RIETUMU BANK Group

Consolidated Financial Statements

for the year ended 31 December 2010

Contents

Report of Council and Board of Directors

Operating results

In 2010, Rietumu Bank Group continued its successful development and despite severe economic slowdown in Latvia, generated profit. Rietumu continued to improve its reputation as one of the best managed and stable financial institutions in the Baltic States. This success has been achieved while upholding the objectives of being a bank for mid-sized corporate customers and Rietumu sees itself as a bridge between East and West as many of its customers operate in Latvia, the Baltics, Western Europe, Russia and other CIS countries.

In 2010, Rietumu managed to expand services offered to customers through both expanding its product range as well as acquiring new and existing businesses. Rietumu continued to develop its lending activities during 2010. In May 2010, the Bank significantly expanded its leasing activities in Belarus by acquiring a majority stake in Belarus Parex Leasing. In Latvia, Rietumu was also one of the founders of InCredit Group, which specializes in consumer lending and leasing services. Rietumu upgraded its customer service, enabling our customers more options to manage their accounts through the telephone and other technologies such as the iPhone and similar products.

Latvia amended its Immigration Law making it possible for foreign investors to obtain a residence permit in Latvia. Investing a certain amount in subordinated debt of a Latvian bank is one of the investment channels for a foreign investor and Rietumu started to attract such deposits in 2010.

Rietumu is represented outside Latvia by representative offices in Bucharest, Moscow, Kiev, Alma-Ata and Paris. In 2011, Rietumu is planning to open its representative offices in Kazan, Rostov-on-Don and Yekaterinburg.

Last year there were important changes in the top-management of the Bank. Alexander Pankov previously First Vice-president and Deputy Chairman of the Board, has been appointed for the position of the President and the Chairman of the Board of Rietumu**.** The Executive Board was joined by: Ruslans Stecjuks (Member of the Board, first Vice-president in charge of Customer service), Rolf Paul Fuls (Member of the Board, senior Vice-president in charge of treasury, financial planning and control), Ilja Suharenko (Member of the Board, senior Vice-president in charge of sale and advertising), Jevgenijs Djugaevs (Member of the Board, senior Vice-president in charge of IT and business technologies).

Alexander Kalinovsky, previous President of Rietumu and the Chairman of the Executive Board, continued his work in Rietumu Group, focusing on the investment banking and corporate finance as a Member of the Supervisory Council. Alexander Gafin a well-known PR and financial marketing executive from Russia joined the Bank's Council in 2010.

Throughout the year, Rietumu Charity Fund remained the leader in the areas of corporate charity and arts patronage, traditionally focusing on supporting projects in medical and childcare, and social sphere.

Financial results of the Group

Total assets increased in 2010 to LVL 1,126m compared to LVL 970m in 2009. Most of this growth in assets occurred in the 2nd half of 2010 due to significant increase in customer balances during this period. Customer deposits increased to LVL 970 m compared to LVL 664 m in 2009 and in 2010 exceeded level of 2007.

In 2010, the Bank paid back its last syndicated loan in the amount of EUR 120 m, attracted in June 2007 for promoting corporate lending. At the moment, the Bank has no existing syndicated loan obligations.

Net profit after tax has decreased slightly to LVL 6.8m from LVL 8m in 2009. Fee and commission income and foreign exchange income are stable and have increased during 2010 but this increase could not compensate for the decrease in interest received from customers due to low rates of libor.

	2010	**2009**	**2008**	**2007**
At year end (LVL'000)				
Total assets	1,126,118	969,931	1,202,592	1,216,241
Loans and receivables from customers	500,536	454,020	561,954	599,436
Due to customers	969,947	664,405	652,038	876,791
Total shareholder's equity	140,651	132,821	131,860	121,331
For the year (LVL'000)				
Net profit before tax	10,699	10,477	21,813	40,119
Net profit after tax	6,842	7,986	18,801	34,607
Operating income	51,618	54,313	68,295	64,754
Ratios				
Earnings per share (LVL)				
After tax	0.07	0.08[1]	0.91	1.54
Before tax	0.11	0.10[1]	1.04	1.79
Dividend per share (LVL)	0.01	1.03	0.228	0.39
Return on equity				
Before tax	7.61%	8.79%	16.54%	36.97%
After tax	4.86%	6.01%	14.26%	31.82%
Return on assets				
Before tax	0.95%	1.08%	1.98%	3.31%
After tax	0.61%	0.82%	1.71%	2.85%
Capital adequacy ratio	16.36%	17.38%	14.62%	14.04%
Profit margin	20.73%	19%	32%	62.08%
Number of employees	1,017	736	787	631

[1]- The decrease of the ratio is caused by increase of amount of shares from 25,000 to 100,000 thousands in 2009, for further information see Note 32

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of Rietumu Bank (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated financial statements on pages 10 to 75 are prepared in accordance with source documents and present fairly the financial position of the Group as of 31 December 2010 and the results of its operations and cash flows for the year ended 31 December 2010.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. In the preparation of the financial statements the Management has made prudent and reasonable judgements and estimates.

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

On behalf of the Management of the Bank:

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

25 March 2011

During the year and as of the date of the signing of the financial statements:

The Council of Rietumu Bank

31 December 2009 – 25 March 2010

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	25/09/97(13/08/08-13/08/11)
Arkady Suharenko	Deputy Council Chairman	25/09/97(13/08/08-13/08/11)
Brendan Thomas Murphy	Deputy Council Chairman	07/09/05(13/08/08-13/08/11)
Dermot Fachtna Desmond	Member of the Council	07/09/05(13/08/08-13/08/11)
Rolf Paul Fuls	Member of the Council	13/08/08(13/08/08-24/11/10)
Valentin Bluger	Member of the Council	25/09/97(13/08/08-05/11/10)

25 March 2010 - 5 November 2010

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	25/09/97(13/08/08-13/08/11)
Arkady Suharenko	Deputy Council Chairman	25/09/97(13/08/08-13/08/11)
Brendan Thomas Murphy	Deputy Council Chairman	07/09/05(13/08/08-13/08/11)
Dermot Fachtna Desmond	Member of the Council	07/09/05(13/08/08-13/08/11)
Rolf Paul Fuls	Member of the Council	13/08/08(13/08/08-24/11/10)
Valentin Bluger	Member of the Council	25/09/97(13/08/08-05/11/10)
Alexander Gafin	Member of the Council	25/03/10(25/03/10-25/03/13)

5 November -24 November 2010

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	25/09/97(13/08/08-13/08/11)
Arkady Suharenko	Deputy Council Chairman	25/09/97(13/08/08-13/08/11)
Brendan Thomas Murphy	Deputy Council Chairman	07/09/05(13/08/08-13/08/11)
Dermot Fachtna Desmond	Member of the Council	07/09/05(13/08/08-13/08/11)
Alexander Gafin	Member of the Council	25/03/10(25/03/10-25/03/13)
Alexander Kalinovsky	Member of the Council	05/11/10(05/11/10-05/11/13)
Rolf Paul Fuls	Member of the Council	13/08/08(13/08/08-24/11/10)

24 November - 31 December 2010

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	25/09/97(13/08/08-13/08/11)
Arkady Suharenko	Deputy Council Chairman	25/09/97(13/08/08-13/08/11)
Brendan Thomas Murphy	Deputy Council Chairman	07/09/05(13/08/08-13/08/11)
Dermot Fachtna Desmond	Member of the Council	07/09/05(13/08/08-13/08/11)
Alexander Gafin	Member of the Council	25/03/10(25/03/10-25/03/13)
Alexander Kalinovsky	Member of the Council	05/11/10(05/11/10-05/11/13)

The Board of Directors

31 December 2009 – 18 October 2010

Name	*Position*	*Date of appointment*
Aleksander Kalinovsky	Chairman of the Board, President	20/07/06(02/07/09-18/10/10)
Alexander Pankov	Member of the Board, First Vice President	20/07/06(02/07/09-18/10/10)
Janis Muizhnieks	Member of the Board, Senior Vice President	20/07/06(02/07/09-18/10/10)
Dmitry Pyshkin	Member of the Board, Senior Vice President	20/07/06(02/07/09-02/07/12)

18 October 2010 - 26 November 2010

Name	*Position*	*Date of appointment*
Alexander Pankov	Chairman of the Board, President	18/10/10(18/10/10-18/10/13)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10(18/10/10-18/10/13)
Dmitry Pyshkin	Member of the Board, Senior Vice President	20/07/06(02/07/09-02/07/12)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10(18/10/10-18/10/13)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10(18/10/10-18/10/13)

26 November 2010 – 31 December 2010

Name	*Position*	*Date of appointment*
Alexander Pankov	Chairman of the Board, President	18/10/10(18/10/10-18/10/13)
Ruslans Stecjuks	Member of the Board, First Vice President	18/10/10(18/10/10-18/10/13)
Dmitry Pyshkin	Member of the Board, Senior Vice President	20/07/06(02/07/09-02/07/12)
Jevgenijs Djugajevs	Member of the Board, Senior Vice President	18/10/10(18/10/10-18/10/13)
Ilja Suharenko	Member of the Board, Senior Vice President	18/10/10(18/10/10-18/10/13)
Rolf Paul Fuls	Member of the Board, Senior Vice President	26/11/10(26/11/10-26/11/13)

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Independent Auditors' Report

To the shareholders of AS Rietumu Banka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Rietumu Banka and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 75.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 the consolidated financial statements are free of material misstatement.

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the management report of AS Rietumu Banka, as set out on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Management report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Group. In our opinion, the management report of AS Rietumu Banka is consistent with the consolidated financial statements.

