,722	9,519	*365,362*	x
Total liquidity position	x	(426,297)	(240,016)	(431,552)	*x*	(293,431)	(75,709)	(66,190)	*x*	x

The distribution of the Bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2009:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and demand deposits with central banks	-	44,986	-	-	*44,986*	-	-	-	-	44,986
Balances due from credit institutions	-	51,312	140,861	6,374	*198,547*	4,990	-	-	*4,990*	203,537
Financial assets at fair value through profit or loss	-	-	1,094	8,393	*9,487*	12	-	-	*12*	9,499
Available-for-sale financial	-	148	437	64,617	*65,202*	39,321	-	-	*39,321*	104,523
Loans and receivables	73,975	27,967	5,908	61,906	*169,756*	52,651	331,068	-	*383,719*	553,475
Other assets	-	6,017	470	7,015	*13,502*	-	-	62,607	*62,607*	76,109
Total assets	**73,975**	**130,430**	**148,770**	**148,305**	***501,480***	**96,974**	**331,068**	**62,607**	***490,649***	**992,129**

Liabilities		On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,027	-	-	*1,027*	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	42	134	*176*	-	-	-	-	176
Financial liabilities at amortised cost	-	421,565	148,564	290,850	*860,979*	23,003	28,657	-	*51,660*	912,639
Other liabilities	-	4,204	-	-	*4,204*	-	-	-	-	4,204
Total liabilities	**-**	**426,796**	**148,606**	**290,984**	***866,386***	**23,003**	**28,657**	**-**	***51,660***	**918,046**
Shareholders' equity	-	-	-	-	-	-	-	74,083	*74,083*	74,083
Total liabilities and shareholders' equity	**-**	**426,796**	**148,606**	**290,984**	***866,386***	**23,003**	**28,657**	**74,083**	***125,743***	**992,129**
Total memorandum items	**-**	**25,897**	**601**	**596**	***27,094***	**-**	**-**	**-**	***-***	**27,094**
Net liquidity position	x	(322,263)	(437)	(143,275)	*(465,975)*	73,971	302,411	(11,476)	*364,906*	x
Total liquidity position	x	(322,263)	(322,700)	(465,975)	*x*	(392,004)	(89,593)	(101,069)	*x*	x

The accompanying notes form an integral part of these consolidated financial statements.

The Group and the Bank have prepared these consolidated financial statements on a going concern basis notwithstanding the fact that they have a significant negative liquidity gap in the "on demand" maturity range of assets and liabilities. The Group's and Bank's Management closely monitor and manage the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative liquidity gap in "on demand" assets and liabilities as at 31 December 2010 and 2009 is substantially due to significant "on demand" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The maturity gap analysis does not reflect the historical stability of current accounts. These balances are included in amounts due "on demand". The Group and the Bank have reviewed the historical stability of their current accounts and concluded that half of the balances have the ultimate maturity of more than one year.

The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group's and Bank's operations.

The Group's and Bank's ability to avoid adverse changes in their liquidity position depends on the management's effectiveness in the continuing execution of the actions taken.

The assets, which have been impaired, are stated net of allowances.

In estimating the amount of expected financial liabilities, the Group and the Bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2010 and 2009 which is expected in the future but has not been assessed at the reporting date.

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future but has not been assessed as at 31 December 2010 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,906	-	-	*1,906*	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	101	125	*226*	-	-	-	226
Financial liabilities at amortised cost	774,552	146,992	308,514	*1,230,058*	33,924	43,766	*77,690*	1,307,748
Total financial liabilities	**776,458**	**147,093**	**308,639**	***1,232,190***	**33,924**	**43,766**	***77,690***	**1,309,880**
Memorandum items	6,684	604	12,514	*19,802*	9,790	4,467	*14,257*	34,059
Total financial liabilities and memorandum items	**783,142**	**147,697**	**321,153**	***1,251,992***	**43,714**	**48,233**	***91,947***	**1,343,939**

