Baltic International Bank

2010
ANNUAL REPORT

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The best way to make children good is to make them happy.

Oscar Wilde

It is popularly known that a child's drawing is a distinctive test or an indicator of his/her emotional state. Psychologists assert: if you wish to know how your son or daughter perceives the surrounding world, ask your child to draw something that is important to him/her.

In our 2010 report, we would like to invite you to an exhibition of drawings made by children of our clients and employees. All these works are united by a common subject – My Family, My Country, My Future, i.e. those aspects of life that have the greatest influence on the child's perception of environment.

Being a family bank, we devote much attention to the issues related to the prosperity of the younger generation. When solving such tasks as upbringing and education of our young successors and providing for their future, we strive for drawings of our children to always remain as bright and joyous as the ones you will see today – because it primarily means that our kids feel confident and comfortable.

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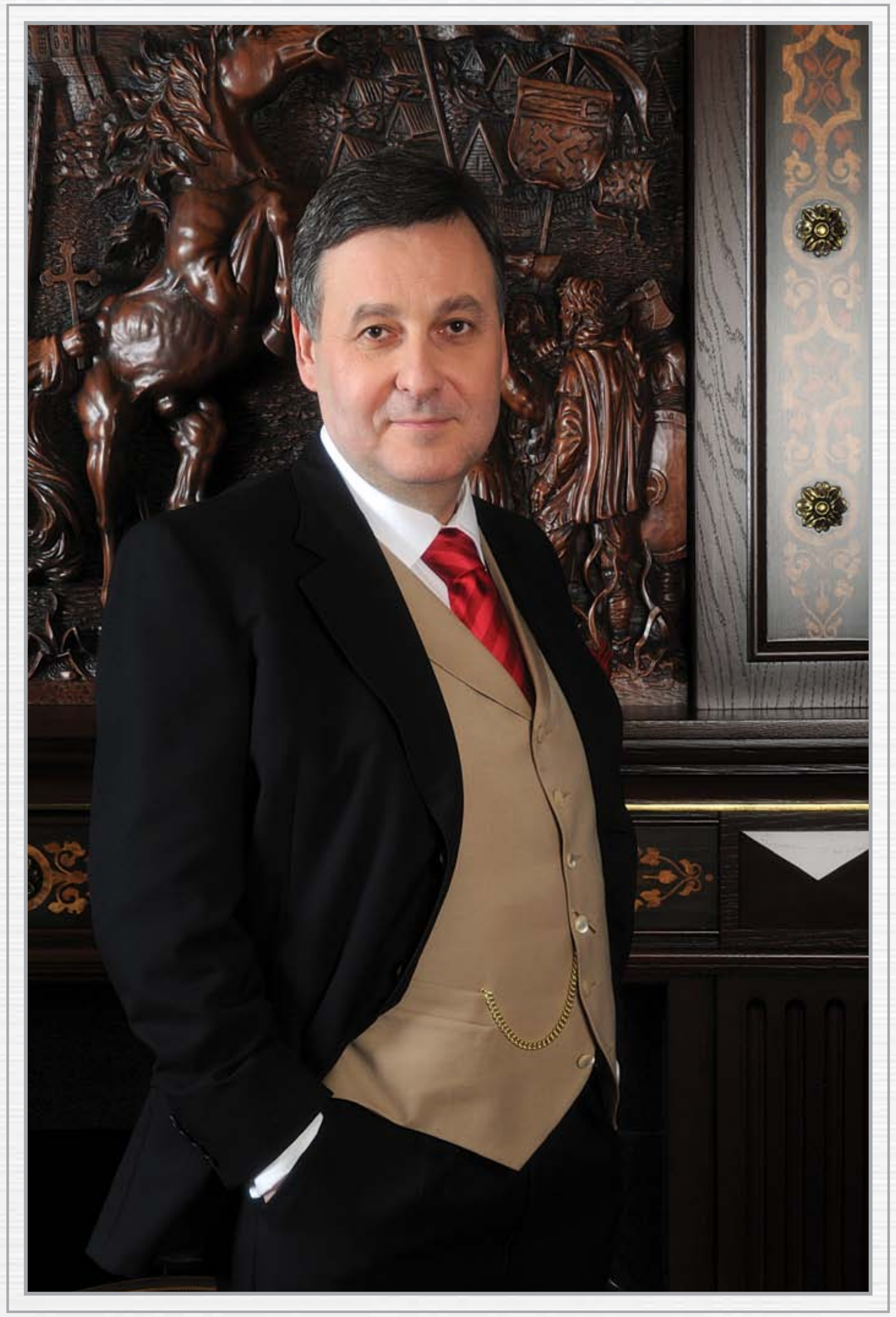


Dear Ladies and Gentlemen,

Life is continuously proving that any achievement is ultimately attainable despite all sorts of roadblocks standing in your way. All you need to do is just strongly believe in your success and never succumb to obstacles – this postulate applies equally well to sports, business, and other areas. It is important, however, to set the right goals. You have to think long term rather than pursue immediate gains.

Living only for today does not make sense. Thinking about the future is fundamentally crucial. What will the world look like? What kind of results will today's initiatives yield? What kind of life will our successors live? The responses are already being shaped today.

The challenge facing every responsible business is to deliver benefits to those around us and share them with future generations. Essentially, our common goal is to contribute to the societal well-being and promote a society where everyone feels successful and protected.

As a family bank aiming to foster a long-standing success of our customers and their family members, we must gear ourselves towards the future. Being based in Latvia, we are happy to contribute to the country's long-term development and facilitate the reinforcement of co-operation with the countries where our customers reside and transact business.

We are proud of having earned your trust. To justify the confidence that you have reposed in us, we commit to strive for excellence in maintaining successful partnership.

Sincerely,

Valeri Belokon
Chairperson of the Council

Dear Ladies and Gentlemen,

2010 will go down in history as a year notable for a string of world- and country-scale events that have seriously altered conventional wisdom and fostered a reshaping of risk-taking attitude. The year's most significant occurrences were the problems facing the eurozone, the results of the 2010 elections in Europe, rise in gold prices, quantitative easing, and China's booming economy, currency appreciations in emerging-market countries, as well as natural disasters, man-caused catastrophes, technological breakthroughs and groundbreaking achievements. They are indicative of how much the world has transformed. One of the key lessons that we have learned from the economic slump is as follows: it's the right time to qualitatively rethink values.

We all make our own forecasts – one way or another – or prefer predictions from other forecasters. Thereafter, we assess whether or not forecasting proves accurate. Anyway, we have to deal with uncertainty no matter what.

Many of our decisions, either small or big, are made under uncertainty – utterly irrespective of the times that we live in. The situation remains pretty much the same as it has been during the past few centuries or a year ago. Nothing is likely to change after ten years. Futurology (or futures studies) can help humanity to experiment with what-if scenarios. However, scenario-building is nothing other than root cause analysis (designed to identify factors that caused past events) and our own projections of the future. Positive expectations reflect our hopes and dreams, while fears fuel our negative expectations.

Certainly, all of these aspects lessen overall confidence levels and stir up concerns. Yet, let's look at this from another angle.

Still, every cloud has a silver lining: uncertainty provides a choice-making opportunity. What we do today – the combination of our thought and action – is what creates tomorrow. The future has never been clear and the uncertainty will never vanish entirely. Being surrounded by uncertainty, it is important to take personal responsibility for the future. We are committed to uphold our responsibility towards our customers, shareholders, staff members, society as a whole, our country, and future generations.

Responsibility for our decisions and actions is the main quality criterion (because quality is crucial in the modern world) and the primary development driver. In our opinion, business executives should be guided by this belief when choosing a particular strategy. Just this premise underlies all our work.

Sincerely,

Ilona Gulchak
Chairperson of the Board

GABRIELLA, 7 years

ARIANNA, 6 years

IRINA, 6 years

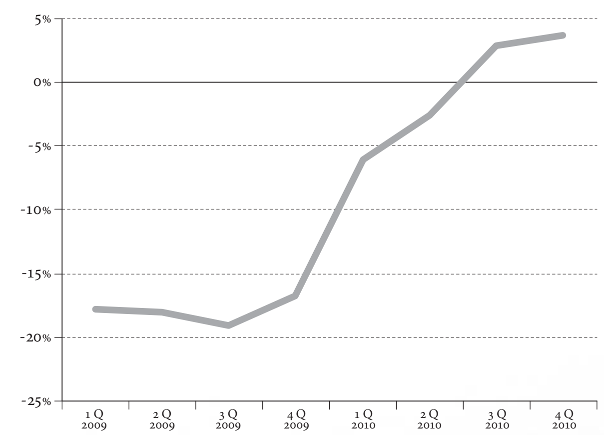
Latvia's Economy 2010

As the global economy is recovering from the deep recession, Latvia starts showing the ever-clearer signs of stability. Although the country's basic indicators are still far away from pre-crisis levels, the economic growth in 2010 exceeded even the most optimistic expectations. Further development will apparently depend upon how well the country succeeds to uphold the positive tendencies by devising the plan of mid-and long-term measures.

GDP GROWS FIRST TIME IN TWO YEARS

After a two-year plunge, Latvia's GDP has been rising gradually during 2010. In 4Q 2010, the GDP surged 3.6 percent on a year-over-year basis. Structure of the country's economy has drastically changed: exports and production have emerged as major driving forces of the economy.

GDP Growth 2009-2010

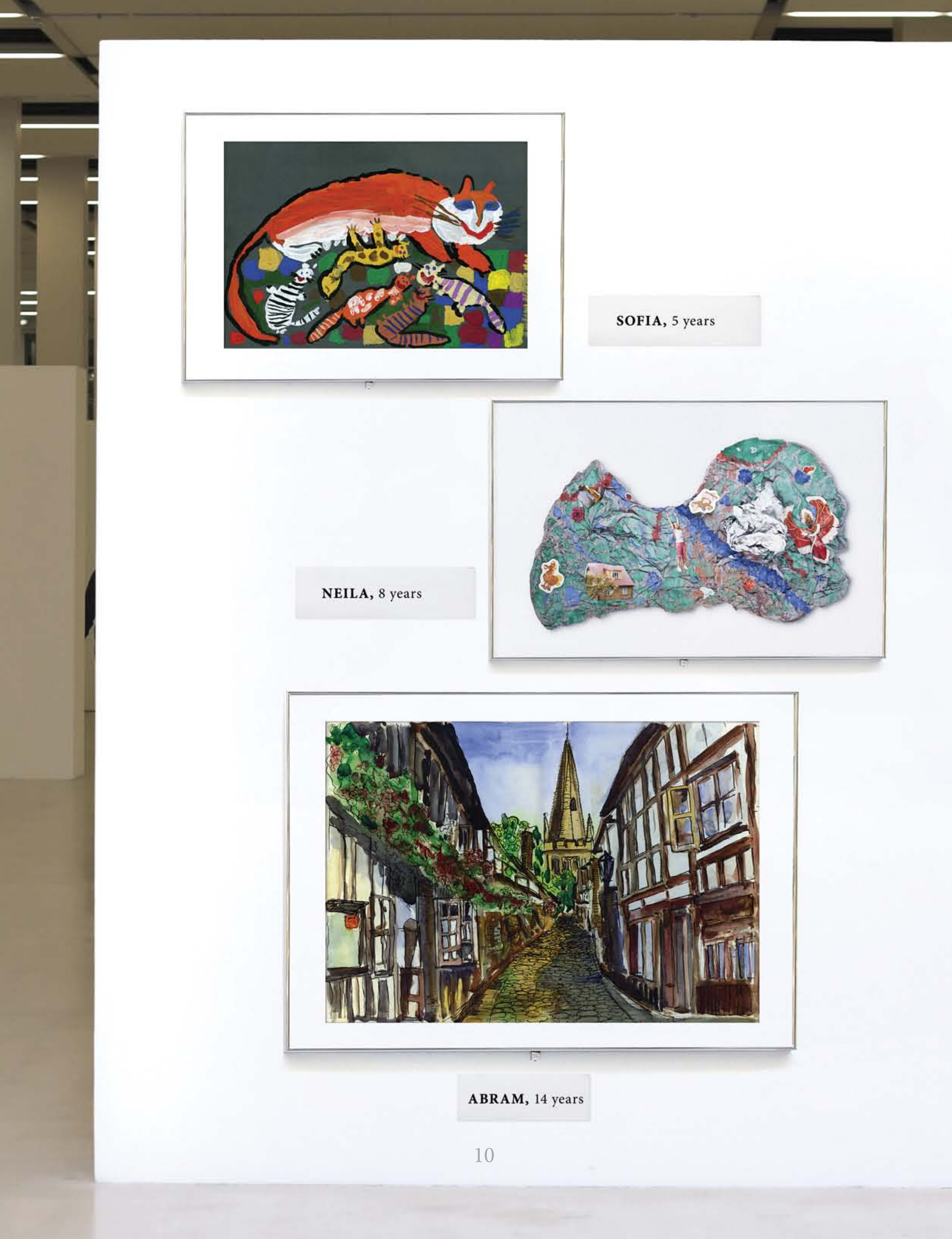


Almost all sectors returned to the path of growth in 3Q 2010: manufacturing (up 20.2 percent), electricity, gas & water supply (up 15.1 percent), primary economic sectors (up 2.6 percent). The above areas of economy contributed 2.7 percentage points to the overall GDP strengthening. The figures show significant growth in transportation and communication sectors as well as in the HoReCa business.

PRIORITY: REORIENTATION TOWARDS EXPORTS

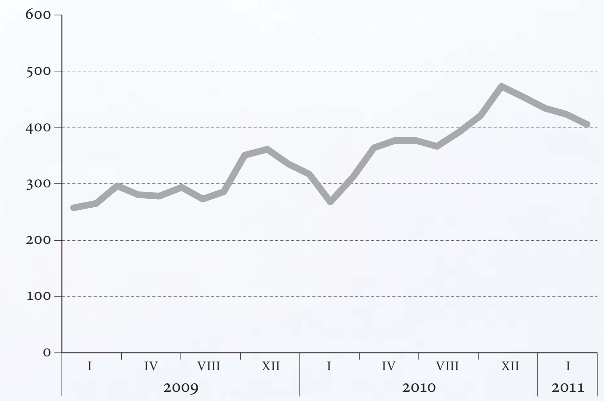
Still weak domestic demand and sustainable external demand fostered growth in the country's export volumes in 2010. During the first 9 months, exports even exceeded the pre-crisis maximum (2008) and touched the figure of LVL 473.2 mio. (a 34 percent rise over the same period in 2009). Exports started to play more important role in the sales structure: from January to November, the manufacturing industry exported 60 percent of its products versus 53.9 percent in 2009.

Timber and metal processing industries made the most tangible contribution to Latvia's economic growth. Positive trends are also witnessed in paper and printing



industries, production of electrical and optical devices, as well as machinery and motor vehicle production.

EXPORT DYNAMICS (LVL mio.)



BUDGET DEFICIT-CUTTING MEASURES

After the elections, Latvia's government has elaborated a package of measures aimed at reducing the budget deficit and implementing the Maastricht criteria to be able to adopt the euro in 2014. According to the consolidated budget documents, the government expects to incur the deficit of 3.7 percent of GDP (or LVL 491.6 mio.) in 2011 – a substantially lower figure compared to 2010 (7.3 percent of GDP).

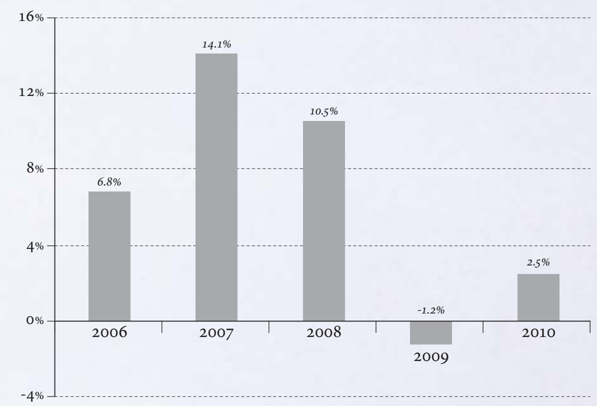
INFLATION RETURNS, UNEMPLOYMENT RATE GOES DOWN

The deflation period in Latvia ended very abruptly: December's consumer price index (CPI) overshot the previous year's figure by 2.5 percent. According to forecasts, the inflation is likely to climb. Some tax hikes – initiated as part of fiscal belt-tightening – are likely to play a major role in speeding up the inflation.

When discussing macroeconomic variables, the level of employment should be analysed. The labour market is on the mend: in the beginning of the year the official unemployment rate totalled 20.4 percent, while in 4Q 2010 the unemployment rate (calculated as the share of labour force that is unemployed) dropped to 16.9 percent.

At the same time, Latvian companies are more often experiencing skilled labour shortages despite the high level of unemployment. There are two primary reasons, namely: the exodus of qualified professionals to work in developed countries; insufficient professional qualifications.

HISTORICAL INFLATION RATES: 2006-2010

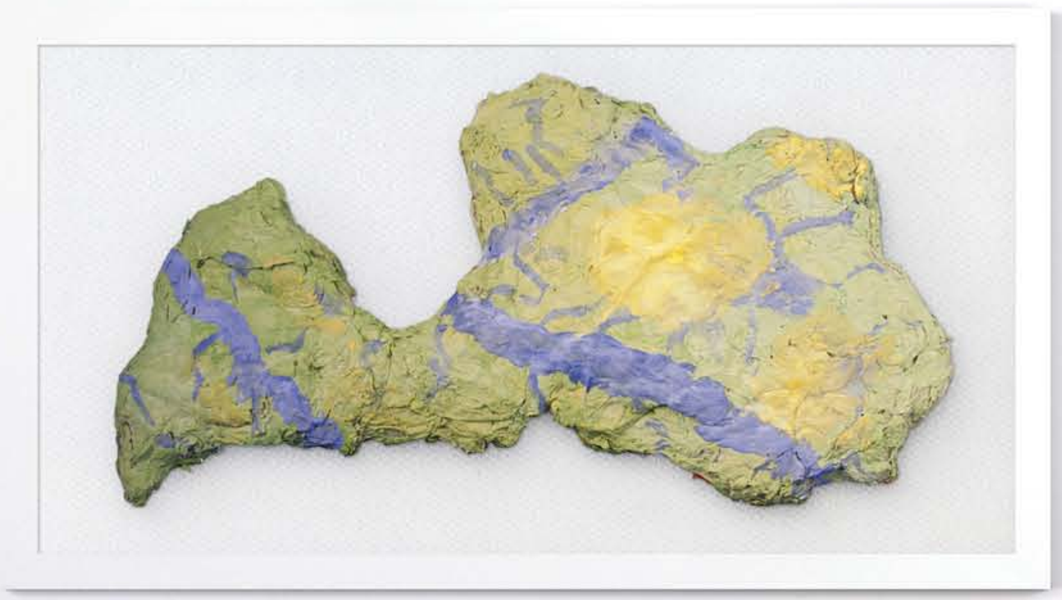


TAX LEGISLATION: PLUSES AND MINUSES

A tough fiscal policy and budget consolidation in 2010 entailed tax law changes, including increase of personal income tax rate and expansion in tax base (Latvia introduced a 10-percent withholding tax levied on dividend and interest income, and a 15 percent capital gains tax). In addition, the government introduced new taxes, such as company car tax and wealth /property tax, and raised excise duty.

MARIA, 13 years

SOFIA, 12 years



EVA, 12 years

2011 has brought in more tax burden: Latvia's VAT increased to 22 percent, residential property tax rates increased twice (the revised taxes are effective from 1 January 2011).

Nevertheless, some positive changes emerged in the country: the lawmakers adopted legislative amendments stipulating more flexible and simplified procedure for insolvency and legal protection. In an attempt to encourage a healthy business environment, Latvia implemented a new procedure for registration micro-enterprises that are taxed at a 9 percent flat rate (flat rate percentage is 9 percent of the total turnover). A single-rate flat tax system significantly reduces the tax burden.

STIMULATION OF THE ECONOMY

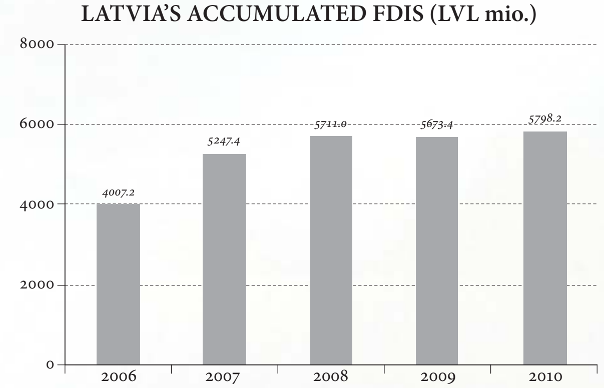
To put Latvia's economy back on track, government is doing its best to support local businesses. To this end, the country makes use of regional aid, known as the European Union's Structural Funds. The most popular programmes include encouragement of entrepreneurship by granting short-term loans, providing credit guarantees, and propelling external marketing efforts undertaken to penetrate new markets. Latvia's stimulus measures, including support to newly-established businesses, not only cure the country's economy, but also provide the right tool to solve social problems caused by unemployment.

As an export-orientated country, Latvia takes specific measures to lure foreign investments. Latvia's Ministry of Economy has formulated the country's main goals outlined in the Development Plan 2010-2016. The goals include: to increase the share (percentage) of high-value-added goods and services in exports; to enhance the competitiveness of Latvian enterprises in the world's markets; to create an attractive environment for foreign investments and ensure that high-tech and mid-tech sectors as well production- and export- focused industries see investment inflow.