KPMG Baltics SIA
License No 55

Stephen Young
Chairman of the Board
Riga, Latvia
25 March 2011

Valda Užāne
Sworn Auditor
Certificate No 4

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	Note	2010 '000 LVL	2009 '000 LVL
Interest income	6	33,082	42,051
Interest expense	6	(12,762)	(12,909)
Net interest income		**20,320**	**29,142**
Fee and commission income	7	14,114	13,341
Fee and commission expense	8	(2,721)	(3,126)
Net fee and commission income		**11,393**	**10,215**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	923	1,145
Net foreign exchange income	10	8,224	7,418
Net realised gain on available-for-sale assets	11	185	218
Share of profit of equity accounted investees (net of income tax)		(37)	59
Other income	12	10,610	6,116
Operating Income		**51,618**	**54,313**
Impairment losses	13	(15,539)	(20,677)
General administrative expenses	14	(25,380)	(23,159)
Profit before income tax		**10,699**	**10,477**
Income tax expense	15	(3,857)	(2,491)
Profit for the period		**6,842**	**7,986**
Attributable to:			
Equity holders of the parent		**6,454**	**8,319**
Non-controlling interest		**388**	**(333)**

The consolidated income statement is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements set out on pages 15 to 73.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

25 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	Note	2010 '000 LVL	2009 '000 LVL
Profit for the period		**6,842**	**7,986**
Attributable to:			
Owners of the bank		**6,454**	**8,319**
Non-controling interest		**388**	**(333)**
Other comprehensive income			
Exchange differences on translating foreign operations		536	(397)
Change in revaluation reserve		527	(811)
Income tax related to change in revaluation reserve	15	(75)	14
Other comprehensive income for the period		**988**	**(1,194)**
Total comprehensive income for the period		**7,830**	**6,792**
Attributable to:			
Equity holders of the parent		**7,350**	**7,356**
Non-controlling interest		**480**	**(564)**

The consolidated comprehensive income statement is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements set out on pages 15 to 73.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

25 March 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2010	**Note**	**2010 '000 LVL**	**2009 '000 LVL**
ASSETS			
Cash and balances with the central bank	16	126,803	38,989
Financial instruments at fair value through profit or loss	17	41,736	74,022
Loans and receivables due from banks	18	291,885	301,298
Loans and receivables due from customers	19	500,536	454,020
Amounts receivable under reverse repurchase agreement	37	50,726	-
Available-for-sale assets	20	416	1,397
Held-to-maturity investments	21	845	5,385
Investments in associates	22	78	115
Property and equipment	23	44,784	33,512
Intangible assets	24	3,680	4,005
Investment property	25	43,244	30,141
Current tax asset		199	1,929
Deferred tax assets	31	8	151
Other assets	26	21,178	24,967
Total Assets		**1,126,118**	**969,931**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	17	581	356
Deposits and balances due to banks	27	7,212	88,713
Current accounts and deposits due to customers	28	969,947	664,405
Amounts payable under repurchase agreements	17	-	72,990
Provisions	35	-	382
Other borrowed funds	29	-	895
Current tax liability		49	78
Deferred tax liabilities	31	2,981	1,423
Other liabilities and accruals	30	4,697	7,868
Total Liabilities		**985,467**	**837,110**
Share capital	32	100,000	100,000
Share premium	32	4,809	4,809
Revaluation reserve	32	2,121	1,312
Other reserves	32	20,025	20,025
Currency translation reserve	32	(1,260)	(477)
Retained earnings		13,737	6,413
Total Equity Attributable to Equity Holders of the Bank		**139,432**	**132,082**
Non-controlling Interest		**1,219**	**739**
Total Shareholders' Equity		**140,651**	**132,821**
Total Liabilities and Shareholders' Equity		**1,126,118**	**969,931**
Commitments and Guarantees	34	56,585	52,827

The consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements set out on pages 15 to 73.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

25 March 2011

CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 31 December 2010		**2010 '000 LVL**	**2009 '000 LVL**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		10,699	10,477
Amortisation and depreciation	23, 24	3,500	2,782
Profit from sale of subsidiaries		-	(307)
Profit from disposal of property, plant, equipment		(39)	(27)
Impairment losses	13	15,539	20,677
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**29,699**	**33,602**
(Increase) /Decrease in loans and receivables from banks – term deposits		(20,387)	(80,914)
Decrease in loans and receivables from non-banking customers		(67,227)	66,856
Amounts receivable under reverse repurchase agreements		(50,726)	-
Increase in assets available-for-sale investments		(68)	84
(Increase)/Decrease in financial instruments at fair value through profit or loss		32,286	80,361
Increase/(Decrease) in derivative liabilities		225	(493)
Decrease in provisions		(382)	(5)
(Increase)/Decrease in other assets		1,470	12,635
Increase/(Decrease) in deposit from banks – term deposits		(82,947)	(67,119)
Increase /(Decrease) in deposits from non-banking customers		305,543	12,367
Increase/(Decrease) in amounts payable under repurchase agreements		(72,990)	(77,107)
Increase in borrowed funds		(895)	-
Decrease in other liabilities		(3,171)	(1,995)
Decrease in cash and cash equivalents from operating activities before corporate income tax		**70,430**	**(21,728)**
Corporate income tax paid		(584)	(742)
Net cash and cash equivalents used in operating activities		**69,846**	**(22,470)**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets	23, 24	(834)	(2,934)
Consideration paid for acquisition of subsidiaries	24	(843)	(832)
Proceeds from sale of subsidiaries		-	120
Acquisition of Investment property	25	(15,561)	(10,017)
Proceeds from held-to-maturity investments		4,115	15,979
Proceeds from sale of property, plant and equipment		716	1,169
Cash and cash equivalents from investing activities		**(12,407)**	**3,485**
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in share capital and reserves		-	97,500
(Decrease)/Increase in borrowed funds		-	(404)
Dividends paid		-	(103,331)
Cash and cash equivalents used in financing activities		**-**	**(6,235)**
Net cash flow for the period		**57,439**	**(25,220)**
Cash and cash equivalents at the beginning of the year		**246,162**	**271,382**
Cash and cash equivalents acquired on business combinations	24	1,129	-
Cash and cash equivalents at the end of the year	33	**304,730**	**246,162**

The consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements set out on pages 15 to 73.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

25 March 2011

CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
For the year ended 31 December 2010

	Attributable to Equity Holders of the Bank								
	Share capit '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Foreign currency transla-tion reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total Equity '000 LVL	Non-controling interest '000 LVL	Total Equity '000 LVL
Balance at 31 December 2008	**22,500**	**4,809**	**2,130**	**(179)**	**172**	**100,913**	**130,345**	**1,797**	**132,142**
Adjustment related to prior periods (Note 32f)	-	-	(153)	-	(147)	512	**212**	(494)	**(282)**
Transactions with shareholders recorded directly in equity									
Dividends paid	-	-	-	-	-	(103,331)	**(103,331)**	-	**(103,331)**
Increase in share capital	77,500	-	-	-	-	-	**77,500**	-	**77,500**
Increase in reserve capital	-	-	-	-	20,000	-	**20,000**	-	**20,000**
Total comprehensive income									
Profit for the current year	-	-	-	-	-	8,319	**8,319**	(333)	**7,986**
Other comprehensive income									
Revaluation of property	-	-	(665)	-	-	-	**(665)**	(132)	**(797)**
Exchange differences on the translating foreign operations	-	-	-	(298)	-		**(298)**	(99)	**(397)**
Balance at 31 December 2009	**100,000**	**4,809**	**1,312**	**(477)**	**20,025**	**6,413**	**132,082**	**739**	**132,821**
Reclassification related to prior periods (Note 32f)	-	-	368	(1,238)	-	870	**-**	-	**-**
Total comprehensive income									
Profit for the current year	-	-	-	-	-	6,454	**6,454**	388	**6,842**
Other comprehensive income									
Revaluation of property	-	-	439	-	-	-	**439**	13	**452**
Exchange differences on the translating foreign operations	-	-	2	455	-	-	**457**	79	**536**
Balance at 31 December 2010	**100,000**	**4,809**	**2,121**	**(1,260)**	**20,025**	**13,737**	**139,432**	**1,219**	**140,651**

The consolidated statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 15 to 73.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Pankov

25 March 2011

1 Background

Principal activities

These consolidated financial statements include the financial statements of JSC "Rietumu Bank" (the "Bank") and its subsidiaries (together referred to as the "Group"). The principal subsidiaries of the Group are set out below.

JSC "Rietumu Bank" was established in the Republic of Latvia as a Joint Stock Company and was granted it's general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC"). The registered address of the Bank's head office is Vesetas Street 7, Riga, Latvia. The average number of people employed by the Group during the year was 1,017 (2009: 736).

Significant subsidiaries

Name	Country of incorporation	Principal activities	Ownership %	
			2010	**2009**
RB Securities Ltd	Stasinou 1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	Financial services	99.99%	99.99%
"RB Investments" JSC	Vesetas 7, Riga, Latvia	Investments	100%	100%
"RB Securities" IBC	Vesetas 7, Riga, Latvia	Financial services	100%	100%
"RB Asset Management" IPS	Vesetas 7, Riga, Latvia	Financial services	100%	100%
"Westleasing" Ltd	Fabriciusa street 8, 4th floor, office 18, Minsk Belarus	Leasing company	50%	50%
"Westtransinvest" Ltd	Fabriciusa street 8, 4th floor, office 18, Minsk Belarus	Leasing company	50%	50%
"Westleasing-M" Ltd	Kostjakova street 10, Moscow, Russia	Leasing company	50%	50%
"Parex Leasing" Ltd.	Libavoromenskaja street 23, office 7, Minsk, Belarus	Leasing company	100%	-
"Arēna Rīga" Ltd.	Skanstes street 21, Riga, Latvia	Entertainment and sports	100%	-
"Elektro Bizness" Ltd	Vesetas 7, Riga, Latvia	Electricity production company	90%	90%
RB Opportunity Fund I	Vesetas 7, Riga, Latvia	Investments	100%	100%
"Interrent" Ltd	Kulman Street 5b, 4th floor, office 6, Minsk, Belarus	Real estate, renting	100%	100%
"Vesetas 7" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"Overseas Estate" Ltd	Vesetas 7, Riga, Latvia	Juice terminal	100%	100%
"Deviņdesmit seši" Ltd	Jomas Street 86, Jurmala, Latvia	Leisure and Hotel complex	100%	100%
"M 322" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"H-Blok" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"Aristida Briāna 9" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"Mežvidi AT" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"KI Zeme" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%

1 Background, continued

Name	Country of incorporation	Principal Activities	Ownership %	
			2010	**2009**
“ARMITANA PROPERTY” Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	-
“InCREDIT GROUP” Ltd	Krišjāņa Barona iela 130, Riga, Latvia	Customer lending	51%	-
“KI Nekustamie īpašumi” Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"Miera 30C" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	-

In the subsidiaries with an ownership share of 50% the Group has the right to majority votes on the Board of Directors and therefore controls the operations of these subsidiaries.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (EU IFRS), and regulations of the Financial and Capital Market Commission in force as at the reporting date.

The Board of Directors authorised the consolidated financial statements for issue on March 25, 2011. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

The Bank also prepares separate financial statements in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (EU IFRS), and regulations of the Financial and Capital Market Commission in force as at the reporting date

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are stated at fair value;
- available-for-sale assets are stated at fair value;
- buildings which are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation;
- investment property which is stated at fair value.

(c) Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000’s), unless otherwise stated, being the Bank’s functional currency.

The functional currencies of subsidiaries of the Bank are LVL except for the subsidiaries listed below:

“RB Securities” Ltd	USD (US dollar)
“Westleasing” Ltd	BYR (Belarus rouble)
“Westtransinvest” Ltd	BYR (Belarus rouble)
“Westleasing-M” Ltd	RUB (Russian rouble)
“Parex Leasing” Ltd.	BYR (Belarus rouble)
“Interrent” Ltd	BYR (Belarus rouble)

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied to all periods presented in these financial statements except as noted in 3 (s).