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future but has not been assessed as at 31 December 2009 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,027	-	-	*1,027*	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	42	134	*176*	-	-	-	176
Financial liabilities at amortised cost	409,397	148,983	299,700	*858,080*	29,689	31,943	*61,632*	919,712
Total financial liabilities	**410,424**	**149,025**	**299,834**	***859,283***	**29,689**	**31,943**	***61,632***	**920,915**
Memorandum items	11,129	623	6,818	*18,570*	8,509	15	*8,524*	27,094
Total financial liabilities and memorandum items	**421,553**	**149,648**	**306,652**	***877,853***	**38,198**	**31,958**	***70,156***	**948,009**

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2010 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,906	-	-	*1,906*	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	101	125	*226*	-	-	-	226
Financial liabilities at amortised cost	785,951	146,984	308,431	*1,241,366*	33,823	43,766	*77,589*	1,318,955
Total financial liabilities	**787,857**	**147,085**	**308,556**	***1,243,498***	**33,823**	**43,766**	***77,589***	**1,321,087**
Memorandum items	6,684	604	12,514	*19,802*	9,790	4,467	*14,257*	34,059
Total financial liabilities and memorandum items	**794,541**	**147,689**	**321,070**	***1,263,300***	**43,613**	**48,233**	***91,846***	**1,355,146**

The accompanying notes form an integral part of these consolidated financial statements.

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2009 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,027	-	-	*1,027*	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	42	134	*176*	-	-	-	176
Financial liabilities at amortised cost	419,911	148,983	296,729	*865,623*	29,689	31,943	*61,632*	927,255
Total financial liabilities	**420,938**	**149,025**	**296,863**	***866,826***	**29,689**	**31,943**	***61,632***	**928,458**
Memorandum items	11,129	623	6,818	*18,570*	8,509	15	*8,524*	27,094
Total financial liabilities and memorandum items	**432,067**	**149,648**	**303,681**	***885,396***	**38,198**	**31,958**	***70,156***	**955,552**

b) Currency risk
The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The Bank has major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Bank's open position in EUR is minimal. The Bank's open currency position in USD is also rather small as it is hedged by using currency forwards/futures. As at 31 December 2010, the Bank's open currency position in USD was 0.1% (5.2%) of Bank's equity and, therefore, the effect of changes in the USD exchange rate is insignificant, and the Bank does not conduct more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy. As at 31 December 2010, all the above limits had been met.

The Bank's Limits Policy defines major principles for application and control of limits; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

The accompanying notes form an integral part of these consolidated financial statements.

The Group's currency position as at 31 December 2010:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and deposits with central banks	77,757	544	3,710	-	109	82,120
Balances due from credit institutions	28	220,502	73,012	12,039	19,771	325,352
Financial assets at fair value through profit or loss	3,371	17,067	390	3	2,541	23,372
Available-for-sale financial assets	-	163,093	169	4,899	496	168,657
Loans and receivables	4,688	73,796	445,893	1,456	3,039	528,872
Held-to-maturity investments	-	147,856	3,514	2,853	889	155,112
Other assets	77,383	348	5,410	176	725	84,042
Total assets	**163,227**	**623,206**	**532,098**	**21,426**	**27,570**	**1,367,527**
Liabilities						
Demand deposits from credit institutions	-	1,132	772	-	2	1,906
Financial liabilities at fair value through profit or loss	226	-	-	-	-	226
Financial liabilities at amortised cost	37,021	777,871	422,937	20,888	28,459	1,287,176
Other liabilities	3,750	1,627	1,628	258	5	7,268
Total liabilities	**40,997**	**780,630**	**425,337**	**21,146**	**28,466**	**1,296,576**
Shareholders' equity	70,951	-	-	-	-	70,951
Total liabilities and shareholders' equity	**111,948**	**780,630**	**425,337**	**21,146**	**28,466**	**1,367,527**
Net long/(short) balance sheet position	**51,279**	**(157,424)**	**106,761**	**280**	**(896)**	**x**
Derivatives, notional amount	(11,748)	157,675	(145,637)	1,172	1,379	x
Net open (short)/long currency position	**39,531**	**251**	**(38,876)**	**1,452**	**483**	**x**