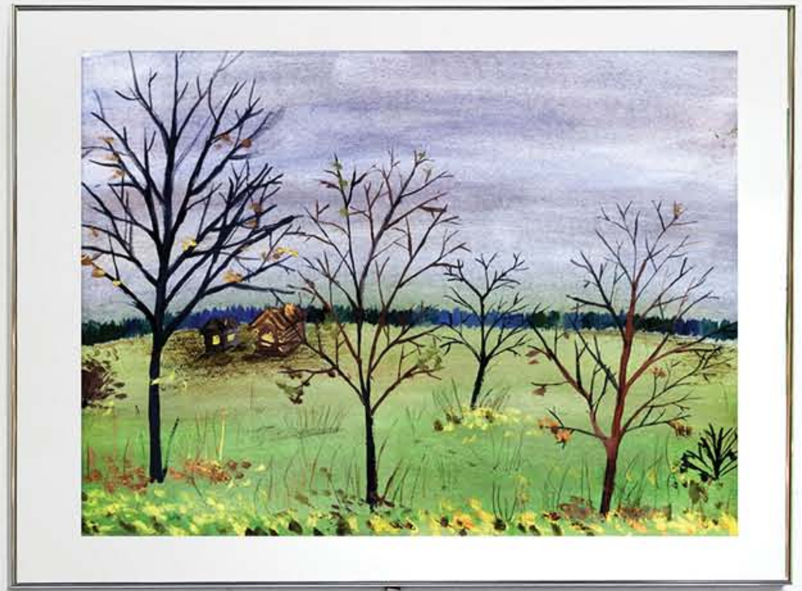
FACILITATION OF FOREIGN INVESTMENTS

As Latvia's economy is picking up steam, the country is enjoying a surge of interest from foreign investors. In 2010, Latvia's inflow of foreign direct investments (FDIs) increased fourfold versus 2009, while the volume of accumulated investments exceeded pre-crisis levels by 2010-end, according to the Bank of Latvia's statistics.

LATVIA'S ACCUMULATED FDIS (LVL mio.)



The government has given foreign investors extra incentives to come to Latvia. According to the revised Immigration Act (in effect as of 1 July 2010), foreign nationals are granted the right to apply for a temporary residence if they satisfy the following eligibility criteria:



ANNA, 14 years

KONSTANTIN, 12 years

VLADISLAV, 15 years

- the total value of real estate purchases in Latvia (Riga, the Riga District and major cities) of not less than LVL 100 ths. and not less than LVL 50 ths. if the property is located outside the designated areas;
- subordinated debt investment in any credit institution in Latvia of not less than LVL 200 ths., or
- equity investment in a Latvian company (enterprise) of not less than LVL 25 ths.

Currently, mainly East Europeans show interest in such opportunity.

At 2010-end, Latvia's Parliament (Saeima) passed amendments to the Deposit Guarantee Act. The amended law has enhanced safety for depositors. Now, the statutory upper limit for reimbursement per depositor is EUR 100 thousand in case of unavailability of deposits from deposit-taking institutions. Under the pre-amended Act, the deposit insurance threshold was EUR 50 thousand.

ENERGY SECTOR

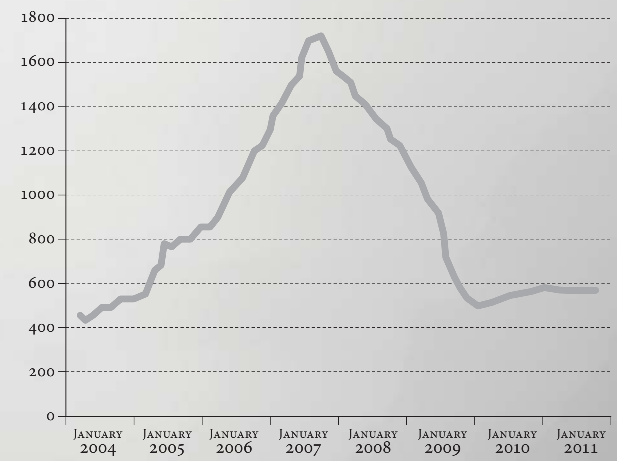
In 2010, issues relating to the construction of Visaginas Nuclear Power Station (Lithuania) came under the spotlight. It is expected that VNPS will ensure the energy independence of the Baltic region. According to forecasts, the availability of a nuclear power station in the neighbouring country will entail the successful reduction of energy charges in Latvia. In 2006, the heads of the national energy companies signed a Memorandum of Understanding regarding the construction of the nuclear reactor in Lithuania.

Taking care of a highly ecological environment, Latvia's government took certain measures to support the use of alternative energy sources. By 2020, the government plans to increase renewable energy consumption to 40 percent of total usage. Latvia continued to implement various programmes co-financed by the EU Structural Funds: improved energy efficiency of homes and developed programmes designed to support the use of alternative energy in households, public sector entities (PSEs), transports sector, and others.

REVIVAL OF THE REAL ESTATE MARKET

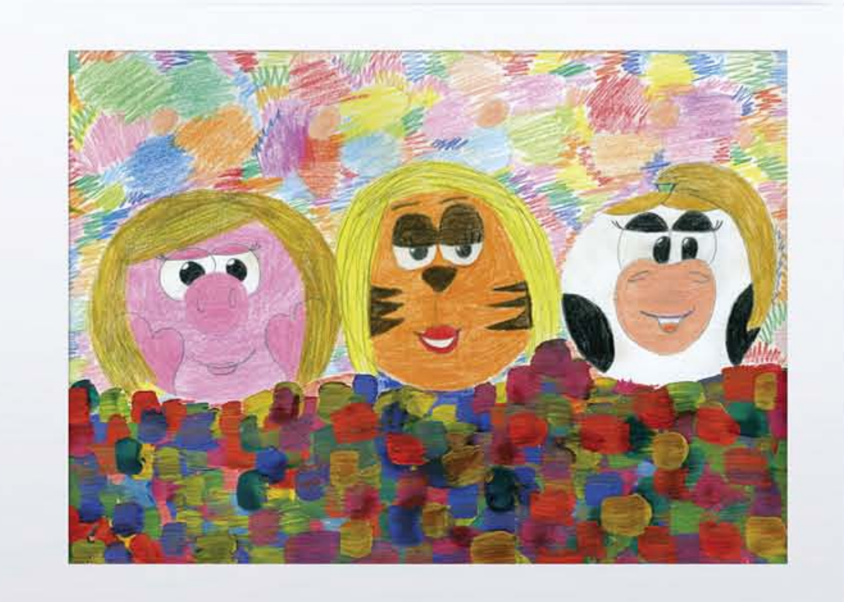
Latvia's real estate market, which dived down following the 2007 boom, is gradually becoming positively buoyant. According to Global Property Guide Research, Latvia registered Europe's largest increase in housing prices in 2010. During the year, real-estate prices in Latvia rose by 19.09 percent – an impressive figure after the 2009 price collapse. In 2009, Latvia's housing market suffered the sharpest price decline (52.8 percent) in Europe.

THE AVERAGE PRICE OF STANDARD-TYPE APARTMENTS IN RIGA (EUR/m^2)



GABRIELLA, 8 years

ROMAN, 14 years



STEFANIA, 15 years

LATVIA'S SOVEREIGN RATING RAISED

The end of 2010 was marked by a favourable event: international credit rating agency Standard & Poor's raised Latvia's sovereign credit rating by one notch to "BB-plus" from "BB" with a stable outlook.

Several months later, the agency changed its rating outlook on Latvia's economy to positive from stable, citing the economy's less dependence on external finance and the country's full readiness to implement fiscal consolidation measures.

DEVELOPMENT OF INTERNATIONAL CO-OPERATION

In 2010, Latvia continued to pursue measures designed to reinforce co-operation with other countries: placing greater emphasis on developing economic ties during the post-crisis period is seen as a tool to enhance Latvia's competitiveness in the worldwide community.

The official visit of Latvia's President Valdis Zatlers to Moscow was one of the year's most pivotal events. The President's team was accompanied by a delegation of Latvian businesspeople.

During the meeting, participants discussed the opportunities for expanding economic co-operation between the countries. Also, the parties signed important documents, including the double taxation avoidance agreement and the tax evasion prevention agreement (with respect to income capital gains).

ELINA, 11 years

KIRILL, 5 years

NATALIA, 9 years

Latvia's Banking Sector

In Latvia's banking sector, positive tendencies began to take shape by 2010-end. According to non-audited data, the total profit before creating provisions and paying taxes in 2010 reached LVL 143.5 mio., a 55.4 percent down YOY. Provisions for doubtful debts (LVL 506 mio.) is the reason behind total losses incurred by the sector. The losses accounted for LVL 360.7 mio., though they decreased by 53.4 percent as compared to the previous year.

10 of 29 Latvian banks, including Baltic International Bank, ended the year with profit. Aggregate profit posted by the 10 banks totalled LVL 8.3 mio.

*KEY PERFORMANCE INDICATORS (KPIS) WITHIN THE BANKING SECTOR**

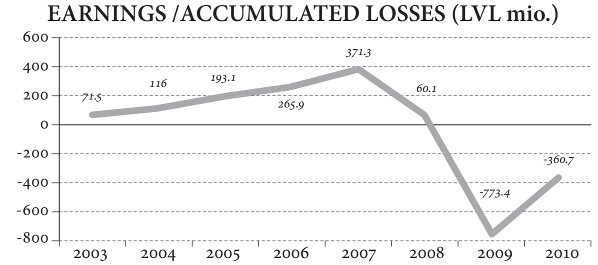
• Assets

By the year-end, the aggregate assets totalled LVL 21.97 billion, a 1.3 percent higher YOY. All in all, 14 Latvian banks increased their capital by LVL 324.4 mio. Equity investments totalled LVL 278.8 mio.

• Capital Adequacy and Liquidity

In 2010, the sector-wide KPIs continued a healthy growth: the liquidity ratio reached 67.9 percent by December-end (versus 62.8 percent YOY), well above the regulatory threshold of 30 percent. The capital adequacy ratio was 14.9 percent at 2010-end (versus 14.56 percent YOY), well above the statutory level of 8 percent.

REPORTING YEAR'S RETAINED EARNINGS /ACCUMULATED LOSSES (LVL mio.)



• Deposits

In 2010, depositors proved very active - from January to December the volume of deposits placed with Latvian banks rose by 16.3 percent to achieve LVL 11.1 billion by the year-end.

• Loans

The sector-wide loan portfolio continued to shrink overall. In the beginning of 2010, the portfolio declined by 7.1 percent (or LVL 1.1 billion) to attain LVL 14.3 billion by December. Although 8 Latvian banks intensified their lending activities and boosted their loan portfolios, on the whole the amount of the loans granted during the year was less than the amount of repaid loans or write-offs (uncollectible debts).

According to a survey conducted by TNS Latvia (a full service market research company) in liaison with the Association of Latvian Commercial Banks, in 2010 the commercial banks have significantly improved their corporate reputations. Their financial achievements and the quality of banking products and services were particularly appraised. By the year-end, the sector's corporate reputation index (CRI) approached the average corporate reputation index of the European banking sector.

** Source: Financial and Capital Market Commission*

DARYA, 8 years

ANASTASIA, 13 years

JEKATERINA, 9 years

Baltic International Bank: Striking the Balance

In 2010, Bank's priority was to strengthen its positions through enhancing its productivity both quantitatively and qualitatively. Undeniably, the overall financial situation in the country is improving – albeit at a slow pace – after a lengthy recession. However, Bank succeeded in achieving its 2010 targets.

INCOMES

Baltic International Bank is one of 10 banks in Latvia to have ended the year with a profit. Bank earned profit totalling 381 063 lats after paying taxes and creating provisions, almost a seven-fold excess over the previous year's results. Bank's operating income increased by 10.3 percent YOY largely due to growth areas such as servicing of transactions, brokerage services, discretionary (trust) asset management, and others.

Bank experienced significant growth in the items, such as the net interest income (up 52.6 percent) and the net fee and commission income (up 49.6 percent). Bank's administrative expenses did not exceed the previous year's level.

ASSETS

Bank's assets totalled LVL 168.3 mio. by 2010-end. The securities portfolio showed considerable growth - up 36 percent. The loan portfolio grew nearly half as much.

Bank seized opportunities made available by favourable market conditions to increase a share of fixed-income instruments within its securities portfolio (up 38 percent). Bank saw a 17 percent increase in intangible assets which include investments associated with the improvement of the internal business processes.

LOAN PORTFOLIO

In 2010, Bank's loan portfolio grew by 47 percent to attain LVL 56.31 mio., an especially sizeable figure as seen against the background of the shrinkage in the aggregate loan portfolio of Latvia's banking sector.

When boosting its loan portfolio, Bank has consistently maintained conservative approach to risk-taking. As a result, a significant portion of the portfolio increased largely due to zero-risk loans whose share (on a percentage basis) attained 25.6 percent of the total outstanding loans (versus 7.14 percent in 2009).

DEPOSITS

A low interest rate environment caused a certain decline in Bank's deposit base (deposits totalled LVL 133.4 mio. as at 31 December 2010). However, that did not appear to adversely affect Bank's liquidity

POLINA, 8 years

TIMOFEY, 5 years

LETICIA, 9 years

ratios. Many of the customers picked other investment vehicles designed to preserve and multiply their capital, thus facilitating the increase of Bank's brokerage deals. As a result, securities accounts administration charges surged 2.8 times.

CAPITAL ADEQUACY AND LIQUIDITY

To reinforce Bank's positions, the shareholders made the decision to increase the share capital by LVL 5.25 mio. By 2010-end, the share capital totalled LVL 1.31 mio. and the paid-in capital reached LVL 16.83 mio. This measure, coupled with a significant growth of customer deposits (specifically used by Bank for subordinated capital needs), furthered the growth of Bank's capital adequacy ratio – the ratio rose to 14.88 percent from 12.72 percent YOY.

By 2010-end, the liquidity ratio stood at 83.62 percent and exceeded the average liquidity ratio in Latvia's banking sector by more than 15 percentage points.

INNOVATIVE PRODUCTS

In 2010, Bank offered its customers a wide array of new products designed to provide all-round support and comfort. Thus, Bank widened its range of payment cards by adding the exclusive *MasterCard Platinum*. Like MasterCard World Signia, the newly-introduced card gives holders ultimate access to international concierge services. To expand and bolster brokerage services and in an effort to provide customer with a convenient and accessible investment management tools, Bank launched two electronic platforms, such as *Forex Marginal Trade* (to conduct FX market transactions) and *BIBtrader* (to conduct equity and futures trades).

As the long-term well-being of our customers and their family members is central to our brand, we designed a special offer for future wealth heirs. In 2010, Bank for the first time offered them professional internships. An internship provides the customers' children with an exciting opportunity to work for Bank and gain hands-on experience and gives them on-the job-training, an inside look at how Bank works, and a chance to understand how the world's financial markets operate.

The amended Immigration Act of the Republic of Latvia enabled investors (foreign nationals) to apply for a temporary residence permit allowing them to reside in Latvia 5 years. In response to this 2010 legislative update, we started providing our customers all-encompassing service package including informational, organisational and legal support.

Furthermore, Bank has substantially developed discretionary asset management services implying transactions, such as investing in business projects and providing funds (loans) for business projects under trust agreements. Also, Bank continued to develop venture capital investments.

Non-Financial Achievements

BEST BANK AWARD

In 2010, SPEAR'S Russia awarded Bank The best bank in the Baltic States and CIS to provide Russia's customers with private banking and wealth management services award in appreciation of its 2009-2010 outstanding performance and service excellence. Bank was honoured at the SPEAR'S Russia Wealth Management Awards 2010 in Moscow on 25 November.

Winning the award is a great testimony to Bank's distinguished service and signifies heightened brand recognition and awareness [as a result of more intense activities in public space].

SPEAR'S Russia Wealth Management Awards *is Russia's first specialised awards ceremony held to determine the best of the best in private banking, wealth management and other related industries. Already for the second time, the recipients of the award have been chosen by SPEAR'S Russia (the Russian version of the British publication under the same name) in close liaison with* ***PBWM.ru*** *(the first Russian online portal specialising in private banking and wealth management industry coverage).*

SUPPORT TO INTERNATIONAL ECONOMIC CO-OPERATION

To strengthen Latvia's economic ties with developed countries and to facilitate business links and communications among European businesses, Bank annually supports a London-held international conference dedicated to investment opportunities in Latvia (Bank supported the second-time conference in October 2010). The conference is hosted by The British Chamber of Commerce in Latvia (BBCL).

The conference enables the UK businesspeople to obtain first-hand relevant information from their peers, representatives of various sectors and civil servants to keep abreast of the latest economic trends and developments and investment climate in Latvia.

CONTRIBUTION TO ART AND CULTURE

In May 2010, art connoisseurs were offered a unique piece of artwork custom-made for Baltic International Bank. The silver bowl The 21st Century (120 cm high, 75 cm long and 65 cm wide, weighs 35.37 kg, 925-fineness) was created by Oleg Auzer, a very talented and renowned jeweller from Latvia. The bowl has become the premise for the realisation of our shareholder's Valeri Belokon idea to create a unique collection of art masterpieces which could have a special place in the country's culture and heritage.

Beyond that, Baltic sponsored the legendary opera AIDA which triumphantly returned to the Latvian National Opera in October 2010, having become the most magnificent event for opera lovers.

2011 – A Year of Further Steps

Bank-wide goals and objectives for 2011 include further efforts to develop as a family-office bank and provide family wealth management (FWM) comprising a comprehensive suit of services, such as investment planning, asset structuring, tax advice, and lifestyle management – a package of non-banking lifestyle services relating to leisure and business arrangements. The lifestyle package also includes financial coaching programs specifically designed for future wealth heirs and educational programs designed to enhance the professional proficiency of adult members of our customer's family.

Bank devotes great attention to replenishing its product portfolio with offers which we believe best meet customer interests: direct equity investments, fiduciary and advisory services, and others.

Within the framework of its investment concept, Bank supports the idea of establishing an angel investment club formed by Bank's customers committed to angel investments (an angel investor, also known as a business or informal investor, provides capital for a business start-up).

Besides, Bank plans to streamline its internal business processes and elevate the quality of services, including efficient portfolio management (to help customers in effective and efficient managements of their investments), implement an innovative Internet Banking system, etc.

In light of new developments such as globalisation and informatisation, Bank plans to proactively promote its services over the Internet and boost its cyber presence (a presence in the internet environment) in 2011.

In 2011, Bank's main priority is to ensure top-quality personalised service – encompassing wealth management and capital preservation – and best meet each and every customer's non-financial interests, while acting as the party authorised and empowered by our customers and their families.

JSC "BALTIC INTERNATIONAL BANK"

GROUP CONSOLIDATED AND BANK SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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Dear Ladies and Gentlemen,

We have pleasure in presenting the 2010 financial statements.

Today, many people share the opinion that the past year signalled the end of the crisis. However, most market events did not inspire much optimism because very often they were triggered by the action taken at national levels in order to resolve tactical challenges.

In 2010, we witnessed events such as quantitative easing, surge in stock markets, depressive mood in Europe, the euro's plunge, rise in gold prices, concerns over the risk of inflation in emerging markets. All of the events occurred against the background of drastic changes in the international economic relations, which certainly affected every single participant of the financial markets.

The Bank's 2010 year-round efforts were directed towards enhancing customer service effectiveness and improving financial performance indicators.

It is worthwhile emphasising that the Bank's achieved the 2010 targets across most positions. The Bank succeeded in increasing its operating income by 10.3 percent compared to 2009. This positive, coupled with lower administrative expenses, enabled the Bank to record profit totalling 381 063 lats - larger than the previous reporting period's figure.

While retaining its conservative approach to asset management, the Bank however enlarged the loan portfolio primarily at the account of low-risk types of lending. In 2010, the Bank's loan portfolio grew by 46.9 percent. On a percentage basis, a risk-free component within the portfolio attained 25.6 percent (versus 7.1 percent in 2009) or 14.4 million lats.

A share of financial instruments, expressed as a percentage of the Bank's assets, totalled 10.1 percent - a 3.5 percent increase over 2009 year's figure. The Bank seized the opportunities offered by the bond market and the stock market to boost return on assets (ROA).

The loan portfolio diversification, complemented by a skilful management of the securities portfolio, allowed the Bank to heighten the overall yield. The Bank's net interest income rose by 52.6 percent.

The economic rebound fostered business activities in a number of sectors. The customers generated higher turnovers, thus contributing to an increase in the Bank's net fee and commission income by 49.6 percent. The Bank experienced significant growth in the following items: servicing of transactions (14.1 percent), asset management (3.2 times), securities accounts administration charges (2.8 times), and across other lines of business.

Low interest rates affected the Bank's deposit base. Many of the customers reinvigorated their investment operations. They invested in their own businesses and focused on investments aimed at developing new directions, which proved conducive to the growth of the Bank's brokerage portfolio.

Along with developing the above listed lines of business, the Bank maintained a strong liquidity position. During the reporting year, the average liquidity ratio stood at 82.24 percent.

In 2010, the Kramnoy family resigned as shareholders and, as a result, Valeri Belokon and Vilori Belokon acquired a 99.9 equity stake in the Bank. To enforce the Bank's positions, the shareholders made the decision to increase the share capital by 5.25 million lats within the one-year time frame. By 2010-end, the share capital was increased by 1 312 508 lats, while the Bank's capital adequacy ratio reached 14.88 percent.

Throughout the entire year, we provided solutions for the tasks posed by our customers, very often even keeping ahead of customer expectations and developing new service offerings.

The Bank widened its range of payment cards by adding the prestigious MasterCard Platinum card. Thus, the Bank broadened the clientele having access to concierge services.

In response to Latvia's legislative changes and in an effort to take care of our customers, we started providing qualified advice and legal support to investors wishing to obtain Latvia-issued temporary residence permits.

While anticipating more intense customer activities related to investment and trade, we continued to improve brokerage services by launching BIBtrader, an electronic trading platform to conduct stock market transactions, and a margin trading platform. Beyond that, we continued to offer transactions such as direct equity investments and venture capital investments - an option for investors with high-risk appetite.

We are committed to continuously improving our internal business processes. Although the processes are not clearly visible during the customer service process, they are tangibly useful for reducing operational risk and costs.

The Bank's intense activity in the key markets, positive customer testimonials and greater public openness enhance brand recognition and yield notable results. The Bank was nominated for the prestigious award and honoured at the SPEAR'S Russia Wealth Management Awards 2010.

High-level professionalism of the Bank's specialist team should be specially emphasised. Our staff members work hard to attain the established goals. In our opinion, just professionals doing their job perfectly and their close intercommunication enable the Bank to maintain service levels appropriate for today's fastidious customers.

Living in a changing world, we are changing along with it. We work to help our customers turn their desires into reality.

