RIETUMU

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/ FOREWORD BY THE PRESIDENT OF RIETUMU BANK MR. ALEXANDER PANKOV

/ The year 2010 became another year of successful dynamic development for Rietumu Bank. The Bank retained and strengthened its position as a traditionally successful and effective credit institution, one of the leaders in Latvia's financial market.

/ Irrespective of the adverse economic background and the still-present consequences of the world's financial crisis, which has not yet been overcome, Rietumu continued to actively pursue its lending and investment business in 2010; thus, we supported our customers' businesses, primarily in ambitious and innovative projects tailored to the future post-crisis period.

/ The Bank focused considerable efforts and resources on the improvement and further development of technologies and the introduction of new, up-to-date products and services.
We aspired to make our customer service even more technologically advanced, convenient, and highly secure.

/ At the moment among our key priorities is further successful development of the remote banking systems for account management.

/ Rietumu continued to expand and launch innovative and technologically advanced banking products, placing major attention to such areas as payment card services, international wire transfers, term deposits and investments. We endeavoured to adapt global technological innovations for the needs of our customers in the shortest possible time span. Our target was to integrate them in the existing systems and platforms.

/ The cornerstones of Rietumu's development strategy have always been safety and reliability. The Bank's staff undertakes professional liability for the safe-keeping of the entrusted assets, complying with a strict financial discipline in their daily activities.

/ We are working hard to offer our customers effective and viable solutions in any area without exception. We evaluate every business-project or situation on the individual basis, taking into account its specific nature, surrounding circumstances and other factors. Such approach allows the Bank and its customers to maintain a successful development scheme, dynamically grow and achieve the set goals even despite the overall negative background and unfavourable market conditions.

/ Our continued success and achievements are largely attributed to several factors, which have remained unchanged for almost two decades. First of all, it is our reasonable, balanced and healthy conservatism, our self-sufficiency for strategic and tactical decision-making. Secondly, it is our joint and efficient team of professionals, able to successfully tackle issues of any complexity.

/ The personnel and the management of Rietumu are intensely proud of our great achievements, simultaneously realising that we owe our success to the loyalty of our customers and a long-term relationship based on mutual trust.

/ On behalf of Rietumu's management team and shareholders, I would like to express my sincere gratitude to our customers for their continuous loyalty to the Bank; they may rest assured that Rietumu will always remain a reliable and emphatic business-partner for them. Our slogan: "Success brings us together" means that beyond all other things, the Bank, as well as its numerous customers, should feel themselves to be a part of this success.


future

/ 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.

/ Total assets increased in 2010 to LVL 1,116m compared to LVL 982m in 2009. Most of this growth in assets occurred in the 2nd half of 2010 due to significant increases in customer balances during this period. Customer deposits increased to LVL 971 m compared to LVL 682 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 to LVL 3.2m from LVL 8.1 m in 2009. Fee and commission income and foreign exchange income are stable and have increased during 2010 but this increase does not compensate for the decrease in interest received from customers due to low rates of Libor.

/ At year end (LVL'000)	2010	2009	2008	2007
Total assets	1,116,323	981,645	1,117,276	1,226,059
Loans and receivables from customers	535,849	490,471	571,057	598,699
Due to customers	971,004	681,521	670,611	885,879
Total shareholder's equity	137,909	132,757	132,497	122,210
/ For the year (LVL'000)				
Net profit before tax	4,887	9,810	23,411	40,290
Net profit after tax	3,187	8,137	20,494	34,755
Operating income	44,460	50,716	67,750	64,565
/ Ratios				
Earnings per share (LVL)				
After tax	0.03	0.08	0.91	1.54
Before tax	0.05	0.10	1.04	1.79
Dividend per share (LVL)	0.01	4.59	0.39	0.39
Return on equity				
Before tax	3.61%	7.39%	18.38%	36.90%
After tax	2.35%	6.13%	16.09%	31.83%
Return on assets				
Before tax	0.44%	1.00%	2.10%	3.29%
After tax	0.29%	0.83%	1.83%	2.83%
Capital adequacy ratio	17. 82%	17.39%	14.72%	14.04%
Profit margin	10.99 %	19%	34%	62%
Number of employees	605	567	648	631

/ STATEMENT OF MANAGEMENT RESPONSIBILITY

/ The management of Rietumu Bank (Bank) is responsible for the preparation of the financial statements of the Bank.

/ The Bank's financial statements on pages 12 to 92 are prepared in accordance with the source documents and present fairly the financial position of the Bank as of 31 December 2010 and the results of its operations and cash flows for the year ended 31 December 2010.

/ The Banks' 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. Management, in the preparation of the financial statements, has made prudent and reasonable judgements and estimates.

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

On behalf of the Management of the Bank:

Arkady Suharenko
Deputy Chairman of the Council

Alexander Pankov
Chairman of the Board

Riga, 21 February 2011

/ THE COUNCIL OF RIETUMU BANK

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

/ 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)

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

/ 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)

/ 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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/ Report on the Financial Statements

/ We have audited the accompanying financial statements of AS Rietumu Banka, which comprise the statement of financial position as at 31 December 2010, the income statement and the statements of other comprehensive income, changes in 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 12 to 92.

/ Management's Responsibility for the Financial Statements

/ Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

/ Auditors' Responsibility

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

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

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

/ Opinion

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

/ Report on Other Legal and Regulatory Requirements

/ In addition, our responsibility is to assess whether the accounting information included in the Report of Council and Management Board, as set out on pages 5 to 6, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the management report is consistent with the financial statements.

KPMG Baltics SIA
License No 55

Stephen Young
Chairman of the Board

Valda Užāne
Sworn Auditor
Certificate No 4

Riga, Latvia
21 February 2011

	Note	'000 LVL 2010	'000 LVL 2009
Interest income	6	33,203	39,838
Interest expense	6	(12,299)	(12,804)
Net interest income		**20,904**	**27,034**
Fee and commission income	7	13,515	13,258
Fee and commission expense	8	(2,802)	(3,100)
Net fee and commission income		**10,713**	**10,158**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	609	740
Net foreign exchange income	10	9,134	8,138
Net realized gain on available-for-sale assets	11	185	218
Other income	12	2,915	4,428
Operating Income		**44,460**	**50,716**
Impairment losses	13	(19,225)	(21,158)
General administrative expenses	14	(20,348)	(19,748)
Profit before income tax		**4,887**	**9,810**
Income tax expense	15	(1,700)	(1,673)
Net profit for the period		**3,187**	**8,137**

The income statement is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 15 to 71.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Pankov

21 February 2011

	Note	’000 LVL 2010	’000 LVL 2009
Profit for the period		**3,187**	**8,137**
Other comprehensive income			
Changes in fair value of available-for-sale financial assets		1,965	(1,965)
Release of revaluation reserve on disposal of property		–	(95)
Income tax related to components of other comprehensive income	15	–	14
Other comprehensive income for the period		**1,965**	**(2,046)**
Total comprehensive income for the period		**5,152**	**6,091**

The income statement is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 15 to 71.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Pankov

21 February 2011

/ STATEMENT OF FINANCIAL POSITION
/ For the year ended 31 December 2010

/ Assets	Note	'000 LVL 2010	'000 LVL 2009
Cash and balances with the central bank	16	126,784	38,980
Financial instruments at fair value through profit or loss	17	41,318	74,199
Loans and receivables to banks	18	289,233	299,933
Loans and receivables to customers	19	535,849	490,471
Reverse repo	36	50,726	–
Available-for-sale assets	20	22,371	22,786
Held-to-maturity investments	21	845	5,385
Investments in subsidiaries	22	20,674	15,997
Investment property	25	5,861	5,803
Property and equipment	23	4,491	5,376
Intangible assets	24	2,517	2,738
Current tax asset		125	1,803
Other assets	26	15,529	18,174
Total Assets		**1,116,323**	**981,645**

/ Liabilities and Shareholders' Equity	Note	'000 LVL 2010	'000 LVL 2009
Financial instruments at fair value through profit or loss	17	495	356
Deposits and balances from banks	27	4,271	87,860
Current accounts and deposits from customers	28	971,004	681,521
Amounts payable under repurchase agreements		-	72,990
Provisions	35	-	382
Other borrowed funds	29	-	895
Deferred tax liability	31	507	507
Other liabilities	30	2,137	4,377
Total Liabilities		**978,414**	**848,888**
Share capital	32	100,000	100,000
Share premium	32	4,809	4,809
Revaluation reserve	32	1,754	1,754
Fair value reserve	32	-	(1,965)
Other reserves	32	20,016	20,016
Retained earnings		11,330	8,143
Total Shareholders' Equity		**137,909**	**132,757**
Total Liabilities and Shareholders' Equity		**1,116,323**	**981,645**
Commitments and Contingencies	34	61,025	55,898

The income statement is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 15 to 71.