The Group's currency position as at 31 December 2009:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and demand deposits with central banks	40,775	670	3,489	-	52	44,986
Balances due from credit institutions	1	125,525	53,907	7,569	16,567	203,569
Financial assets at fair value through profit or loss	2,788	6,709	-	2	-	9,499
Available-for-sale financial assets	1,984	96,341	4,057	2,141	-	104,523
Loans and receivables	5,536	56,023	488,005	1,006	10	550,580
Other assets	51,852	897	11,622	4	195	64,570
Total assets	**102,936**	**286,165**	**561,080**	**10,722**	**16,824**	**977,727**
Liabilities						
Demand deposits from credit institutions	-	831	196	-	-	1,027
Financial liabilities at fair value through profit or loss	176	-	-	-	-	176
Financial liabilities at amortised cost	19,151	535,419	323,832	10,254	16,440	905,096
Other liabilities	340	713	1,361	26	3	2,443
Total liabilities	**19,667**	**536,963**	**325,389**	**10,280**	**16,443**	**908,742**
Shareholders' equity	68,985	-	-	-	-	68,985
Total liabilities and shareholders' equity	**88,652**	**536,963**	**325,389**	**10,280**	**16,443**	**977,727**
Net long/(short) balance sheet position	**14,284**	**(250,798)**	**235,691**	**442**	**381**	**x**
Derivatives, notional amount	(4,900)	253,969	(239,575)	(248)	161	x
Net open (short)/long currency position	**9,384**	**3,171**	**(3,884)**	**194**	**542**	**x**

The Bank's currency position as at 31 December 2010:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and deposits with central banks	77,757	544	3,710	-	109	82,120
Balances due from credit institutions	28	220,501	73,000	12,028	19,769	325,326
Financial assets at fair value through profit or loss	3,371	17,067	390	3	2,541	23,372
Available-for-sale financial assets	-	163,093	169	4,899	496	168,657
Loans and receivables	4,686	73,748	445,638	1,450	3,039	528,561
Held-to-maturity investments	-	147,856	3,514	2,853	889	155,112
Other assets	38,223	268	56,025	176	725	95,417
Total assets	**124,065**	**623,077**	**582,446**	**21,409**	**27,568**	**1,378,565**
Liabilities						
Demand deposits from credit institutions	-	1,132	772	-	2	1,906
Financial liabilities at fair value through profit or loss	226	-	-	-	-	226
Financial liabilities at amortised cost	40,131	777,872	428,273	20,888	28,459	1,295,623
Other liabilities	3,188	1,594	399	248	4	5,433
Total liabilities	**43,545**	**780,598**	**429,444**	**21,136**	**28,465**	**1,303,188**
Shareholders' equity	75,377	-	-	-	-	75,377
Total liabilities and shareholders' equity	**118,922**	**780,598**	**429,444**	**21,136**	**28,465**	**1,378,565**
Net long/(short) balance sheet position	**5,143**	**(157,521)**	**153,002**	**273**	**(897)**	**x**
Derivatives, notional amount	(11,748)	157,675	(145,637)	1,172	1,379	x
Net open (short)/long currency position	**(6,605)**	**154**	**7,365**	**1,445**	**482**	**x**
Percentage of shareholders' equity, (%)	**(6,3%)**	**0,1%**	**7,0%**	**1,4%**	**0,5%**	**x**