24 March 2011

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

SUPERVISORY COUNCIL (as of 31 December 2010)

Name	Position held	Appointed	Re-appointed
Valeri Belokon	Chairperson of the Council	15/09/2010	-
Albert Reznik	Deputy Chairperson of the Council	15/09/2010	-
	Member of the Council	09/08/2010	15/09/2010
Viacheslav Kramnoy, sr.	Member of the Council	18/07/1997	15/09/2010

MANAGEMENT BOARD (as of 31 December 2010)

Name	Position held	Appointed	Re-appointed
Ilona Gulchak	Chairperson of the Board	25/01/2008	-
Natalya Tkachenko	Deputy Chairperson of the Board	26/02/2008	-
	Member of the Board	01/08/2007	01/08/2010
Alon Nodelman	Member of the Board	15/08/2003	01/08/2010
Janis Apelis	Member of the Board	15/08/2003	21/05/2010
Bogdan Andrushchenko	Member of the Board	13/09/2005	21/05/2010
Dinars Kolpakovs	Member of the Board	13/09/2005	21/05/2010
Ilze Lase	Nominee Member of the Board	13/09/2005	-

During the year ended 31 December 2010 the following changes were made in the composition of JSC "Baltic International Bank" Council and Management Board:

Supervisory Council:
According to resolution of the General Meeting of Shareholders held on 22 July 2010, Albert Reznik was elected as a member of the Council.

Management Board:
Alberts Reznik was elected to serve as the Bank's Council member and resigned, therefore, from his post as Board member.

There were no changes in the Supervisory Council or the Management Board of the Bank during the period from 1 January 2011 to the date of the approval of these financial statements.

Riga 24 March 2011

The Group consolidated and Bank separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and give a true and fair view of the state of the Group's and the Bank's affairs as at 31 December 2010, and of the results of its operations and its cash flows for the year ended 31 December 2010.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the Group consolidated and Bank separate financial statements for the period from 1 January 2010 to 31 December 2010 set out on pages 36 to 106. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been used in the preparation of the Group consolidated and Bank separate financial statements and that these financial statements have been prepared on a going concern basis and comply with the regulations of the Financial and Capital Market Commission of the Republic of Latvia on the Annual Reports of Credit Institutions in all material respects.

The management of Baltic International Bank is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions and other legislation of the Republic of Latvia, including regulations of the Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia.

On behalf of the Management of the Bank and Group:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

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Vesetas iela 7
Riga LV-1013
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www.kpmg.lv

TO THE SHAREHOLDERS OF AS "BALTIC INTERNATIONAL BANK"

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Baltic International Bank" ("the Company"), which comprise the separate statement of financial position as at 31 December 2010, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 106. We have also audited the accompanying consolidated financial statements of AS "Baltic International Bank" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 106.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's and Group's preparation and fair presentation of these 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 Company's and Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by Company's and Group's management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

KPMG Baltics SIA. a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

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

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 30 to 31, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the management report is consistent with the financial statements

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA

Armine Movsisjana
Sworn Auditor
Certificate No 178

Riga, Latvia
24 March 201 1

For the year ended 31 December 2010

	Notes	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Interest income	6	6 081 962	6 110 540	5 253 120	5 258 482
Interest expense	7	(2 783 174)	(2 783 174)	(3 077 987)	(3 078 181)
Net interest income		**3 298 788**	**3 327 366**	**2 175 133**	**2 180 301**
Fee and commission income	8	3 407 583	3 408 691	2 378 726	2 379 342
Fee and commission expense	9	(600 078)	(600 041)	(501 729)	(501 729)
Net fee and commission income		**2 807 505**	**2 808 650**	**1 876 997**	**1 877 613**
Dividend income		2 848	2 848	2 834	2 834
Net trading income	10	346 851	346 851	278 671	278 671
Net foreign exchange income	10	1 302 362	1 300 498	2 739 972	2 739 649
Other operating income	11	187 754	85 708	60 653	59 595
Total operating income		**7 946 108**	**7 871 921**	**7 134 260**	**7 138 663**
Administrative expenses	12	(6 229 721)	(6 177 865)	(6 313 578)	(6 272 030)
Other operating expenses	13	(200 237)	(148 061)	(122 050)	(126 742)
Net impairment loss	14	(863 651)	(1 019 797)	(553 646)	(491 850)
Loss on revaluation of investment property	26	(355 657)	(66 728)	(115 440)	(115 440)
Profit before income tax		**296 842**	**459 470**	**29 546**	**132 601**
Income tax expense	15	(78 407)	(78 407)	(75 527)	(75 527)
Profit/(loss) for the period		**218 435**	**381 063**	**(45 981)**	**57 074**
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**218 435**	**381 063**	**(45 981)**	**57 074**

The accompanying notes on pages 42 to 106 are an integral part of these Group consolidated and Bank separate Financial Statements.

The Group consolidated and Bank separate Financial Statements on pages 36 to 106 have been authorised for issue by the Council and the Board on 24 March 2011, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

As at 31 December 2010

ASSETS

	Notes	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Cash and balances with Bank of Latvia	16	8 954 654	8 954 354	10 522 477	10 522 477
Financial assets held-for-trading		1 176 545	1 176 545	795 757	795 757
Securities held-for-trading	*19*	*612 627*	*612 627*	*504 043*	*504 043*
Derivative financial instruments	*20*	*563 918*	*563 918*	*291 714*	*291 714*
Due from credit institutions	18	67 582 987	67 582 987	105 975 246	105 975 246
Loans	23	54 963 519	56 311 866	38 044 365	38 332 743
Securities available-for-sale	21	165 579	165 579	224 864	224 864
Securities held-to-maturity	22	15 598 816	15 598 816	11 301 839	11 301 839
Investments in associates	27	429 009	429 009	429 009	429 009
Investments in subsidiaries	52	-	1 363 600	-	1 363 600
Investment property	26	4 977 576	2 847 401	2 702 945	2 702 945
Property and equipment	25	10 069 508	10 069 368	10 341 020	10 340 082
Intangible assets	24	2 394 169	2 394 061	2 046 563	2 046 284
Current income tax assets		93 717	93 717	251 493	240 708
Deferred expenses and accrued income	28	774 513	618 127	1 063 643	1 063 643
Other assets	29	720 268	662 059	2 307 912	752 363
Total assets		**167 900 860**	**168 267 489**	**186 007 133**	**186 091 560**

The accompanying notes on pages 42 to 106 are an integral part of these Group consolidated and Bank separate Financial Statements.

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Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

As at 31 December 2010

LIABILITIES

		GROUP	BANK	GROUP	BANK
	Notes	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL	31.12.2009 LVL
LIABILITIES					
Derivative financial instruments	20	311 351	311 351	125 410	125 410
Due to credit institutions	30	13 510 438	13 510 438	2 678 689	2 678 689
Deposits	31	133 275 509	133 414 649	165 455 383	165 455 499
Accrued expenses, provisions and deferred income	32	517 201	510 739	525 836	524 526
Deferred tax liabilities	15	451 618	442 472	394 086	384 940
Other liabilities	33	761 787	739 201	786 146	777 858
Subordinated liabilities	34	1 520 865	1 520 865	20 435	20 435
Total liabilities		**150 348 769**	**150 449 715**	**169 985 985**	**169 967 357**
SHAREHOLDERS' EQUITY					
Share capital	35	16 834 613	16 834 613	15 522 105	15 522 105
Reserve capital	35	545 024	545 024	545 024	545 024
Retained earnings/(accumulated losses)		172 454	438 137	(45 981)	57 074
(Accumulated losses)/retained earnings for the previous years		*(45 981)*	*57 074*	-	-
Profit/(loss) for the period		*218 435*	*381 063*	*(45 981)*	*57 074*
Total shareholders' equity		**17 552 091**	**17 817 774**	**16 021 148**	**16 124 203**
Total liabilities and shareholders' equity		**167 900 860**	**168 267 489**	**186 007 133**	**186 091 560**
Sureties (guarantees)	36	684 426	684 426	792 434	792 434
Commitments to customers	36	2 706 482	2 742 056	5 815 328	5 819 331
Total sureties and commitments		**3 390 908**	**3 426 482**	**6 607 762**	**6 611 765**

The accompanying notes on pages 42 to 106 are an integral part of these Group consolidated and Bank separate Financial Statements.

The Group consolidated and Bank separate Financial Statements on pages 36 to 106 have been authorised for issue by the Council and the Board on 24 March 2011, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

For the year ended 31 December 2010

				GROUP
	Share capital LVL	Reserve capital LVL	Retained earnings/ (accumulated losses) LVL	TOTAL LVL
Balance as of 31 December 2008	**7 611 285**	**545 024**	**4 120 653**	**12 276 962**
Total comprehensive income	-	-	(45 981)	(45 981)
Transactions with owners, recorded directly in equity				
Dividends paid	-	-	(4 120 653)	(4 120 653)
Increase in share capital	7 910 820	-	-	7 910 820
Balance as of 31 December 2009	**15 522 105**	**545 024**	**(45 981)**	**16 021 148**
Total comprehensive income	-	-	218 435	218 435
Transactions with owners, recorded directly in equity				
Increase in share capital (Note 35)	1 312 508	-	-	1 312 508
Balance as of 31 December 2010	**16 834 613**	**545 024**	**172 454**	**17 552 091**

				BANK
	Share capital LVL	Reserve capital LVL	Retained earnings/ (accumulated losses) LVL	TOTAL LVL
Balance as of 31 December 2008	**7 611 285**	**545 024**	**4 120 653**	**12 276 962**
Total comprehensive income	-	-	57 074	57 074
Transactions with owners, recorded directly in equity				
Dividends paid	-	-	(4 120 653)	(4 120 653)
Increase in share capital	7 910 820	-	-	7 910 820
Balance as of 31 December 2009	**15 522 105**	**545 024**	**57 074**	**16 124 203**
Total comprehensive income	-	-	381 063	381 063
Transactions with owners, recorded directly in equity				
Increase in share capital (Note 35)	1 312 508	-	-	1 312 508
Balance as of 31 December 2010	**16 834 613**	**545 024**	**438 137**	**17 817 774**

The accompanying notes on pages 42 to 106 are an integral part of these Group consolidated and Bank separate Financial Statements.

The Group consolidated and Bank separate Financial Statements on pages 36 to 106 have been authorised for issue by the Council and the Board on 24 March 2011, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

For the year ended 31 December 2010

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL	31.12.2009 LVL
Cash flow from operating activities				
Profit before income tax	296 842	459 470	29 546	132 601
Amortisation and depreciation	713 305	712 209	611 001	610 106
Increase in impairment allowance	863 651	1 019 797	553 646	491 850
Unrealised loss on revaluation of investment property	355 657	66 728	115 440	115 440
Gain on disposal of property and equipment	(14 012)	(14 053)	(1 054)	(1 054)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**2 215 443**	**2 244 151**	**1 308 579**	**1 348 943**
(Increase)/decrease in loans	(18 981 729)	(19 107 859)	(360 129)	687 532
Increase in due from credit institutions	(570 555)	(570 555)	(1 734 225)	(1 734 225)
Decrease in securities available-for-sale	-	-	8 052	4 052
(Increase)/decrease in financial assets held-for-trading	(380 788)	(380 788)	369 493	369 493
Decrease/(increase) in deferred expenses and accrued income	255 188	411 574	(159 805)	(159 805)
Decrease/(increase) in other assets	167 623	195 063	103 931	(185 103)
Increase in due to credit institutions	5 590 846	5 590 846	2 467 504	2 467 504
(Decrease)/increase in deposits	(32 179 874)	(32 040 850)	14 282 159	14 282 275
Increase/(decrease) in derivative liabilities	185 941	185 941	(196 274)	(196 274)
Increase/(decrease) in accrued expenses, provisions and deferred income	(8 635)	(13 787)	(72 238)	(73 337)
Increase/(decrease) in other liabilities	33 173	18 875	(944 020)	(418 096)
(Decrease)/increase in cash and cash equivalents resulting from operating activities	**(43 673 367)**	**(43 467 389)**	**15 073 027**	**16 392 959**
Corporate income tax paid	(78 407)	(78 407)	(231 792)	(231 792)
(Decrease)/increase in cash and cash equivalents from operating activities	**(43 751 774)**	**(43 545 796)**	**14 841 235**	**16 161 167**

The accompanying notes on pages 42 to 106 are an integral part of these Group consolidated and Bank separate Financial Statements.

The Group consolidated and Bank separate Financial Statements on pages 36 to 106 have been authorised for issue by the Council and the Board on 24 March 2011, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

For the year ended 31 December 2010

		GROUP	BANK	GROUP	BANK
	Notes	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL	31.12.2009 LVL
Cash flow from investing activities					
Acquisition of property and equipment and intangible assets		(786 941)	(874 193)	(1 117 786)	(1 117 786)
Proceeds from sale of property and equipment and investment property		217 965	98 937	1 128	1 128
Acquisition of shares in undertakings		(2)	-	(39 668)	(1 359 600)
Purchase available-for-sale securities		(24 576)	(24 576)	(59 285)	(59 285)
Proceeds available-for-sale securities		59 285	59 285	-	-
Purchase of securities held-to-maturity		(14 521 804)	(14 521 804)	(9 381 668)	(9 381 668)
Redemption of held-to-maturity investments		10 224 827	10 224 827	9 947 908	9 947 908
Decrease in cash and cash equivalents as a result of investing activities		**(4 831 246)**	**(5 037 524)**	**(649 371)**	**(1 969 303)**
Cash flow from financing activities					
Issuance of shares		1 312 508	1 312 508	7 910 820	7 910 820
Subordinated liabilities		1 500 430	1 500 430	-	-
Cash paid out to repay subordinated debt		-	-	(4 135)	(4 135)
Buyback of debt securities		-	-	(843 801)	(843 801)
Dividends paid out		-	-	(4 120 653)	(4 120 653)
Increase in cash and cash equivalents as a result of financing activities		**2 812 938**	**2 812 938**	**2 942 231**	**2 942 231**
(Decrease)/increase in cash and cash equivalents		**(45 770 082)**	**(45 770 382)**	**17 134 095**	**17 134 095**
Cash and cash equivalents at the beginning of the period	17	113 569 872	113 569 872	96 435 777	96 435 777
Cash and cash equivalents at the end of the period		**67 799 790**	**67 799 490**	**113 569 872**	**113 569 872**

The accompanying notes on pages 42 to 106 are an integral part of these Group consolidated and Bank separate Financial Statements.

The Group consolidated and Bank separate Financial Statements on pages 36 to 106 have been authorised for issue by the Council and the Board on 24 March 2011, and signed on their behalf by:

Valeri Belokon
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

1. GENERAL INFORMATION

These consolidated financial statements comprise the financial statements of JSC "Baltic International Bank" (the Bank) and its fully owned subsidiary undertaking SIA "BIB Real Estate" (acquired on 11 June 2009 together referred to as the "Group"), a real estate company, which owns several subsidiaries. In addition, these financial statements include JSC "Baltic International Bank" separate financial statements (hereinafter also referred to as the "Bank financial statements").

JSC "Baltic International Bank" is a joint stock company registered in the Republic of Latvia. The registered office address is: Kalēju iela 43, Riga, LV-1050, Latvia. On 8 April 1993, the Bank of Latvia approved JSC "Baltic International Bank" as a credit institution and issued Banking Licence No. 103. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC").

Established to cater to the needs of both individuals and corporate customers, JSC "Baltic International Bank" (hereinafter referred to as the Bank) provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank's own trading purposes.

2. BASIS OF PREPARATION

Statement of Compliance

The Group consolidated and Bank separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the requirements of the Latvian Financial and Capital Market Commission in force as at the reporting date. The local accounting legislation requires to prepare the Group consolidated and Bank separate financial statements in accordance with IFRS as adopted by the European Union.

The Group consolidated and Bank separate financial statements were authorised for issue by the Management Board on 24 March 2011. The financial statements may be amended by the shareholders and re-issue of the statements may be required.

The Group consolidated and Bank separate financial statements for the year ended 31 December 2010 and 31 December 2009 are available at the Bank's web site (www.bib.eu).

Functional and Presentation Currency

The Group consolidated and Bank separate financial statements are presented in Latvian lats, unless indicated otherwise. The functional currency of the Group and Bank is the Latvian lat.

Basis of measurement

The Group consolidated and Bank separate consolidated financial statements are prepared on the historical cost basis except for the following:

- financial instruments held-for-trading are stated at fair value;
- non-hedging derivative instruments are stated at fair value;
- available-for-sale assets are stated at fair value, except for those whose fair value cannot be determined reliably;
- investment property is periodically revalued and measured at fair value.

Use of estimates and judgements

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

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

Key sources of estimation uncertainty:

Allowances for credit losses

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

Valuation of financial instruments

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

Impairment of financial instruments

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

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

Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to profit or loss. When measuring the fair value of the investment property, the management relies on external valuations and assesses the reliability of such valuation in light of the current market situation.

Recognition of carry forward of tax losses

A deferred tax asset from carry forward of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Management has to make judgements about amounts of taxable profits in the future that will be available for asset utilization.

Fair value of assets and liabilities at acquisition

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

3. SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

Except as described below, the accounting policies applied by the Group and the Bank in these consolidated and Bank financial statements are the same as those applied by the Group and the Bank in its consolidated and Bank financial statements as at and for the year ended 31 December 2009.

New standards and interpretations

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but do not have a material impact on the financial statements prepared by the Bank and the Group:

• IFRS 3 (revised), "Business combinations", and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with the previous version of the IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisitionrelated costs are expensed. Bank's subsidiary acquired a new subsidiary in July 2010. Information about acquisition is disclosed in Note 52.

NOTES TO THE GROUP CONSOLIDATED
AND BANK SEPERATE FINANCIAL STATEMENTS
for the year ended 31 December 2010

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance, and also there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

• IFRIC 17, "Distribution of non-cash assets to owners" (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

• IFRIC 18, "Transfers of assets from customers", effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

• IFRIC 9, "Reassessment of embedded derivatives" and IAS 39, "Financial instruments: Recognition and measurement", effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the "fair value through profit or loss" category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

• IFRIC 16, "Hedges of a net investment in a foreign operation" effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Bank, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Bank should clearly document its hedging strategy because of the possibility of different designations at different levels of the Bank. IAS 38 (amendment), "Intangible assets", effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

• IAS 1 (amendment), "Presentation of financial statements". The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

• IAS 36 (amendment), "Impairment of assets", effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, "Operating segments" (that is, before the aggregation of segments with similar economic characteristics).

• IFRS 2 (amendments), "Group cash-settled share-based payment transactions", effective form 1 January 2010. In addition to incorporating IFRIC 8, "Scope of IFRS 2", and IFRIC 11, "IFRS 2 – Group and treasury share transactions", the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

• IFRS 5 (amendment), "Non-current assets held for sale and discontinued operations". The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

• Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011). The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

Revised IAS 24 is not relevant to the Group's and the Bank's financial statements as the Group and the Bank are not a government-related entities and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

• Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's and the Bank's financial statements as the Group and the Bank have not issued such instruments at any time in the past.

• Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant to the Group's and the Bank's financial statements as the Group and the Bank do not have any defined benefit plans with minimum funding requirements.

• IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a "debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognised in profit or loss.

The Group and the Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's and the Bank's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

Throughout the note on significant accounting policies the following accounting policies have been adopted by the Group and the Bank (hereinafter "the Bank").

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Transactions eliminated on consolidation

Transactions eliminated on consolidation intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Bank's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency (Latvian lats) at the Bank of Latvia's official exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats according to the Bank of Latvia's official exchange rate prevailing at the end of the period. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of comprehensive income, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised in other comprehensive income.

Currency name		31.12.2010	31.12.2009
1 BYR	=	LVL 0.000178	LVL 0.000172
1 EUR	=	LVL 0.702804	LVL 0.702804
1 GBP	=	LVL 0.824000	LVL 0.783000
1 RUB	=	LVL 0.017600	LVL 0.016400
1 USD	=	LVL 0.535000	LVL 0.489000

Income and expense recognition

With the exception of financial assets held-for-trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the profit or loss using the effective interest rate method. Interest income on financial assets held-for-trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided/received.

Dividend income is recognised in the profit or loss on the date that the dividend is declared.

Financial instruments

Financial instruments acquired by the Bank are categorised into portfolios in accordance with the Bank's intent at the time of the acquisition of the securities and pursuant to the Bank's investment strategy. The Bank developed a security investment strategy and, reflecting the intent of the acquisition, allocated securities to "Securities held-to-maturity", "Financial assets at fair value through profit or loss", "Securities held-for-trading" and "Securities available-for-sale".

All financial instruments held by the Bank are recognised at trade date and are initially measured at fair value plus for instruments not at fair value through profit or loss any directly attributable transaction cost. Loans, held-to-maturity investments, balances due to banks, deposits and balances to banks are measured at amortised cost.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are those that have been designated by the Bank at inception as at fair value through profit or loss and those classified as held-for-trading.

Financial assets held-for-trading

Held-for-trading instruments are securities and shares that the Bank principally holds for the purpose of reselling and generating a profit from short-term fluctuations in the prices of the instruments. Securities held-for-trading are subsequently re-measured to fair value based on market prices. Realised and unrealised gains or losses are recorded as net trading income or net trading loss, respectively.

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are subsequently recognised in the statement of financial position at their fair value. Attributable transaction costs are recognised in the profit or loss when incurred. Fair value is obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss.

The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract and the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

Securities available-for-sale

Securities available-for-sale are acquired to be held for an indefinite period of time. Securities, whose quoted market value is not determined in an active market and whose fair value cannot be reliably measured, are carried at acquisition cost. All other securities available-for-sale are carried at fair value. Gains or losses resulting from the change in fair value of available-for-sale securities are recognised in other comprehensive income, except for impairment losses until the financial asset is derecognised; thereafter, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Securities available-for-sale are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Securities held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Securities heldto-maturity include government securities and corporate bonds which after initial recognition at fair value are recognised at amortised cost and are securities with respect to which the Bank has a positive intent and ability to hold to maturity. Securities held-to-maturity are accounted for using a trade date basis for purchases. Subsequently the effective interest rate method is applied for amortising discounts over the term to maturity.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that the Bank upon initial recognition designates as at the fair value through profit or loss or as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

After initial recognition at fair value, loans are measured at amortised cost using the effective interest rate method.

When a loan is considered to be uncollectible it is written off against the related impairment allowance; subsequent recoveries are credited to the impairment loss expense in the profit or loss.

Impairment

Financial assets

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

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

All loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on loans and receivables from customers and held-to-maturity investment securities.

Loans and receivables are stated in the statement of financial position at amortised cost, less any impairment allowances. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are reflected in the profit or loss.

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

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

If, in a subsequent period, the fair value of an impaired available-for-sale assets 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. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised as other comprehensive income.