Deputy Chairman of the Council
Arkady Suharenko

21 February 2011

Chairman of the Board
Alexander Pankov

/ STATEMENT OF CASH FLOW
/ For the year ended 31 December 2010

/ Cash flows from operating activities	Note	'000 LVL 2010	'000 LVL 2009
Profit before income tax		4,887	9,810
Amortization and depreciation		2,109	2,143
Revaluation of investment property	25	115	–
Profit from sale of property and equipment		37	5
Release of provisions	35	(382)	(5)
Impairment losses	13	19,225	21,158
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**25,991**	**33,111**
Increase in loans and receivables from banks – term deposits		(19,932)	(80,930)
(Increase)/decrease in loans and receivables from non-banking customers		(65,929)	48,828
Increase in reverse repo	36	(50,726)	–
Increase in assets available-for-sale investments		–	(13,972)
Decrease in financial instruments at fair value through profit or loss		32,881	80,115
Increase/(decrease) in derivative liabilities		139	(155)
Decrease in other assets		7,689	8,708
Decrease in deposit from banks – term deposits		(84,616)	(66,734)
Decrease in Non–current assets held for sale		–	27,092
Increase in deposits from non-banking customers		289,483	10,910
Increase in Investment property		–	(703)
Decrease in amounts payable under repurchase agreements		(72,990)	(77,107)
Decrease in other liabilities		(2,240)	(3,194)
Increase in cash and cash equivalents from operating activities before corporate income tax		**59,750**	**(34,031)**
Corporate income tax paid		(22)	267
Net cash and cash equivalents from/(used in) operating activities		**59,728**	**(33,764)**

/ STATEMENT OF CASH FLOW
/ For the year ended 31 December 2010

/ Cash flow from investing activities	Note	'000 LVL 2010	'000 LVL 2009
Purchase of property, plant and equipment		(459)	(1,939)
Acquisition of subsidiaries, increase in share capital of subsidiaries	22	(6,852)	(300)
Held-to-maturity investments repaid upon maturity		4,623	15,979
Proceeds from sale of property, plant and equipment		–	496
Cash and cash equivalents from investing activities		**(2,688)**	**14,236**

/ Cash flow from financing activities	Note	'000 LVL 2010	'000 LVL 2009
Increase of share capital		–	77,500
Increase of reserves		–	20,000
Decrease in borrowed funds	29	(895)	(404)
Dividends paid		–	(103,331)
Cash and cash equivalents used in financing activities		**(895)**	**(6,235)**
Net cash flow for the period		**56,145**	**(25,763)**
Cash and cash equivalents at the beginning of the year		**245,046**	**270,809**
Cash and cash equivalents at the end of the year	33	**301,191**	**245,046**

The income statement is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 15 to 71.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Pankov

21 February 2011

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

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Fair value reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total '000 LVL
Balance at 1 January 2009	**22,500**	**4,809**	**1,835**	**–**	**16**	**103,337**	**132,497**
Comprehensive income							
Change in fair value of available for sale financial assets	–	–	–	(1,965)	–	–	**(1,965)**
Release of revaluation reserve on disposal of property	–	–	(81)	–	–	–	**(81)**
Profit for the period	–	–	–	–	–	8,137	**8,137**
Transactions with shareholders							
Increase in share capital	77,500	–	–	–	–	–	**77,500**
Increase in reserve capital	–	–	–	–	20,000	–	**20,000**
Dividends paid	–	–	–	–	–	(103,331)	**(103,331)**
Balance at 31 December 2009	**100,000**	**4,809**	**1,754**	**(1,965)**	**20,016**	**8,143**	**132,757**
Comprehensive income							
Change in fair value of available for sale financial assets	–	–	–	1,965	–	–	**1,965**
Profit for the period	–	–	–	–	–	3,187	**3,187**
Balance at 31 December 2010	**100,000**	**4,809**	**1,754**	**–**	**20,016**	**11,330**	**137,909**

The 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 71.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Pankov

21 February 2011

vision


Weather Sport News Video
Audio Technics Films
Electronics Shopping Design
Mail Internet Maps Radio
TV Work Travel Tech
Entertainment Security
Global Music Companies
Songs Graphics Vacancy
Job Data Games People
data central
Entertainment

1 / BACKGROUND

/ Principal activities

/ AS “Rietumu Bank” was established in the Republic of Latvia as a Joint Stock Company and was granted its general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and 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 Bank during the year was 605 (2009: 567).

2 / BASIS OF PREPARATION

a / Statement of compliance

/ The accompanying 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.

/ Latvian accounting legislation requires the Bank to prepare separate (parent only) financial statements in accordance with EU IFRS. The Bank also prepares consolidated financial statements for the same period in accordance with EU IFRS.

/ The Board of Directors authorized the financial statements for issue on February 21, 2011. The shareholders have the power to reject the financial statements prepared and presented by management and the right to request that new financial statements be prepared.

b / Basis of measurement

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

/ financial instruments stated at fair value through profit or loss are stated at fair value;

/ derivatives are stated at fair value;

/ available-for-sale assets are stated at fair value;

/ buildings which are stated at revalued amount 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.

3 / SIGNIFICANT ACCOUNTING POLICIES

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

a / Foreign currency

Transactions in foreign currencies are translated into the functional currency at the exchange rate set by Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between 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. 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 other comprehensive income.

b / Investment in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment losses.

c / Goodwill

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

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

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to business sold.

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

d / 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 Bank in the management of its short-term commitments.

e / 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 Bank 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 Bank 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 Bank intends to sell immediately or in the near term;

/ the Bank upon initial recognition designates as at fair value through profit or loss;

/ the Bank upon initial recognition designates as available- for-sale; or

/ the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables include regular loans and credit card balances.

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

II / Recognition

/ The Bank initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities 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 Bank 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, equity 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 and loans and receivables and financial liabilities at amortized 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 amortized cost. Amortized 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 amortized based on the effective interest rate of the instrument.

IV / Fair value measurement principles

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

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

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

/ The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (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 profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out. >>

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

/ Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

V / 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 other comprehensive income (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss for the period. Interest on an available-for-sale financial asset is recognised in the income statement calculated using the effective interest method.

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

VI / Derecognition

/ A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset or when the Bank 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 Bank 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 profit or loss.

VII / 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 rate method.

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

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

VIII / Derivative financial instruments

/ Derivative financial instruments include swap, forward, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank classifies all derivative financial instruments as trading. The Bank does not apply hedge accounting.

/ Derivatives are initially recognised at fair value on the date on which the Bank becomes a party to the contractual provisions of a derivative contract, 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.

/ 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 Bank presents embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

IX / Offsetting

/ Financial assets and liabilities are offset and the net amount reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or realise the asset and settle the liability simultaneously.

f / 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 / Leased assets

/ Leases under which the Bank as lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases include equipment. Assets acquired by way of finance lease is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease plus initial direct costs of the lessee. Subsequent to initial recognition, these are measured at cost less accumulated depreciation and impairment losses.

f / Property and equipment

III / Revaluation

/ Land and buildings of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the extent of the estimated 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 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.

IV / 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

g / 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 the income statement in other operating income.

h / Repossessed collateral

/ Other assets include collateral relating to loans that have been terminated due to default of a Other assets include collateral relating to loans that have been terminated due to default of a borrower and for which the Bank has initiated the sales process of collateral, but the Bank does not yet have formal title to the asset. If the collateral is property and title has been transferred to the Bank, the assets are classified as investment property.

i / Intangible assets

/ Intangible assets, which are acquired by the Bank, are carried at cost less accumulated amortization and accumulated impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization 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.

j / Impairment

I / Financial assets

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

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

/ All loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment.

/ 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 Bank'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 amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in 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 income statement. If the impaired financial asset is derecognized (due to repossessing of collateral (see Note 3h) or restructured (see Note 21)), 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 in equity to the income statement. The cumulative loss that is removed from equity and recognised in income statement is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognised in the income statement.

/ If, in a subsequent period, the fair value of an impaired available-for-sale investment securities 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 directly in other comprehensive income.