The Bank's currency position as at 31 December 2009:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and demand deposits with central banks	40,775	670	3,489	-	52	44,986
Balances due from credit institutions	1	125,525	53,896	7,552	16,563	203,537
Financial assets at fair value through profit or loss	2,788	6,709	-	2	-	9,499
Available-for-sale financial assets	1,984	96,341	4,057	2,141	-	104,523
Loans and receivables	5,536	56,023	490,900	1,006	10	553,475
Other assets	48,113	3,185	24,612	4	195	76,109
Total assets	**99,197**	**288,453**	**576,954**	**10,705**	**16,820**	**992,129**
Liabilities						
Demand deposits from credit institutions	-	831	196	-	-	1,027
Financial liabilities at fair value through profit or loss	176	-	-	-	-	176
Financial liabilities at amortised cost	19,151	535,419	331,375	10,254	16,440	912,639
Other liabilities	2,101	713	1,361	26	3	4,204
Total liabilities	**21,428**	**536,963**	**332,932**	**10,280**	**16,443**	**918,046**
Shareholders' equity	74,083	-	-	-	-	74,083
Total liabilities and shareholders' equity	**95,511**	**536,963**	**332,932**	**10,280**	**16,443**	**992,129**
Net long/(short) balance sheet position	**3,686**	**(248,510)**	**244,022**	**425**	**377**	**x**
Derivatives, notional amount	(4,900)	253,969	(239,575)	(248)	161	x
Net open (short)/long currency position	**(1,214)**	**5,459**	**4,447**	**177**	**538**	**x**
Percentage of shareholders' equity, (%)	**(1,2%)**	**5,4%**	**4,4%**	**0,2%**	**0,5%**	**x**

The accompanying notes form an integral part of these consolidated financial statements.

The Law on Credit Institutions requires that Bank's open positions in each foreign currency may not exceed 10% of equity and that the total Bank's foreign currency open position may not exceed 20% of equity.
As at 31 December 2010, the Bank was in compliance with the above requirements of the Law on Credit Institutions.

c) Market risk
The exposure of the trade portfolio to market risk and the capital charge for market risk is determined according to the standardised approach described in the Regulations for Calculation of Minimum Capital Requirement whereby the positions for general risk debt securities are calculated under the maturity method.

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk.
Interest rate risk is assessed both in terms of income and economic value. The term economic value means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:
- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/ maturity date;
- financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date.

Derivatives are represented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.

The effect of interest rate risk on the economic value is calculated according to the duration method, i.e., the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit/loss is analysed applying the gap analysis, i.e. analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The Bank performs regular interest rate stress tests aimed at assessing the effect of adverse changes in interest rates on the Bank's income and economic value in the event of a tough market situation.

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The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2010 and 2009:

		Group/Bank 31/12/2010		Group/Bank 31/12/2009	
		+100 bps LVL '000	-100 bps LVL '000	+100 bps LVL '000	-100 bps LVL '000
Total for all currencies	Effect of changes on equity	(1,313)	1,313	(1,337)	1,337
	Effect of changes on profit/loss	3,788	(3,788)	(1,392)	1,392
USD	Effect of changes on equity	(1,313)	1,313	(1,261)	1,261
	Effect of changes on profit/loss	695	(695)	(2,393)	2,393
EUR	Effect of changes on equity	-	-	(76)	76
	Effect of changes on profit/loss	2,522	(2,522)	765	(765)
LVL	Effect of changes on equity	-	-	-	-
	Effect of changes on profit/loss	572	(572)	236	(236)