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiary companies at the spot exchange rate on the date of the transaction as determined by the Central Bank of the respective country in which each entity operates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between 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 into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated into the functional currency at the spot exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated, which are recognised in equity through statement of other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency of the Bank at exchange rates set by Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into LVL at exchange rate at the date of transaction. Foreign currency differences arising on translation to the Bank functional currency are recognised in equity in a foreign currency translation reserve, through other comprehensive income.

Foreign exchange rates

	31 Dec 2010	**31 Dec 2009**
EUR	0.702804	0.702804
USD	0.535000	0.489000
BYR	0.017600	0.016400
RUB	0.000178	0.000172

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an 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.

3 Significant accounting policies, continued

(ii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of associated entity. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group'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.

(iii) 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 Group's interest in the investee. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. 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.

(iv) Non –controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

(v) Funds management

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

(c) Goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to assets sold.

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

(d) Fair value measurement principles

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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.

3 Significant accounting policies, continued

(i) *Financial assets*

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the income statement on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk.

(ii) *Property*

The fair value of property is based on internal valuations performed by the Group that are, on a regular basis (once in two years or when market conditions significantly change), corroborated with external, independent valuations prepared by valuation companies, having appropriate professional qualifications and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which property could be exchanged on the date of the valuation between willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

3 Significant accounting policies, continued

(iii) Intangible assets

The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(f) Financial instruments

(i) Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or that are designated to this category at initial recognition. The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise
- The asset or liability contains an embedded derivative that significantly modifies the cash flow flows that would otherwise be required under the contract.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than those:

- that are designated as at fair value through profit or loss upon initial recognition;
- that are designated as available for sale, and
- that meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market at initial recognition, other than those that:

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available- for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

3 Significant accounting policies, continued

Loans and receivables include regular loans and credit card balances and finance lease.

Liabilities at amortised cost include deposits and balances with Central Bank, deposits and balances from banks and current accounts and deposits from customers and subordinated liabilities.

(ii) Recognition

The Group initially recognises loans and receivables, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are recognised in the statement of financial position on the trade date when the Group becomes a party to the contractual provisions of the instrument.

(iii) Measurement

A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets other than loans and receivables, held to maturity investments andequity investments at cost, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

All held to maturity investments, loans and receivables and financial liabilities at amortised cost, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;

- a gain or loss on an available-for-sale financial asset is recognised in revaluation reserve through statement of other comprehensive income (except for impairment losses and foreign exchange gains and losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

3 Significant accounting policies, continued

(v) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset or when the Group neither transfers, nor retains substantially all risks and rewards of ownership but does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Group is recognised as a separate asset or liability. A financial liability is derecognised when it is extinguished.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

(vi) Repurchase and reverse repurchase agreements

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 income statement over the term of the “repo” agreement using the effective interest 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.

(vii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Group classifies all derivative financial instruments as held for trading.

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

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

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Group 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 are not closely related to the economic characteristics and risks of the host contract.

3 Significant accounting policies, continued

(viii) Offsetting

Financial assets and liabilities are offset and the net amount reported 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.

(g) Leases

The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases.

The Company as lessor

Assets leased out under operating lease are carried in the statement of financial position analogously to other assets. Income is recognised on a straight-line basis over each lease term. Other payments associated with the lease are recognised in the income statement as a component other income.

When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable before impairment allowance is recognised as unearned finance income.

The Company as lessee

The Company does not have assets under finance lease.

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

(h) Property and equipment

(i) Owned assets

Items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, except for land and buildings which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Land and buildings of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised in equity through statement of other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement.

A revaluation decrease on an item of land or buildings is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

3 Significant accounting policies, continued

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually. The estimated useful lives are as follows:

Buildings	50 years
Equipment	2.5 to 4 years
Furniture	8 years
Vehicles	2.5 to 5 years

(i) 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 or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in income statement in other operating income.

(j) Repossessed collateral

Other assets include collateral supporting loans that were terminated due to default of a borrower and the Group initiated the sales process of collateral. If the collateral is property and title has been transferred to the Group, the assets are shown as investment property.

If the borrower fails to fulfill the contractual obligations, the Board of Directors may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Group cannot assume title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Group is assuming the constructive title to the asset, and retains no contractual obligation to the original borrower, the Group classifies the asset as other assets.

(k) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

(l) Impairment

(i) Financial assets

At each reporting date the Group 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.

3 Significant accounting policies, continued

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group 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.

Significant loans and receivables due from customers, except for lease contracts, and held-to-maturity investment securities are assessed individually for impairment indication and specific impairment allowance is established if necessary.

For lease contracts for which the specific impairment allowance is not recognised, a collective impairment allowance is recognised as a percentage of net investment in finance leases before allowance without accrued interest based on historical experience. In 2009 and 2010, the percentage for collective allowance amounts to 0.25%.

All loans and receivables for which no objective evidence of impairment is identified on an individual basis are grouped into sub-portfolios with similar credit risk characteristics according to the Group's internal loan portfolio rating procedure and a collective impairment allowance is assessed using statistical modelling of historical trends of the probability of default and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are recognised in the income statement.

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 the income statement 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 the income statement. If the impaired financial asset is derecognised (due to repossessing of collateral (see Note 3j) or restructured (see Note 19)), the related impairment allowance is written off.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit and loss. The cumulative loss that is removed from fair value reserve and recognised in profit and loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognised in profit and loss.

If, in a subsequent period, the fair value of an impaired available-for-sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised in income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3 Significant accounting policies, continued

(ii) Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in income statement. 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.

(m) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, which can be estimated reliably, 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.

(n) Credit related commitments

In the normal course of business, the Group 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 Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

3 Significant accounting policies, continued

(o) Taxation

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

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(p) Income and expense recognition

(i) Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Fees and commission income and expenses that are integral part to the effective interest rate on financial assets and liabilities are included in the measurement of the effective interest rate.

Interest income and expense on all trading assets and liabilities that are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from financial instruments at fair value through profit or loss.

(ii) Fee and commission income and expense

Fees and commission income, including mainly account servicing fees, investment management fees and credit card servicing fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

3 Significant accounting policies, continued

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net gain/loss on financial instrument at fair value through profit or loss

Net gain/loss on financial instrument at fair value through profit or loss comprises gains less losses related to trading assets and liabilities and derivatives held for risk management purposes which do not qualify for hedge accounting, and includes realised and unrealised fair value changes, foreign exchange differences.

(q) Dividends

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

(r) Employee benefits

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

(s) New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2010:

From 1 January 2010, the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquire either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The change in accounting policy was applied prospectively and did not have significant impact on the financial statements.

The following other new standards, amendments to standards and interpretations as adopted by European Union are also mandatory for the first time for the financial year beginning 1 January 2010, but are not relevant for these consolidated financial statements:

- IFRIC 17, 'Distribution of non-cash assets to owners'.
- IFRIC 18, 'Transfers of assets from customers'.
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 1 (amendment), 'Presentation of financial statements'.
- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions'.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'.
- IFRIC 12 'Service Concession Agreements'.
- IFRIC 15 'Agreements for the Construction of Real Estate'.

3 Significant accounting policies, continued

(t) *New* Standards and Interpretations not yet adopted

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

- Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011). The amendment exempts a 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 expected to result in new relations requiring disclosure in the financial statements.
- Amendment to IFRIC 14 IAS 19 *– The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognise 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 financial statements as the Group does not have any defined benefit plans with minimum funding requirement.
- 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 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 Bank's financial statements for the year ending 31 December 2010.
- Amendment *to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's financial statements as the Group has not issued such instruments at any time in the past.

4 Risk management

The Group has exposure to the following risks:

- market risk
- credit risk
- liquidity risks
- operational risks
- Capital management risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

(a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board of Directors of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the 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. He reports directly to the First Vice President of the Bank and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

4 Risk management, continued

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chairman of the Board of Directors. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Financial Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits, which are monitored on a regular basis and reviewed and approved by the Board of Directors.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's net interest margin to various standard and non-standard interest rate scenarios.

(i) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. For further analysis of interest repricing refer to Note 42 Interest rate analysis.

The fair value of financial assets at fair value through profit or loss and financial assets available for sale is not sensitive to interest rate changes as the portfolio for the these categories consists of equity securities and short term government bonds as of 31 December 2010 and 2009.

An analysis of sensitivity of the net income for the year to changes in fair value of financial instruments at fair value through profit or loss due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves, all other variables remaining constant, is as follows:

	Profit for the period	
	2010	**2009**
100 bp parallel increase	2,755	1,747
100 bp parallel decrease	(2,755)	(1,747)

(ii) Currency risk

The Group 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 Group's exposure to currency risk at year-end refer to Note 41 Currency analysis.

4 Risk management, continued

An analysis of sensitivity of the Group's net income for the year and other comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and 2009 and a scenario of a 5% change in USD, EUR, RUB or BYR to LVL exchange rates, while the other variable remain constant, is as follows:

	Profit for the period	
'000 LVL	**2010**	**2009**
5% appreciation of USD against LVL	262	48
5% depreciation of USD against LVL	(262)	(48)
5% appreciation of EUR against LVL	(7)	880
5% depreciation of EUR against LVL	7	(880)
5% depreciation of RUB against LVL	(278)	116
5% appreciation of RUB against LVL	278	(116)
5% depreciation of BYR against LVL	(200)	17
5% appreciation of BYR against LVL	200	(17)

The foreign exchange rate LVL/EUR is pegged as at 31 December 2010. The rate could change as a result of a change in government macroeconomic policy.

(iii) 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 Group takes a long or short position in a financial instrument.

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

	2010		2009	
'000 LVL	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% increase in securities prices	2,069	21	3,684	-
5% decrease in securities prices	(2,069)	(21)	(3,684)	-

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Board of Directors.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail)
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

4 Risk management, continued

(c) Credit risk, continued

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Risk Department's Credit Risk Management Division then independently reviews the loan/credit application and the report and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. Either independent appraisal companies or the Group's specialists regularly assess the current market value of collateral, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

The Bank's Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department reviews retail loan/credit applications.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks. The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 19 "Loans and receivables from customers".

The Group's maximum exposure to credit risk is set out below. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Maximum credit risk exposure

	Notes	**Gross maximum credit exposure**	
31 December		**2010**	**2009**
LVL'000			
Demand deposits with the Bank of Latvia	16	126,803	38,989
Loans and receivables to banks	18	291,885	301,298
Loans and receivables to customers	19	500,536	454,020
Reverse repo	37	50,726	-
Fair value through profit or loss financial instruments	17	41,736	74,022
Held to maturity investments	21	845	5,385
Total financial assets		**1,012,531**	**873,714**
Guarantees	34	12,322	4,644
Credit card commitments	34	4,286	2,566
Overdraft facilities	34	6,978	4,783
Credit commitments	34	32,999	40,834
Total guarantees and commitments		**56,585**	**52,827**
Total maximum credit risk exposure		**1,069,116**	**926,541**

4 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Group 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 Group. 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.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Board of Directors.