Non-financial assets

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

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

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

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

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Intangible assets

The Bank's intangible assets comprise licences, which allow the Bank to carry on banking business, and computer software. The intangible assets are accounted for at their historical cost less amortisation and impairment, if any. The intangible asset's amortisation term of two to twenty years is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, the Bank amortises the intangible asset over a period of 5 years. The Bank applies the straight-line method of amortisation of intangible assets.

Property and equipment

Property and equipment are recorded in the Group consolidated and Bank separate financial statements at their historical cost less accumulated depreciation and impairment, if any.

Depreciation periods for individual categories of assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other tangible fixed assets	10 years
Computers	5 years

Land and assets under construction are not depreciated. Costs relating to the maintenance and repair of the Bank's property and equipment are included in the profit or loss when they arise. Whenever a complete repair and renovation prolong the asset's useful life (change the value of the asset), then the repair and renovation expenditure amount is added to the fixed asset's carrying amount.

Depreciation methods, useful lives and residual values are reviewed annually.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Some investment property has been acquired through the enforcement of security over loans and advances.

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

Investment property is initially recognised in the statement of financial position at its acquisition cost. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Fair market value for land plots, buildings and other real property items is determined on the basis of annual property appraisals from certified appraisers. Gain or loss from the change in the value is recorded in the profit or loss and reported under the item "Gain or loss on revaluation of investment property".

Associates

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds the Bank's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

Repo operations (repos)

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprises cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.

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Due to credit institutions

Due to credit institutions comprise all liabilities resulting form transactions with domestic and foreign credit institutions as well as liabilities to the Bank of Latvia and other central banks, including vostro balances due to credit institutions, due to credit institutions for outstanding foreign exchange deals and interbank loans.

Due to credit institutions are initially measured at fair value and subsequently are carried at amortised cost using the effective interest rate method.

Deposits

Deposits are liabilities carried at amortised cost and include current accounts and deposits from customers and deposits and balances from credit institutions.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised as other comprehensive income.

Corporate income tax in the Republic of Latvia is a direct tax based on the taxable profit reported for the taxation period at the rate of 15%. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax recognised is based on the expected manner of realisation as settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. The principal temporary differences arise from the differing rates and methods used for accounting and tax depreciation on property and equipment, intangible assets, accruals and investment property. Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Short-term employee benefits

Short-term employee benefits like salaries, social benefit payments, bonuses and vacation pay are measured on an undiscounted basis and are expensed as the related service is provided in accordance with accrual principle.

A provision is recognised for the amount expected to be paid under short-term cash bonus of profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The provision for employee holiday pay is calculated for each Bank employee based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months, to which the relevant social security expense is added.

Fair value measurement of financial assets and financial liabilities

A number of the Bank's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The methods described below have been used for the determination of fair values.

Due from other credit institutions

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

Loans to customers

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

Assumed collateral

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

Shares and other securities with non-fixed income

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

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

Derivative financial instruments

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

Due to other credit institutions and customers

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

Credit related commitments

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

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

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

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

Dividends

The Bank receives dividends from the equity instruments which are recognised when the right to receive payment is established. Proposed dividends are recognised in the financial statements only when approved by shareholders.

4. RISK MANAGEMENT

All aspects of the Bank's and the Group's risk management objectives and policies are consistent over the years ended 31 December 2010 and 31 December 2009.

The Bank's activities expose it to a variety of financial and non-financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and these risks are an inevitable consequence of being in business. The Bank's strategic aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The risk management system, being an integral part of internal control system of the Bank, is based on the principal requirements of effective supervision of banks by Financial and the Capital Market Commission and the Basel Committee on Banking Supervision.

The most important types of risk are reputational risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management in the Bank is centralised and is carried out by the Management Board under policies approved by Supervisory Council. Risk management polices are subject to yearly review. There are three committees in the Bank responsible for risk management - the Credit Committee, the Resources Supervision Committee and Customer Due Diligence Committee. In addition, internal audit is responsible for the independent review of risk management and control environment.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Bank's risk management policies are designed to identify, analyse and measure significant risks, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date management information system. As of 31 December 2010 and 31 December 2009, the Bank has implemented the EU Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and the EU Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions relating to the improvement of the internal control system and risk management, as well as implemented Basel II Accord requirements introduced by the Basel Committee on Banking Supervision.

Reputational risk

Banks are inherently at risk for potential money laundering and the financing of terrorism, and this factor poses a serious threat to corporate reputation, unless banks ensure an adequate level of due diligence to be able to identify, monitor and avoid reputational risk. The Bank therefore develops and consequently implements its internal policies and procedures in order to comply with the guidelines and requirements outlined in international and domestic regulatory documents:

1. Valid laws and legislative decrees of the Republic of Latvia;
2. Guidelines and recommended standards adopted by the Financial and Capital Market Commission and the Association of Latvian Commercial Banks;
3. Global Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) policies and regulations;
4. International best practices.

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The Bank's AML/CFT and Know Your Customer (KYC) policies and procedures provide guidelines for:

1. Performing customer due diligence (CDD) through identification and verification processes;
2. On-going supervision and monitoring of customer's business activities;
3. Carrying out customer's business process analysis (BPA);
4. Identifying suspicious and unusual financial transactions; filing suspicious activity reports (SARs) to investigative, law enforcement and judicial authorities;
5. Retaining of the information concerning Bank's customers and their business and financial activity;
6. Employee training sessions.

Credit risk

The Bank takes on exposures to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation. Credit risk is the most significant risk for the Bank's business and therefore exposures to credit risk are subject to careful management.

Sources of credit risk

Credit risk of the Bank arises principally from the placements with credit institutions as well as from lending and investment activities and transactions in derivative financial instruments. There is also credit risk in financial instruments such as letters of credit, guarantees and payment cards' overdraft commitments. There is a delivery risk in relation to foreign exchange transactions.

For the Bank as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with principal correspondents to provide necessary customers' payments, which sometimes causes significant concentrations with particular counterparties.

Management and control of credit exposures

The Bank manages, limits and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to geographical and industry segments. Such limits are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to credit risk are managed through regular analysis of the ability of the existing and potential borrowers and counterparties to meet interest and principal repayment obligations and by changing lending limits where appropriate. The financial analysis, the analysis of external ratings and analysis of business environment of borrowers and counterparties is taken into consideration for such decisionmaking.

The Bank uses different credit risk management techniques for credit institutions and non-banks, but techniques are applied consistently to all financial instruments used, including sureties and commitments exposures with particular counterparty or group of related counterparties, as well as delivery risk in relation to foreign exchange transactions.

Limits on exposures to credit institutions are set by Resources Supervision Committee and approved by the Management Board. Limits on exposures to non-banks are considered by Credit Committee and approved by the Management Board or Supervisory Council according to the approval authorities.

Exposures to related groups of counterparties and counterparties related to the Bank are also subject to regulatory requirements.

According to regulations, any credit risk exposure to a non-related counterparty may not exceed 25% of the Bank's equity. Regulation states though that some exposures, such as due from credit institutions with maturity up to 1 year, are not considered to be credit risk exposures for regulatory requirements noted above.

According to regulations the total credit risk exposures to parties related to Bank shall not exceed 15% of the Bank's equity.

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation techniques. The most traditional of these is taking security for funds disbursements, which is common practice. The Bank implements guidelines on the criteria for specific classes of collateral taken.

The amount of collateral required may vary depending on the type of exposure but usually it is set at least to cover principal amount of the outstanding debt. The Bank's exposures to credit institutions are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Note 49.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity risk management process

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

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The Bank's liquidity policy is reviewed and approved by the Management Board. The policy states that the Bank is obliged to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 30% of the Bank's total current liabilities.

The Bank calculates the mandatory liquidity ratio on a daily basis in accordance with the requirements of the Financial and Capital Market Commission. The Bank was in compliance with the ratio during the twelve-month period ended 31 December 2010.

The Bank's liquidity ratio as at 31 December 2010 was 83.62%, compared to 81.35% as at 31 December 2009.

The liquidity management policy of the Bank requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring statement of financial position liquidity ratios against regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Daily projections are based on assets and liabilities contractual maturities monitoring and analysis of information concerning customers' incoming and outgoing payments. Monthly projections are based on assets and liabilities term structure analysis.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Treasury Committee and implemented by the Treasury Department.

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Note 42 and 43.

Currency (foreign exchange) risk

Foreign exchange risk relates to the effects of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Notes 44 and 45.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and 31 December 2009 and a simplified scenario of a 10% drop in the value of the Latvian lats versus other currencies is shown in Note 45.

Foreign exchange risk management process

Currency risk management policy determines and regulates risk control and regulatory principles related to the currency exchange transactions that help the Bank in controlling its foreign currency open positions.

Limits on open foreign currency positions in a single currency and aggregate open foreign currency position are set for both overnight and intra-day positions, which are monitored daily.

The Credit Institution Law states that the open position in each separate currency must not exceed 10% of the Bank's equity and the aggregate open position in all foreign currencies must not exceed 20% of the Bank's equity.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 44 and Note 45.

Interest rate risk

Interest rate risk represents the risk that there may be changes in the future cash flows connected with financial instruments (cash flow interest rate risk) or fair value of financial instruments (fair value interest rate risk) resulting from changes in the interest rates on the market. The period when interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk.

Sources of interest rate risk

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Bank is exposed to the cash flow interest rate risk which represents the effect of changes in the interest rates on the Bank's net interest margin and the amount of net interest income due to an inadequate term structure of interest rate sensitive assets and liabilities. The Bank is not exposed to significant interest rate risk of the fair value of financial instruments.

Interest risk management process

Interest rate risk management policy states the management principles, methodology and types of interest rate risk management.

Quantitative disclosures

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of held-for-trading and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 31 December 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is shown in Note 46.

Market risk

The Bank focuses a lot of attention on the monitoring and analysis of market risk. The Bank has adopted its Trading Portfolio Policy designed to define the structure of the Bank's trading portfolio and to set out the maximum effective open position transacted with an individual issuer and the limits by the maturity profile of the securities. The Resources Supervision Committee is charged with the responsibility of implementing the Trading Portfolio Policy. The Internal Audit Department is charged with a continuing control function.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2010 and 31 December 2009 and a simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2010 LVL	Equity 31.12.2010 LVL	Net income 31.12.2009 LVL	Equity 31.12.2009 LVL
5% increase in securities prices	30 631	0.19%	25 202	0.18%
5% decrease in securities prices	(30 631)	-0.19%	(25 202)	-0.18%

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events - various types of human (staff members) or technical (software and hardware failures) errors, contingencies, fire and other factors of this sort. To prevent losses caused by operational risk, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to ensure the implementation of the regulatory requirements set forth in the aforesaid internal guidance documents.

5. CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2010, this minimum level is 8% (2009: 8%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2010 and 31 December 2009.

The Bank's risk based capital adequacy ratio, as at 31 December 2010, was 14.88% (31 December 2009: 12.72%).

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- to comply with the capital regulatory requirements;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders;
- to maintain the strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community directives, as implemented by the Financial and Capital Market Commission. The required information is filed with the Financial and Capital Market Commission on a monthly basis.

The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for the application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., the Bank's capital ratio against the risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items. The sum of notional risk weighted assets and memorandum items is determined as the sum of capital requirements of market risks, multiplied by 12.5.

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy basically agree with the recommendations under the Basle Capital Accord and amendments thereto. According to the Basle Capital Accord, the capital adequacy ratio should be at least 8%.

Quantitative disclosures

Further quantitative disclosures in respect of capital management are presented in Note 41.

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6. INTEREST INCOME

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Loans	4 065 090	4 093 668	3 276 332	3 281 694
Loans	*4 039 171*	*4 067 749*	*3 250 996*	*3 256 358*
Payment cards	*25 919*	*25 919*	*25 336*	*25 336*
Securities held-to-maturity	1 459 329	1 459 329	900 534	900 534
Due from credit institutions	408 482	408 482	883 952	883 952
Securities held-for-trading	104 070	104 070	85 035	85 035
Due from Bank of Latvia	44 991	44 991	107 267	107 267
	6 081 962	**6 110 540**	**5 253 120**	**5 258 482**

7. INTEREST EXPENSE

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Liabilities at amortised cost	2 480 545	2 480 545	2 779 139	2 779 333
Deposits	*2 249 500*	*2 249 500*	*2 706 850*	*2 707 044*
Due to credit institutions	*212 983*	*212 983*	*42 169*	*42 169*
Subordinated liabilities	*18 062*	*18 062*	*1 590*	*1 590*
Debt securities	-	-	*28 530*	*28 530*
Other interest expense	302 629	302 629	298 848	298 848
	2 783 174	**2 783 174**	**3 077 987**	**3 078 181**

8. FEE AND COMMISSION INCOME

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Servicing of transactions	1 956 343	1 957 451	1 715 729	1 716 345
Forex transactions	506 150	506 150	155 456	155 456
Trust operations	308 762	308 762	97 031	97 031
Securities accounts administration charges	226 093	226 093	80 170	80 170
Payment cards	188 899	188 899	129 640	129 640
Fees and commissions from banks	149 105	149 105	146 658	146 658
Letters of credit	34 303	34 303	13 965	13 965
Cash operations	11 195	11 195	8 133	8 133
Guarantees	2 419	2 419	11 789	11 789
Other	24 314	24 314	20 155	20 155
	3 407 583	**3 408 691**	**2 378 726**	**2 379 342**

9. FEE AND COMMISSION EXPENSE

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Services of correspondent banks	315 900	315 900	335 242	335 242
Payment cards	213 574	213 574	117 880	117 880
Securities-based transactions	38 932	38 932	31 536	31 536
Services of agents and brokers	7 670	7 670	8 674	8 674
Other	24 002	23 965	8 397	8 397
	600 078	**600 041**	**501 729**	**501 729**

10. NET TRADING INCOME

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
(Loss)/gain on foreign exchange operations	(1 297 135)	(1 297 135)	2 743 634	2 743 634
Gain/(loss) on revaluation of positions in foreign currency	2 599 497	2 597 633	(3 662)	(3 985)
	1 302 362	**1 300 498**	**2 739 972**	**2 739 649**
Gain/(loss) on trading in financial instruments	186 589	186 589	(212 668)	(212 668)
Gain on revaluation of financial instruments	160 262	160 262	491 339	491 339
	346 851	**346 851**	**278 671**	**278 671**
	1 649 213	**1 647 349**	**3 018 643**	**3 018 320**

11. OTHER OPERATING INCOME

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Rent of premises	117 218	15 172	14 809	13 751
Intermediary services	17 716	17 716	-	-
Profit from transactions in precious metals	15 869	15 869	-	-
Gain on sale of property and equipment and investment property	14 102	14 102	1 054	1 054
Securities-based transactions	-	-	22 005	22 005
Penalty amounts received	-	-	589	589
Other	22 849	22 849	22 196	22 196
	187 754	**85 708**	**60 653**	**59 595**

12. ADMINISTRATIVE EXPENSES

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Staff salaries	2 677 539	2 666 810	2 648 428	2 643 651
Amortisation and depreciation (Notes 24, 25)	713 305	712 209	611 001	610 106
Social insurance payments	612 942	610 357	594 695	593 357
Representation expenses	347 500	347 500	339 407	339 407
Professional services	270 184	253 967	559 253	553 705
Lease, renovation and maintenance of property and equipment	210 496	206 144	226 806	226 806
Business trips	139 607	139 607	198 183	198 183
Communication	128 593	128 293	135 461	135 325
Non-deductible input VAT	127 078	127 078	179 984	179 984
Advertising and publicity	71 239	71 239	45 606	45 606
Stationary goods and household equipment	64 560	64 560	81 523	81 523
Taxes paid overseas	61 774	61 774	176 910	176 910
Motor vehicles	49 478	48 388	46 176	46 105
Real estate tax	32 334	30 853	23 620	22 118
Security	21 434	21 434	16 290	16 290
Others taxes	13 113	-	27 913	632
Insurance	10 453	9 831	9 019	9 019
Charity and sponsorship	3 962	3 962	130 156	130 156
Other	674 130	673 859	263 147	263 147
	6 229 721	**6 177 865**	**6 313 578**	**6 272 030**

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13. OTHER OPERATING EXPENSES

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Association membership fees	120 550	120 550	110 356	110 356
Penalties paid to FCMC	26 767	26 767	442	442
Other	52 920	744	11 252	15 944
	200 237	**148 061**	**122 050**	**126 742**

14. ANALYSIS OF CHANGES IN IMPAIRMENT LOSS ALLOWANCE FOR ASSETS EXPOSURES

							GROUP
	Allowances for claims on the credit institutions LVL	Allowances for securities available for-sale LVL	Allowances for securities held to maturity LVL	Allowances for loans LVL	Allowances for accrued income LVL	Allowances for other assets LVL	Total LVL
Allowances as of 31 December 2008	-	-	**36 592**	**742 697**	-	**6 579**	**785 868**
Amounts written-off	-	-	-	(137 110)	-	(966)	(138 076)
Increase in allowances	-	-	-	896 822	-	68 172	964 994
Reversal of allowances	-	-	(35 254)	(128 165)	-	-	(163 419)
Sales of loans	-	-	-	(509 243)	-	-	(509 243)
Difference due to fluctuations in foreign currency exchange rates	-	-	(1 338)	(7 856)	-	555	(8 639)
Allowances as of 31 December 2009	-	-	-	**857 145**	-	**74 340**	**931 485**
Amounts written-off	-	-	-	(3 073)	-	-	(3 073)
Increase in allowances	21	24 576	-	1 227 475	35 421	47 400	1 334 893
Reversal of allowances	-	-	-	(466 069)	-	(5 173)	(471 242)
Difference due to fluctuations in foreign currency exchange rates	-	2 448	-	11 868	1 335	2 957	18 608
Allowances as of 31 December 2010	**21**	**27 024**	-	**1 627 346**	**36 756**	**119 524**	**1 810 671**

							BANK
	Allowances for claims on the credit institutions LVL	**Allowances for securities available for-sale LVL**	**Allowances for securities held to maturity LVL**	**Allowances for loans LVL**	**Allowances for accrued income LVL**	**Allowances for other assets LVL**	**Total LVL**
Allowances as of 31 December 2008	**-**	**-**	**36 592**	**742 697**	**-**	**6 579**	**785 868**
Amounts written-off	-	-	-	(137 110)	-	(966)	(138 076)
Increase in allowances	-	-	-	1 096 340	-	68 172	1 164 512
Reversal of allowances	-	-	(35 254)	(128 165)	-	-	(163 419)
Sales of loans	-	-	-	(509 243)	-	-	(509 243)
Difference due to fluctuations in foreign currency exchange rates	-	-	(1 338)	(7 856)	-	555	(8 639)
Allowances as of 31 December 2009	**-**	**-**	**-**	**1 056 663**	**-**	**74 340**	**1 131 003**
Amounts written-off	-	-	-	(3 073)	-	-	(3 073)
Increase in allowances	21	24 576	-	1 227 475	35 421	47 400	1 334 893
Reversal of allowances	-	-	-	(309 923)	-	(5 173)	(315 096)
Difference due to fluctuations in foreign currency exchange rates	-	2 448	-	11 868	1 335	2 957	18 608
Allowances as of 31 December 2010	**21**	**27 024**	**-**	**1 983 010**	**36 756**	**119 524**	**2 166 335**

15. CORPORATE INCOME TAX

(a) Income tax charge

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	**31.12.2010 LVL**	**31.12.2009 LVL**	**31.12.2009 LVL**
Corporate income tax expense	-	-	-	-
Prior year tax adjustment for income tax paid abroad	20 875	20 875	(41 617)	(41 617)
Deferred income tax expense	57 532	57 532	117 144	117 144
	78 407	**78 407**	**75 527**	**75 527**

The Group's and the Bank's applicable tax rate for current and deferred tax is 15% (2009: 15%).

(b) Reconciliation between tax expense and accounting profit

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	**31.12.2010 LVL**	**31.12.2009 LVL**	**31.12.2009 LVL**
Profit before income tax	296 842	459 470	29 546	132 601
Theoretically calculated tax at tax rate of 15%	44 526	68 921	4 432	19 890
Non-deductible expenses/(non-taxable income)	13 006	(11 389)	112 712	97 254
Prior year tax adjustment for income tax paid abroad	20 875	20 875	(41 617)	(41 617)
Income tax expense	**78 407**	**78 407**	**75 527**	**75 527**

(c) Deferred taxes

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

						GROUP
	Assets 31.12.2010 LVL	**Assets 31.12.2009 LVL**	**Liabilities 31.12.2010 LVL**	**Liabilities 31.12.2009 LVL**	**Net 31.12.2010 LVL**	**Net 31.12.2009 LVL**
Financial instruments at fair value through profit or loss	36 526	44 967	-	-	36 526	44 967
Property and equipment	6 014	6 014	(731 879)	(639 665)	(725 865)	(633 651)
Investment property	-	-	(65 072)	(75 081)	(65 072)	(75 081)
Other assets	-	-	(2 555)	(917)	(2 555)	(917)
Other liabilities	25 377	24 218	-	-	25 377	24 218
Tax loss carry-forwards	279 971	246 378	-	-	279 971	246 378
Recognised net deferred tax assets/ (liabilities)	**347 888**	**321 577**	**(799 506)**	**(715 663)**	**(451 618)**	**(394 086)**

						BANK
	Assets 31.12.2010 LVL	Assets 31.12.2009 LVL	Liabilities 31.12.2010 LVL	Liabilities 31.12.2009 LVL	Net 31.12.2010 LVL	Net 31.12.2009 LVL
Financial instruments at fair value through profit or loss	36 526	44 967	-	-	36 526	44 967
Property and equipment	-	-	(731 879)	(639 665)	(731 879)	(639 665)
Investment property	-	-	(49 912)	(59 921)	(49 912)	(59 921)
Other assets	-	-	(2 555)	(917)	(2 555)	(917)
Other liabilities	25 377	24 218	-	-	25 377	24 218
Tax loss carry-forwards	279 971	246 378	-	-	279 971	246 378
Recognised net deferred tax assets/ (liabilities)	**341 874**	**315 563**	**(784 346)**	**(700 503)**	**(442 472)**	**(384 940)**

(d) Movement in temporary differences

			GROUP AND BANK
	Balance 31.12.2009 LVL	Recognised in income statement 2010 LVL	Balance 31.12.2010 LVL
Financial instruments at fair value through profit or loss	44 967	(8 441)	36 526
Property and equipment	(639 665)	(92 214)	(731 879)
Investment property	(59 921)	10 009	(49 912)
Other assets	(917)	(1 638)	(2 555)
Other liabilities	24 218	1 159	25 377
Tax loss carry-forwards	246 378	33 593	279 971
	(384 940)	**(57 532)**	**(442 472)**

16. CASH AND BALANCES WITH BANK OF LATVIA

	GROUP	BANK	GROUP AND BANK
	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL
Cash	1 900 740	1 900 440	1 773 384
Balance with the Bank of Latvia	7 053 577	7 053 577	8 747 277
Accrued income on balance with Bank of Latvia	337	337	1 816
	8 954 654	**8 954 354**	**10 522 477**

The Bank is required to ensure that the monthly average balance (in lats) with the Bank of Latvia exceeds the statutory reserve requirement ratio for commercial banks. As at the reporting date the Bank has complied with the reserve requirements of the Bank of Latvia.