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2010, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and deposits with central banks	78,568	-	-	-	-	-	3,552	82,120
Balances due from credit institutions	230,074	8,240	555	11,487	41	-	74,955	325,352
Financial assets at fair value through profit or loss	674	-	-	-	19,175	5	3,518	23,372
Available-for-sale financial assets	293	2,706	33,376	46,998	77,037	4,532	3,715	168,657
Loans and receivables	250,112	116,715	126,376	13,050	16,160	854	5,605	528,872
Held-to-maturity investments	1,458	2,535	603	270	10,602	137,804	1,840	155,112
Other assets	-	-	-	-	-	-	84,042	84,042
Total assets	**561,179**	**130,196**	**160,910**	**71,805**	**123,015**	**143,195**	**177,227**	**1,367,527**
Liabilities								
Demand deposits from credit institutions	-	-	-	-	-	-	1,906	1,906
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	226	226
Financial liabilities at amortised cost	151,076	151,880	88,317	56,553	20,510	38,617	780,223	1,287,176
Other liabilities	-	-	-	-	-	-	7,268	7,268
Total liabilities	**151,076**	**151,880**	**88,317**	**56,553**	**20,510**	**38,617**	**787,717**	**1,296,576**
Shareholders' equity	-	-	-	-	-	-	70,951	70,951
Total liabilities and shareholders' equity	**151,076**	**151,880**	**88,317**	**56,553**	**20,510**	**38,617**	**858,668**	**1,367,527**
Futures, sold	2,200	(125)	-	-	-	-	-	2,075
Interest rate repricing maturity gaps	**412,303**	**(21,809)**	**72,593**	**15,252**	**102,505**	**104,578**	**(681,441)**	**x**

The accompanying notes form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2009, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	41,105	-	-	-	-	-	3,881	44,986
Balances due from credit institutions	192,308	1,100	4,160	1,107	4,743	-	151	203,569
Financial assets at fair value through profit or loss	-	-	-	-	12	-	9,487	9,499
Available-for-sale financial assets	3,811	7,355	1,945	7,503	21,193	7,905	54,811	104,523
Loans and receivables	128,464	85,348	130,756	178,419	15,531	2,356	9,706	550,580
Other assets	-	-	-	-	-	-	64,570	64,570
Total assets	**365,688**	**93,803**	**136,861**	**187,029**	**41,479**	**10,261**	**142,606**	**977,727**
Liabilities								
Demand deposits from credit institutions	1,027	-	-	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	176	176
Financial liabilities at amortised cost	549,767	165,708	49,505	66,775	25,908	28,657	18,776	905,096
Other liabilities	-	-	-	-	-	-	2,442	2,442
Total liabilities	**550,794**	**165,708**	**49,505**	**66,775**	**25,908**	**28,657**	**21,394**	**908,741**
Shareholders' equity	-	-	-	-	-	-	68,986	68,986
Total liabilities and shareholders' equity	**550,794**	**165,708**	**49,505**	**66,775**	**25,908**	**28,657**	**90,380**	**977,727**
Futures, sold	-	6,589	-	-	-	-	-	6,589
Interest rate repricing maturity gaps	**(185,106)**	**(65,316)**	**87,356**	**120,254**	**15,571**	**(18,396)**	**52,226**	**x**

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2010, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and deposits with central banks	78,568	-	-	-	-	-	3,552	82,120
Balances due from credit institutions	229,801	8,240	555	11,487	41	-	75,202	325,326
Financial assets at fair value through profit or loss	674	-	-	-	19,175	5	3,518	23,372
Available-for-sale financial assets	293	2,706	33,376	46,998	77,037	4,532	3,715	168,657
Loans and receivables	249,839	116,715	126,376	13,012	16,160	854	5,605	528,561
Held-to-maturity investments	1,458	2,535	603	270	10,602	137,804	1,840	155,112
Other assets	-	-	-	-	-	-	95,417	95,417
Total assets	**560,633**	**130,196**	**160,910**	**71,767**	**123,015**	**143,195**	**188,849**	**1,378,565**
Liabilities								
Demand deposits from credit institutions	-	-	-	-	-	-	1,906	1,906
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	226	226
Financial liabilities at amortised cost	151,076	151,880	88,317	56,553	17,558	38,617	791,622	1,295,623
Other liabiliies	-	-	-	-	-	-	5,433	5,433
Total liabilities	**151,076**	**151,880**	**88,317**	**56,553**	**17,558**	**38,617**	**797,281**	**1,303,188**
Shareholders' equity	-	-	-	-	-	-	75,377	75,377
Total liabilities and shareholders' equity	**151,076**	**151,880**	**88,317**	**56,553**	**17,558**	**38,617**	**872,658**	**1,378,565**
Futures, sold	2,200	(125)	-	-	-	-	-	2,075
Interest rate repricing maturity gaps	**411,757**	**(21,809)**	**72,593**	**15,214**	**105,457**	**104,578**	**(683,809)**	**x**