II / Non-financial assets

/ The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. 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 amortization, if no impairment loss had been recognised.

k / Provisions

/ A provision is recognised when the Bank has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the outflow can be estimated reliably. 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.

i / Credit related commitments

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

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

/ A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortization 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.

m / 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 directly in 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.

n / Income and expense recognition

I / Interest income and expense

/ Interest income and expense are recognised in profit or loss 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 Bank 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 are considered to be incidental to the Bank'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.

/ 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, dividend, foreign exchange differences.

o / Dividends

/ The Bank 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.

p / Employee benefits

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

r / New Standards and Interpretations

I / New and amended standards adopted by the Bank

/ The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010, none of which was applicable to the transactions of the Bank in the reporting period:

/ IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'.

/ 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'.

II / The following new 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 recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant to the Bank's financial statements as the Bank does not have any defined benefit plans with minimum funding requirement.

/ FRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Bank did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Bank's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

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

/ The Bank has exposure to the following risks:

/ market risk

/ credit risk

/ liquidity risks

/ operational risks

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

a / Risk management policies and procedures

/ The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, 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, 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 Bank 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 Bank'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 Bank'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.

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

/ The Bank 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 Management Board. >>

/ In addition, the Bank 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 Bank'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 Bank 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 rates 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 Bank's income or the value of its portfolios of financial instruments.

/ The Bank 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. Refer to Note 43 for disclosure of interest repricing gap.

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

/ An analysis of the sensitivity of the net income for the year and equity as a result of potential changes in interest rates on financial assets at amortised cost on positions existing as at 31 December 2010 and 2009 on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	Net income	
	2010	2009
100 bp parallel increase	2,755	1,747
100 bp parallel decrease	(2,755)	(1,747)

II / Currency risk

/ The Bank has financial 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 financial liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 42 Currency analysis.

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

	'000 LVL 2010		'000 LVL 2009	
	Net income	OCI	Net income	OCI
5% appreciation of USD against LVL	220	–	11	–
5% depreciation of USD against LVL	(220)	–	(11)	–
5% appreciation of EUR against LVL	(111)	(1,005)	–	197
5% depreciation of EUR against LVL	111	1,005	–	(197)

The foreign exchange rate LVL/EUR is pegged as at 31 December 2010.

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 Bank takes a long or short position in a financial instrument.

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

	'000 LVL 2010		'000 LVL 2009	
	Net income	OCI	Net income	OCI
5% increase in securities prices	2,055	1,119	–	3,684
5% decrease in securities prices	(2,055)	(1,119)	–	(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 Bank. The Bank has developed policies and procedures for the management of credit exposures (both for credit granted and credit commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk. The Bank's credit policy is reviewed and approved by the Management Board.

/ The Bank'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.

/ 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 Bank'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 loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division 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 Bank 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 Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

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

/ 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 Bank's maximum exposure to financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

/ Maximum credit risk exposure

		Gross maximum credit exposure	
	Note	31 December 2010 '000 LVL	31 December 2009 '000 LV
Demand deposits with the Bank of Latvia	16	126,784	38,980
Loans and receivables to banks	18	289,233	299,933
Loans and receivables to customers	19	535,849	490,471
Reverse repo	36	50,726	-
Fair value through profit or loss financial instruments	17	40,802	73,706
Held to maturity investments	21	845	5,385
Total financial assets		**1,044,239**	**908,475**
Guarantees	34	12,322	4,644
Credit commitments	34	37,439	43,905
Total guarantees and commitments		**49,761**	**48,549**
Total maximum credit risk exposure		**1,094,000**	**957,024**

d / Liquidity risk

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

/ The Bank 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 Bank's liquidity policy is reviewed and approved by the Management Board.

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

/ The liquidity management policy of the Bank requires:

/ projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;

/ maintaining a diverse range of funding sources;

/ managing the concentration and profile of debts;

/ maintaining debt financing plans;

/ maintaining a portfolio of highly marketable assets that can easily be traded for cash 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 Bank 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 Bank are presented to senior management on a daily basis. Decisions on the Bank's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

/ The table below analyses the Bank's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet 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.

/ 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	4,263	–	8	–	–	4,271	4,271
Current accounts and deposits due to customers	740,261	50,046	131,952	68,439	830	991,528	971,004
/ Derivative liabilities					–		
/ Inflow	(18,636)	(140)	(144)	–	–	(18,920)	–
/ Outflow	19,125	141	149	–	–	19,415	495
Total	**745,013**	**50,047**	**131,965**	**68,439**	**830**	**996,294**	**975,770**
Guarantees (maximum exposure)	**303**	**56**	**1,973**	**3,616**	**–**	**5,948**	**12,322**
Credit related commitments	**48,703**	**–**	**–**	**–**	**–**	**48,703**	**48,703**

/ 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	3,698	–	85,023	–	–	88,721	87,860
Current accounts and deposits due to customers	543,463	43,275	84,641	15,510	509	687,398	681,521
Other borrowed funds	845	–	–	–	–	845	895
/ Derivative liabilities					–		
/ Inflow	(7,503)	(1,034)	(147)	–	–	(8,684)	–
/ Outflow	7,837	1,055	148	–	–	9,040	356
Total	**548,340**	**43,296**	**169,665**	**15,510**	**509**	**777,320**	**770,632**
Guarantees (maximum exposure)	**304**	**155**	**2,390**	**611**	**–**	**3,460**	**4,644**
Credit related commitments	**51,254**	**–**	**–**	**–**	**–**	**51,254**	**51,254**

e / Operational risks

/ Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 Bank's operations.

/ The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank'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 Bank 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.

/ Compliance with Bank 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 Bank.

f / Capital management

/ The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Bank 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 Bank. The Bank 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 Bank 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 Bank's capital position calculated in accordance with the requirements of the Basle II and FCMC, as at **31 December** 2010:

/ Tier 1 capital	'000 LVL 2010	'000 LVL **2009**
Share capital	100,000	100,000
Share premium	4,809	4,809
Other reserve	20,016	20,016
Retained earnings from prior years	8,143	6
Current year profit	3,187	8,137
Deductions from the capital base		
Intangible assets	(2,517)	(2,738)
Other regulatory adjustments	(12,637)	(2,766)
Dividends proposed	(1,000)	–
Total tier 1 capital	**120,001**	**127,464**
/ Tier 2 capital		
Long term deposits qualifying as regulatory capital	10,621	–
Total tier 2 capital	**10,621**	**–**
Regulatory capital total	**130,622**	**127,464**
Regulatory capital requirement	**58,652**	**58,645**
Total capital adequacy ratio	**17.82%**	**17,39%**

/ 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 off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

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

5 / USE OF ESTIMATES AND JUDGEMENTS

/ The preparation of financial statements in conformity with EU IFRS 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 receivable 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 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 realized 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 realizable 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 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.

/ 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 amortized 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 its book value, i.e. 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 fluctuations in financial and capital markets, the market price is may not represent fair value, i.e. is not the best indication of impairment of inancial asset. The Bank uses valuation models based on quoted market prices of similar products.

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

IV / Determining fair value of investment property

/ Investment property is stated at its fair value with all changes in fair value recorded in the income statement. When measuring the fair value of the investment 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 investments in subsidiaries

/ Investment in subsidiaries are valued at cost in these financial statements. On a regular basis, the Bank compares the cost of investment with the carrying value of net assets of a subsidiary to see whether any impairment indication exists. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Discount rate is equal to the cost of financing interest rate, i.e. rate charged on deposits to customers increased by a risk margin of 2 to 6 basis points. An impairment loss is recorded when the decline in value of subsidiary is significant and prolonged.

VII / 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.

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.

IX / Deferred tax asset recognition

/ A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. As at 31 December 2010 and 2009, the Bank recognized deferred tax liability net of deferred tax asset that is expected to be realized at the same period as the gross deferred tax liability that was reduced.