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17. CASH AND CASH EQUIVALENTS

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL	31.12.2009 LVL
Cash	1 900 740	1 900 440	1 773 384	1 773 384
Balance with the Bank of Latvia	7 053 577	7 053 577	8 747 277	8 747 277
	8 954 317	**8 954 017**	**10 520 661**	**10 520 661**
Due from other credit institutions with up to 3 months remaining maturity	64 287 590	64 287 590	103 250 404	103 250 404
Due to other credit institutions with up to 3 months remaining maturity	(5 442 096)	(5 442 096)	(201 193)	(201 193)
	67 799 811	**67 799 511**	**113 569 872**	**113 569 872**
Allowances (Note 14)	(21)	(21)	-	-
	67 799 790	**67 799 490**	**113 569 872**	**113 569 872**

18. DUE FROM CREDIT INSTITUTIONS

		GROUP AND BANK
	31.12.2010 LVL	31.12.2009 LVL
Repayable on demand	58 976 348	84 675 299
Other deposits	8 606 660	21 299 947
	67 583 008	**105 975 246**
Allowances (Note 14)	(21)	-
	67 582 987	**105 975 246**

The table below shows the geographical concentration of claims on credit institutions:

		GROUP AND BANK
	31.12.2010 LVL	31.12.2009 LVL
Due from credit institutions incorporated in the Republic of Latvia	1 944 033	9 080 545
Due from credit institutions incorporated in EU countries	57 201 401	84 510 181
Due from credit institutions incorporated in OECD countries	1 325 782	12 507
Due from credit institutions incorporated in other countries	7 111 792	12 372 013
	67 583 008	**105 975 246**
Allowances (Note 14)	(21)	-
	67 582 987	**105 975 246**

Concentration of placements with banks and other financial institutions

As at 31 December 2010 and 31 December 2009, the Group and the Bank had three banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2010 and 31 December 2009 were LVL 54 163 616 and LVL 67 468 599.

19. SECURITIES-HELD-FOR TRADING

	GROUP AND BANK	
	31.12.2010 LVL	31.12.2009 LVL
Debt securities	-	27 302
Shares and other variable income securities	612 627	476 741
	612 627	**504 043**

The table below shows the securities recorded by issuer profile:

	GROUP AND BANK	
	31.12.2010 LVL	31.12.2009 LVL
Debt securities of financial institutions	-	17 820
Debt securities of credit institutions	-	9 482
Total debt securities	**-**	**27 302**
Shares of private enterprises	157 799	318 091
Shares of credit institutions	308 173	150 687
State-owned companies enterprises	125 597	-
Shares of financial institutions	21 058	7 963
Total shares	**612 627**	**476 741**
	612 627	**504 043**

The table below shows the geographical concentration of securities:

	GROUP AND BANK	
	31.12.2010 LVL	31.12.2009 LVL
Debt securities of entities registered in OECD countries	-	27 302
Total debt securities	**-**	**27 302**
Shares of entities registered in the Republic of Latvia	33 112	48 508
Shares of entities registered in other EU countries	12 337	8 988
Shares of entities registered in OECD countries	21 486	786
Shares of entities registered in other countries	545 692	418 459
Total shares	**612 627**	**476 741**
	612 627	**504 043**

As of 31 December 2010 and 31 December 2009, the Bank did not possess any debt securities serving as collateral for repo loans.

Reclassification out of held-for-trading financial instruments

During 2010 and 2009, the Bank did not reclassify any held-for-trading financial instruments.

Pursuant to the amendments to IAS 39 and IFRS 7, the Bank reclassified certain trading assets to held-tomaturity financial instruments during 2008.

The table below sets out the amounts that would have been recognised in the periods following reclassification during 2008 if the reclassifications had not been made:

	GROUP AND BANK	
	31.12.2010 Profit LVL	31.12.2009 Profit LVL
Period after reclassification		
Net profit on financial instruments reclassified to held-to-maturity financial instruments	27 673	539 226
	27 673	**539 226**

20. DERIVATIVE CONTRACTS

The table below summarises the contractual amounts of the Group's and the Bank's forward foreign exchange contracts outstanding at 31 December 2010 and 31 December 2009. The foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the profit or loss and in held-for-trading financial instruments at fair value through profit or loss, as appropriate.

	GROUP AND BANK			
	31.12.2010 Assets LVL	31.12.2010 Liabilities LVL	31.12.2009 Assets LVL	31.12.2009 Liabilities LVL
Notional amount				
Foreign currency exchange SWAP transactions	54 015 654	53 609 768	32 280 431	32 209 855
Foreign currency FORWARD contracts	73 831 844	73 984 222	32 586 149	32 497 100
FUTURES contracts	-	25 247	106 809	-
	127 847 498	**127 619 237**	**64 973 389**	**64 706 955**
Fair value				
Foreign currency exchange SWAP transactions	408 768	2 882	160 599	90 356
Foreign currency FORWARD contracts	155 150	307 528	124 102	35 054
FUTURES contracts	-	941	7 013	-
	563 918	**311 351**	**291 714**	**125 410**

The table below shows the concentration of foreign currency exchange SWAP transactions by type of counterparties:

	GROUP AND BANK			
	31.12.2010 Assets LVL	**31.12.2010 Liabilities LVL**	**31.12.2009 Assets LVL**	**31.12.2009 Liabilities LVL**
Foreign currency exchange SWAP transactions with Latvian banks	7 018 522	7 009 377	28 418 296	28 457 835
Foreign currency exchange SWAP transactions with other countries banks	39 921 266	39 567 817	3 862 135	3 752 020
Foreign currency exchange SWAP transactions with other customers	7 075 866	7 032 574	-	-
	54 015 654	**53 609 768**	**32 280 431**	**32 209 855**

The table below shows the concentration of foreign exchange FORWARD transactions by type of counterparties:

	GROUP AND BANK			
	31.12.2010 Assets LVL	**31.12.2010 Liabilities LVL**	**31.12.2009 Assets LVL**	**31.12.2009 Liabilities LVL**
Foreign currency exchange FORWARD transactions with other countries banks	18 068 007	17 971 342	6 336 839	6 336 179
Foreign currency exchange FORWARD transactions with other customers	55 763 837	56 012 880	26 249 310	26 160 921
	73 831 844	**73 984 222**	**32 586 149**	**32 497 100**

The table below summarises, by major currency, the contracted average exchange rates applied to the Bank's forward exchange contracts unsettled at 31 December 2010:

USD/LVL	EUR/USD	USD/CHF	USD/CAD	USD/JPY	GBP/CHF	GBP/USD	AUD/USD
0.5360	1.3238	0.9459	1.0003	82.1689	1.4602	1.5450	1.0172

21. SECURITIES AVAILABLE-FOR-SALE

	GROUP AND BANK	
	31.12.2010 LVL	**31.12.2009 LVL**
Ukrainian Government treasury bills	-	59 285
Debt securities of credit institutions domiciled in Iceland	27 024	-
Shares and other variable income securities	165 579	165 579
JSC "Capital"	*127 111*	*127 111*
S.W.I.F.T. SCRL	*38 468*	*38 468*
	192 603	**224 864**
Allowances (Note 14)	(27 024)	-
	165 579	**224 864**

Investment JSC "Capital" is measured at cost as the Bank believes there is no readily available active market to detemine the fair value. The fair value of S.W.I.F.T. SCRL is reported according to a certain withdrawal price as of 31 December 2010 and 31 December 2009.

22. SECURITIES HELD-TO-MATURITY

	GROUP AND BANK	
	31.12.2010 LVL	**31.12.2009 LVL**
Government treasury bills	1 367 340	-
Bonds and other fixed-income securities	14 231 476	11 301 839
	15 598 816	**11 301 839**

The following table shows the distribution of securities held-to-maturity by issuer profile:

	GROUP AND BANK	
	31.12.2010 LVL	**31.12.2009 LVL**
Debt securities of credit institutions	6 201 471	4 330 055
Debt securities of private enterprises	5 249 169	3 100 918
Public Non-Financial Corporations	2 780 836	-
Debt securities of central governments	1 367 340	-
Debt securities of financial institutions	-	3 870 866
	15 598 816	**11 301 839**

23. LOANS

(a) Loans by type

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	**31.12.2010 LVL**	**31.12.2009 LVL**	**31.12.2009 LVL**
Commercial loans	19 619 255	19 619 255	11 023 931	11 023 931
Mortgage loans	19 566 639	21 259 178	17 359 057	17 846 953
Industrial loans	8 681 993	8 681 993	6 321 782	6 321 782
Overdrafts	2 347 521	2 358 993	1 938 037	1 938 037
Reverse repos	932 918	932 918	357 826	357 826
Trade finance	411 446	411 446	390 067	390 067
Consumer loans	399 142	399 142	517 405	517 405
Payment cards	86 658	86 658	96 243	96 243
Other	4 545 293	4 545 293	897 162	897 162
	56 590 865	**58 294 876**	**38 901 510**	**39 389 406**
Allowances (Note 14)	(1 627 346)	(1 983 010)	(857 145)	(1 056 663)
	54 963 519	**56 311 866**	**38 044 365**	**38 332 743**

(b) Loan profile by geographic location

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	**31.12.2010 LVL**	**31.12.2009 LVL**	**31.12.2009 LVL**
Residents of the Republic of Latvia	20 618 710	22 322 721	21 200 128	21 688 024
Residents of other EU countries	19 807 504	19 807 504	5 213 293	5 213 293
Residents of other OECD countries	5 825 054	5 825 054	6 032 017	6 032 017
Residents of CIS countries	3 546 798	3 546 798	758 292	758 292
Residents of other countries	6 792 799	6 792 799	5 697 780	5 697 780
	56 590 865	**58 294 876**	**38 901 510**	**39 389 406**
Allowances (Note 14)	(1 627 346)	(1 983 010)	(857 145)	(1 056 663)
	54 963 519	**56 311 866**	**38 044 365**	**38 332 743**

(c) Loans by customer profile

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	**31.12.2010 LVL**	**31.12.2009 LVL**	**31.12.2009 LVL**
Loans to corporates	44 193 741	45 897 752	32 933 637	33 421 533
Loans to financial institutions	2 966 963	2 966 963	2 207 497	2 207 497
Loans to individuals	8 415 180	8 415 180	2 690 890	2 690 890
Loans to senior management and staff members of the Bank	1 014 981	1 014 981	1 069 486	1 069 486
	56 590 865	**58 294 876**	**38 901 510**	**39 389 406**
Allowances (Note 14)	(1 627 346)	(1 983 010)	(857 145)	(1 056 663)
	54 963 519	**56 311 866**	**38 044 365**	**38 332 743**

(d) Industry analysis of the loan portfolio

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Real estate	14 389 946	16 093 957	13 953 276	14 441 172
Trade	11 155 928	11 155 928	12 218 602	12 218 602
Finance	7 709 745	7 709 745	1 908 950	1 908 950
Information and communication services	3 142 477	3 142 477	4 661 463	4 661 463
Manufacturing	2 123 213	2 123 213	2 319 700	2 319 700
Mining/metallurgy	241 801	241 801	34	34
Agriculture, forestry and timber	2 701	2 701	4 242	4 242
Services	8 037 207	8 037 207	16 615	16 615
Other	357 685	357 685	58 252	58 252
Loans to individuals	9 430 162	9 430 162	3 760 376	3 760 376
	56 590 865	**58 294 876**	**38 901 510**	**39 389 406**
Allowances (Note 14)	(1 627 346)	(1 983 010)	(857 145)	(1 056 663)
	54 963 519	**56 311 866**	**38 044 365**	**38 332 743**

(e) Breakdown of loans by groups of delayed payments and non-delinquent loans

The following table provides information on the credit quality of the loan portfolio:

			GROUP
	Gross Loans 31.12.2010 LVL	Allowances 31.12.2010 LVL	Net loans 31.12.2010 LVL
Non-delinquent loans	43 714 336	(546 218)	43 168 118
Up to 1 month (inclusive)	1 270 182	(7 319)	1 262 863
1 to 3 months	5 605 855	(166 579)	5 439 276
3 to 6 months	3 757 395	(61 539)	3 695 856
More than 6 months	2 243 097	(845 691)	1 397 406
	56 590 865	**(1 627 346)**	**54 963 519**

			BANK
	Gross Loans 31.12.2010 LVL	Allowances 31.12.2010 LVL	Net loans 31.12.2010 LVL
Non-delinquent loans	44 912 557	(799 746)	44 112 811
Up to 1 month (inclusive)	1 775 972	(109 455)	1 666 517
1 to 3 months	5 605 855	(166 579)	5 439 276
3 to 6 months	3 757 395	(61 539)	3 695 856
More than 6 months	2 243 097	(845 691)	1 397 406
	58 294 876	**(1 983 010)**	**56 311 866**

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			GROUP
	Gross Loans 31.12.2009 LVL	Allowances 31.12.2009 LVL	Net loans 31.12.2009 LVL
Non-delinquent loans	24 215 768	(347 535)	23 868 233
Up to 1 month (inclusive)	4 752 811	(95 243)	4 657 568
1 to 3 months	1 161 931	(75 482)	1 086 449
3 to 6 months	6 447 503	(67 021)	6 380 482
More than 6 months	2 323 497	(271 864)	2 051 633
	38 901 510	**(857 145)**	**38 044 365**

			BANK
	Gross Loans 31.12.2009 LVL	Allowances 31.12.2009 LVL	Net loans 31.12.2009 LVL
Non-delinquent loans	24 703 664	(547 053)	24 156 611
Up to 1 month (inclusive)	4 752 811	(95 243)	4 657 568
1 to 3 months	1 161 931	(75 482)	1 086 449
3 to 6 months	6 447 503	(67 021)	6 380 482
More than 6 months	2 323 497	(271 864)	2 051 633
	39 389 406	**(1 056 663)**	**38 332 743**

Movements in the loan impairment allowance for the years ended 31 December 2010 and 31 December 2009 are disclosed in Note 14.

(f) Restructured loans

During the year ended 31 December 2010, the Bank restructured loans by changing as follows:

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP AND BANK 31.12.2009 LVL
Extension of the loan maturity date	9 994 658	10 507 270	-
Interest capitalised	2 536 896	2 536 896	18 955 522
Interest rate change	113 577	113 577	-
Interest waiver	-	-	922 885
Principal grace	321 518	321 518	-
Other changes	2 060 462	2 566 252	-
	15 027 111	**16 045 513**	**19 878 407**

(g) Analysis of collateral

The following table provides the analysis by collateral type of the loan portfolio:

		GROUP		BANK
	Net loans 31.12.2010 LVL	% of loan portfolio 31.12.2010 LVL	Net loans 31.12.2010 LVL	% of loan portfolio 31.12.2010 LVL
Real estate	33 397 545	60.77%	34 625 429	61.49%
Deposits	14 425 810	26.25%	14 425 810	25.62%
Commercial pledge	1 057 439	1.92%	1 057 439	1.88%
Traded securities	932 918	1.70%	932 918	1.66%
Motor vehicles	125 639	0.23%	125 639	0.21%
Other collateral	209 932	0.37%	209 932	0.37%
No collateral	4 814 236	8.76%	4 934 699	8.77%
	54 963 519	**100%**	**56 311 866**	**100%**

	GROUP			BANK
	Net loans 31.12.2009 LVL	% of loan portfolio 31.12.2009 LVL	Net loans 31.12.2009 LVL	% of loan portfolio 31.12.2009 LVL
Real estate	18 384 247	48.33%	18 672 625	48.71%
Commercial pledge	11 861 497	31.18%	11 861 497	30.94%
Deposits	2 735 143	7.19%	2 735 143	7.14%
Traded securities	662 238	1.74%	662 238	1.73%
Motor vehicles	346 876	0.91%	346 876	0.90%
Other collateral	225 108	0.58%	225 108	0.59%
No collateral	3 829 256	10.07%	3 829 256	9.99%
	38 044 365	**100%**	**38 332 743**	**100%**

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

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying vehicle. Credit card overdrafts are secured by deposits and guarantees. Consumer loans are secured by other types of collateral.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

During the year ended 31 December 2010, the Bank acquired possession of the premises by taking control over the collateral accepted as security for the Bank - issued commercial loan. During the year ended 31 December 2009, the Bank has assumed a plot of land, having acquired control over the mortgaged property accepted as security for a commercial loan granted by the Bank.

During the year ended 31 December 2010, the Group and Bank have obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans.

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL	31.12.2009 LVL
Plots of land	1 089 985	-	2 432 582	1 500 857
Possession of the premises	211 184	211 184	-	-
Apartments	-	-	603 83	-
	1 301 169	**211 184**	**3 036 414**	**1 500 857**

(h) Significant credit exposures

As at 31 December 2010 and 31 December 2009 the Bank had no borrowers acting as borrowers or the Bank-related parties whose outstanding loan balances would exceed 10% of loans to customers.

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

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24. INTANGIBLE ASSETS

	GROUP	BANK
	31.12.2010 Software LVL	31.12.2009 Software LVL
Acquisition cost		
As of 31 December 2008	**1 214 374**	**1 214 374**
Additions	947 604	947 604
Acquisition of subsidiary	261 692	-
Impairment	(261 314)	-
Disposals	(5 355)	(5 355)
As of 31 December 2009	**2 157 001**	**2 156 623**
Additions	503 121	503 121
Acquisition of subsidiary	117	-
Disposals	(9 511)	(9 480)
As of 31 December 2010	**2 650 728**	**2 650 264**
Amortisation		
As of 31 December 2008	**(58 522)**	**(58 522)**
Amortisation	(57 271)	(57 172)
Disposals	5 355	5 355
As of 31 December 2009	**(110 438)**	**(110 339)**
Amortisation	(155 601)	(155 344)
Disposals	9 480	9 480
As of 31 December 2010	**(256 559)**	**(256 203)**
Net book value		
As of 31 December 2008	**1 155 852**	**1 155 852**
As of 31 December 2009	**2 046 563**	**2 046 284**
As of 31 December 2010	**2 394 169**	**2 394 061**

25. PROPERTY AND EQUIPMENT

					GROUP
	Buildings and land (in own use) LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	Total LVL
Acquisition cost					
As of 31 December 2008	**9 012 499**	**239 646**	**2 179 457**	**53 622**	**11 485 224**
Additions	-	13 783	143 596	12 803	**170 182**
Acquisition of subsidiary	-	-	1 734	-	**1 734**
Disposals	-	(12 510)	(86 175)	-	**(98 685)**
Reclassification	22 645	-	(22 645)	-	-
As of 31 December 2009	**9 035 144**	**240 919**	**2 215 967**	**66 425**	**11 558 455**
Additions	7 464	36 918	291 566	35 124	**371 072**
Acquisition of subsidiary	-	-	41	-	**41**
Disposals	-	(18 580)	(218 899)	-	**(237 479)**
As of 31 December 2010	**9 042 608**	**259 257**	**2 288 675**	**101 549**	**11 692 089**
Depreciation					
As of 31 December 2008	**(140 161)**	**(95 326)**	**(526 829)**	-	**(762 316)**
Depreciation	(158 345)	(47 725)	(347 660)	-	**(553 730)**
Disposals	-	12 510	86 101	-	**98 611**
As of 31 December 2009	**(298 506)**	**(130 541)**	**(788 388)**	-	**(1 217 435)**
Depreciation	(158 575)	(46 737)	(352 392)	-	**(557 704)**
Disposals	-	18 580	133 978	-	**152 558**
As of 31 December 2010	**(457 081)**	**(158 698)**	**(1 006 802)**	-	**(1 622 581)**
Net book value					
As of 31 December 2008	**8 872 338**	**144 320**	**1 652 628**	**53 622**	**10 722 908**
As of 31 December 2009	**8 736 638**	**110 378**	**1 427 579**	**66 425**	**10 341 020**
As of 31 December 2010	**8 585 527**	**100 559**	**1 281 873**	**101 549**	**10 069 508**

					BANK
	Buildings and land (in own use) LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	Total LVL
Acquisition cost					
As of 31 December 2008	**9 012 499**	**239 646**	**2 179 457**	**53 622**	**11 485 224**
Additions	-	13 783	143 596	12 803	**170 182**
Disposals	-	(12 510)	(86 175)	-	**(98 685)**
Reclassification	22 645	-	(22 645)	-	-
As of 31 December 2009	**9 035 144**	**240 919**	**2 214 233**	**66 425**	**11 556 721**
Additions	7 464	36 918	291 566	35 124	**371 072**
Disposals	-	(18 580)	(218 899)	-	**(237 479)**
As of 31 December 2010	**9 042 608**	**259 257**	**2 286 900**	**101 549**	**11 690 314**
Depreciation					
As of 31 December 2008	**(140 161)**	**(95 326)**	**(526 829)**	-	**(762 316)**
Depreciation	(158 345)	(47 725)	(346 864)	-	**(552 934)**
Disposals	-	12 510	86 101	-	**98 611**
As of 31 December 2009	**(298 506)**	**(130 541)**	**(787 592)**	-	**(1 216 639)**
Depreciation	(158 575)	(46 737)	(351 553)	-	**(556 865)**
Disposals	-	18 580	133 978	-	**152 558**
As of 31 December 2010	**(457 081)**	**(158 698)**	**(1 005 167)**	-	**(1 620 946)**
Net book value					
As of 31 December 2008	**8 872 338**	**144 320**	**1 652 628**	**53 622**	**10 722 908**
As of 31 December 2009	**8 736 638**	**110 378**	**1 426 641**	**66 425**	**10 340 082**
As of 31 December 2010	**8 585 527**	**100 559**	**1 281 733**	**101 549**	**10 069 368**

26. INVESTMENT PROPERTY

For investment property, the Bank applies a fair-value-based accounting model. The fair value of the investment property item (as assessed or disclosed in the financial statements) is based on the appraisal from an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in appraising the same category investment property located at the same territory as the item being valued.