The Group 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.

The liquidity management policy of the Group 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 traded as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

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 and receivables from banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

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 normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a daily basis. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. Both the interest and principal cash flows should be included in the analysis as this best represents the liquidity risk being faced by the entity.

4 Risk management, continued

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2010:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to financial institutions	4,642	-	1,876	944	-	7,462	7,212
Current accounts and deposits due to customers	729,355	51,046	132,934	68,516	12,038	993,889	969,947
Derivative liabilities							
- Inflow	(18,636)	(140)	(144)	-	-	(18,920)	-
- Outflow	19,125	141	149	-	-	19,415	581
Total	**734,486**	**51,047**	**134,815**	**69,460**	**12,038**	**1,001,846**	**977,740**
Guarantees (maximum exposure)	**303**	**56**	**1,973**	**3,616**	**-**	**5,948**	**12,322**
Credit related commitments	**44,263**	**-**	**-**	**-**	**-**	**44,263**	**44,263**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2009:

	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to financial institutions	3,279	-	86,295	-	-	89,574	88,713
Current accounts and deposits due to customers	560,183	42,879	84,641	15,510	509	703,722	664,405
Other borrowed funds	895	-	-	-	-	895	895
Derivative liabilities							
- Inflow	(7,503)	(1,034)	(147)	-	-	(8,684)	
- Outflow	7,837	1,055	148	-	-	9,040	356
Total	**564,691**	**42,900**	**170,937**	**15,510**	**509**	**794,547**	**754,369**
Guarantees (maximum exposure)	**304**	**155**	**2,390**	**611**	**-**	**3,460**	**4,644**
Credit related commitments	**48,183**	**-**	**-**	**-**	**-**	**48,183**	**48,183**

4 Risk management, continued

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Prevention of any possibility to be involved in money laundering and terrorist financing is a key component of operational risk. Sound anti-money laundering policies and procedures protect the Group's reputation and increases transparency of the Group's operations. Sound anti-money laundering policies and procedures also protect the Group against financial losses. The Group has developed and implemented an anti-money laundering strategy which includes the following:

- new customer due diligence or enhanced new customer due diligence based on the customer risk category
- customer risk assessment based on a risk scoring system that takes into account external and internal risk indicators
- new customer monitoring and risk based customer monitoring for all customers based on results of individual customer due diligence and customer risk assessment
- Real time monitoring of customer transactions based on internal and external criteria
- Regular staff training

4 Risk management, continued

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Group.

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization. The FCMC sets and monitors capital requirements for the Group.

(f) Capital management, continued

The Group defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by FCMC banks have to 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%. The Group was in compliance with the statutory capital ratio as at 31 December 2009 and 31 December 2010.

The following table shows the composition of the Group's capital position calculated in accordance with the requirements of FCMC that is based on Basel II, as at 31 December 2010:

	2010 '000 LVL	2009 '000 LVL
Tier 1 capital		
Share capital	100,000	100,000
Share premium	4,809	4,809
Other reserve	20,025	20,025
Non controlling interest	1,219	739
Currency translation reserve	(1,260)	(477)
Retained earnings from prior years	7,283	(1,906)
Current year profit	6,454	8,319
Deductions from the capital base		
Intangible assets	(3,680)	(4,005)
Other regulatory adjustments	(6,319)	(801)
Dividends declared or proposed	(1,000)	-
Total tier 1 capital	**127,531**	**126,703**
Tier 2 capital		
Long term deposits qualifying as regulatory capital	10,621	-
Other deductions	(6,318)	-
Total tier 2 capital	**4,303**	**-**
Total capital	**131,834**	**126,703**
Regulatory capital requirement	**64,372**	**58,324**
Total capital adequacy ratio	**16.38%**	**17.38%**

4 Risk management, continued

The regulatory requirement represents risk-weighted assets adjusted for capital requirement related to operating risks. 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 unrecognised credit commitments, with some adjustments to reflect the more contingent nature of the potential losses.

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

5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption 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:

(i) Allowances for credit losses on loans and receivables

The specific counterparty component of the total allowances for impairment applies to loans and receivables 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 each 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 Credit Risk function. The cash flows may be realised from repayment of the loan, from sale of collateral, from operating the collateral etc., depending on the specific situation and terms of the loan agreement. The estimated net realisable value of collateral is based on a combination of internal fair value assessment conducted by internal valuation specialists and independent external valuation reports and is reviewed on a regular basis. The estimated future cash flows are discounted using the financial asset's original effective interest rate.

Collectively assessed impairment allowance covers credit losses inherent in a portfolio of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentration and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the estimates of future cash flows for specific counterparty allowance and the model assumptions and parameters used in determining collective allowance.

(ii) Determining fair value 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 the accounting policies. 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.

5 Use of estimates and judgements, continued

All financial instruments that are carried at fair value were valued based on their market value, except for units in RB Opportunity Fund that are valued based on the estimated fair value of underlying assets, mostly properties. To determine fair value of the properties valuation techniques were used that are based on market prices for similar properties sold on the market or based on discounted estimated future income.

Fair value of financial instruments carried at amortised cost is stated at present value of future estimated cash flows discounted by a market interest rate. For short term financial assets and liabilities the fair value approximate amortised cost.

(iii) Impairment of held-to-maturity investments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. In the event of a significant decline and subsequent significant fluctuations in financial and capital markets or the existence of an illiquid capital market, the market price is may not always represent fair value, i.e. is not the best indication of impairment of a financial asset. The Group uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Group'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.

(iv) Determining fair value of property

Investment property is stated at its fair value with all changes in fair value recorded in the income statement. Property used in own business operation is revalued to fair value on regular periodic basis with changes in revalution recognized through other comprehensive income in a revaluation reserve and subsequent amortization is recognised in profit and loss. When measuring the fair value of the property, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on discounted estimated future cash flows from the property. Comparative method is based on recent market transactions with comparable property.

(v) Impairment of assets shown under other assets

Assets assumed as collateral are valued at lower of cost and net realisable value. When assessing net realisable value of assets, management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers).

(vi) Impairment of goodwill

Goodwill is assessed for impairment on an annual basis by discounting estimated future cash flows for the underlying cash generating unit using a discount rate equal to return on equity expected by shareholders. The estimated future cash flows are projected based on historical experience adjusted for expected changes in the business.

5 Use of estimates and judgements, continued

(vii) Useful lives of equipment

Estimated useful lives of equipment are based on practical experience over using similar equipment in the past. Each year damaged items and technically out-of-date items are identified and their useful life or carrying value is adjusted individually.

(viii) Deferred tax asset recognition

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

6 Net interest income

	2010 '000 LVL	2009 '000 LVL
Interest income		
Loans and receivables due from customers	30,366	37,765
Loans and receivables due from financial institutions	1,949	2,868
Financial instruments at fair value through profit or loss	412	926
Held-to-maturity investments	347	413
Amounts receivable under reverse repurchase agreements	8	79
	33,082	**42,051**
Interest expense		
Current accounts and deposits due to customers	10,352	8,031
Deposits and balances due to financial institutions	655	3,554
Amounts payable under repurchase agreements	274	356
Certificates of deposit and promissory notes	9	34
Other interest expense	1,472	934
	12,762	**12,909**

7 Fee and commission income

	2010 '000 LVL	2009 '000 LVL
Money transfers	5,943	6,181
Commission income from payment cards	3,241	2,924
Revenue from customer asset management and brokerage commissions	1,752	1,015
Remote system fee	575	540
Commission from documentary operations	472	387
Commission from account servicing	261	180
Cash withdrawals	192	218
Other	1,678	1,896
	14,114	**13,341**

8 Fee and commission expense

	2010 '000 LVL	2009 '000 LVL
Credit card expenses	1,062	943
On correspondent accounts	455	511
Brokerage fees	260	291
Commission for maintenance of syndicated loan	189	1,021
Cash withdrawal fees	12	12
Other	743	348
	2,721	**3,126**

9 Net gain/(loss) on financial instruments at fair value through profit or loss

	2010 '000 LVL	2009 '000 LVL
Equity instruments	520	904
Debt instruments	(357)	(157)
Derivatives	760	398
	923	**1,145**

10 Net foreign exchange income/(loss)

	2010 '000 LVL	2009 '000 LVL
Gain/(loss) from revaluation of financial assets and liabilities	(909)	(502)
Gain/(loss) on spot transactions and derivatives	9,133	7,920
	8,224	**7,418**

11 Net realised gain/(loss) on available-for-sale assets

	2010 '000 LVL	2009 '000 LVL
Equity instruments	185	218
	185	**218**

12 Other income/(expenses)

	2010 '000 LVL	2009 '000 LVL
Rental income from operating leases	3,956	635
Fair value change in investment property	3,245	(464)
Penalties received	1,089	331
Release of provision for litigation	418	-
Dividends received	59	13
Loss/ profit from sale of property	(330)	27
Negative goodwill write-off	128	-
Income from sale of subsidiaries	-	233
Other	2,045	5,341
	10,610	**6,116**

Other income includes the de-recognition of a liability of LVL 1,927 thousand (2009: LVL 2,283 thousand) for which there is no evidence of a legal or constructive obligation outstanding at reporting date.