The accompanying notes form an integral part of these consolidated financial statements.

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2009, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	41,105	-	-	-	-	-	3,881	44,986
Balances due from credit institutions	192,276	1,100	4,160	1,107	4,743	-	151	203,537
Financial assets at fair value through profit or loss	-	-	-	-	12	-	9,487	9,499
Available-for-sale financial assets	3,811	7,355	1,945	7,503	21,193	7,905	54,811	104,523
Loans and receivables	128,464	88,243	130,756	178,419	15,531	2,356	9,706	553,475
Other assets	-	-	-	-	-	-	76,109	76,109
Total assets	**365,656**	**96,698**	**136,861**	**187,029**	**41,479**	**10,261**	**154,145**	**992,129**
Liabilities								
Demand deposits from credit institutions	1,027	-	-	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	176	176
Financial liabilities at amortised cost	560,281	165,708	49,505	66,775	22,937	28,657	18,776	912,639
Other liabilities	-	-	-	-	-	-	4,204	4,204
Total liabilities	**561,308**	**165,708**	**49,505**	**66,775**	**22,937**	**28,657**	**23,156**	**918,046**
Shareholders' equity	-	-	-	-	-	-	74,083	74,083
Total liabilities and shareholders' equity	**561,308**	**165,708**	**49,505**	**66,775**	**22,937**	**28,657**	**97,239**	**992,129**
Futures, sold	-	6,589	-	-	-	-	-	6,589
Interest rate repricing maturity gaps	**(195,652)**	**(62,421)**	**87,356**	**120,254**	**18,542**	**(18,396)**	**56,906**	**x**

Note 34

Non-financial risks

During the course of their operations, the Group and the Bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the Bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

Operational risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk. Operational risk is inherent in all products, activities, processes, and systems of the Group and the Bank. The operational risk management policy is approved by the Council of the Bank. The Board of the Bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the Group and the Bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.
Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations. The key principles allowing efficient operational risk management are as follows:

- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/or mitigating operational risk adequately;
- ensuring business continuity.

To manage the Group's and Bank's exposure to operational risk, in September 2008 an operational risk event database was established. The key objectives of the database are as follows:

- collection of data about operational risk events and losses of the Group and the Bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the Bank to identify potential losses and take all required measures to prevent such losses.

During the reporting year, approximately 1.499 (1.300) events were registered in the database, of which only 82 (85) events were those which resulted in actual losses amounting to LVL 32.8 (23.4) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the Group's and Bank's employees in the operational risk management and to the effectiveness of the control environment.

Note 35

Litigation and claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The Management believe that any legal proceedings pending as at 31 December 2010 will not result in material losses for the Bank and/or the Group.

Note 36

Events after reporting date

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

The accompanying notes form an integral part of these consolidated financial statements.

To the shareholders of AS "Aizkraukles Banka"

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS "Aizkraukles Banka" and its subsidiaries (the "Group") and the accompanying financial statements of AS "Aizkraukles Banka" (the "Bank"), set out on pages 9 through 85 of the accompanying 2010 Consolidated Annual Report, which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2010 (set out on pages 1 through 7 of the accompanying 2010 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2010.