	GROUP	BANK
	LVL	LVL
As of 31 December 2008	**1 317 528**	**1 317 528**
Additions	1 500 857	1 500 857
Revaluation	(115 440)	(115 440)
As of 31 December 2009	**2 702 945**	**2 702 945**
Additions	1 301 169	211 184
Revaluation	(355 657)	(66 728)
Sale	(119 028)	-
Reclassification from other assets	1 448 147	-
As of 31 December 2010	**4 977 576**	**2 847 401**

Additions to investment property relate to assumed collateral in the form of a land plot and possession of the premises.

	GROUP AND BANK
	LVL
Amounts recognised in the profit or loss:	
Rental income earned on investment property	8 729
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has earned a rental income during the reporting year	(15 889)
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has not earned a rental income during the reporting year	(1 960)

27. INVESTMENTS IN ASSOCIATES

					GROUP AND BANK
	Ownership %	Country of incorporation	Purpose	31.12.2010 LVL	31.12.2009 LVL
LLC "Komunikācijas un projekti"	25	Latvia	Investments	429 009	429 009
				429 009	**429 009**

As at 31 December 2010, SIA "Komunikacijas un projekti" assets amounted to LVL 19 100, liabilities amounted to LVL 28 978, and losses for 2010 comprised LVL 9 878. The management assesses that the fair value of assets in the associate is higher than the recognised amount for Statutory accounting purposes and therefore no need for a goodwill impairment allowance identified.

The management assesses that accounting in accordance with equity method would not provide results that are materially different from accounting at cost.

28. DEFERRED EXPENSES AND ACCRUED INCOME

	GROUP	BANK	GROUP AND BANK
	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL
Deferred expenses	614 312	457 926	993 719
Other accrued interest and other income	196 957	196 957	69 924
	811 269	**654 883**	**1 063 643**
Allowances (Note 14)	(36 756)	(36 756)	-
	774 513	**618 127**	**1 063 643**

29. OTHER ASSETS

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL	31.12.2009 LVL
Unsettled spot forex transactions	375 847	375 847	337 490	337 490
Other accounts receivable	155 465	183 014	210 848	190 856
VAT pre-payments	130 713	92 203	102 182	102 182
Precious metals	53 301	53 301	106 646	106 646
Pre-tax payment	36 223	-	-	-
Money in transit (replenishment of a correspondent account)	13 717	13 717	-	-
Funds placed in guarantee funds	7 801	7 801	7 197	7 197
Assumed collateral	-	-	1 535 557	-
Other prepaid taxes	60 732	49 707	66 172	66 172
Others	5 993	5 993	16 160	16 160
	839 792	**781 583**	**2 382 252**	**826 703**
Allowances (Note 14)	(119 524)	(119 524)	(74 340)	(74 340)
	720 268	**662 059**	**2 307 912**	**752 363**

30. DUE TO CREDIT INSTITUTIONS

	GROUP AND BANK	GROUP AND BANK
	31.12.2010 LVL	31.12.2009 LVL
Repayable on demand	8 815 807	201 477
Term balances	4 694 631	2 477 212
	13 510 438	**2 678 689**

The table below shows geographical concentration:

	GROUP AND BANK	GROUP AND BANK
	31.12.2010 LVL	31.12.2009 LVL
Credit institutions incorporated in the Republic of Latvia	1 167 889	12 840
Credit institutions incorporated in non-OECD countries	12 342 549	2 665 849
	13 510 438	**2 678 689**

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As at 31 December 2010 due to credit institutions incorporated in non-OECD countries include deposits totalling LVL 12 122 920 which serve as collateral to secure loans. As at 31 December 2009 due to credit institutions incorporated in non-OECD countries include deposits totalling LVL 4 064 214 which serve as collateral to secure loans.

Concentration of due to credit institutions

As at 31 December 2010 and 31 December 2009, the Bank had three and two banks and financial institutions, respectively, whose balances exceeded 10% of total placements by banks and other financial institutions. The gross values of these balances as of 31 December 2010 and 31 December 2009 were LVL 12 128 875 and LVL 534 384.

31. DEPOSITS

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL	31.12.2009 LVL
Repayable at call				
Corporates	57 651 108	57 790 248	97 349 087	97 349 203
Municipalities	16 505 172	16 505 172	2 118 314	2 118 314
Financial institutions	440 853	440 853	371 558	371 558
State-owned companies	134 831	134 831	58 785	58 785
Public organisations	39 108	39 108	8 841	8 841
Central governments	4 821	4 821	55 315	55 315
Individuals	9 444 510	9 444 510	6 439 028	6 439 028
	84 220 403	**84 359 543**	**106 400 928**	**106 401 044**
Term deposits				
Corporates	35 740 107	35 740 107	44 811 389	44 811 389
Individuals	13 314 999	13 314 999	14 243 066	14 243 066
	49 055 106	**49 055 106**	**59 054 455**	**59 054 455**
Total deposits	**133 275 509**	**133 414 649**	**165 455 383**	**165 455 499**

Blocked accounts

As at 31 December 2010, the Bank maintained customer deposit balances of LVL 4 649 503 (as at 31 December 2009: LVL 2 910 249) which were blocked by the Bank as collateral for loans and commitments and sureties granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2010, the Bank had one client whose account balance exceeded 10% of the total of all customer account balances (as of 31 December 2009: 1). As at 31 December 2010, these balances totalled LVL 16 503 307 (as of 31 December 2009: LVL 52 719 213).

32. ACCRUED EXPENSES, PROVISIONS AND DEFERRED INCOME

	GROUP	BANK	GROUP	BANK
	31.12.2010 LVL	31.12.2010 LVL	31.12.2009 LVL	31.12.2009 LVL
Provision for unused vacation	169 183	169 183	162 245	161 451
Accruals for other payments	140 187	133 725	114 896	114 380
Other accrued expense	120 402	120 402	131 069	131 069
Accrued interest payable to the Deposit Guarantee Scheme (DGS)	61 230	61 230	78 800	78 800
Deferred income	26 199	26 199	38 826	38 826
	517 201	**510 739**	**525 836**	**524 526**

33. OTHER LIABILITIES

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Unsettled spot forex transactions	416 856	416 856	346 557	346 557
Money in transit	178 642	178 642	284 442	284 442
Other accounts payable	166 289	143 703	155 147	146 859
	761 787	**739 201**	**786 146**	**777 858**

34. SUBORDINATED LIABILITIES

Subordinated deposits have a fixed term of seven years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims.

					GROUP AND BANK	
Depositor	Currency	Amount in currency	Interest rate	Repayment date	Amount 31.12.2010 LVL	Amount 31.12.2009 LVL
Yury Krapivin	USD	400 083	0.075	15.12.2015	214 045	-
Elena Ivanova	EUR	303 125	0.075	11.11.2015	213 037	-
Mikhail Kuzmich	EUR	303 125	0.075	11.11.2015	213 037	-
Tatiana Kuzishchina	EUR	296 948	0.075	06.09.2015	208 696	-
Vyacheslav Kuzishchin	EUR	296 948	0.075	06.09.2015	208 696	-
Oleksandr Krylov	USD	376 078	0.075	17.12.2015	201 202	-
Vitaliy Samoylov	USD	376 078	0.075	17.12.2015	201 202	-
Other					60 950	20 435
Total					**1 520 865**	**20 435**

35. SHAREHOLDERS' EQUITY

On 31 August 2010, the shareholders approved a resolution to raise the share capital of JSC "Baltic International Bank" by LVL 5 250 000 through issuing 1 050 000 registered and dematerialised ordinary shares, each share having a face value of LVL 5. The shareholders paid in LVL 1 312 508 of the approved increase in year 2010. The Bank's share capital totals LVL 20 772 105 and is divided into 4 154 421 ordinary shares carrying identical voting rights. The Bank's paid-in capital as at 31 December 2010 was LVL 16 834 613.

All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Each share has a par value of LVL 5 (five lats). Of the Bank's 93 shareholders, 28 are legal entities and 65 are individuals.

Reserve capital totalling LVL 545 thousand is formed from the contributions made by the Bank's shareholders. The Bank's General Meeting of Shareholders makes the decision concerning further usage of reserve capital. Reserve capital can be used to:

– cover losses;
– increase the share capital;
– pay dividends.

	Quantity	Amount LVL
Registered share capital 31 December 2009	**3 104 421**	**15 522 105**
Increase of registered share capital	1 050 000	5 250 000
Total registered share capital 31 December 2010	**4 154 421**	**20 772 105**
Unpaid hare capital as at 31 December 2010		(3 937 492)
Total paid-in share capital 31 December 2010	**4 154 421**	**16 834 613**

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

	31.12.2010	31.12.2009
Valeri Belokon	69.89%	49.10%
Vilori Belokon	30.01%	14.09%

36. SURETIES AND COMMITMENTS

Sureties and guarantees, which represent irrevocable assurances and promise that the Bank will make payments to the beneficiary (third party) in the event that the obligor (customer) fails to honor his/her obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit and liabilities for credit cards represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

	GROUP 31.12.2010 LVL	BANK 31.12.2010 LVL	GROUP 31.12.2009 LVL	BANK 31.12.2009 LVL
Sureties and guarantees	**684 426**	**684 426**	**792 434**	**792 434**
Commitments to customers	**2 706 482**	**2 742 056**	**5 815 328**	**5 819 331**
Commitments to extend credit	1 784 196	1 819 770	5 250 792	5 254 795
Unused creditcard limits	585 699	585 699	472 800	472 800
Other	336 587	336 587	91 736	91 736
	3 390 908	**3 426 482**	**6 607 762**	**6 611 765**

37. TRUST AGREEMENTS

The Bank enters into trust agreements with private individuals and legal entities, residents and nonresidents of the Republic of Latvia. The Bank accepts no risk for its trust operations; all risk is retained by its clients. As of 31 December 2010, the Bank's administered assets totaled LVL 43 377 029. As of 31 December 2009, the Bank's administered assets stood at LVL 60 844 374.

38. LITIGATION

In the ordinary course of business, the Group and the Bank are exposed to litigation risks. The management believes that the ultimate liability, if any, arising in connection with such litigation or complaints will not have a materially adverse effect on the Bank's financial position or results of future operations.

39. INFORMATION ON BANK'S STAFF AND REMUNERATION OF THE MANAGEMENT

In 2010, the Bank's average staff count increased to 213 (2009: 211). Remuneration to the Bank's Supervisory Council and Management Board members amounted to:

	31.12.2010 LVL	31.12.2009 LVL
Council members	129 116	129 163
Board members	277 903	332 470
	407 019	**461 633**

Based on the FCMC's Regulations No.61 "Regulations Governing the Disclosure of Information and Transparency of Institutions", the Bank publishes the information related to its remuneration policy, as formulated in accordance with the requirements outlined in Commission's Regulations No. 171 "Regulations Setting Forth the Basic Principles of the Remuneration Policy" (in effect as of 21 December 2009) and the established practices.

Within the framework of the Remuneration Policy, the Bank allocates the decision-making responsibility as follows:

THE BANK'S COUNCIL IS RESPONSIBLE FOR:
- determining and approving the basic principles of the Remuneration Policy;
- supervising the Policy (Policy formulation, implementation and adherence to);
- approving the Bank's internal framework that regulates remuneration-related issues;
- determining the remuneration for the employees whose activities influence the Bank's risk profile(hereinafter referred to as risk-takers);
- revising the basic principles of the remuneration policy (on a regular basis, but no less than once a year) in order to align the remuneration structure to (i) the Bank's current activities and development strategy and (ii) altering external factors;
- setting forth the procedure for verifying whether the Bank's remuneration policy is implemented in strict conformity with the approved Remuneration Policy.

THE BANK'S BOARD IS RESPONSIBLE FOR:
- ensuring that the remuneration policy and policy-relevant internal documents are formulated and complied with;
- informing the risk-takers of the indicators and methods used in evaluating their performance results and determining the variable pay component..

To ensure compliance with the remuneration policy and policy-relevant internal regulatory documents, the Board may involve the employees performing internal control functions, HR Division's staff, and the Bank's shareholders (if necessary).

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THE HR DIVISION IS RESPONSIBLE FOR:
- formulating and preparing the internal regulatory documents (requiring the approval by the Council and /or Board) related to the remuneration policy, including coordinating the preparation of the documents having a material impact on the Bank's risk profile and the quality of risk management (to this end, the HR Division may involve the employees performing internal control functions, and other competent employees who possess the required skills and knowledge and are authorised to perform the functions and to obtain all relevant information);
- coordinating the supervision over the application of the remuneration policy and evaluating the overall effectiveness of the policy;
- implementing remuneration instruments and maintaining long-term employee motivation plans;
- conducting employee performance evaluation (with respect to the Bank's risk-takers) on a regular basis, but no less than once a year;
- aggregating the Risk Controlling Department-provided information and non-financial data;
- preparing a proposal concerning the size of a variable remuneration component to be awarded/paid to the risk-takers.

The proposal is submitted to the Bank's:
- Board - for giving its recommendations to the Council;
- Council - for final approval.

THE RISK CONTROLLING DEPARTMENT IS RESPONSIBLE FOR:
- furnishing the HR Division with the Report analysing the possible impact of a variable remuneration component - to be paid in the future - on the Bank's risk profile, based on financial results attained by the risk-takers (the Risk Control Director submits the report on the evaluation results to the HR Division);
- evaluating the impact exerted by variable remuneration components already paid/awarded to the risktakers (including risks and the structure of the variable components) on the Bank's risk profile and submitting the evaluation results to the Bank's Council (the Risk Control Director submits the report on the evaluation results to the Bank's Council).

THE COMPLIANCE DEPARTMENT IS RESPONSIBLE FOR:
- verifying whether the remuneration structure is compliant with the regulatory requirements and the Bank's internal regulatory framework. The Compliance Director submits the non-compliance report (once any non-compliance is identified).

The non-compliance report is submitted to:
- the Board - for giving the Council the Board's recommendations regarding the corrective action;
- the Council - for approving the corrective action (if necessary).

The Internal Audit Function is responsible for periodic policy-relevant checks (formulation, implementation and evaluation of the results). The Chief Audit Executive (the Head of the Internal Audit Function) reports audit findings to the Bank's Council.

The Bank does not establish the Remuneration Committee, taking into account the Bank's size and the specificity of the decision-making process.

The link between remuneration and performance (the pay-to-performance relationship) is ensured by the following elements of the remuneration system: extra payments and financial rewards / bonuses which are performance-linked (linked to the Bank's financial performance indicators, financial and nonfinancial performance indicators in the Bank's functional areas/ units, and financial and non-financial performance indicators of individual employees).

The Bank determines the basis for the payment by reference to the following performance results (financial and non-financial indicators) including the indicators whereby the employees acquire the irrevocable right to receive any element of variable pay and other benefits:

- Bank's profit figure - financial indicator;
- Achievement of functional unit's income plan (target income) - financial indicator;
- Implementation of functional unit's performance (action) plan - non-financial indicator;
- Achievement of individual income plan (target income) - financial indicator;
- Individual employee performance and professional development (results of interviews conducted on a yearly basis) - non-financial indicator;
- Acknowledgements and disciplinary penalties - non-financial indicator;
- Quality of the work on the project - non-financial indicator;
- Outstanding employee performance and special achievements - non-financial indicator;
- Quality of initiative projects - non-financial indicator.

The Bank divides variable remuneration into three broad categories (insignificant portion, significant portion and very substantial portion). Variable remuneration is subject to deferral arrangements as set out below.

An insignificant portion of variable remuneration may be paid out to the Bank's risk-takers right away and in full.

The Bank uses a two-stage payment model to pay out a significant portion of variable remuneration to the Bank's risk-takers:

- 60 percent variable pay can be paid out right away;
- 40 percent variable pay is deferred for the period which is calculated according to the approach described in the remuneration administration procedure - however, for a minimum of 3 years.

The Bank uses a two-stage payment model to pay out a very substantial portion of variable remuneration to the Bank's risk-takers:

- 40 percent variable pay can be paid out right away;
- 60 percent variable pay is deferred for the period which is calculated according to the approach described in the remuneration administration procedure - however, for a minimum of 3 years.

The deferred variable component is assessed and subsequently paid out upon the expiry of the deferral period. Prior to vesting, the deferred variable component is recalculated (reduced partially or completely). The variable component is recalculated through ex-post risk adjustments, taking into account the risks which (i) were not captured by the initial calculation and first came to light during the above mentioned deferral period and (ii) are not related to the performance results tied to the performance award, i.e. the deferred portion of the variable pay.

Breakdown of risk-takers by lines of business (functional areas)	Remuneration package (TOTAL: variable and fixed components)
	LVL
Internal Control Functions	112 381
Customers and partners related functions	166 947
Bank's assets management	121 181
Accounting and legal functions	81 022

Group of risk-takers	Fixed remuneration component	Variable remuneration component	Variable component consists of elements, such as cash, shares, options	Deferred portion of the unpaid variable component	Deferred portion of the variable component awarded in 2010	*Installation allowance (gross) paid in 2010	**Severance pay paid in 2010
	LVL	LVL					
Board (6)	175 370	102 533	Cash only	-	-	-	-
Others (7)	147 943	55 685	Cash only	-	-	-	-

** Installation allowance is a one-time payment made to new recruited staff.*
*** Severance pay is a one-time payment made to a terminated employee.*

40. RELATED PARTY TRANSACTIONS

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

The outstanding balances and the related average interest rates as of 31 December 2010 and related income statement amounts of transactions for the year ended 31 December 2010 with other related parties are as follows:

GROUP	Average interest rate	Amount LVL	Sureties and commitments LVL	Total 31.12.2010 LVL	Total 31.12.2009 LVL
Assets					
Loans, net	-	896 495	124 327	**1 020 822**	**2 361 151**
Bank-related undertakings and individuals	*7.29%*	*431 411*	*50 158*	***481 569***	***1 845 250***
Council and Board	*5.04%*	*465 084*	*63 896*	***528 980***	***505 712***
Other senior executives	-	-	*10 273*	***10 273***	***10 189***
Allowances for losses on loans and advances	-	-	-	-	-
Investments in associates	-	429 009	-	**429 009**	**429 009**
Investments in subsidiaries	-	-	-	-	-
Other assets	-	-	-	-	-
Sureties (guarantees)	-	-	10 591	**10 591**	**10 591**
Total assets, sureties and commitments	-	**1 325 504**	**134 918**	**1 460 422**	**2 800 751**
Liabilities					
Deposits deposited by related parties	4.79%	10 615 318	-	**10 615 318**	**1 431 012**
Due to credit institutions	0.10%	153 239	-	**153 239**	**145 847**
Subordinated liabilities	8.00%	20 479	-	**20 479**	**20 435**
Total liabilities	-	**10 789 036**	-	**10 789 036**	**1 597 294**
Income					
Interest income				61 965	85 769
Interest expense				(418 169)	(71 106)
Net interest income				**(356 204)**	**14 663**
Reversal/ (Increase) of allowances for doubtful debts				-	(227 120)
Result income				**(356 204)**	**(212 457)**

BANK	Average interest rate	Amount LVL	Sureties and commitments LVL	Total 31.12.2010 LVL	Total 31.12.2009 LVL
Assets					
Loans, net	-	2 244 842	124 327	**2 369 169**	**2 095 956**
Bank-related undertakings and individuals	*3.01%*	*2 135 423*	*50 158*	***2 185 581***	***1 845 250***
Council and Board	*5.04%*	*465 084*	*63 896*	***528 980***	***505 712***
Other senior executives	-	-	*10 273*	***10 273***	***10 189***
Allowances for losses on loans and advances	-	*(355 665)*	-	***(355 665)***	***(265 195)***
Investments in associates	-	429 009	-	**429 009**	**429 009**
Investments in subsidiaries	-	1 363 600	-	**1 363 600**	**1 363 600**
Other assets	-	37 474	-	**37 474**	**37 474**
Sureties (guarantees)	-	-	10 591	**10 591**	**10 591**
Total assets, sureties and commitments	-	**4 074 925**	**134 918**	**4 209 843**	**3 936 630**
Liabilities					
Deposits deposited by related parties	4.79%	10 754 458	-	**10 754 458**	**1 431 012**
Due to credit institutions	0.10%	153 239	-	**153 239**	**145 847**
Subordinated liabilities	8.00%	20 479	-	**20 479**	**20 435**
Total liabilities	-	**10 928 176**	-	**10 928 176**	**1 597 294**
Income					
Interest income				90 543	85 769
Interest expense				(418 169)	(71 106)
Net interest income				**(327 626)**	**14 663**
Reversal/ (Increase) of allowances for doubtful debts				131 172	(227 120)
Result income				**(196 454)**	**(212 457)**

All related party transactions are at arm's length.

41. CAPITAL ADEQUACY CALCULATION

The Financial and Capital Market Commission sets forth capital requirements for the Bank as a whole and supervises the adherence to the requirements.

The Bank's capital adequacy ratio reflects the capital level required for hedging against credit risk and market risk which the Bank's assets and sureties and commitments are exposed to. Therefore, to comply with the Financial and Capital Market Commission's regulatory requirements, the capital adequacy ratio may not be less than 8 percent.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the New Basel Capital Accord, commonly known as Basel II.