6 / NET INTEREST INCOME

/ Interest income	'000 LVL 2010	'000 LVL 2009
Loans and advances due from customers	30,558	35,668
Loans and advances due from financial institutions	1,908	2,802
Financial instruments at fair value through profit or loss	382	876
Held-to-maturity investments	347	413
Amounts receivable under reverse repurchase agreements	8	79
	33,203	**39,838**

/ Interest expense		
Current accounts and deposits due to customers	9,982	8,011
Deposits and balances due to financial institutions	562	3,469
Amounts payable under repurchase agreements	274	356
Other interest expense	1,472	934
	12,299	**12,804**

7 / FEE AND COMMISSION INCOME

	'000 LVL 2010	'000 LVL 2009
Money transfers	5,943	6,181
Commission income from payment cards	3,241	2,885
Revenue from customer asset management and brokerage commissions	1,410	971
Remote system fee	575	540
Commission from documentary operations	472	387
Cash withdrawals	192	218
Commission from account servicing	261	180
Other	1,421	1,896
	13,515	**13,258**

8 / FEE AND COMMISSION EXPENSE

	'000 LVL 2010	'000 LVL 2009
Credit card expenses	1,062	943
Fees on correspondent accounts	455	511
Brokerage fees	442	268
Commission for maintenance of syndicated loan	189	1,021
Cash withdrawal fees	12	12
Other	642	345
	2,802	**3,100**

9 / NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOS

	'000 LVL 2010	'000 LVL 2009
Equity instruments	206	420
Debt instruments	(357)	(157)
Derivative instruments	760	477
	609	**740**

10 / NET FOREIGN EXCHANGE INCOME

	'000 LVL 2010	'000 LVL 2009
Gain/(loss) from revaluation of financial assets and liabilities	(86)	(21)
Gain/(loss) on spot transactions and derivatives	9,220	8,159
	9,134	**8,138**

11 / NET REALIZED GAIN/(LOSS) ON AVAILABLE-FOR-SALE ASSETS

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

12 / OTHER INCOME /(EXPENSES)

	'000 LVL 2010	'000 LVL 2009
Release of provision for litigation	418	–
Income from operating leases	411	225
Penalties received	362	226
Dividends received	268	313
Profit from sale of property	–	(5)
Loss from revaluation of investment property	(115)	–
Other (net)	1,571	3,669
	2,915	**4,428**

/ Other income includes a release of a liability of LVL 1,927 thousand (2009: LVL 2,283 thousand) for which there is evidence that no obligation is outstanding at reporting date. Balances of the liability were included in other liabilities.

13 / IMPAIRMENT LOSSES

	'000 LVL 2010	'000 LVL 2009
/ Impairment losses		
Loans and receivables from customers	(17,796)	(21,580)
Available for sale financial assets	(2,396)	–
Investments in subsidiaries	(2,175)	(500)
Other assets	(2,576)	(1,840)
	(24,943)	(23,920)
/ Reversals of impairment losses		
Loans and receivables from customers	4,845	2,267
Held-to-maturity investments	83	495
Other assets	790	–
	5,718	**2,762**
/ Net impairment losses	**(19,225)**	**(21,158)**

14 / GENERAL ADMINISTRATIVE EXPENSES

	'000 LVL 2010	'000 LVL 2009
Employee compensation	7,447	7,176
Depreciation and amortization	2,109	2,142
Rent	2,035	1,577
Payroll related taxes	1,788	1,810
IT and inventory service	1,000	919
Taxes other than on income	837	653
Communications and information services	786	805
Repairs and maintenance	529	755
Advertising and marketing	529	226
Professional services	424	217
Travel expenses	567	458
Salaries to Board of Directors and Council	363	720
Credit card service	301	263
Charity and sponsorship	281	407
Insurance	187	343
Security	86	349
Subscription of information	53	67
Office supplies (Stationary)	43	41
Other	983	819
	20,348	**19,748**

15 / INCOME TAX EXPENSE

/ Recognised in the income statement

	'000 LVL 2010	'000 LVL 2009
/ Current tax expense		
Current year	1,700	1,747
	1,700	**1,747**
/ Deferred tax expense		
Origination and reversal of temporary differences	-	(74)
Total income tax expense in the income statement	**1,700**	**1,673**

/ Reconciliation of effective tax rate:

	'000 LVL 2010	%	'000 LVL 2009	%
Income before tax	4,887	–	9,810	–
Income tax at the applicable tax rate	733	15.00%	1,472	15.00%
Non–deductible expenses	384	7.86%	584	5.95%
Tax exempt income	(102)	(2.09 %)	(47)	(0.48%)
Tax relief on donations	(227)	(4.64%)	(336)	(3.43%)
Increase in unrecognized deferred tax asset	912	18.66%	–	
	1,700	**34,79%**	**1,673**	**17.05%**

Income tax recognised in other comprehensive income

	'000 LVL 2010		'000 LVL 2009	
/ Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Disposal and revaluation of buildings	–	–	(95)	(14)
Total income tax recognised in equity	**–**	**–**	**(95)**	**(14)**

16 / CASH AND BALANCES WITH THE CENTRAL BANK

Cash and balances with Bank of Latvia comprised of the following items:

	'000 LVL 2010	'000 LVL 2009
Cash	3,302	3,718
Balances due from the Bank of Latvia	123,482	35,262
	126,784	**38,980**

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 Bank 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 amounts as at 31 December 2010 LVL 44,099 thousand (2009: LVL 33,312 thousand).

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

	'000 LVL 2010	'000 LVL 2009
Bonds		
/ with rating from AAA to A	30,414	72,976
/ with rating from BBB+ to B	9,941	–
Equity investments	517	493
Derivative financial instruments	446	730
Total assets at fair value through profit or loss	41,318	74,199
Derivative financial instruments	(495)	(356)
Total liabilities at fair value through profit or loss	(495)	(356)
/ Of which pledged under sale and repurchase agreements		
USA government bonds	–	72,976
Amount payable under repurchase agreement	–	72,990

/ Financial instruments reclassified to loans and receivables

Pursuant to the amendments to IAS 39 and IFRS 7, as of 1 July 2008, the Bank reclassified some trading assets to Loans and receivables from customers. The table below sets out the amounts that would have been recognised in the income statement and in the comprehensive income in the period following the reclassifications if the reclassifications had not been made:Derivative financial assets and liabilities

	'000 LVL 2010		'000 LVL 2009	
	Income statement	**Comprehensive income**	**Income statement**	**Comprehensive income**
Net gain / (loss) on financial instruments at fair value through profit and loss reclassified to loans and advances to customers	142	142	(351)	(351)

	'000 LVL 2010		'000 LVL 2009	
	Carrying value	**Notional value**	**Carrying value**	**Notional value**
/ Assets				
Forward contracts	200	15,897	459	75,643
Option premium	242	n/a	63	n/a
Swap contracts	4	4	208	208
Total derivative financial assets	**446**	**–**	**730**	**–**
/ Liabilities				
Swap contracts	–	–	4	4
Forward contracts	495	15,806	352	75,529
Total derivative liabilities	**495**	**–**	**356**	**–**

18 / LOANS AND RECEIVABLES FROM BANKS

/ Nostro accounts	'000 LVL 2010	'000 LVL 2009
Latvian commercial banks	470	22,344
OECD banks	174,357	177,254
Non-OECD banks	3,843	9,704
Total net Nostro accounts	**178,670**	**209,302**
/ Deposit accounts		
Latvian commercial banks	-	10,664
OECD banks	102,730	76,832
Non-OECD banks	7,833	3,135
Total deposit accounts	**110,563**	**90,631**
Total loans and receivables from banks	**289,233**	**299,933**

/ Concentration of placements with banks and other financial institutions

As at 31 December 2010 the Bank had balances with one (2009: four) bank and financial institution, which exceeded 10% of total loans and receivable from banks. The gross value of these balances as of 31 December 2010 and 2009 were 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:

	'000 LVL 2010	%
Hypovereinsbank	37,450	12.95%
Bank of Montreal	26,750	9.25%
NORD/LB London	26,750	9.25%
Landesbank Hessen	26,750	9.25%
Erste Bank Vienna	26,750	9.25%
KBC Bank NV	26,750	9.25%
LBBW Stuttgart	25,269	8.74%
HSH Nordbang AG	16,050	5.55%
Total	**212,519**	**73.49%**

19 / LOANS AND RECEIVABLES FROM CUSTOMERS

	'000 LVL 2010	'000 LVL **2009**
Companies	515,775	463,148
Individuals	56,479	53,378
Specific Impairment allowance	(36,329)	(25,035)
Collective Impairment allowance	(76)	(1,020)
Net Loans and receivables from customers	**535,849**	**490,471**

a / 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: Less than 30 days	31-90 days	91-180 days	More than 180 days	Total of overdue loans
/ As at 31 Dec 2010							
Net carrying amount	**535,849**	423,114	59,447	40,376	4,998	7,914	112,735
Out of which impaired	**61,462**	28,763	17,996	3,854	4,859	5,990	32,699
Assessed fair value of collateral	**727,232**	582,215	63,713	57,890	7,776	15,638	145,017
/ As at 31 Dec 2009							
Net carrying amount	**490,471**	421,586	54,542	8,065	1,486	4,792	68,885
Out of which impaired	**52,268**	41,450	1,615	3,378	1,363	4,462	10,818
Assessed fair value of collateral	**652,871**	**538,832**	**95,758**	**7,395**	**2,160**	**8,726**	**114,039**