13 Impairment losses

	2010 '000 LVL	2009 '000 LVL
Impairment losses		
Loans and receivables from customers	(18,493)	(20,264)
Available-for-sale financial assets	(1,050)	-
Goodwill	(12)	-
Intangible assets	-	(971)
Other assets	(3,109)	(2,350)
	(22,664)	**(23,585)**
Reversals of impairment losses		
Loans and receivables from customers	6,251	2,403
Held-to-maturity investments	83	495
Other assets	791	10
	7,125	**2,908**
Net impairment losses	**(15,539)**	**(20,677)**

14 General administrative expenses

	2009 '000 LVL	2009 '000 LVL
Employee compensation	9,188	8,431
Depreciation and amortisation	3,500	2,782
Rent	1,153	769
Payroll related taxes	2,012	2,045
Repairs and maintenance	1,362	899
Taxes other than on corporate income and payroll	1,270	981
Advertising and marketing	1,027	393
IT service and IT material consumption	1,000	919
Communications and information services	848	858
Professional services	721	435
Travel expenses	611	502
Salaries to Board of Directors and Council	538	846
Charity and sponsorship	512	603
Insurance	387	966
Office supplies (Stationary)	62	69
Subscription of information	53	67
Other	1,136	1,594
	25,380	**23,159**

15 Income tax expense

Recognised in the income statement	**2010 ’000 LVL**	**2009 ’000 LVL**
Current tax expense		
Current year	2,285	2,127
	2,285	**2,127**
Deferred tax expense		
Origination and reversal of temporary differences	1,572	338
Under/(over) provided in prior years	-	26
	1,572	**364**
Total income tax expense in the income statement	**3,857**	**2,491**

The tax rate applicable in countries in which group entities operate:	**2010 ’000 LVL**	**2009 ’000 LVL**
Latvia	15.00%	15.00%
Belarus	24.00%	26.28%
Cyprus	10.00%	10.00%
Russia	20.00%	20.00%

Reconciliation of effective tax rate:

	2010 ’000 LVL	**%**	**2009 ’000 LVL**	**%**
Income before tax	10,699		10,477	-
Income tax at the applicable tax rate	1,605	15.00%	1,572	15.00%
Non-deductible expenses	1,384	12.95%	1,304	12.45%
Tax exempt income	(102)	(0.95%)	(47)	(0.45%)
Tax relief on donations	(227)	(2.12%)	(336)	(3.21%)
Increase in unrecognised deferred tax asset	912	8.52%	-	-
Effect of different tax rate in other countries	285	2.65%	(2)	(0.02%)
	3,857	**36.05%**	**2,491**	**23.77%**

Income tax recognised in other comprehensive income	**2010 ’000 LVL**		**2009 ’000 LVL**	
Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Increase/(Decrease) of revaluation reserve for property	527	75	(811)	(14)
Total income tax recognised in equity	**-**	**75**	**(95)**	**(14)**

16 Cash and balances with the central bank

Cash and balances with central bank comprised of the following items:

	2010 '000 LVL	2009 '000 LVL
Cash	3,321	3,727
Balances due from the Bank of Latvia	123,482	35,262
	126,803	**38,989**

Deposits with the Bank of Latvia represent the balance outstanding on the correspondent account with the Bank of Latvia in LVL and EUR.

In accordance with the Bank of Latvia's regulations the Group is required to maintain a compulsory reserve set based on the average monthly balance of the following items:

+ deposits from the public

- less liabilities against credit institutions

- less balance due to the State Treasury on its consolidated account with the Bank

+ bonds and other debt securities issued by the Bank

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

17 Financial instruments at fair value through profit or loss

	2010 '000 LVL	2009 '000 LVL
Bonds		
- with rating from AAA to A	30,414	72,976
- with rating from BBB+ to B	9,941	-
Equity investments	788	731
Derivative financial instruments	593	315
Financial assets at fair value through profit or loss	**41,736**	**74,022**
Derivative financial instruments	(581)	(356)
Financial liabilities at fair value through profit or loss	**(581)**	**(356)**
Amount payable under repurchase agreement, at amortised cost	-	72,990
Assets pledged under repurchase agreements (see above)	-	72,976

17 Financial instruments at fair value through profit or loss, continued

Derivative financial assets and liabilities

	2010 '000 LVL		2009 '000 LVL	
	Carrying value	Notional value	Carrying value	Notional value
Assets				
Forward contracts	200	15,897	44	16,745
Option premium	242	n/a	63	n/a
Future contracts	147	4,355	-	-
Swap contracts	4	350	208	208
Total derivative financial assets	**593**	**-**	**315**	**-**
Liabilities				
Option contracts	77	-	-	-
Future contracts	9	1,531	-	-
Swap contracts	-	-	4	4
Forward contracts	495	15,806	352	17,046
Total derivative liabilities	**581**	**-**	**356**	**-**

Financial instruments reclassified to loans and receivables

Pursuant to the amendments to IAS 39 and IFRS 7, as of 1 July 2008, the Group reclassified trading assets of LVL 23,980 thousands to Loans and receivables from customers. The table below sets out the amounts that would have been recognised in the period following reclassification during 2008 if the reclassifications had not been made:

'000LVL	**2010**		**2009**	
	Income statement	**Total comprehensive income**	**Income statement**	**Total comprehensive income**
Net gain / (loss) on financial instruments at fair value through profit and loss reclassified to loans and advances to customers	455	455	(346)	(346)

18 Loans and receivables from banks

	2010 '000 LVL	2009 '000 LVL
Nostro accounts		
Latvian commercial banks	731	22,398
OECD banks	174,375	177,254
Other non-OECD banks	5,085	10,338
Total Nostro accounts	**180,191**	**209,990**
Deposit accounts		
Latvian commercial banks	-	10,664
OECD banks	102,730	76,832
Other non-OECD banks	8,964	3,812
Total loans and deposits	**111,694**	**91,308**
	291,885	**301,298**

Concentration of placements with banks and other financial institutions

As at 31 December 2010 the Group had one (2009: four) financial institution, whose balance exceeded 10% of total loans and receivable from banks. The gross value of these balance as of 31 December 2010 and 2009 was LVL 37,450 thousand and LVL 106,966 thousand, respectively.

The largest balances due from credit institutions as of 31 December 2010 were as follows:

	2010 '000 LVL	%
Hypovereinsbank	37,450	12.84%
Bank of Montreal	26,750	9.16%
NORD/LB London	26,750	9.16%
Landesbank Hessen	26,750	9.16%
Erste Bank Vienna	26,750	9.16%
KBC Bank NV	26,750	9.16%
LBBW Stuttgart	25,269	8.66%
HSH Nordbank AG	16,050	5.51%
Total	**212,519**	**72.81%**

19 Loans and receivables from customers

	2010 '000 LVL	2009 '000 LVL
Companies		
Finance leases	13,411	13,209
Loans	466,793	413,279
Individuals		
Finance leases	662	-
Loans	56,479	53,534
Specific impairment allowance	(36,667)	(25,037)
Collective impairment allowance	(142)	(965)
Net Loans and receivables from customers	**500,536**	**454,020**

19 Loans and receivables from customers, continued

(a) Finance leases

Loans and receivables from customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

	2010 '000 LVL	2009 '000 LVL
Gross investment in finance leases, receivable		
Less than one year	11,369	10,461
Between one and five years	5,652	6,343
Total gross investment in finance leases	17,021	16,804
Unearned finance income	(2,948)	(3,595)
Net investment in finance lease before allowance	14,073	13,209
Impairment allowance	(1,983)	(783)
Net investment in finance lease	**12,090**	**12,426**

	2010 '000 LVL	2009 '000 LVL
The net investment in finance leases comprises:		
Less than one year	7,542	7,460
Between one and five years	4,548	4,966
Net investment in finance lease	**12,090**	**12,426**

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms				Net carrying value of overdue loans
As at 31 Dec 2010			Less than 30 days	31-90 days	91-180 days	More than 180 days	
Net carrying amount	**500,536**	388,767	57,736	40,574	5,544	7,915	111,769
Out of which impaired	**63,189**	39,058	8,845	4,113	5,181	5,992	24,131
Estimated fair value of collateral	**678,430**	534,843	61,338	58,144	8,321	15,784	143,587
As at 31 Dec 2009							
Net carrying amount	**454,020**	384,326	50,166	10,128	2,811	6,589	69,694
Out of which impaired	**53,734**	37,721	2,369	4,701	3,242	5,701	16,013
Estimated fair value of collateral	**590,471**	498,897	70,222	8,363	3,161	9,828	91,574

19 Loans and receivables from customers, continued

(ii) Analysis of loan by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2010:

LVL'000	31 December 2010	% of loan portfolio	31 December 2009	% of loan portfolio
Commercial buildings	179,332	35.83	182,519	40.20
Traded securities	109,621	21.90	33,252	7.32
Commercial assets pledge	75,093	15.00	96,623	21.28
Land mortgage	54,110	10.81	64,039	14.10
Mortgage on residential properties	28,846	5.76	30,026	6.61
Deposit	3,334	0.67	2,359	0.52
Guarantee	2,771	0.55	1,652	0.37
Other	47,429	9.48	43,550	9.60
Total	**500,536**	**100.00**	**454,020**	**100.00**

In Other are included bonds classified as loans and receivables of LVL 18,677 thousand (2009: 24,182).

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

(iii) Impaired loans

	2010 ’000 LVL	2009 ’000 LVL
Impaired loans gross	99,856	78,771
Specific impairment allowance	(36,667)	(25,037)
Net Loans and receivables from customers	**63,189**	**53,734**
Fair value of collateral related to impaired loans	**92,978**	**66,032**

When reviewing loans the Group sets the following categories for individual loans to assess their credit risk:

	2010 ’000 LVL Gross	Specific and collective impairment allowance	2009 ’000 LVL Gross	Specific and collective impairment allowance
Standard	444,663	(3,090)	407,912	(1,212)
Watch	44,783	(5,899)	33,523	(5,413)
Substandard	20,376	(7,821)	32,428	(14,741)
Doubtful	25,399	(17,885)	4,749	(3,226)
Lost	2,124	(2,114)	1,410	(1,410)
Total	**537,345**	**(36,809)**	**480,022**	**(26,002)**

19 Loans and receivables from customers, continued

(iv) Movements in the impairment allowance

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

LVL'000	2010 '000 LVL	2009 '000 LVL
Allowance for impairment		
Balance at 1 January	26,002	20,057
Increase in allowance as a result of acquisition of subsidiaries	517	-
Charge for the year	18,493	20,264
Reversal of impairment loss allowance	(6,251)	(2,403)
Effect of foreign currency translation	127	(65)
Write off of loans and transfer to other assets	(2,079)	(11,851)
Balance at 31 December	**36,809**	**26,002**

(v) Restructured loans

As at 31 December 2010, the Group held restructured loans of LVL 136,729 thousand (2009: 149,573). Main forms of restructuring were the reduction of the interest rate, postponing of interest payments or principal payments.

(a) Industry analysis of the loan portfolio

	2010 '000 LVL	2009 '000 LVL
Real estate management	104,961	110,633
Financial services	216,880	151,420
Individuals	49,553	47,452
Wholesale and retailing	28,675	23,792
Manufacturing	24,924	37,524
Investments in finance lease	12,090	12,426
Food industry	7,617	9,686
Transport and communication	6,353	9,041
Tourism	8,535	1,226
Other	40,948	50,820
	500,536	**454,020**

In Other are included bonds classified as loans and receivables of LVL 18,677 thousand (2009: 24,182).

19 Loans and receivables from customers, continued

(b) Geographical analysis of the loan portfolio

	2010 '000 LVL	2009 '000 LVL
Latvia	187,065	203,718
OECD countries	102,295	60,051
Other non-OECD countries	211,176	190,251
	500,536	**454,020**

(c) Significant credit exposures

As at 31 December 2010 and 2009 the Group had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Group is not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at December 31, 20010 and 2009 the Group was in compliance with this requirement.

20 Available-for-sale assets

	2010 '000 LVL	2009 '000 LVL
Equity investments		
Corporate shares	1,466	1,397
Impairment allowance	(1,050)	-
	416	**1,397**

Available for sale corporate shares include SWIFT, NASDAQ OMX Riga Stock Exchange, VISA INC and shares of Latvian companies.