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the Basle Accord, as at 31 December 2010:

	GROUP LVL	BANK LVL
Total equity capital		
Paid-in share capital	16 834 613	16 834 613
Reserve capital and other reserves	545 024	545 024
Retained earnings	(45 981)	57 074
Profit for the current year	218 435	381 063
Intangible assets	(2 394 169)	(2 394 061)
Specific decline in Tier 1 capital, as stipulated by the applicable law	(178 995)	(178 995)
Less revaluation of investment property	(332 619)	(332 619)
Tier 1 Core Capital	**14 646 308**	**14 912 099**
Subordinated liabilities	1 206 093	1 206 093
Specific decline in Tier 2 capital, as stipulated by the applicable law	(178 995)	(178 995)
Tier 2 Supplementary Capital	**1 027 098**	**1 027 098**
TOTAL CAPITAL	**15 673 406**	**15 939 197**
Capital charge for credit risk inherent in the Bank's book, including the breakdown of exposures by categories:	7 417 834	7 448 056
Central governments or central banks	*109 387*	*109 387*
Public entities	*1 741 744*	*1 741 744*
Commercial companies	*2 929 754*	*3 038 480*
Overdue (delinquent) exposures	*582 162*	*582 162*
Other items	*2 054 787*	*1 976 283*
The total capital charge for market risks	114 541	114 541
Capital charge for operational risk	1 004 400	1 004 400
Total capital charge	**8 536 775**	**8 566 997**
CAPITAL ADEQUACY RATIOS		
31 December 2010	**14.69%**	**14.88%**
CAPITAL ADEQUACY RATIOS		
31 December 2009	**12.69%**	**12.72%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for sureties and commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank. The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2010 and 31 December 2009.

42. STRUCTURE OF ASSETS AND LIABILITIES

The following tables are based on regulatory instructions of the Financial and Capital Market Commission and show the term structure of assets and liabilities. This term structure will not necessarily coincide with discounted cash flows.

As of 31 December 2010

GROUP

ASSETS	Demand LVL	Less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 to 5 years LVL	5 years and more LVL	No maturity date LVL	TOTAL LVL
Cash and balances with Bank of Latvia	8 954 317	337	-	-	-	-	-	-	**8 954 654**
Due from credit institutions	58 976 327	5 312 449	-	2 410 376	214 000	669 835	-	-	**67 582 987**
Financial assets held-for-trading	552 445	563 918	-	-	-	-	60 182	-	**1 176 545**
Securities held-for-trading	*552 445*	-	-	-	-	-	*60 182*	-	***612 627***
Derivative financial instruments	-	*563 918*	-	-	-	-	-	-	***563 918***
Securities available-for-sale	-	-	-	-	-	-	165 579	-	**165 579**
Securities held-to-maturity	-	144 360	1 412 274	2 691 480	3 674 052	7 267 803	408 847	-	**15 598 816**
Loans	4 018 220	9 448 015	7 614 483	5 022 228	7 613 351	21 222 551	24 671	-	**54 963 519**
Intangible assets	-	-	-	-	-	-	-	2 394 169	**2 394 169**
Property and equipment	-	-	-	-	-	-	-	10 069 508	**10 069 508**
Investment property	-	-	-	-	-	-	-	4 977 576	**4 977 576**
Investments in associates	-	-	-	-	-	-	-	429 009	**429 009**
Deferred expenses and accrued income	-	70 964	37 942	44 056	463 133	158 418	-	-	**774 513**
Current income tax assets	-	-	93 717	-	-	-	-	-	**93 717**
Other assets	75 657	357 764	-	9 206	-	-	-	277 641	**720 268**
Total assets	**72 576 966**	**15 897 807**	**9 158 416**	**10 177 346**	**11 964 536**	**29 318 607**	**659 279**	**18 147 903**	**167 900 860**
LIABILITIES									
Due to credit institutions	790 807	-	4 661 867	32 155	609	8 025 000	-	-	**13 510 438**
Deposits	83 694 298	14 616 220	9 801 499	10 213 121	12 042 095	2 880 138	28 138	-	**133 275 509**
Derivative financial instruments	-	310 410	941	-	-	-	-	-	**311 351**
Accrued expenses, provisions and deferred income	257 443	228 865	857	3 260	7 982	13 724	-	5 070	**517 201**
Deferred tax liabilities	442 472	-	-	-	-	-	-	9 146	**451 618**
Other liabilities	748 157	-	-	5 446	8 184	-	-	-	**761 787**
Subordinated liabilities	-	263	9 813	4 801	84	1 498 829	7 075	-	**1 520 865**
Shareholders' equity	-	-	-	-	-	-	-	17 552 091	**17 552 091**
Total liabilities	**85 933 177**	**15 155 758**	**14 474 977**	**10 258 783**	**12 058 954**	**12 417 691**	**35 213**	**17 566 307**	**167 900 860**
Sureties and commitments*	2 473 987	-	-	-	-	-	-	-	**2 473 987**
Maturity gap	**(15 830 198)**	**742 049**	**(5 316 561)**	**(81 437)**	**(94 418)**	**16 900 916**	**624 066**	**x**	**x**

** Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 795 939.*
The value of the gold totals LVL 120 982.

As of 31 December 2009

Assets	98 073 532	17 071 940	12 442 005	5 321 176	13 936 000	17 405 703	2 599 450	19 157 327	**186 007 133**
Liabilities	107 294 333	22 384 168	6 336 258	12 990 663	18 076 476	2 863 341	22 002	16 039 892	**186 007 133**
Sureties and commitments*	6 138 579	-	-	-	-	-	-	-	**6 138 579**
Maturity gap	**(15 359 380)**	**(5 312 228)**	**6 105 747**	**(7 669 487)**	**(4 140 476)**	**14 542 362**	**2 577 448**	**x**	**x**

** Sureties and commitments are diminished by the amount of the issued guarantees, which are secured by the deposits deposited with the Bank and totalling LVL 473 186.*

As of 31 December 2010

BANK

ASSETS	Demand LVL	Less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 to 5 years LVL	5 years and more LVL	No maturity date LVL	TOTAL LVL
Cash and balances with Bank of Latvia	8 954 017	337	-	-	-	-	-	-	**8 954 354**
Due from credit institutions	58 976 327	5 312 449	-	2 410 376	214 000	669 835	-	-	**67 582 987**
Financial assets held-for-trading	552 445	563 918	-	-	-	-	60 182	-	**1 176 545**
Securities held-for-trading	*552 445*	-	-	-	-	-	*60 182*	-	***612 627***
Derivative financial instruments	-	*563 918*	-	-	-	-	-	-	***563 918***
Securities available-for-sale	-	-	-	-	-	-	165 579	-	**165 579**
Securities held-to-maturity	-	144 360	1 412 274	2 691 480	3 674 052	7 267 803	408 847	-	**15 598 816**
Loans	4 029 691	9 976 127	7 614 483	5 022 228	8 422 115	21 222 551	24 671	-	**56 311 866**
Intangible assets	-	-	-	-	-	-	-	2 394 061	**2 394 061**
Property and equipment	-	-	-	-	-	-	-	10 069 368	**10 069 368**
Investment property	-	-	-	-	-	-	-	2 847 401	**2 847 401**
Investments in associates	-	-	-	-	-	-	-	429 009	**429 009**
Investments in subsidiaries	-	-	-	-	-	-	-	1 363 600	**1 363 600**
Deferred expenses and accrued income	-	70 964	37 942	44 056	463 133	2 032	-	-	**618 127**
Current income tax assets	-	-	93 717	-	-	-	-	-	**93 717**
Other assets	36 428	357 764	-	-	-	-	-	267 867	**662 059**
Total assets	**72 548 908**	**16 425 919**	**9 158 416**	**10 168 140**	**12 773 300**	**29 162 221**	**659 279**	**17 371 306**	**168 267 489**
LIABILITIES									
Due to credit institutions	790 807	-	4 661 867	32 155	609	8 025 000	-	-	**13 510 438**
Deposits	83 833 438	14 616 220	9 801 499	10 213 121	12 042 095	2 880 138	28 138	-	**133 414 649**
Derivative financial instruments	-	310 410	941	-	-	-	-	-	**311 351**
Accrued expenses, provisions and deferred income	257 443	227 473	857	3 260	7 982	13 724	-	-	**510 739**
Deferred tax liabilities	442 472	-	-	-	-	-	-	-	**442 472**
Other liabilities	739 201	-	-	-	-	-	-	-	**739 201**
Subordinated liabilities	-	263	9 813	4 801	84	1 498 829	7 075	-	**1 520 865**
Shareholders' equity	-	-	-	-	-	-	-	17 817 774	**17 817 774**
Total liabilities	**86 063 361**	**15 154 366**	**14 474 977**	**10 253 337**	**12 050 770**	**12 417 691**	**35 213**	**17 817 774**	**168 267 489**
Sureties and commitments*	2 509 561	-	-	-	-	-	-	-	**2 509 561**
Maturity gap	**(16 024 014)**	**1 271 553**	**(5 316 561)**	**(85 197)**	**722 530**	**16 744 530**	**624 066**	**x**	**x**

** Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling LVL 795 939.*
The value of the gold totals LVL 120 982.

As of 31 December 2009

Assets	98 073 532	17 079 943	12 442 005	5 321 176	13 936 000	17 723 552	2 599 450	18 915 902	**186 091 560**
Liabilities	107 294 449	22 384 168	6 336 258	12 990 663	18 076 476	2 863 341	22 002	16 124 203	**186 091 560**
Sureties and commitments*	6 138 579	-	-	-	-	-	-	-	**6 138 579**
Maturity gap	**(15 359 496)**	**(5 304 225)**	**6 105 747**	**(7 669 487)**	**(4 140 476)**	**14 860 211**	**2 577 448**	**x**	**x**

** Sureties and commitments are diminished by the amount of the issued guarantees, which are secured by the deposits deposited with the Bank and totalling LVL 473 186.*

43. CONTRACTUAL CASH FLOW

Residual contractual maturities of financial assets and liabilities:

As of 31 December 2010

	Demand and less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	More than 1 year LVL	Total gross amount outflow/ (inflow) LVL	Carrying amount LVL
Non-derivative liabilities							
Deposits and balances due to financial institutions	790 807	4 833 824	32 402	615	8 025 000	13 682 648	**13 510 438**
Current accounts and deposits due to customers	98 487 270	9 846 824	10 347 595	12 428 865	3 099 973	134 210 527	**133 414 649**
Other borrowed funds	263	9 813	4 801	84	1 511 444	1 526 405	**1 520 865**
Derivative liabilities							
- Inflow	(52 981 707)	-	-	-	-	(52 981 707)	-
- Outflow	53 292 117	-	-	-	-	53 292 117	**311 351**
Total	**99 588 750**	**14 690 461**	**10 384 798**	**12 429 564**	**12 636 417**	**149 729 990**	**148 757 303**
Credit related commitments	3 426 482	-	-	-	-	-	-

As of 31 December 2009

	Demand and less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	More than 1 year LVL	Total gross amount outflow/ (inflow) LVL	Carrying amount LVL
Non-derivative liabilities							
Deposits and balances due to financial institutions	201 477	-	2 534 428	14 243	-	2 750 148	**2 678 689**
Current accounts and deposits due to customers	128 333 630	6 519 128	10 838 442	18 585 723	2 924 994	167 201 917	**165 455 499**
Other borrowed funds	-	-	-	-	29 491	29 491	**20 435**
Derivative liabilities							
- Inflow	(28 338 155)	(44 645)	-	-	-	(28 382 800)	-
- Outflow	28 462 764	45 446	-	-	-	28 508 210	**125 410**
Total	**128 659 716**	**6 519 929**	**13 372 870**	**18 599 966**	**2 954 485**	**170 106 966**	**168 280 033**
Credit related commitments	6 611 765	-	-	-	-	-	-

NOTES TO THE GROUP CONSOLIDATED
AND BANK SEPERATE FINANCIAL STATEMENTS
for the year ended 31 December 2010

44. ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE

As of 31 December 2010

							GROUP
ASSETS	**LVL**	**EUR**	**USD**	**RUB**	**GBP**	**Other currencies**	**TOTAL LVL**
Cash and balances with Bank of Latvia	6 798 648	886 236	1 244 162	-	9 612	15 996	8 954 654
Due from credit institutions	594 924	49 646 189	15 142 307	1 236 679	594 151	368 737	67 582 987
Financial assets held-for-trading	597 030	-	579 515	-	-	-	1 176 545
Securities held-for-trading	*33 112*	-	*579 515*	-	-	-	*612 627*
Derivative financial instruments	*563 918*	-	-	-	-	-	*563 918*
Securities available-for-sale	127 111	38 468	-	-	-	-	165 579
Securities held-to-maturity	1 041	362 892	14 941 753	-	-	293 130	15 598 816
Loans	312 694	22 135 857	32 233 428	4 030	277 510	-	54 963 519
Intangible assets	2 146 431	247 738	-	-	-	-	2 394 169
Property and equipment	10 069 508	-	-	-	-	-	10 069 508
Investment property	4 977 576	-	-	-	-	-	4 977 576
Investments in associates	429 009	-	-	-	-	-	429 009
Deferred expenses and accrued income	366 003	168 863	232 754	-	6 893	-	774 513
Current income tax assets	93 717	-	-	-	-	-	93 717
Other assets	603 284	43 014	11 217	979	7 690	54 084	720 268
Total assets	**27 116 976**	**73 529 257**	**64 385 136**	**1 241 688**	**895 856**	**731 947**	**167 900 860**
LIABILITIES							
Due to credit institutions	1 632	3 708 730	9 798 404	-	1 672	-	13 510 438
Deposits	12 117 258	43 069 832	66 746 713	1 241 795	8 932 066	1 167 845	133 275 509
Derivative financial instruments	311 351	-	-	-	-	-	311 351
Accrued expenses, provisions and deferred income	439 487	21 220	54 908	1 056	455	75	517 201
Deferred tax liabilities	451 618	-	-	-	-	-	451 618
Other liabilities	543 173	14 897	172 819	4 203	29	26 666	761 787
Subordinated liabilities	-	904 416	616 449	-	-	-	1 520 865
Total liabilities	**13 864 519**	**47 719 095**	**77 389 293**	**1 247 054**	**8 934 222**	**1 194 586**	**150 348 769**
SHAREHOLDERS' EQUITY							
Share capital	16 834 613	-	-	-	-	-	16 834 613
Reserve capital	545 024	-	-	-	-	-	545 024
Retained earnings	172 454	-	-	-	-	-	172 454
Accumulated losses for the previous years	(45 981)	-	-	-	-	-	(45 981)
Profit for the period	*218 435*	-	-	-	-	-	*218 435*
Total shareholders' equity	**17 552 091**	-	-	-	-	-	**17 552 091**
Total liabilities and shareholders' equity	**31 416 610**	**47 719 095**	**77 389 293**	**1 247 054**	**8 934 222**	**1 194 586**	**167 900 860**
GROSS POSITION	**(4 299 634)**	**25 810 162**	**(13 004 157)**	**(5 366)**	**(8 038 366)**	**(462 639)**	
Unsettled spot forex contracts	258 785	(9 213 712)	6 298 130	-	7 210 307	(4 594 519)	
Forward contracts	5 360 000	(18 206 097)	7 008 528	-	823 998	5 267 079	
NET POSITION	**1 319 151**	**(1 609 647)**	**302 501**	**(5 366)**	**(4 061)**	**209 921**	
Ratio to the shareholders' equity (%)*		-10.27%	1.93%	-0.03%	-0.03%		

** Equity (net worth) totalling LVL 15 673 406 (as of 31 December 2009: 13 595 279) as of 31 December 2010.*

As of 31 December 2009

	LVL	EUR	USD	RUB	GBP	Other currencies	TOTAL LVL
Assets	27 801 463	25 098 080	125 976 846	38 519	5 753 999	1 338 226	**186 007 133**
Liabilities	19 006 633	29 841 659	130 993 498	41 107	4 569 254	1 554 982	**186 007 133**
Gross position	**8 794 830**	**(4 743 579)**	**(5 016 652)**	**(2 588)**	**1 184 745**	**(216 756)**	
Net position	**(286 295)**	**(125 707)**	**300 611**	**11 498**	**(52 421)**	**302 872**	

As of 31 December 2010

							BANK
ASSETS	**LVL**	**EUR**	**USD**	**RUB**	**GBP**	**Other currencies**	**TOTAL LVL**
Cash and balances with Bank of Latvia	6 798 348	886 236	1 244 162	-	9 612	15 996	8 954 654
Due from credit institutions	594 924	49 646 189	15 142 307	1 236 679	594 151	368 737	67 582 987
Financial assets held-for-trading	597 030	-	579 515	-	-	-	1 176 545
Securities held-for-trading	*33 112*	-	*579 515*	-	-	-	*612 627*
Derivative financial instruments	*563 918*	-	-	-	-	-	*563 918*
Securities available-for-sale	127 111	38 468	-	-	-	-	165 579
Securities held-to-maturity	-	362 892	14 941 753	-	-	293 130	15 598 816
Loans	324 165	23 472 733	32 233 428	4 030	277 510	-	56 311 866
Intangible assets	2 146 323	247 738	-	-	-	-	2 394 061
Property and equipment	10 069 368	-	-	-	-	-	10 069 368
Investment property	2 847 401	-	-	-	-	-	2 847 401
Investments in associates	429 009	-	-	-	-	-	429 009
Investments in subsidiaries	1 363 600	-	-	-	-	-	1 363 600
Deferred expenses and accrued income	209 617	168 863	232 754	-	6 893	-	618 127
Current income tax assets	93 717	-	-	-	-	-	93 717
Other assets	545 075	43 014	11 217	979	7 690	54 084	662 059
Total assets	**26 146 729**	**74 866 133**	**64 385 136**	**1 241 688**	**895 856**	**731 947**	**168 267 489**
LIABILITIES							
Due to credit institutions	1 632	3 708 730	9 798 404	-	1 672	-	13 510 438
Deposits	12 117 675	43 208 555	66 746 713	1 241 795	8 932 066	1 167 845	133 414 649
Derivative financial instruments	311 351	-	-	-	-	-	311 351
Accrued expenses, provisions and deferred income	433 025	21 220	54 908	1 056	455	75	510 739
Deferred tax liabilities	442 472	-	-	-	-	-	442 472
Other liabilities	520 587	14 897	172 819	4 203	29	26 666	739 201
Subordinated liabilities	-	904 416	616 449	-	-	-	1 520 865
Total liabilities	**13 826 742**	**47 857 818**	**77 389 293**	**1 247 054**	**8 934 222**	**1 194 586**	**150 449 715**
SHAREHOLDERS' EQUITY							
Share capital	16 834 613	-	-	-	-	-	16 834 613
Reserve capital	545 024	-	-	-	-	-	545 024
Retained earnings	438 137	-	-	-	-	-	438 137
Retained earnings for the previous years	*57 074*	-	-	-	-	-	*57 074*
Profit for the period	*381 063*	-	-	-	-	-	*381 063*
Total shareholders' equity	**17 817 774**	-	-	-	-	-	**17 552 091**
Total liabilities and shareholders' equity	**31 644 516**	**47 857 818**	**77 389 293**	**1 247 054**	**8 934 222**	**1 194 586**	**168 267 489**
GROSS POSITION	**(5 497 787)**	**27 008 315**	**(13 004 157)**	**(5 366)**	**(8 038 366)**	**(462 639)**	
Unsettled spot forex contracts	258 785	(9 213 712)	6 298 130	-	7 210 307	(4 594 519)	
Forward contracts	5 360 000	(18 206 097)	7 008 528	-	823 998	5 267 079	
NET POSITION	**120 998**	**(411 494)**	**302 501**	**(5 366)**	**(4 061)**	**209 921**	
Ratio to the shareholders' equity (%)*		-2.58%	1.90%	-0.03%	-0.03%		

** Equity (net worth) totalling LVL 15 939 197 (as of 31 December 2009: 13 698 613) as of 31 December 2010.*

As of 31 December 2009

Assets	27 597 512	25 386 458	125 976 846	38 519	5 753 999	1 338 226	**186 091 560**
Liabilities	19 091 057	29 841 662	130 993 498	41 107	4 569 254	1 554 982	**186 091 560**
Gross position	**8 506 455**	**(4 455 204)**	**(5 016 652)**	**(2 588)**	**1 184 745**	**(216 756)**	
Net position	**26 489 967**	**23 330 054**	**113 792 944**	**760 063**	**2 519 510**	-	

45. SENSITIVITIES ANALYSIS

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 7.06% of the Group's equity as of 31 December 2010 (as of 31 December 2009: 1.76%).

Figures show that a 10 percent strengthening of the Latvian Lats against other currencies may have a material impact on the Group's profit (in LVL):

	31.12.2010 EUR	31.12.2010 USD	31.12.2010 GBP	31.12.2009 EUR	31.12.2009 USD	31.12.2009 GBP
Rate valid	0.702804	0.535	0.824	0.489000	0.703	0.783
Foreign currency position (in LVL)	(1 609 647)	302 501	(5 366)	300 611	(125 707)	11 497
Profit/(loss) (in LVL)	113 126	(16 335)	440	(14 730)	8 835	(897)

The sum of overall foreign exchange exposure and the net position in gold stood at 0.58% of the Bank's equity as of 31 December 2010 (as of 31 December 2009: 5.29%).

Figures show that a 10 percent strengthening of the Latvian Lats against other currencies may have a material impact on the Bank's profit (in LVL):

	31.12.2010 EUR	31.12.2010 USD	31.12.2010 GBP	31.12.2009 EUR	31.12.2009 USD	31.12.2009 GBP
Rate valid	0.702804	0.535	0.824	0.489000	0.702804	0.783
Foreign currency position (in LVL)	(411 494)	302 501	(5 366)	300 611	162 668	11 497
Profit/(loss) (in LVL)	28 920	(16 335)	440	(14 730)	(11 432)	(897)

46. REPRICING MATURITIES OF ASSETS AND LIABILITIES

As of 31 December 2010

Interest rate risk

							GROUP
ASSETS	**Up to 1 month (inclusive) LVL**	**1 to 3 months LVL**	**3 to 6 months LVL**	**6 to 12 months LVL**	**One year and more LVL**	**Non interest bearing LVL**	**TOTAL LVL**
Cash and balances with Bank of Latvia	6 678 279	-	-	-	-	2 276 375	**8 954 654**
Due from credit institutions	61 857 926	-	2 407 500	214 000	669 835	2 433 726	**67 582 987**
Financial assets held-for-trading	-	-	-	-	-	1 176 545	**1 176 545**
Securities held-for-trading	-	-	-	-	-	*612 627*	***612 627***
Derivative financial instruments	-	-	-	-	-	*563 918*	***563 918***
Securities available-for-sale	-	-	-	-	-	165 579	**165 579**
Securities held-to-maturity	-	1 337 711	2 589 231	3 665 842	7 676 650	329 382	**15 598 816**
Loans	10 577 312	7 611 816	5 035 933	7 613 329	20 683 560	3 441 569	**54 963 519**
Intangible assets	-	-	-	-	-	2 394 169	**2 394 169**
Property and equipment	-	-	-	-	-	10 069 508	**10 069 508**
Investment property	-	-	-	-	-	4 977 576	**4 977 576**
Investments in associates	-	-	-	-	-	429 009	**429 009**
Deferred expenses and accrued income	-	-	-	-	-	774 513	**774 513**
Current income tax assets	-	-	-	-	-	93 717	**93 717**
Other assets	-	-	-	-	-	720 268	**720 268**
Total assets	**79 113 517**	**8 949 527**	**10 032 664**	**11 493 171**	**29 030 045**	**29 281 936**	**167 900 860**
LIABILITIES							
Due to credit institutions	-	4 655 175	32 153	609	8 025 000	797 501	**13 510 438**
Deposits	73 692 393	9 779 950	10 177 436	12 035 700	2 900 683	24 689 347	**133 275 509**
Derivative financial instruments	-	-	-	-	-	311 351	**311 351**
Accrued expenses, provisions and deferred income	-	-	-	-	-	517 201	**517 201**
Deferred tax liabilities	-	-	-	-	-	451 618	**451 618**
Other liabilities	-	-	-	-	-	761 787	**761 787**
Subordinated liabilities	-	-	-	-	1 505 859	15 006	**1 520 865**
Shareholders' equity	-	-	-	-	-	17 552 091	**17 552 091**
Total liabilities and shareholders' equity	**73 692 393**	**14 435 125**	**10 209 589**	**12 036 309**	**12 431 542**	**45 095 902**	**167 900 860**
Net position sensitive to interest rate risk	**5 421 124**	**(5 485 598)**	**(176 925)**	**(543 138)**	**16 598 503**	**(15 813 966)**	
Effect on annual net interest income	**51 952**	**(45 713)**	**(1 106)**	**(1 358)**			**3 775**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Group's annual net interest income to the amount of 3 775 LVL (as of 31 December 2009: LVL 19 045).