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	207,136	38.66	207,371	42.24
Traded securities	109,621	20.46	33,252	6.77
Commercial assets pledge	75,196	14.03	105,106	21.51
Land mortgage	54,110	10.10	64,039	13.04
Mortgage on residential properties	30,302	5.65	31,492	6.41
Bonds classified as loans	17,830	3.33	22,709	4.63
Deposit	3,334	0.62	2,359	0.48
Guarantee	2,771	0.52	1,651	0.34
Other	35,549	6.63	22,492	4.58
Total	**535,849**	**100**	**490,471**	**100**

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

III / Impaired loans

	'000 LVL 2010	'000 LVL 2009
Impaired loans gross	97,791	77,303
Specific impairment allowance	(36,329)	(25,035)
Net Loans and receivables from customers	**61,462**	**52,268**
Fair value of collateral related to impaired loans	**91,787**	**73,322**

/ Collateral related to impaired loans comprises real estate properties in Latvia, Estonia and Russia mainly.
When reviewing the loans the Bank sets the following categories for individual loans to assess their credit risk:

	'000 LVL 2010 Gross	Specific Impairment allowance	Collective Impairment allowance	'000 LVL 2009 Gross	Specific Impairment allowance	Collective Impairment allowance
Standard	474,564	(101)	(76)	440,136	(137)	(1,020)
Watch	44,783	(5,899)	–	40,621	(7,377)	–
Substandard	25,384	(10,286)	–	31,298	(14,385)	–
Doubtful	25,399	(17,928)	–	4,248	(2,913)	–
Bad	2,124	(2,115)	–	223	(223)	–
Total	**572,254**	**(36,329)**	**(76)**	**516,526**	**(25,035)**	**(1,020)**

IV / Movements in the impairment allowance

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

/ Allowance for impairment	'000 LVL 2010	'000 LVL 2009
Balance at 1 January	26,055	18,317
Charge for the year:		
/ Specific impairment allowance	17,796	20,560
/ Collective impairment allowance	–	1,020
Reversal of specific impairment allowance loss		
/ Specific impairment allowance	(3,901)	(2,267)
/ Collective impairment allowance	(944)	–
Effect of foreign currency translation	(43)	(65)
Write offs	(2,558)	(11,510)
Balance at 31 December	**36,405**	**26,055**

V / Restructured loans

As at 31 December 2010, the Bank held restructured loans of LVL 144,872 thousand (2009: 149,573).
Main forms of restructuring were reducing of interest rate, postponing of interest payments or principal payments.

b / Industry analysis of the loan portfolio

	'000 LVL 2010	'000 LVL 2009
Real estate management	136,985	137,954
Financial services	229,112	167,988
Individuals	49,553	47,298
Manufacturing	23,500	35,896
Wholesale and retailing	28,674	23,792
Fin. instruments classified as loans and receivables	17,830	22,709
Food industry	7,617	17,518
Transport and communication	8,591	14,951
Tourism	8,535	1,225
Other	25,452	21,140
	535,849	**490,471**

c / Geographical analysis of the loan portfolio

	’000 LVL 2010	’000 LVL 2009
Latvia	223,548	238,781
OECD countries	101,167	58,735
Non-OECD countries	211,134	192,955
	535,849	**490,471**

d / Significant credit exposures

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

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2010 and 31 December 2009 the Bank was in compliance with this requirement.
Maximum credit exposure is shown under note 4 Risk management – liquidity.

20 / AVAILABLE-FOR-SALE ASSETS

/ Equity investments	'000 LVL 2010	'000 LVL 2009
RB Opportunity Fund I	24,599	22,634
Corporate shares	168	152
Impairment allowance	(2,396)	-
	22,371	**22,786**

/ The Bank currently holds all units of the RB Opportunity Fund; the units of the fund are currently available for public subscription. The net assets of the fund amounted LVL 22,203 thousand as at reporting date. The underlying assets comprise mainly real estate and cash in the bank. The units were valued at market price as at 31 December 2010 and 31 December 2009, which is below issuance cost. As at 31 December 2010, the Company evaluated the decline in market price as prolonged and recognized an impairment loss in the amount of LVL 2,396 thousand in the income statement reversing the fair value reserved recognized previously.

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

21 / HELD-TO-MATURITY INVESTMENTS

/ Debt and other fixed–income instruments

/ Government	'000 LVL 2010	'000 LVL 2009
Argentina government bonds	845	1,719
Latvia government bonds	–	1,517
Total government	**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**

/ Analysis of movements in the impairment allowance

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

Argentina Government Bonds with maturity in 2031were restructured in June 2010. The Bank obtained financial assets comprising Argentina Government bonds with maturity in 2017 and 2033 of the fair value at acquisition of LVL 845 thousand, and an Argentina restructured derivative that is recognized in the trading portfolio.

22 / INVESTMENTS IN SUBSIDIARIES

/ The subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	31 December 2010 Ownership %	31 December 2010 Cost of investment	31 December 2009 Ownership %	31 December 2009 Cost of investment
SIA "RB Investments"	Vesetas 7, Riga, Latvia	Investments	100%	10,000	100%	5,000
RB Securities Ltd	Stasinou Street 1, Mitsui Building, 2nd floor, office 5, Plateia Eleftherias, P.C. 1060, Nicosia, Cyprus	Financial services	99.99%	7,700	99.99%	7,700
SIA " Overseas Estates"	Vesetas 7, Riga, Latvia	Juice Terminal	100%	1,750	–	–
"Westleasing–M" OOO	Kostjakova street 10, Moscow, Russia	Leasing Company	50%	1,666	50%	1,666
AS "RB Securities" IBS	Vesetas 7, Riga, Latvia	Financial services	100%	1,104	100%	1,104
AS "RB Asset management" IPS	Vesetas 7, Riga, Latvia	Financial services	100%	700	100%	700
"Westtransinvest" OOO	Fabriciusa street 8, 4th floor, office18, Minsk, Belarus	Leasing Company	50%	169	50%	169
SIA " Incredit Group"	Krisjana Barona street 130, Riga, Latvia	Leasing Company	51%	102	–	–
"Westleasing" OOO	Fabriciusa street 8, 4th floor, office42, Minsk, Belarus	Leasing Company	50%	56	50%	56
SIA "RB Drošība"	Vesetas 7, Riga, Latvia	Security services	100%	50	100%	50
SIA "RB Vidzeme"	Vesetas 7, Riga, Latvia	Investments	100%	50	100%	50
SIA"RB Namu serviss"	Vesetas 7, Riga, Latvia	Real estate operating	100%	2	100%	2
OOO "Pareks Lizing"	Libavoromenskaja street. 23, office 7, Minsk, Belarus	Leasing Company	99.50%	–	–	–
Rietumu bankas Labdarības fonds	Vesetas 7, Riga, Latvia	Charity	–	–	–	–
Total				**23,349**		**16,497**
Specific allowance for AS "RB Securities" IBS				**(675)**		**(500)**
Specific allowance for AS "RB Investments"				**(1,000)**		**–**
Specific allowance for OOO "Westleasing–M"				**(1,000)**		**–**
Net investment in subsidiaries				**20,674**		**15,997**

/ In the subsidiaries with 50% share the Bank has the right to the majority votes in the Board of Directors.
/ During the reporting period the Bank increased the share capital of its subsidiary RB Investment SIA by LVL 5,000 thousand.
/ During the reporting period the Bank acquired from third parties 99.50% shares of the company Parex Leasing, Belarus and 51% shares of the company Incredit Group for a consideration of LVL 102 thousand; and 100% shares of the company Overseas Estates from SIA "RB Investments" and increased its capital for LVL 1,750 thousand .