21 Held-to-maturity investments

	2010 '000 LVL	2009 '000 LVL
Debt and other fixed-income instruments		
- Government and municipal bonds		
Latvia government bonds	-	1,517
Argentina government bonds	845	1,719
Total government and municipal bonds	**845**	**3,236**
- Corporate bonds		
Russian corporate bonds	-	777
European Union corporate bonds	-	2,450
Total corporate bonds	**845**	**3,227**
Impairment allowance	-	(1,078)
	845	**5,385**

21 Held-to-maturity investments, continued

Analysis of movements in the impairment allowance

	2010 '000 LVL	2009 '000 LVL
Balance at the beginning of the year	1,078	1,593
Net charge/(recovery) for the year	(83)	(495)
Write of allowance as a result of derecognition	(1,037)	-
Currency revaluation	42	(20)
Balance at the end of the year	**-**	**1,078**

22 Investment in associates

The Group owns a share in the following associates, both associated companies provide information services and their assets consists mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

Name	Country of incorpora-tion	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 December 2010		31 December 2009	
"AED Real Service" Ltd	Latvia	Information services for the rail way	43.00%	48	43.00%	80
"Dzelzcela Tranzits Ltd	Latvia	Information services for the rail way	49.12%	30	49.12%	35
Total				**78**		**115**

23 Property and equipment

Cost/Revalued amount '000 LVL	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment**	**Total**
At 1 January 2010	25,666	1,323	1,516	12,079	**40,584**
Additions	18	16	-	592	**626**
Acquisition of subsidiaries	11,873	23	29	1,145	**13,070**
Disposals	(456)	-	(339)	(296)	**(1,091)**
Transfers from other assets	1,398	(1,398)	122	73	**195**
Revaluation	527	-	-	-	**527**
FX translation	26	83	-	2	**111**
At 31 December 2010	**39,052**	**47**	**1,328**	**13,595**	**54,022**
Depreciation and impairment losses					
At 1 January 2010	29	-	932	6,111	**7,072**
Depreciation charge	654	-	300	1,626	**2,580**
Disposals	-	-	(196)	(220)	**(416)**
FX translation	1	-	-	1	**2**
At 31 December 2010	**684**	**-**	**1,036**	**7,518**	**9,238**
Carrying value					
At 31 December 2010	**38,368**	**47**	**292**	**6,077**	**44,784**
At 31 December 2009	**25,637**	**1,323**	**584**	**5,968**	**33,512**

Cost/Revalued amount '000 LVL	**Land and buildings**	**Construction in progress**	**Vehicles**	**Office equipment**	**Total**
1 January 2009	**28,361**	**817**	**2,040**	**11,151**	**42,369**
Additions	618	437	53	1,482	**2,590**
Disposals	(240)	(201)	(573)	(848)	**(1,862)**
Transfers from other assets	(2,186)	815	-	4	**(1,367)**
Acquisition of subsidiaries	5,442	-	-	303	**5,745**
Revaluation	(716)	-	-	-	**(716)**
FX translation	(188)	(63)	(4)	(13)	**(268)**
Transferred to investment property	(5,425)	(482)	-	-	**(5,907)**
At 31 December 2009	**25,666**	**1,323**	**1,516**	**12,079**	**40,584**
Depreciation and impairment losses					
At 1 January 2009	**62**	**-**	**1,055**	**5,633**	**6,750**
Depreciation charge	281	-	360	1,275	**1,916**
Transferred to investment property	(296)	-	-	-	**(296)**
Disposals	(16)	-	(482)	(791)	**(1,289)**
FX translation	(2)	-	(1)	(6)	**(9)**
At 31 December 2009	**29**	**-**	**932**	**6,111**	**7,072**
Carrying value					
At 31 December 2009	**25,637**	**1,323**	**584**	**5,968**	**33,512**
At 31 December 2008	**28,299**	**817**	**985**	**5,518**	**35,619**

24 Intangible assets

’000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2010	2,339	6,428	1,599	**10,366**
Additions	-	206	2	**208**
Disposals	-	-	(2)	**(2)**
Reclassification	-	559	(559)	**-**
Transfers from other assets	-	385	-	**385**
Acquisition of subsidiary	-	-	16	**16**
At 31 December 2010	**2,339**	**7,578**	**1,056**	**10,973**
Amortisation and impairment losses				
At 1 January 2010	1,576	4,668	117	**6,361**
Amortization charge	-	808	112	920
Impairment loss	12	-	-	12
At 31 December 2010	**1,588**	**5,476**	**229**	**7,293**
Carrying value				
At 31 December 2010	**751**	**2,102**	**827**	**3,680**
At 31 December 2009	**763**	**1,760**	**1,482**	**4,005**

’000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2009	2,720	5,722	581	**9,023**
Additions	971	147	197	**1,315**
Disposals	-	(14)	(20)	**(34)**
Goodwill allocation	(1,352)	-	1,352	**-**
Transfers from other assets	-	573	(511)	**62**
At 31 December 2009	**2,339**	**6,428**	**1,599**	**10,366**
Amortisation and impairment losses				
At 1 January 2009	605	3,914	9	**4,528**
Depreciation charge	-	758	108	**866**
Impairment losses	971	-	-	**971**
Disposals		(4)	-	**(4)**
At 31 December 2009	**1,576**	**4,668**	**117**	**6,361**
Carrying value				
At 31 December 2009	**763**	**1,760**	**1,482**	**4,005**
At 31 December 2008	**2,115**	**1,814**	**571**	**4,500**

Goodwill of LVL 751 thousand (2009: LVL 751 thousand) originated on the acquisition of a payment card business unit in 2001.

24 Intangible assets, continued

At October 17, 2008, the Group acquired a 90% share in SIA Elektrobizness that operates water power station and owns government license ensuring a guaranteed price and volume of the sale of electric energy. The fair value of the license of LVL 1,352 thousand was assessed during the measurement period of 12 months after acquisition date based on discounted estimated future cash flows from business activities of SIA Elektrobizness taking into account the guaranteed price and volume of production. The license was recognised as other intangible asset and will be amortised over its contractual life. Accordingly the value of goodwill of LVL 1,352 thousand was allocated to the newly recognised asset.

In 2010 Group companies acquired the following subsidiaries:

	"AR Entertainment" Ltd. – Group	**“Parex Leasing Ltd”**
Date of acquisition	25.03.2010	05.05.2010
Shares held before gaining control	27.25%	-
Acquired	72.25%	100%
Share %	100 %	100%

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

Net identifiable assets and liabilities	**"AR Entertainment" Ltd. – Group**	**“Parex Leasing Ltd”**	**Total**
	’000 LVL	**’000 LVL**	**’000 LVL**
Placements with banks and other financial institutions	560	569	1,129
Loans to customers, net	-	3,642	3,642
Property and equipment	13,018	52	13,070
Intangible assets	16	-	16
Deferred tax asset	-	188	188
Current tax asset	-	53	53
Other assets	536	332	868
Deposits and balances from banks and other financial institutions	(11,898)	(4,539)	(16,437)
Other liabilities	(1,194)	(196)	(1,390)
Deferred tax liability	(168)	-	(168)
Net identifiable assets and liabilities	**870**	**101**	**971**
Goodwill	**(27)**	**(101)**	**(128)**
Consideration paid	**843**	**0**	**843**

Through the acquisition of AR Entertainment, the Bank gained control over its 100% subsidiary Arena Riga Ltd. The acquisition of control of the AR Entertainment group resulted in negative goodwill of 27 TLVL being recognised in the income statement in Other income, in the current reporting period.

The acquisition of 100% in Parex leasing Ltd resulted in negative goodwill of 101 TLVL that was recognised in the income statement in Other income, in the current reporting period.

24 Intangible assets, continued

The fair value of identifiable assets and liabilities were determined as follows:

- For all short term assets and liabilities it was assumed that the fair value approximates it book value;
- For Loans to customers and for Liabilities to financial institutions, the fair value was determined using discounted estimated future cash flow from the loans;
- For property and equipment the fair value was determined using discounted estimated future income, the main assumptions being profit margin 15-18%, growth of operating income by 15% in 5 years, possibility to sell right to the name of arena, discount rate 12%. Due to the complexity of the valuation model, it is not practicable to show sensitivities as a result of change of one or more of the assumption.

In 2009 the Group acquired the following subsidiaries:

	"Deviņdesmit seši" Ltd	**"Aristida Briana 9" Ltd**
Date of acquisition	31.03.2009	20.02.2009
Share %	100 %	100%

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

Net identifiable assets and liabilities	**"Deviņdesmit seši" Ltd**	**"Aristida Briana 9" Ltd**	**Total**
	'000 LVL	**'000 LVL**	**'000 LVL**
Placements with banks and other financial institutions	2	-	**2**
Loans to customers	1,170	-	**1,170**
Property and equipment	5,533	-	**5,533**
Investment property	56	794	**850**
Other assets	922	34	**956**
Deposits and balances from banks and other financial institutions	(7,251)	(745)	**(7,996)**
Current accounts and deposits from customers	(302)	-	**(302)**
Other liabilities	(119)	(9)	**(128)**
Deferred tax liability	(217)	-	**(217)**
Net identifiable assets and liabilities	**(206)**	**74**	**(132)**
Goodwill	**206**	**758**	**964**
Consideration paid	**-**	**832**	**832**

In 2009, the Group acquired 100% in Devindesmit Sesi SIA and Aristida Briana 9 SIA as a result of collection of collateral from bad loans.

Devindesmit Sesi SIA operates hotel and provides leisure activities services and owns property and equipment related to its business activity. The property and equipment were valued at their fair values as at the date of acquisition based on discounted estimated future cash flows of the business. The Group rented out the property and equipment of the subsidiary subsequent to the acquisition and therefore the property was reclassified to investment property. The residual value of goodwill as at the end of the reporting period was estimated to zero, and therefore the goodwill of LVL 206 thousand was written off through impairment losses in income statement.

24 Intangible assets, continued

Aristida Briana 9 SIA 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 discounted estimated future cash flows. The residual value of goodwill as at the end of the reporting period was estimated to zero, and therefore the goodwill of LVL 758 thousand was written off through impairment losses in income statement.

The contribution to total revenue and profit of the Group by the two new subsidiaries was not material.

25 Investment property

Investment property comprises office buildings and other commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy and which are leased to third parties. The Group's investment property comprises of a juice processing terminal, residential property, plots of land, and a hotel and leisure complex.