As of 31 December 2009

Assets	110 230 999	12 867 911	5 913 604	13 734 607	17 131 509	26 128 503	**186 007 133**
Liabilities	108 201 998	6 322 899	12 978 106	18 049 342	2 860 851	37 593 937	**186 007 133**
Net position sensitive to interest rate risk	**2 029 001**	6 545 012	**(7 064 502)**	**(4 314 735)**	**14 270 658**	**(11 465 434)**	

As of 31 December 2010

Interest rate risk

							BANK
ASSETS	**Up to 1 month (inclusive) LVL**	**1 to 3 months LVL**	**3 to 6 months LVL**	**6 to 12 months LVL**	**One year and more LVL**	**Non interest bearing LVL**	**TOTAL LVL**
Cash and balances with Bank of Latvia	6 678 279	-	-	-	-	2 276 075	**8 954 354**
Due from credit institutions	61 857 926	-	2 407 500	214 000	669 835	2 433 726	**67 582 987**
Financial assets held-for-trading	-	-	-	-	-	1 176 545	**1 176 545**
Securities held-for-trading	-	-	-	-	-	*612 627*	***612 627***
Derivative financial instruments	-	-	-	-	-	*563 918*	***563 918***
Securities available-for-sale	-	-	-	-	-	165 579	**165 579**
Securities held-to-maturity	-	1 337 711	2 589 231	3 665 842	7 676 650	329 382	**15 598 816**
Loans	11 115 949	7 611 816	5 035 933	8 422 092	20 683 560	3 442 516	**56 311 866**
Intangible assets	-	-	-	-	-	2 394 061	**2 394 061**
Property and equipment	-	-	-	-	-	10 069 368	**10 069 368**
Investment property	-	-	-	-	-	2 847 401	**2 847 401**
Investments in associates	-	-	-	-	-	429 009	**429 009**
Investments in subsidiaries	-	-	-	-	-	1 363 600	**1 363 600**
Deferred expenses and accrued income	-	-	-	-	-	618 127	**618 127**
Current income tax assets	-	-	-	-	-	93 717	**93 717**
Other assets	-	-	-	-	-	662 059	**662 059**
Total assets	**79 652 154**	**8 949 527**	**10 032 664**	**12 301 934**	**29 030 045**	**28 301 165**	**168 267 489**
LIABILITIES							
Due to credit institutions	-	4 655 175	32 153	609	8 025 000	797 501	**13 510 438**
Deposits	73 831 533	9 779 950	10 177 436	12 035 700	2 900 683	24 689 347	**133 414 649**
Derivative financial instruments	-	-	-	-	-	311 351	**311 351**
Accrued expenses, provisions and deferred income	-	-	-	-	-	510 739	**510 739**
Deferred tax liabilities	-	-	-	-	-	442 472	**442 472**
Other liabilities	-	-	-	-	-	739 201	**739 201**
Subordinated liabilities	-	-	-	-	1 505 859	15 006	**1 520 865**
Shareholders' equity	-	-	-	-	-	17 817 774	**17 817 774**
Total liabilities and shareholders' equity	**73 831 533**	**14 435 125**	**10 209 589**	**12 036 309**	**12 431 542**	**45 323 391**	**168 267 489**
Net position sensitive to interest rate risk	**5 820 621**	**(5 485 598)**	**(176 925)**	**265 625**	**16 598 503**	**(17 022 226)**	
Effect on annual net interest income	**55 781**	**(45 713)**	**(1 106)**	**664**			**9 626**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's annual net interest income to the amount of 9 626 LVL (as of 31 December 2009: LVL 19 045).

As of 31 December 2009

Assets	110 230 999	12 867 911	5 913 604	13 734 607	17 419 887	25 924 552	**186 091 560**
Liabilities	108 202 114	6 322 899	12 978 106	18 049 342	2 860 851	37 678 248	**186 091 560**
Net position sensitive to interest rate risk	**2 028 885**	6 545 012	**(7 064 502)**	**(4 314 735)**	**14 559 036**	**(11 753 696)**	

47. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

As of 31 December 2010

						GROUP
ASSETS	Latvia LVL	Other EU Member States LVL	Other OECD countries LVL	CIS countries LVL	Others LVL	TOTAL LVL
Cash and balances with Bank of Latvia	8 954 654	-	-	-	-	**8 954 654**
Due from credit institutions	1 944 033	57 201 401	1 325 782	7 111 771	-	**67 582 987**
Financial assets held-for-trading	45 139	55 629	22 415	1 024 583	28 779	**1 176 545**
Securities held-for-trading	*33 112*	*12 337*	*21 486*	*545 692*	-	***612 627***
Derivative financial instruments	*12 027*	*43 292*	*929*	*478 891*	*28 779*	***563 918***
Securities available-for-sale	127 111	38 468	-	-	-	**165 579**
Securities held-to-maturity	1 041	12 548 902	-	3 048 873	-	**15 598 816**
Loans	19 269 008	19 668 320	5 693 417	3 539 976	6 792 798	**54 963 519**
Intangible assets	2 394 169	-	-	-	-	**2 394 169**
Property and equipment	10 069 508	-	-	-	-	**10 069 508**
Investment property	4 977 576	-	-	-	-	**4 977 576**
Investments in associates	429 009	-	-	-	-	**429 009**
Deferred expenses and accrued income	250 813	188 642	241 931	1 827	91 300	**774 513**
Current income tax assets	93 717	-	-	-	-	**93 717**
Other assets	321 357	286 503	6 274	8 911	97 223	**720 268**
Total assets	**48 877 135**	**89 987 865**	**7 289 819**	**14 735 941**	**7 010 100**	**167 900 860**
LIABILITIES						
Due to credit institutions	1 167 889	-	-	12 290 100	52 449	**13 510 438**
Deposits	36 733 064	12 459 087	42 689 207	7 999 769	33 394 382	**133 275 509**
Derivative financial instruments	2 882	941	137 974	28 778	140 776	**311 351**
Accrued expenses, provisions and deferred income	444 223	45 138	14 711	12 008	1 121	**517 201**
Deferred tax liabilities	451 618	-	-	-	-	**451 618**
Other liabilities	419 051	252 738	24 513	25 082	40 403	**761 787**
Subordinated liabilities	1 520 865	-	-	-	-	**1 520 865**
Total liabilities	**40 739 592**	**12 757 904**	**42 866 405**	**20 355 737**	**33 629 131**	**150 348 769**
SHAREHOLDERS' EQUITY						
Share capital	16 832 558	300	25	1 635	95	**16 834 613**
Reserve capital	545 024	-	-	-	-	**545 024**
Retained earnings	172 454	-	-	-	-	**172 454**
Accumulated losses for the previous years	*(45 981)*	-	-	-	-	***(45 981)***
Profit for the period	*218 435*	-	-	-	-	***218 435***
Total shareholders' equity	**17 550 036**	**300**	**25**	**1 635**	**95**	**17 552 091**
Total liabilities and shareholders' equity	**58 289 628**	**12 758 204**	**42 866 430**	**20 357 372**	**33 629 226**	**167 900 860**
Sureties (guarantees)	14 591	669 835	-	-	-	**684 426**
Commitments to customers	974 911	408 758	336 888	117 550	868 375	**2 706 482**
Total sureties and commitments	**989 502**	**1 078 593**	**336 888**	**117 550**	**868 375**	**3 390 908**

As of 31 December 2009

Total assets	58 392 699	101 652 739	5 744 975	16 574 031	3 642 689	**186 007 133**
Total liabilities and shareholders' equity	27 836 283	27 375 000	41 896 975	52 869 525	36 029 350	**186 007 133**
Sureties and commitments	1 120 982	1 194 473	1 389 983	432 456	2 469 868	**6 607 762**

The table above represents geographical breakdown by the direct counterparty's registration country. This does not necessarily reflect the country of domicile of the ultimate counterparty.

As of 31 December 2010

						BANK
ASSETS	Latvia LVL	Other EU Member States LVL	Other OECD countries LVL	CIS countries LVL	Others LVL	TOTAL LVL
Cash and balances with Bank of Latvia	8 954 354	-	-	-	-	**8 954 354**
Due from credit institutions	1 944 033	57 201 401	1 325 782	7 111 771	-	**67 582 987**
Financial assets held-for-trading	45 139	55 629	22 415	1 024 583	28 779	**1 176 545**
Securities held-for-trading	*33 112*	*12 337*	*21 486*	*545 692*	-	***612 627***
Derivative financial instruments	*12 027*	*43 292*	*929*	*478 891*	*28 779*	***563 918***
Securities available-for-sale	127 111	38 468	-	-	-	**165 579**
Securities held-to-maturity	1 041	12 548 902	-	3 048 873	-	**15 598 816**
Loans	20 617 355	19 668 320	5 693 417	3 539 976	6 792 798	**56 311 866**
Intangible assets	2 394 061	-	-	-	-	**2 394 061**
Property and equipment	10 069 368	-	-	-	-	10 069 368
Investment property	2 847 401	-	-	-	-	**2 847 401**
Investments in associates	429 009	-	-	-	-	**429 009**
Investments in subsidiaries	1 363 600	-	-	-	-	**1 363 600**
Deferred expenses and accrued income	94 427	188 642	241 931	1 827	91 300	**618 127**
Current income tax assets	93 717	-	-	-	-	**93 717**
Other assets	263 148	286 503	6 274	8 911	97 223	**662 059**
Total assets	**49 243 764**	**89 987 865**	**7 289 819**	**14 735 941**	**7 010 100**	**168 267 489**
LIABILITIES						
Due to credit institutions	1 167 889	-	-	12 290 100	52 449	**13 510 438**
Deposits	36 872 204	12 459 087	42 689 207	7 999 769	33 394 382	**133 414 649**
Derivative financial instruments	2 882	941	137 974	28 778	140 776	**311 351**
Accrued expenses, provisions and deferred income	437 761	45 138	14 711	12 008	1 121	**510 739**
Deferred tax liabilities	442 472	-	-	-	-	**442 472**
Other liabilities	396 465	252 738	24 513	25 082	40 403	**739 201**
Subordinated liabilities	1 520 865	-	-	-	-	**1 520 865**
Total liabilities	**40 840 538**	**12 757 904**	**42 866 405**	**20 355 737**	**33 629 131**	**150 449 715**
SHAREHOLDERS' EQUITY						
Share capital	16 832 558	300	25	1 635	95	**16 834 613**
Reserve capital	545 024	-	-	-	-	**545 024**
Retained earnings	438 137	-	-	-	-	**438 137**
Retained earnings for the previous years	*57 074*	-	-	-	-	***57 074***
Profit for the period	*381 063*	-	-	-	-	***381 063***
Total shareholders' equity	**17 815 719**	**300**	**25**	**1 635**	**95**	**17 817 774**
Total liabilities and shareholders' equity	**58 656 257**	**12 758 204**	**42 866 430**	**20 357 372**	**33 629 226**	**168 267 489**
Sureties (guarantees)	14 591	669 835	-	-	-	**684 426**
Commitments to customers	1 010 485	408 758	336 888	117 550	868 375	**2 742 056**
Total sureties and commitments	**1 025 076**	**1 078 593**	**336 888**	**117 550**	**868 375**	**3 426 482**

As of 31 December 2009

Total assets	58 477 126	101 652 739	5 744 975	16 574 031	3 642 689	**186 091 560**
Total liabilities and shareholders' equity	27 920 710	27 375 000	41 896 975	52 869 525	36 029 350	**186 091 560**
Sureties and commitments	1 124 985	1 194 473	1 389 983	432 456	2 469 868	**6 611 765**

The table above represents geographical breakdown by the direct counterparty's registration country. This does not necessarily reflect the country of domicile of the ultimate counterparty.

48. PRODUCTIVITY OF BANK'S STATEMENT OF FINANCIAL POSITION

	31.12.2010			31.12.2009		
ASSETS	Average monthly balance LVL	Interest income/ expense LVL	Average interest rate %	Average monthly balance LVL	Interest income/ expense LVL	Average interest rate %
Cash	1 475 019	-	0,0%	1 162 505	-	0,0%
Claims on Bank of Latvia payable on demand	8 660 572	44 991	0.5%	12 242 176	107 267	0.9%
Due from credit institutions	48 849 094	408 482	0.8%	112 450 892	883 952	0.8%
Loans	45 414 842	4 093 668	9.0%	40 566 010	3 281 694	8.1%
Debt securities	19 271 591	1 563 399	8.1%	10 194 997	985 569	9.7%
Other assets	21 057 956	-	0.0%	18 316 680	-	0,0%
A. Total assets	**144 729 074**	**6 110 540**	**4.2%**	**194 933 260**	**5 258 482**	**2.7%**
LIABILITIES						
Due to credit institutions	6 286 294	212 983	3.4%	26 401 717	42 169	0.2%
Deposits	147 883 695	2 249 500	1.5%	151 764 651	2 707 044	1.8%
Debt securities in issue	-	-	0.0%	528 623	28 530	5.4%
Subordinated liabilities	284 363	18 062	6.4%	19 596	1 590	8.1%
Other liabilities	2 959 599	-	0.0%	2 735 286	-	0.0%
B. Total liabilities	**157 413 951**	**2 480 545**	**1.6%**	**181 449 873**	**2 779 333**	**1.5%**
Shareholders' equity	16 624 579	-	0.0%	13 157 429	-	0.0%
C. Total liabilities and shareholders' equity	**174 038 530**	**2 480 545**	**1.4%**	**194 607 302**	**2 779 333**	**1.4%**
NET INTEREST INCOME						
Interest spread % (A-B)			**2.6%**			**1.2%**
Investment spread % (A-C)			**2.8%**			**1.3%**

49. CREDIT RISK

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Exposures are based on net carrying amounts as reported in the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancement, and net, i.e. after taking into account any collateral and other credit enhancement. The details on the type and amounts of collateral held are disclosed in the respective notes.

	Gross maximum credit risk exposure 31.12.2010 LVL	Net maximum credit risk exposure 31.12.2010 LVL	Gross maximum credit risk exposure 31.12.2009 LVL	Net maximum credit risk exposure 31.12.2009 LVL
Cash and balances with Bank of Latvia	8 954 354	8 954 354	10 522 477	10 522 477
Due from credit institutions	67 582 987	67 582 987	105 975 246	105 975 246
Financial assets held-for-trading	1 176 545	1 176 545	795 757	795 757
Securities held-for-trading	*612 627*	*612 627*	*504 043*	*504 043*
Derivative financial instruments	*563 918*	*563 918*	*291 714*	*291 714*
Securities available-for-sale	165 579	165 579	224 864	224 864
Securities held-to-maturity	15 598 816	15 598 816	11 301 839	11 301 839
Loans	56 311 866	41 963 487	38 332 743	35 603 853
Intangible assets	2 394 061	2 394 061	2 046 284	2 046 284
Property and equipment	10 069 368	10 069 368	10 340 082	10 340 082
Investment property	2 847 401	2 847 401	2 702 945	2 702 945
Investments in associates	429 009	429 009	429 009	429 009
Investments in subsidiaries	1 363 600	1 363 600	1 363 600	1 363 600
Current income tax assets	93 717	93 717	240 708	240 708
Deferred expenses and accrued income	618 127	618 127	1 063 643	1 063 643
Other assets	662 059	662 059	752 363	752 363
Total assets	**168 267 489**	**153 919 110**	**186 091 560**	**183 362 670**
Sureties (guarantees)	684 426	290 370	792 434	319 247
Commitments to customers	2 742 056	2 509 842	5 819 331	4 555 115
Total sureties and commitments	**3 426 482**	**2 800 212**	**6 611 765**	**4 874 362**
Total maximum credit risk exposure	**171 693 971**	**156 719 322**	**192 703 325**	**188 237 032**

50. CLASSIFICATION OF ASSETS AND LIABILITIES

The estimated fair values of financial instruments at fair value through profit or loss, quoted availablefor-sale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of the Bank's financial assets and liabilities are as follows:

As of 31 December 2010

ASSETS	Financial assets/ liabilities at amortised cost LVL	Financial assets/ liabilities at fair value through profit and loss LVL	Financial assets available for-sale LVL	Total LVL	Fair value LVL
Cash and balances with Bank of Latvia	8 954 354	-	-	**8 954 354**	**8 954 354**
Due from credit institutions	67 582 987	-	-	**67 582 987**	**67 051 914**
Financial assets held-for-trading	-	1 176 545	-	**1 176 545**	**1 176 545**
Securities held-for-trading	-	*612 627*	-	***612 627***	***612 627***
Derivative financial instruments	-	*563 918*	-	***563 918***	***563 918***
Securities available-for-sale	-	-	165 579	**165 579**	**165 579**
Securities held-to-maturity	15 598 816	-	-	**15 598 816**	**16 317 956**
Loans	56 311 866	-	-	**56 311 866**	**58 820 299**
Total assets	**148 448 023**	**1 176 545**	**165 579**	**149 790 147**	**152 486 647**
LIABILITIES					
Due to credit institutions	13 510 438	-	-	**13 510 438**	**15 765 568**
Deposits	133 414 649	-	-	**133 414 649**	**134 652 538**
Derivative financial instruments	-	311 351	-	**311 351**	**311 351**
Total liabilities	**146 925 087**	**311 351**	-	**147 236 438**	**150 729 457**

As of 31 December 2009

ASSETS	Financial assets/ liabilities at amortised cost LVL	Financial assets/ liabilities at fair value through profit and loss LVL	Financial assets available for-sale LVL	Total LVL	Fair value LVL
Cash and balances with Bank of Latvia	10 522 477	-	-	**10 522 477**	**10 522 477**
Due from credit institutions	105 975 246	-	-	**105 975 246**	**106 164 300**
Financial assets held-for-trading	-	795 757	-	**795 757**	**795 757**
Securities held-for-trading	-	*504 043*	-	***504 043***	***504 043***
Derivative financial instruments	-	*291 714*	-	***291 714***	***291 714***
Securities available-for-sale	-	-	224 864	**224 864**	**224 864**
Securities held-to-maturity	11 301 839	-	-	**11 301 839**	**10 600 847**
Loans	38 332 743	-	-	**38 332 743**	**39 319 389**
Total assets	**166 132 305**	**795 757**	**224 864**	**167 152 926**	**167 627 634**
LIABILITIES					
Due to credit institutions	2 678 689	-	-	**2 678 689**	**2 735 590**
Deposits	165 455 499	-	-	**165 455 499**	**167 201 917**
Derivative financial instruments	-	125 410	-	**125 410**	**125 410**
Total liabilities	**168 134 188**	**125 410**	-	**168 259 598**	**170 062 917**

51. FAIR VALUE HIERARCHY

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

As of 31 December 2010

	Published price quotations (Level 1) LVL	Valuation techniques based on market observable inputs (Level 2) LVL	Total LVL
Financial assets			
Available for sale assets	-	38 468	**38 468**
Financial assets at fair value through profit or loss	612 627	-	**612 627**
Derivatives	-	563 918	**563 918**
	612 627	**602 386**	**1 215 013**
Financial liabilities			
Derivatives	-	311 351	**311 351**
	-	**311 351**	**311 351**

As of 31 December 2009

	Published price quotations (Level 1) LVL	Valuation techniques based on market observable inputs (Level 2) LVL	Total LVL
Financial assets			
Available for sale assets	-	38 468	**38 468**
Financial assets at fair value through profit or loss	504 043	-	**504 043**
Derivatives	-	291 714	**291 714**
	504 043	**330 182**	**834 225**
Financial liabilities			
Derivatives	-	125 410	**125 410**
	-	**125 410**	**125 410**

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

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

Not based upon market observable input means that fair values are determined in whole or in part using a valuation technique (model) base on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Main asset classes in this category are hedge funds, private equity funds and limited partnerships.

52. ACQUISITION OF SUBSIDIARY

In 2010, the Group's companies acquired the subsidiary.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of acquisition:

"SD Investment Corporation" LLC

Date of acquisition	**07.07.2010**
Share %	**100%**
	LVL
Assets	
Property and equipment	41
Intangible assets	117
Investment property	552 061
Other assets	359
Total assets	**552 578**
Liabilities	
Other borrowed funds	491 004
Other liabilities	13 065
Total liabilities	**504 069**
Net identifiable assets and liabilities	**48 509**
Consideration paid	**2**
Cash acquired	1
Net cash inflow	**(1)**

In 2010, the Group acquired 100% in SD Investment Corporation as a result of collection of collateral from bad loans.

SD Investment Corporation LLC owns real estate property in Riga that is not rented out. The property was valued at its fair value as at the date of acquisition based on an external valuation.

The new subsidiary's contribution to the Group's total revenue and net income was not material.

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