23 / PROPERTY AND EQUIPMENT

'000 LVL	Vehicles	Office equipment	Total
/ Cost/Revalued amount			
1 January 2010	1,514	10,251	**11,765**
Additions	–	255	**255**
Disposals	(68)	(206)	**(274)**
Transferred from advances	117	79	**196**
At 31 December 2010	**1,563**	**10,379**	**11,942**
/ Depreciation and impairment losses			
At 1 January 2010	939	5,450	**6,389**
Depreciation charge	273	1,028	**1,301**
Disposals	(52)	(187)	**(239)**
At 31 December 2010	**1,160**	**6,291**	**7,451**
/ Net book value			
At 31 December 2010	**403**	**4,088**	**4,491**
At 31 December 2009	575	4,801	**5,376**

23 / PROPERTY AND EQUIPMENT

'000 LVL	Land and buildings	Const-ruction in progress	Vehicles	Office equipment	Leasehold improve-ments	Total
/ Cost/Revalued amount						
At 1 January 2009	223	–	1,981	9,600	162	11,966
Additions	–	201	53	1,288	–	1,542
Disposals	(223)	(201)	(520)	(637)	(162)	(1,743)
At 31 December 2009	**–**	**–**	**1,514**	**10,251**	**–**	**11,765**
/ Depreciation and impairment losses						
At 1 January 2009	59	–	1,052	5,009	162	6,282
Depreciation charge	2	–	356	1,023	–	1,381
Disposals	(61)	–	(469)	(582)	(162)	(1,274)
At 31 December 2009	**–**	**–**	**939**	**5,450**	**–**	**6,389**
/ Net book value						
At 31 December 2009	**–**	**–**	**575**	**4,801**	**–**	**5,376**
At 31 December 2008	164	–	929	4,591	–	5,684

24 / INTANGIBLE ASSETS

'000 LVL	Goodwill	Software	Other	Total
/ Cost				
At 1 January 2010	751	5,913	755	7,419
Additions	–	204	–	204
Disposals	–	–	(2)	(2)
Reclassification	–	559	(559)	–
Transferred from advances	–	385	–	385
At 31 December 2010	**751**	**7,061**	**194**	**8,006**
/ Amortization and impairment losses				
At 1 January 2010	–	4,668	13	4,681
Amotization charge	–	804	4	808
At 31 December 2010	**–**	**5,472**	**17**	**5,489**
/ Net book value				
At 31 December 2010	**751**	**1,589**	**177**	**2,517**
At 31 December 2009	**751**	**1,245**	**742**	**2,738**

24 / INTANGIBLE ASSETS

'000 LVL	Goodwill	Software	Other	Total
/ Cost				
At 1 January 2009	751	5,725	580	7,056
Additions	–	202	195	397
Disposals	–	(14)	(20)	(34)
At 31 December 2009	**751**	**5,913**	**755**	**7,419**
/ Amortization and impairment losses				
At 1 January 2009	–	3,912	9	3,921
Amortization charge	–	758	4	762
Disposals		(2)	–	(2)
At 31 December 2009	–	4,668	13	4,681
/ Net book value				
At 31 December 2009	**751**	**1,245**	**742**	**2,738**
At 31 December 2008	**751**	**1,813**	**571**	**3,135**

Goodwill originated on the acquisition of a payment card business unit in 2001.

25 / INVESTMENT PROPERTY

	'000 LVL 2010	'000 LVL 2009
Balance at 1 January	5,803	5,100
Collateral from loans assumed	173	-
Addition	-	703
Revaluation of investment property	(115)	-
Balance at 31 December	**5,861**	**5,803**

/ The Bank holds as investment property an office building in Riga's centre and two properties (residential building and a plot of land) in Riga. All properties were revalued to fair value based on external valuation reports prepared by licensed valuers during the period December 2010 to February 2011. The fair values were assessed using the comparative method of transactions with similar properties.

26 / OTHER ASSETS

	'000 LVL 2010	'000 LVL 2009
Collateral assumed on non performing loans	14,321	17,942
Prepayments	912	2,303
Recoverable VAT	–	151
Guarantee receivable from borrower	2,078	–
Other	2,046	211
Impairment allowance	(3,828)	(2,433)
	15,529	**18,174**

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

	'000 LVL 2010	'000 LVL 2009
Balance at the beginning of the year	17,942	11,176
Transfer from loans and receivables	7,600	12,445
Reclassified to other assets	(2,078)	–
Sale of collateral	(9,143)	(5,679)
Balance at the end of the year	**14,321**	**17,942**

26 / OTHER ASSETS

/ Other assets include receivable from court related to collateral supporting loan agreements cancelled by the Bank due to breaches of agreement terms from the side of borrower. Collateral is not yet in the title of the Bank and the procedure to recover it is through the auction organized by the court which could take three to six months. The Bank has no obligation to repay the amount collected to the original borrower.

/ Analysis of movements in the impairment allowancet

	'000 LVL 2010	'000 LVL 2009
Balance at the beginning of the year	2,433	598
Impairment charge of the year	2,576	1,840
Reversal of impairment allowance	(790)	–
Write-offs	(391)	(5)
Balance at the end of the year	**3,828**	**2,433**

27 / DEPOSITS AND BALANCES FROM BANKS

	'000 LVL 2010	'000 LVL **2009**
Vostro accounts	4,263	3,236
Term deposits	8	84,624
	4,271	**87,860**

/ Concentration of deposits and balances from banks

As at 31 December 2010 the Bank had balances with two banks (no banks as at 31 December 2009), which 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.

In the second quarter of 2010 the Bank repaid the last syndicated loan of EUR 120 million attracted in June 2007 for corporate lending purposes. At reporting date, the bank has no syndicated loan obligations.

28 / CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

/ Current accounts and demand deposits	'000 LVL 2010	'000 LVL 2009
Central government	69	-
State enterprises	-	91
Private companies residents	28,245	24,119
Individuals residents	28,168	23,487
Private companies non-residents	553,089	329,492
Individuals non-residents	65,409	48,673
Total current account and demand deposits	**674,980**	**425,862**
/ Term deposits		
Private companies	10,567	11,590
Individuals	38,331	23,935
Private companies non-residents	199,318	182,296
Individuals non-residents	34,430	37,838
Subordinated deposits		
Individuals	3,013	-
Private companies non-residents	1,051	-
Individuals non-residents	9,314	-
Total term deposits	**296,024**	**255,659**
Total current accounts and deposits form customers	**971,004**	**681,521**

a / Blocked accounts

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

b / Concentrations of current accounts and customer deposits

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

29 / OTHER BORROWED FUNDS

	31 December 2010 '000 LVL	31 December 2009 '000 LVL
Natgaz Bull Note	–	454
USD Bear Note	–	441
	–	**895**

/ All notes which were issued by the Bank in **2009** were repaid in 2010.

30 / OTHER LIABILITIES

	'000 LVL 2010	'000 LVL **2009**
Provision for annual leave	661	597
Estimated liability for administrative expenses	452	427
Provision for management bonus	382	400
Estimated liability for Deposits Guarantee Fund	296	296-
VAT liability	61	61
Deferred income	45	1,782
Dividends payable	4	4
Other	236	810
	2,137	4,377

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	95	33	–	–	95	33
Available-for-sale assets	359	–	–	–	359	–
Investment in subsidiaries	401	75	–	–	401	75
Property and equipment	–	212	(764)	(1,060)	(764)	(848)
Investment property	–	–	(310)	(310)	(310)	(310)
Other assets	458	301	–	–	458	301
Other liabilities	156	152	–	–	156	152
Total deferred tax assets/(liabilities)	**1,479**	**863**	**(1,074)**	**(1,370)**	**405**	**(507)**
Unrecognised deferred tax asset	**(912)**	**–**	**–**	**–**	**(912)**	**–**
Recognised net deferred tax assets/(liabilities)	**567**	**863**	**(1,074)**	**(1,370)**	**(507)**	**(507)**

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

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 in by shareholders in access to the nominal value of ordinary shares.

	'000 LVL 2010	'000 LVL 2009
Companies non-residents, total	**33,110**	**33,110**
Boswell (International) Consulting Limited	33,110	33,110
Private persons, total	**66,890**	**66,890**
Leonid Esterkin	33,120	33,110
Arkady Suharenko	17,335	17,330
Others	16,435	16,450
Total	**100,000**	**100,000**

/ The shareholders of the Bank as of **December 31,** 2010 and **December 31, 2009** are as follows: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.

b / Dividends

/ As at reporting date dividends in amount of LVL 1,000 thousand were proposed.

c / Reserves

/ A revaluation reserve represents the increase in the fair value of real estate properties classified under Property and equipment. The balance of LVL 1,754 thousand relates to the revaluation of the office building recognized prior to reclassification as investment property.

/ The fair value reserve represents the changes in fair value of Available-for-sale assets. The balance of the reserve as at **31 December 2009** amounted to LVL 1,965 thousand and was released during 2010 as an impairment allowance was established, refer also to Note 20 Available-for-sale assets.

/ Other reserves of LVL 20,016 thousand were contributed by shareholders and its use or distribution is at the discretion of the shareholders.