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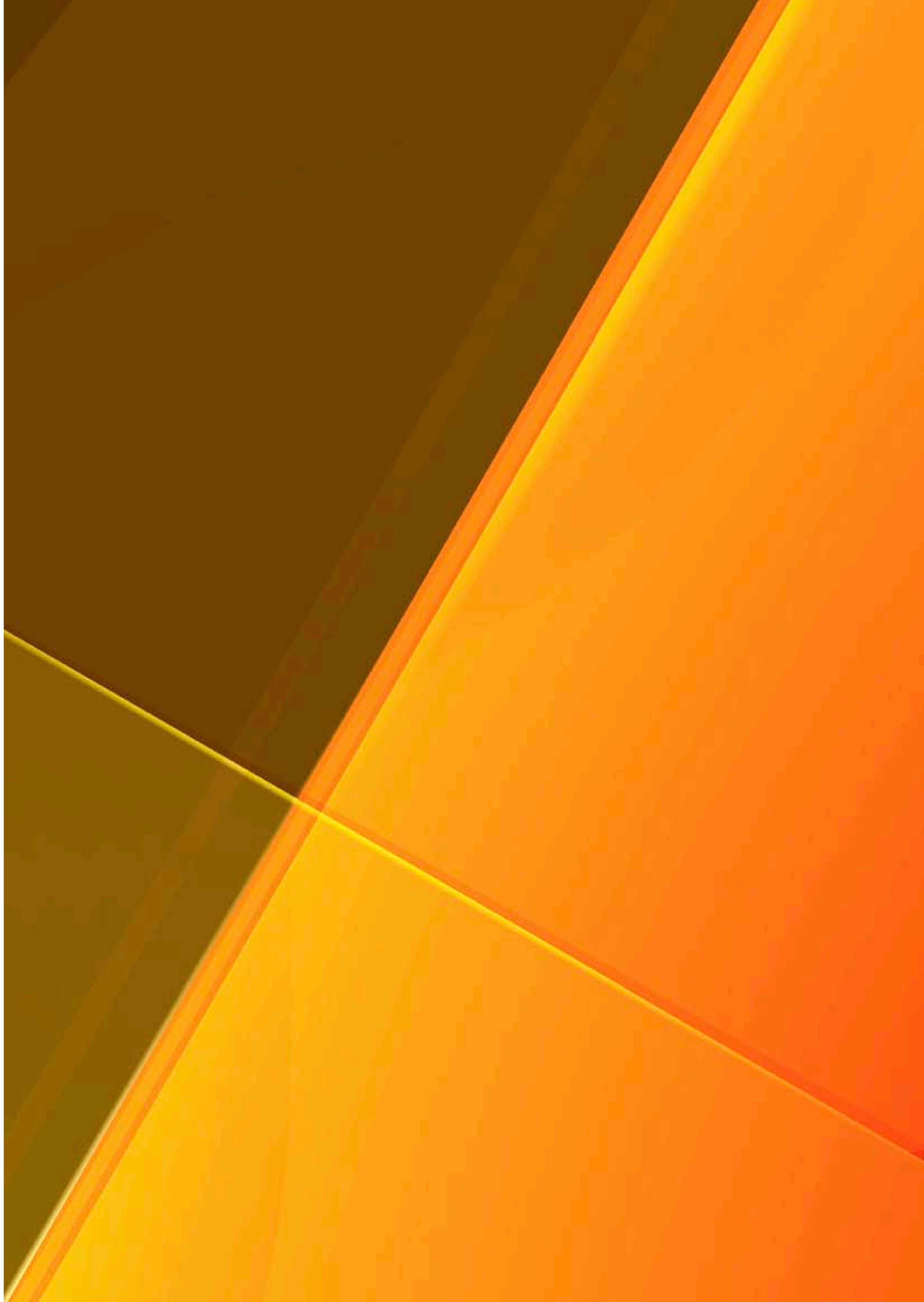
Chairperson of the Board
Latvian Certified Auditor
Certificate No 124

Riga,23 February 2011



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