	2010 '000 LVL	2009 '000 LVL
Balance at 1 January	30,141	12,629
Transfer from property and equipment at fair value	-	5,611
Additions	15,561	11,723
Sale of investment property	(5,735)	-
Sale of subsidiaries	-	(208)
Acquisition of subsidiaries	-	850
Revaluation of property	3,245	(464)
Currency revaluation	32	-
Balance at 31 December	**43,244**	**30,141**

Rental income and operating expense

	Book value '000 LVL	Rental income '000 LVL	Operating expenses '000 LVL
Investment property rented out	15,198	247	106
Investment property not rented out	28,046	5	149
Total	**43,244**	**252**	**255**

Rental income and operating expenses are presented under Other income (expenses) in the Income statement.

Valuation of investment property as at 31 December 2010

	Valued internally '000 LVL	External valuations '000 LVL
Land	270	5,181
Residential property	2,101	6,665
Commercial property	11,190	7,645
Hotels	4,372	-
Other	5,820	-
Total	**23,753**	**19,491**

25 Investment property, continued

The fair value of investment property was determined within 3 months before the end of reporting period.

The fair value of residential properties and office buildings is based either on completed transactions with similar properties at similar locations or a discounted cash flow model. If similar transactions did not take place the Group and external valuation companies used discounted cash flow models, the main assumptions being market rental rates of 15Euro/m2 and discount rates in the range of 7-10%.

For commercial properties other than office building the valuation is based on expected future cash flows based on contractual terms agreed with tenants or management estimate regarding future potential tenants using the same discount rates as above. Where the rental agreements are not yet in force a probability of entering into the agreement and time delay is taken into consideration in the valuation.

Due to the fact that the investment property includes many items with different characteristics, different valuation models with different assumptions were used and therefore it is impracticable to disclose sensitivity of fair value to changes in key assumptions in a meaningful way.

26 Other assets

	2010 ’000 LVL	**2009 ’000 LVL**
Collateral assumed on non performing loans	15,910	20,708
Prepayments	1,553	2,941
Prepayments for property obtained in actions	1,604	-
Guarantee receivable from borrower	2,078	-
Recoverable VAT	510	1,377
Tax prepayments	41	34
Auction deposit	8	1,496
Other	3,863	1,358
Impairment allowance on collateral assumed	(4,389)	(2,947)
	21,178	**24,967**

Analysis of movements in the value of collateral assumed on non performing loans

	2010 ’000 LVL	**2009 ’000 LVL**
Balance at the beginning of the year	20,708	6,788
Transfer from Loans and receivables	9,189	15,221
Reclassified to guarantee receivable	(2,078)	-
Sale of collateral completed	(11,909)	(1,301)
Balance at the end of the year	**15,910**	**20,708**

26 Other assets, continued

Analysis of movements in the impairment allowance

	2010 '000 LVL	2009 '000 LVL
Balance at the beginning of the year	2,947	612
Charge for the year	3,109	2,350
Recovery	(791)	(10)
Write-offs	(878)	-
Currency revaluation	2	(5)
Balance at the end of the year	**4,389**	**2,947**

Collateral assumed on non performing loans by type of property

	2010 '000 LVL
Residential property	9,583
Production plants	1,702
Land	1,951
Movable property	1,589
Commercial property	1,085
	15,910

27 Deposits and balances from banks

	2010 '000 LVL	2009 '000 LVL
Vostro accounts	4,263	2,817
Term deposits	2,949	85,896
	7,212	**88,713**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2010 the Group had 2 banks (2009: 0), respectively, for which balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2010 was LVL 1,342 thousand.

28 Current accounts and deposits from customers

	2010 '000 LVL	2009 '000 LVL
Current accounts and demand deposits		
- State enterprises	69	91
- Private companies	20,798	15,299
- Individuals	28,168	23,487
- Private companies non-residents	552,973	330,051
- Individuals non-residents	65,409	48,673
Total current account and demand deposits	**667,417**	**417,601**
Term deposits		
- Private companies	7,586	2,382
- Individuals	42,006	23,935
- Private companies non-residents	209,194	182,649
- Individuals non-residents	43,744	37,838
Total term deposits	**302,530**	**246,804**
Total current accounts and deposits form customers	**969,947**	**664,405**

As of 31 December 2010, the Group maintained customer deposit balances of LVL 3,334 thousand (2009: LVL 10,269 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

As of 31 December 2010 and 2009, the Group had no customers whose balances exceeded 10% of total customer accounts.

29 Other borrowed funds

	31 Dec 2010 '000 LVL	31 Dec 2009 '000 LVL
Natgaz Bull Note	-	454
USD Bear Note	-	441
	-	**895**

30 Other liabilities and accruals

	2010 '000 LVL	2009 '000 LVL
Annual leave	699	605
Deferred income	490	1,782
Management bonus	382	400
Deposits guarantee fund	296	-
VAT payable	242	254
Dividends payable	4	4
Escrow account	-	2,342
Other	2,584	2,481
	4,697	**7,868**

Escrow account represents liability of the Group for acquired property for which the Group already obtained a title.

31 Deferred tax asset and liability

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

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

	Assets		**Liabilities**		**Net**	
’000 LVL	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Financial instruments at fair value through profit or loss	10	90	-	-	10	90
Loans and advances to customers	262	255	(489)	(692)	(227)	(437)
Property and equipment	2	215	(1,291)	(1,090)	(1,289)	(875)
Investment property	-	-	(1,297)	(1,020)	(1,297)	(1,020)
Other assets	597	853	-	-	597	853
Due to financial institutions	-	-	(2)	(22)	(2)	(22)
Other liabilities	156	153	(9)	(14)	147	139
Total recognised deferred tax assets/(liabilities)	**1,027**	**1,566**	**(3,088)**	**(2,838)**	**(2,061)**	**(1,272)**
Unrecognised deferred tax assets/(liabilities)	**(912)**	**-**	**-**	**-**	**(912)**	**-**
Recognised net deferred tax assets/(liabilities)	**115**	**1,556**	**(3,088)**	**(2,838)**	**(2,973)**	**(1,272)**

The tax rate applicable in countries in which group entities operate:	**2010 ’000 LVL**	**2009 ’000 LVL**
Latvia	15.00%	15.00%
Belarus	24.00%	26.28%
Cyprus	10.00%	10.00%
Russia	20.00%	20.00%

Movement in temporary differences during the year ended 31 December 2010

	2010 ’000 LVL	**2009 ’000 LVL**
Balance at 1 January – deferred tax liability	(1,423)	(756)
Balance at 1 January – deferred tax asset	151	52
Purchase of subsidiaries	20	(217)
Charge to profit for the year	(1,572)	(364)
Release / charge in other comprehensive income	(75)	14
Currency revaluation	(74)	(1)
Balance at 31 December	**(2,973)**	**(1,272)**
Deferred tax asset	**8**	**151**
Deferred tax liability	**(2,981)**	**(1,423)**

32 Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and fully paid share capital comprises 100,000,000 ordinary shares (2009:100,000,000). All shares have a par value of LVL 1. The share premium represents amount that were paid by shareholders in excess to the par value of ordinary shares.

The largest shareholders of the Bank as of December 31, 2010 and December 31, 2009 are as follows:

	2010 '000 LVL	%	2009 '000 LVL	%
Companies non-residents, total	**33,110**		**33,110**	
Boswell (International) Consulting Limited	33,110	33.11%	33,110	33.11%
Private persons, total	**66,890**		**66,890**	
Leonid Esterkin	33,120	33.12%	33,110	33.11%
Arkady Suharenko	17,335	17.34%	17,330	17.33%
Others	16,435	16.43%	16,450	16.45%
Issued capital	**100,000**	**100%**	**100,000**	**100%**
Share premium	**4,809**		**4,809**	

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

(c) Revaluation reserve

The revaluation reserve comprises the accumulated revaluation recognised on land and buildings as follows:

	2010 '000 LVL	2009 '000 LVL
Revaluation reserve as at 1 January	1,312	1,977
Reclassification related to prior periods	368	-
Revaluation of property and equipment	527	(716)
Release of revaluation reserve due to sale of investment property	-	(95)
Deferred tax on change in revaluation reserve	(75)	14
Non controlling interest share on change in revaluation reserve	(13)	132
FX translation	2	-
	2,121	**1,312**

Revaluation of property was recognized based on external valuation report adjusted conservatively for some assumption by the management. The main assumption included in the valuation were a 5% gross margin, rent income increase from 10EUR/sqm to 14EUR/sqm in 10 years and discount rate of 8.5%.

32 Share capital and Shareholder's Equity, continued

(d) Foreign currency translation reserve

	2010 '000 LVL	2009 '000 LVL
Revaluation reserve as at 1 January	(477)	(179)
Reclassification related to prior periods	(1,238)	-
Revaluation of foreign operations	534	(397)
Non controlling interest share on change in revaluation reserve	(79)	99
	(1,260)	**(477)**

(e) Retained earnings

The Board have proposed the following dividends as at the reporting date:	2010 '000 LVL	2009 '000 LVL
Per ordinary share	0.01	-

(f) Reclassification and adjustment related to prior periods

In prior year the balances of Currency revaluation reserve of negative LVL 1,238 thousand and Property revaluation reserve of LVL 368 thousand were incorrectly presented under Retained Earnings. The balances in individual equity components were restated in these consolidated financial statements. There is no effect on profit or other comprehensive income of 2009 or 2010, and total equity as at 31 December 2009 and 2010.

As a result of changes of revaluation reserve and impairment losses subsequently reported for a subsidiary in its statutory financial statements as at and for the year ended 31 December 2008, in the reporting year ended 31 December 2009 management have recognized a correction with the net effect to decrease non controlling interest by LVL 494 thousand and increase total equity attributable to equity holders of the parent by LVL 212 thousand, with a net impact to consolidated net equity of LVL 282 thousand. The amount of the correction is not material and therefore was not recognised retrospectively by restating the corresponding number as at 1 January 2009.

33 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2010 '000 LVL	2009 '000 LVL
Cash	3,321	3,727
Balances due from the Bank of Latvia	123,482	35,262
Demand Loans and receivables from banks	182,190	209,990
Demand deposits from banks	(4,263)	(2,817)
Total	**304,730**	**246,162**

34 Commitments and guarantees

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

	2010 '000 LVL	2009 '000 LVL
Contracted amount		
Loan and credit line commitments	32,999	40,834
Credit card commitments	4,286	2,566
Undrawn overdraft facilities	6,978	4,783
Guarantees and letters of credit	12,322	4,644
Total	**56,585**	**52,827**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

35 Provisions

In the ordinary course of business, the Group is subject to legal actions and complaints. As at 31 December 2010 there were 13 legal proceedings outstanding against the Bank. Total amount disputed in these proceedings is LVL 3,044 thousand. Provisions are made where management based on the professional advice to the Bank considers that it is likely that loss may eventuate. No new provisions were made in 2010. The provisions previously created were released due to change in evidence available to management.

36 Trust and custody activities

(a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such securities.

The Group is not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2010 the total assets held by the Group on behalf of customers and assets under management were 448,080 LVL thousand (2009: LVL 149,989 thousand).