33 / CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	'000 LVL 2010	'000 LVL 2009
Cash	3,302	3,718
Balances due from the Bank of Latvia	123,482	35,262
Demand Loans and receivables from banks	178,670	209,302
Demand deposits from banks	(4,263)	(3,236)
Total	**301,191**	**245,046**

34 / COMMITMENTS

/ 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 contractual exposure that would be recognised at the balance sheet date if counterparties failed to perform as contracted.

	'000 LVL 2010	'000 LVL **2009**
/ Contracted amount		
Loan and credit line commitments	37,439	43,905
Credit card commitments	4,286	2,566
Undrawn overdraft facilities	6,978	4,783
Guarantees and letters of credit	12,322	4,644
Total	**61,025**	**55,898**

/ 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 / LITIGATION

/ In the ordinary course of business, the Bank 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 for 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 evidence available to management.

36 / 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 formally securities in the fair value amount of LVL 53,957 thousand and sold back these securities on **6 January** 2011 for LVL 50,731 thousand.

	'000 LVL 2010	'000 LVL **2009**
MF Global Inc.	50,726	–
	50,726	**–**

37 / TRUST AND CUSTODY ACTIVITIES

a / Trust activities

/ Funds under trust management represent securities and other assets managed by the Bank on behalf of customers. The Bank earns commission income for holding such securities. The Bank is not subject to interest, credit, liquidity and currency risk with respect of these securities as in accordance with the agreements concluded with the customers, the customers bear these risks

/ As at **31 December** 2010 the total assets held by the Bank on behalf of customers and assets under management were 203,217 LVL thousand (2009: LVL 186,189 thousand).

b / Custody activities

/ The Bank 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 Bank and are not recognised as at reporting date.

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 subsidiaries and associated companies.

a / Shareholders, Members of the Council and Board

/ Loans and receivables:	'000 LVL 2010	'000 LVL 2009
Loans and receivables at the beginning of the year	624	2,966
Loans issued during the year	12	6,648
Due to changes in the structure of related parties	167	(3,159)
Loan repayment during the year	(141)	(5,831)
Loans and receivables at the end of the year	**662**	**624**
Interest income earned	22	349

/ Deposits	'000 LVL 2010	'000 LVL 2009
Deposits at the beginning of the year	3,722	10,336
Deposits received during the year	4,961	21,621
Forex translation effect	-	(2)
Deposits repaid during the year	(4,287)	(28,162)
Deposits at the end of the year	**4,396**	**3,813**
Interest expense on deposits	372	741

/ 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.

/ Total remuneration included in employee compensation (Note 14):

/ Loans and receivables:	'000 LVL 2010	'000 LVL **2009**
Members of the Council	133	127
Members of the Board of Directors	230	176
	363	**303**

b / Subsidiaries and associated companies

/ Loans and receivables:	'000 LVL 2010	'000 LVL **2009**
Loans and receivables at the beginning of the year	54,722	27,750
Loans issued during the year	130,540	103,344
	1,651	(174)
Loan repayment during the year	(134,774)	(76,198)
Loans and receivables at the end of the year	**52,139**	**54,722**
Interest income earned	3,400	3,681

/ Deposits	'000 LVL 2010	'000 LVL **2009**
Deposits at the beginning of the year	1,147	605
Deposits received during the year	235	1,215
	(1)	-
Deposits repaid during the year	(1,380)	(773)
Deposits at the end of the year	**1**	**1,047**
Interest expense on deposits	3	5

/ On 30 December 2010, the Bank acquired 100% shares of company Overseas SIA from its subsidiary RB Investments SIA for LVL 1.

/ During the year 2010, the Bank paid rent to its indirect subsidiary SIA Vesetas 7 in the amount of LVL 1,280 thousand (2009: LVL 988 thousand).

39 / SUBSEQUENT EVENTS

/ On **3 February** 2011, the Bank signed a Share Purchase Agreement to sell 100% shares of AS RB Securities IBS to a third party. Subject to the satisfactory receipt of approval from the FCMC and other transaction completion procedures being completed, the planned date for the transfer of ownership is **31 May** 2011.

40 / FAIR VALUE OF FINANCIAL INSTRUMENTS

/ Financial assets	Carrying amount '000 LVL 2010	Fair value '000 LVL 2010	Carrying amount '000 LVL 2009	Fair value '000 LVL 2009
Cash and balances with central bank	126,784	126,784	38,980	38,980
Financial instruments at fair value through profit and loss	41,318	41,318	74,199	74,199
Loans and receivables from banks	289,233	289,233	299,933	299,933
Loans and receivables from customers	535,849	535,721	490,471	490,471
Reverse repo	50,726	50,726	–	–
Available-for-sale assets	22,371	22,371	22,786	22,786
Held-to-maturity investments	845	691	5,385	5,197
Total	**1,067,126**	**1,066,844**	**931,754**	**931,566**
/ Financial assets				
Financial instruments at fair value through profit and loss	495	495	356	356
Deposits and balances from banks	4,271	4,271	87,860	87,860
Current accounts and deposits from customers	971,004	971,004	681,521	681,521
Amounts payable under repurchase agreements	–	–	72,990	72,990
Other borrowed funds	–	–	895	895
Total	**975,770**	**975,770**	**843,622**	**843,622**

40 / FAIR VALUE OF FINANCIAL INSTRUMENTS

/ Fair value hierarchy

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

	Level (1)	Level (2)	Total
31 December 2010			
Available for sale assets	169	22,202	22,371
Financial assets at fair value through profit or loss	41,318	–	41,318
/ Financial assets	**41,487**	**22,202**	**63,689**
Financial investments at fair value through profit or loss	495	–	495
/ Financial liabilities	**495**	**–**	**495**
31 December 2009			
Available for sale assets	152	22,634	22,786
Financial assets at fair value through profit or loss	74,199	–	74,199
/ Financial assets	**74,351**	**22,634**	**96,985**
Financial investments at fair value through profit or loss	356	–	356
/ Financial liabilities	**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.

41 / AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Bank's interest bearing assets and liabilities as at **31 December** 2010 **and 2009** and their corresponding average effective interest rates as at 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				
Balances with central bank	121,758	0.63%	33,953	1.37%
Loans and receivables to banks				
/ Nostro accounts	139,660	0.34%	184,743	1.40%
/ Loans and deposits	110,563	0.44%	90,631	0.79%
Financial instruments at fair value through profit or loss	40,356	2.80%	72,976	0.98%
Loans and receivables from customers	522,722	5.70%	445,791	6.89%
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	–	–	848	0.17%
/ Term deposits	8	1.39%	84,624	2.73%
Amount payable under repurchase agreements	–	–	72,990	0.20%
Current accounts and deposits from customers				
/ Current accounts and demand deposits	60,235	0.87%	153,606	0.70%
/ Term deposits	217,789	3.97%	138,559	4.42%
/ Subordinated liabilities	13,378	5.55%	–	–
Other borrowed funds	–	–	895	5.03%

42 / CURRENCY ANALYSIS

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

	LVL	USD	EUR	Other currencies	Total
/ Financial assets	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**
Cash and balances with central bank	123,041	601	2,977	165	**126,784**
Financial instruments at fair value through profit or loss	146	25,963	15,209	–	**41,318**
Loans and receivables from banks	124	228,252	37,785	23,072	**289,233**
Loans and receivables to customers	5,534	232,665	295,079	2,571	**535,849**
Available-for-sale assets	44	–	22,327	–	**22,371**
Reverse repo	–	50,726	–	–	**50,726**
Held-to-maturity investments	–	845	–	–	**845**
Total financial assets	**128,889**	**539,052**	**373,377**	**25,808**	**1,067,126**
/ Financial liabilities					
Financial instruments at fair value through profit or loss	495	–	–	–	**495**
Deposits and balances from banks	270	3,675	207	119	**4,271**
Amounts payable under repurchase agreements	–	–	–	–	**–**
Current accounts and deposits from customers	29,420	545,044	367,220	29,320	**971,004**
Total financial liabilities	**30,185**	**548,719**	**367,427**	**29,439**	**975,770**
Net on balance sheet position as of 31 December 2010	**98,704**	**(9,667)**	**5,950**	**(3,631)**	
Net off balance sheet position as of 31 December 2010	**1,703**	**15,589**	**(20,100)**	**2,808**	
Net on and off balance sheet positions as of 31 December 2010	**100,407**	**5,922**	**(14,150)**	**(823)**	
Net on and off balance sheet positions as of 31 December 2009	**35,199**	**33,185**	**75,514**	**132**	

The following table shows the currency structure of financial assets and financial liabilities at **31 December 2009:**

	LVL	USD	EUR	Other currencies	Total
/ Financial assets	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**
Cash and balances with central bank	35,546	656	2,689	89	**38,980**
Loans and receivables from banks	10,525	203,720	64,028	21,660	**299,933**
Financial instruments at fair value through profit or loss	301	73,898	-	-	**74,199**
Loans and receivables to customers	494	164,041	324,593	1,343	**490,471**
Available-for-sale assets	25	-	22,761		**22,786**
Held-to-maturity investments	1,517	3,868	-	-	**5,385**
Total financial assets	**48,408**	**446,183**	**414,071**	**23,092**	**931,754**
/ Financial liabilities					
Financial instruments at fair value through profit or loss	352	4	-	-	**356**
Deposits and balances from banks	237	1,917	85,419	287	**87,860**
Amounts payable under repurchase agreements	-	72,990	-	-	**72,990**
Current accounts and deposits from customers	15,775	358,884	284,095	22,767	**681,521**
Other borrowed funds	-	895	-	-	**895**
Total financial liabilities	**16,364**	**434,690**	**369,514**	**23,054**	**843,622**
Net on balance sheet position as of 31 December 2009	**32,044**	**11,493**	**44,557**	**38**	
Net off balance sheet position as of 31 December 2009	**3,155**	**21,692**	**30,957**	**94**	
Net on and off balance sheet positions as of 31 December 2009	**35,199**	**33,185**	**75,514**	**132**	

43 / INTEREST RATE RISK ANALYSIS

The following table shows the earlier of the interest rate contracted re-pricing dates or contractual maturity of financial assets and liabilities of the Bank as at **December 31,** 2010:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	Total
/ Financial assets	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**
Cash and balances with central bank	121,758	–	–	–	–	5,026	**126,784**
Loans and receivables from banks	249,411	812	–	–	–	39,010	**289,233**
Financial instruments at fair value through profit or loss	40,356	–	–	–	–	962	**41,318**
Loans and receivables from customers	142,904	53,036	81,962	168,576	76,244	13,127	**535,849**
Available-for-sale assets	–	–	–	–	–	22,371	**22,371**
Reverse repo	50,726	–	–	–	–	–	**50,726**
Held-to-maturity investments	–	–	–	–	845	–	**845**
Total financial assets	**605,155**	**53,848**	**81,962**	**168,576**	**77,089**	**80,496**	**1,067,126**
/ Financial liabilities							
Financial instruments at fair value through profit or loss	–	–	–	–	–	495	**495**
Deposits and balances from banks	–	–	8	–	–	4,263	**4,271**
Current accounts and deposits from customers	60,235	50,036	126,188	54,349	594	679,602	**971,004**
Total financial liabilities	**60,235**	**50,036**	**126,196**	**54,349**	**594**	**684,360**	**975,770**
Net position as at 31 December 2010	**544,920**	**3,812**	**(44,234)**	**114,227**	**76,495**	**(603,864)**	
Net position as at 31 December 2009	**208,888**	**11,159**	**(105,664)**	**196,564**	**71,010**	**(243,934)**	

43 / INTEREST RATE RISK ANALYSIS

The following table shows the earlier of the interest rate contracted re-pricing dates or contractual maturity of financial assets and liabilities of the Bank as at **December 31, 2009:**

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	Total
/ Financial assets	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**
Cash and balances with central bank	33,953	–	–	–	–	5,027	**38,980**
Loans and receivables from bank	264,772	10,602	–	–	–	24,559	**299,933**
Financial instruments at fair value through profit or loss	72,976	–	–	–	–	1,223	**74,199**
Loans and receivables from customers	65,814	41,790	59,564	210,704	67,919	44,680	**490,471**
Available-for-sale assets	–	–	–	–	–	22,786	**22,786**
Held-to-maturity investments	–	1,517	777	–	3,091	–	**5,385**
Total financial assets	**437,515**	**53,909**	**60,341**	**210,704**	**71,010**	**98,275**	**931,754**
/ Financial liabilities							
Financial instruments at fair value through profit or loss	–	–	–	–	–	356	**356**
Deposits and balances from banks	1,136	–	84,336	–	–	2,388	**87,860**
Amounts payable under repurchase agreements	72,990	–	–	–	–	–	**72 990**
Current accounts and deposits from customers	153,606	42,750	81,669	14,140	–	389,356	**681,521**
Other borrowed funds	895	–	–	–	–	–	**895**
Total financial liabilities	**228,627**	**42,750**	**166,005**	**14,140**	**–**	**392,100**	**843,622**
Net position as at 31 December 2009	**208,888**	**11,159**	**(105,664)**	**196,564**	**71,010**	**(243,934)**	
Net position as at 31 December 2008	**77,022**	**(74)**	**(9,918)**	**74,973**	**190,304**	**(268,654)**	

44 / CLASSIFICATION OF ASSETS AND LIABILITIES

Classification of assets, liabilities and shareholders' equity of the Bank as at **December 31, 2010** was as follows:

	Financial assets / liabilities at amortised cost	Financial assets / liabilities at fair value through profit and loss	Financial assets available for sale	Non-financial assets / liabilities	Total
/ Assets	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Cash and balances with central bank	126,784	–	–	–	**126,784**
Loans and receivables from banks	289,233	–	–	–	**289,233**
Financial instruments at fair value through profit or loss	–	41,318	–	–	**41,318**
Loans and receivables from customers	535,849	–	–	–	**535,849**
Reverse repo	50,726		–	–	**50,726**
Available-for-sale assets	–	–	22,371	–	**22,371**
Held-to-maturity investments	845		–	–	**845**
Investments in subsidiaries	535,849	–	–	20,674	**20,674**
Intangible assets	50,726	–	–	2,517	**2,517**
Property and equipment	–	–	–	4,491	**4,491**
Investment property	–	–	–	5,861	**5,861**
Current tax asset	–	–	–	125	**125**
Other assets	–	–	–	15,529	**15,529**
Total assets	**1,003,437**	**41,318**	–	**49,197**	**1,116,323**
/ Liabilities					
Financial instruments at fair value through profit or loss	–	495	–	–	**495**
Deposits and balances from banks	4,271	–	–	–	**4,271**
Current accounts and deposits from customers	971,004	–	–	–	**971,004**
Other liabilities	–	–	–	2,137	**2,137**
Deferred tax liability	–	–	–	507	**507**
Shareholders' equity	–	–	–	137,909	**137,909**
Total liabilities and equity	**975,275**	**495**	**–**	**140,553**	**1,116,323**

44 / CLASSIFICATION OF ASSETS AND LIABILITIES

Classification of assets, liabilities and shareholders' equity of the Bank as at **December 31, 2009** was as follows:

	Financial assets / liabilities at amortised cost	Financial assets / liabilities at fair value through profit and loss	Financial assets available for sale	Non-financial assets / liabilities	Total
/ Assets	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**	**'000 LVL**
Cash and balances with central bank	38,980	–	–	–	**38,980**
Loans and receivables from banks	299,933	–	–	–	**299,933**
Financial instruments at fair value through profit or loss	–	74,199	–	–	**74,199**
Loans and receivables from customers	490,471	–	–	–	**490,471**
Available-for-sale assets	–	–	22,786	–	**22,786**
Held-to-maturity investments	5,385	–	–	–	**5,385**
Investments in subsidiaries	–	–	–	15,997	**15,997**
Intangible assets	–	–	–	2,738	**2,738**
Property and equipment	–	–	–	5,376	**5,376**
Investment property	–	–	–	5,803	**5,803**
Current tax asset	–	–	–	1,803	**1,803**
Other assets	–	–	–	18,174	**18,174**
Total assets	**834,769**	**74,199**	22,786	**49,891**	**981,645**
/ Liabilities	-	-	-	5,376	
Financial instruments at fair value through profit or loss	–	356	–	–	**356**
Deposits and balances from banks	87,860	–	–	–	**87,860**
Amounts payable under repurchase agreements	72,990	–	–	–	**72,990**
Current accounts and deposits from customers	681,521	–	–	–	**681,521**
Other borrowed funds	895	–	–	–	**895**
Provisions	–	–	–	382	**382**
Other liabilities	4,377	–	–	–	**4,377**
Deferred tax liability	–	–	–	507	**507**
Shareholders' equity	–	–	–	132,757	**132,757**
Total liabilities and equity	**847,643**	**356**	**–**	**133,646**	**981,645**


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