36 Trust and custody activities, continued

(b) Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the balance sheet.

37 Reverse repo receivable

On 12 December 2010, the Bank entered into a reverse repo transaction with MF Global Inc. company. Through this transaction the Bank obtained securities and sold them back on 6 January 2011 for LVL 50,731 thousand.

	31 Dec 2010 '000 LVL	**31 Dec 2009 '000 LVL**
MF Global Inc.	50,726	-
	50,726	**-**

38 Related party transactions

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

In June 2009, the Bank sold its loan to the shareholders for its book value of EUR 8,535 thousand. In January 2010, the Bank re-acquired the loan from shareholders for the amount of EUR 8,535 thousand. The Bank subsequently initiated the collateral collection process and is recognizing the assets under other assets in the amount of LVL 5,670 thousand.

Transactions with members of the Council and the Board of Directors

Total remuneration included in employee compensation (Note 14):

	2010 '000 LVL	**2009 '000 LVL**
Members of the Council	308	127
Members of Board of Directors	230	176
	538	**303**

The outstanding balances as of 31 December 2010 and 31 December 2009 with members of the Council and the Board are as follows:	**2010 '000 LVL**	**2009 '000 LVL**
Loans and receivables		
Shareholders, Members of Council and Board	525	620
Key management personnel	18	2
Companies controlled by Shareholders, Members of Council and Board	5,996	4,737
Term deposits		
Shareholders, Members of Council and Board	4,942	4,121
Key management personnel	220	53
Companies controlled by Shareholders, Members of Council and Board	18,362	-

39 Fair value of financial instruments

	Carrying amount 2010 '000 LVL	Fair value 2010 '000 LVL	Carrying amount 2009 '000 LVL	Fair value 2009 '000 LVL
Financial assets				
Cash and balances with central bank	126,803	126,803	38,989	38,989
Financial instruments at fair value through profit or loss	41,736	41,736	74,022	74,022
Loans and receivables from banks	291,885	291,885	301,298	301,298
Loans and receivables from customers	500,536	500,538	454,020	454,020
Reverse repo	50,726	50,726	-	-
Available-for-sale assets	416	416	1,397	1,397
Held-to-maturity investments	845	691	5,385	5,197
Total	**1,012,947**	**1,012,795**	**875,111**	**874,923**

	Carrying amount 2010 '000 LVL	Fair value 2010 '000 LVL	Carrying amount 2009 '000 LVL	Fair value 2009 '000 LVL
Financial liabilities				
Financial instruments at fair value through profit or loss	581	581	356	356
Deposits and balances from banks	7,212	7,212	88,713	88,713
Current accounts and deposits from customers	969,947	969,947	664,405	664,405
Amounts payable under repurchase agreements	-	-	72,990	72,990
Other borrowed funds	-	-	895	895
Other liabilities and accruals	-	-	2,342	2,342
Total	**977,740**	**977,740**	**829,701**	**829,701**

39 Fair value of financial instruments, continued

Fair value hierarchy

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

2010	Level (1)	Level (2)	Total
Financial assets			
Available for sale assets	416	-	416
Financial assets at fair value through profit or loss	41,494	242	41,736
	41,910	**242**	**42,152**
Financial liabilities			
Financial investments at fair value through profit or loss	86	495	581
	86	**495**	**581**
2009			
Financial assets			
Available for sale assets	1,397	-	1,397
Financial assets at fair value through profit or loss	74,022	-	74,022
	75,419	**-**	**75,419**
Financial liabilities			
Financial investments at fair value through profit or loss	356	-	356
	356	**-**	**356**

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

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

40 Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2010 and 2009 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value '000 LVL	2010 Average Effective Interest Rate	Value '000 LVL	2009 Average Effective Interest Rate
Interest Bearing Assets				
Balance with central bank	121,758	0.63%	33,953	1.37%
Loans and receivables from banks				
Nostro accounts	139,661	0.34%	184,163	1.39%
Loans and deposits	111,694	0.45%	91,308	0.81%
Financial instruments at fair value through profit or loss	40,356	2.80%	72,799	0.98%
Loans and receivables from customers	487,034	5.65%	410,599	7.77%
Held to maturity investments	845	5.73%	5,385	6.15%
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions				
Vostro accounts	-	-	429	(0.17%)
Term deposits	2,949	(1.39%)	85,896	(2.78%)
Amount payable under repurchase agreements	-	-	72,990	0.20%
Current accounts and deposits from customers				
Current accounts and demand deposits	56,892	(0.87%)	145,345	0.70%
Term deposits	241,016	(3.99%)	129,704	(4.44%)
Subordinated liabilities				
Other borrowed funds	-	-	895	5.03%

41 Currency analysis

The following table shows the currency structure of financial assets and liabilities at 31 December 2010:

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Financial assets					
Cash and balances with central bank	123,060	601	2,977	165	**126,803**
Loans and receivables from banks	385	228,519	37,923	25,058	**291,885**
Financial instruments at fair value through profit or loss	146	26,378	15,212	-	**41,736**
Loans and receivables to customers	2,841	227,521	245,606	24,568	**500,536**
Available-for-sale assets	291	-	125	-	**416**
Held-to-maturity investments	-	845	-	-	**845**
Amounts receivable under reverse repurchase agreement	-	50,726	-	-	**50,726**
Total financial assets	**126,723**	**534,590**	**301,843**	**49,791**	**1,012,947**
Financial liabilities					
Financial instruments at fair value through profit or loss	495	86	-	-	**581**
Deposits and balances from banks	270	4,252	1,334	1,356	**7,212**
Current accounts and deposits from customers	27,924	542,362	370,455	29,206	**969,947**
Total financial liabilities	**28,689**	**546,700**	**371,789**	**30,562**	**977,740**
Net position as of 31 December 2010	**98,034**	**(12,110)**	**(69,946)**	**19,229**	
Net off balance positions as of 31 December 2010	**1,414**	**15,589**	**(20,100)**	**2,806**	
Net total positions as of 31 December 2010	**99,448**	**3,479**	**(90,046)**	**22,035**	
Net total positions as of 31 December 2009	**41,749**	**2,769**	**2,453**	**(1,081)**	

41 Currency analysis, continued

The following table shows the currency structure of assets, liabilities and shareholder's equity at 31 December 2009:

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Financial assets					
Cash and balances with central bank	35,555	656	2,689	89	**38,989**
Loans and receivables from banks	10,564	203,319	65,511	21,904	**301,298**
Financial instruments at fair value through profit or loss	301	73,721	-	-	**74,022**
Loans and receivables to customers	494	164,155	287,983	1,388	**454,020**
Available-for-sale assets	875	-	522	-	**1,397**
Held-to-maturity investments	1,517	3,868	-	-	**5,385**
Total financial assets	**49,306**	**445,719**	**356,705**	**23,381**	**875,111**
Financial liabilities					
Financial instruments at fair value through profit or loss	352	4	-	-	**356**
Deposits and balances from banks	237	1,917	85,592	967	**88,713**
Amounts payable under repurchase agreements	-	72,990	-	-	**72,990**
Current accounts and deposits from customers	15,332	358,861	267,445	22,767	**664,405**
Other borrowed funds	-	895	-	-	**895**
Other liabilities and accruals	-	-	2,342	-	**2,342**
Total financial liabilities	**15,921**	**434,772**	**355,379**	**23,734**	**829,701**
Net position as of 31 December 2009	**33,385**	**11,947**	**1,326**	**(353)**	
Net off balance position as of 31 December 2009	**8,364**	**(9,178)**	**1,127**	**(728)**	
Net total positions as of 31 December 2009	**41,749**	**2,769**	**2,453**	**(1,081)**	
Net total positions as of 31 December 2008	**229**	**(3,525)**	**642**	**2,654**	

42 Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of assets, liabilities and shareholders' equity of the Group as at December 31, 2010:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Non-interest bearing '000 LVL	Total '000 LVL
Financial assets							
Cash and balances with central bank	121,758	-	-	-	-	5,045	**126,803**
Loans and receivables from banks	249,411	812	1,132	-	-	40,530	**291,885**
Financial instruments at fair value through profit or loss	40,356	-	-	-	-	1,380	**41,736**
Loans and receivables from customers	156,040	27,938	72,112	155,184	75,760	13,502	**500,536**
Available-for-sale assets	-	-	-	-	-	416	**416**
Amounts payable under repurchase agreements	50,726	-	-	-	-	-	**50,726**
Held-to-maturity investments	-	-	-	-	845	-	**845**
Total financial assets	**618,291**	**28,750**	**73,244**	**155,184**	**76,605**	**60,873**	**1,012,947**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	581	**581**
Deposits and balances from banks	-	-	2,562	387	-	4,263	**7,212**
Current accounts and deposits from customers	56,892	50,036	126,188	54,349	10,443	672,039	**969,947**
Total financial liabilities	**56,892**	**50,036**	**128,750**	**54,736**	**10,443**	**676,883**	**977,740**
Net position as at 31 December 2010	**561,399**	**(21,286)**	**(55,506)**	**100,448**	**66,162**	**(616,010)**	
Net position as at 31 December 2009	**217,902**	**19,735**	**(108,891)**	**162,598**	**70,528**	**(316,462)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of assets, liabilities and shareholders' equity of the Group as at December 31, 2009, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Non-interest bearing '000 LVL	Total '000 LVL
Financial assets							
Cash and balances with central bank	33,953	-	-	-	-	5,036	**38,989**
Loans and receivables from banks	265,460	11,279	-	-	-	24,559	**301,298**
Financial instruments at fair value through profit or loss	72,799	-	-	-	-	1,223	**74,022**
Loans and receivables from customers	65,639	43,174	57,609	176,738	67,437	43,423	**454,020**
Available-for-sale assets	-	-	-	-	-	1,397	**1,397**
Held-to-maturity investments	-	1,517	777	-	3,091	-	**5,385**
Total financial assets	**437,851**	**55,970**	**58,386**	**176,738**	**70,528**	**75,638**	**875,111**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	356	**356**
Deposits and balances from banks	717	-	85,608	-	-	2,388	**88,713**
Amounts payable under repurchase agreements	72,990	-	-	-	-	-	**72,990**
Current accounts and deposits from customers	145,347	33,893	81,669	14,140	-	389,356	**664,405**
Other borrowed funds	895	-	-	-	-	-	**895**
Other liabilities and accruals	-	2,342	-	-	-	-	**2,342**
Total financial liabilities	**219,949**	**36,235**	**167,277**	**14,140**	**-**	**392,100**	**829,701**
Net position as at 31 December 2009	**217,902**	**19,735**	**(108,891)**	**162,598**	**70,528**	**(316,462)**	
Net position as at 31 December 2008	**96,861**	**(555)**	**(16,964)**	**72,164**	**189,880**	**(341,386)**	