AS PAREX BANKA

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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Dear Shareholders and Cooperation Partners,

2010 was a year of substantial changes in Parex banka's activity – restructuring of one of largest banks in Latvia which was facing financial difficulties – Parex banka – was successfully completed on 1 August with support from the State. As a result, two separate companies were formed: Citadele banka, to which the largest part of assets of former Parex banka were transferred, and Parex banka where non-performing assets were left. Since 1 August 2010 Parex banka has become a unique financial institution in Latvia with an ambitious goal: to maximise the recovery of State Aid. At the same time, Parex banka has ceased providing such traditional banking services as taking deposits and executing money payments, issuing new loans, attracting new clients and others.

Events prior to 1 August 2010

At the beginning of the reporting period, the major shareholder of Parex banka – Latvian Privatization Agency – provided the bank with aid and additional capital needed. On 23 February 2010, the Cabinet of Ministers approved the increase of the bank's share capital by 31.5 million Lats and on 26 February 2010 the capital was increased.

On 23 March 2010, the Cabinet of Ministers of the Republic of Latvia approved the restructuring plan for Parex banka developed by Nomura International plc, international financial consultant, and on 31 March the plan was submitted for approval to the European Commission.

Evaluating the volume of attracted deposits by Parex banka, stability in Lats' money market as well as liquidity ratios of the bank, on 5 May 2010, Parex banka made an agreement with the Bank of Latvia on early repayment of the borrowed funds in the amount of 117.6 million Lats.

Events after 1 August 2010

On 1 August 2010, Parex banka commenced working as a resolution bank with a particular goal – to maximise the repayment of State Aid. In order to achieve this goal, the bank's activities are focused on efficient restructuring of loans, recovery of debts and management of repossessed real estate in order to sell in more favourable market conditions. According to Parex banka's restructuring plan, the allocated time frame for its implementation is 2017.

On 15 September 2010, the European Commission approved Parex banka's restructuring plan. In the international banking sector, such approval is recognised as a significant achievement within the process of Parex banka's restructuring considering that several European banks had to wait for similar approvals for a much longer period of time.

In December 2010, Parex banka paid 9.7 million Lats of interest for use of the State Aid.

In accordance with the restructuring plan of joint stock company Parex banka and the decision passed by the Cabinet of Ministers on 30 November 2010, the bank's share capital was increased by 9.7 million Lats. The issued shares were acquired by state joint stock company Privatization Agency, thus increasing the State's share in the bank's share capital. Accordingly, as of 31 December 2010, the Parex banka shareholder structure was as follows: state joint stock company Privatization Agency owned 81.83 percent of shares, European Bank for Reconstruction and Development – 14.62 percent, and minority shareholders - 3.56 percent of Parex banka's shares.

On 31 December 2010, the loan portfolio of Parex banka and Parex banka group was 566.3 and 541.6 million Lats respectively, total assets – 789.3 and 792.1 million Lats. The equity at the end of 2010 was 36.9 and 37.3 million Lats.

In accordance with the requirements of the International Financial Reporting Standards, Parex banka has made provisions for non-performing loans in the amount of 115.7 million Lats during the reporting period. This adjustment affected the bank's financial results therefore Parex banka ended 2010 with losses in the amount of 163.9 million Lats as planned. Since all cash resources recovered by Parex banka are accumulated for the repayment of syndicated loans and State Aid, no profit from the bank's activities is envisaged according to restructuring plan. Simultaneously, the Management is taking all possible actions to limit losses and carries out deliberate and prudent operational and financial activities, scrutinizing all expense items in order to achieve this goal.

During the period from 1 August 2010 to the end of the reporting period Parex banka through focused and hard work has been able to recover 58 million lats. This amount largely consisted of monies recovered through restructuring of non-performing loans and sales of securities portfolio. Taking into consideration the inactive state of the real estate market the purchase prices offered by potential buyers for real estate assets repossessed by the bank were significantly lower than the actual and potential market price in majority of cases.

Other significant events

On 30 July 2010 Parex banka filed a claim against its former Members of the Board – Valērijs Kargins and Viktors Krasovickis – asking for compensation for damages caused to the bank in the amount of more than 62 million Lats. On 16 August 2010, Riga district Court resolved to secure the claim, simultaneously ordering Parex banka to secure loss compensation which might occur from the enforcement of the decision. On 15 November 2010, Parex banka filed a request with Riga District Court to reduce the security deposit, pointing out, inter alia, that actually the bank which wants to protect its infringed legal interests in a fair trial, is put in a considerably more unfavourable position than the defendants. There was a court hearing on 14 April 2011, the decision was not changed.

On 17 September 2010 Parex banka's Council reviewed a request from minority shareholders Firebird Republics SPV, Amber Trust and DCF Fund received on 7 September 2010 to file a claim in court against previous Board members for sale of Parex leasing in Belarus . After thorough evaluation of the claim and documentation submitted by minority shareholders, Parex banka's Council concluded that there are no legal grounds for filing a claim and that the requests of minority shareholders are based on incomplete information.

Main events after the end of the reporting period

In the first half of 2011 Parex banka's priority is to ensure the repayment of syndicated loans without State assistance which is a significant challenge for the bank's management and employees. In accordance with the agreement made with syndicated loan lenders in March 2009, Parex banka has already repaid 70 percent of the total loan outstanding. The remaining 30 percent or 163 million Lats, plus accrued interest are due in May 2011 therefore maximum attention is paid to the accumulation of necessary funds.

Considering the total assets managed by Parex banka, great attention is paid to attract qualified professionals. Compared with global standards, Parex banka with its human resources of slightly more than 100 employees is evaluated as an extremely efficient organization. The basis for such a successful modern company model is continuous evaluation of administrative resources and deliberate use of outsourced service providers.
After the end of the reporting period, Parex banka continues to work on loan restructuring, asset

recovery and real estate management thus ensuring the safeguarding and growth of asset values and recovery of State Aid. Looking into Parex banka's long-term perspectives in line with the economic processes in Latvia and across the world, it is expected that along with recovery of real estate market, Parex banka will be able to carry out successfully the task set in the restructuring plan, i.e. to maximise the recovery of State Aid.

Christopher John Gwilliam Chairman of the Management Board	Solvita Deglava Member of the Management Board

Jurijs Adamovičs
Member of the Management Board

Riga,
05 May 2011

Council of the Bank

Name	Position
Michael Joseph Bourke	Chairman of the Council
Sarmīte Jumīte	Deputy chairwoman of the Council
Vladimirs Loginovs	Member of the Council
Mary Ellen Collins	Member of the Council

Management Board of the Bank

Name	Position
Christopher John Gwilliam	Chairman of the Management Board, p.p.
Solvita Deglava	Member of the Management Board, p.p.
Jurijs Adamovičs	Member of the Management Board

Roberts Stuģis finished his work as a member of the Management Board according to 15 March 2010 Council's decision.

New Council of Parex banka was elected during extraordinary meeting of shareholders on April 6, 2010. The following Council members were elected – Juris Jākobsons, Michael J. Bourke, Laurence Phillip Adams, Juris Vaskāns and Klāvs Vasks. Two new representatives were elected to the Council – Juris Jākobsons and Klāvs Vasks. Representatives of Ministry of Finance Andžs Ūbelis and Kaspars Āboliņš have resigned from Parex banka's Council effective 31 March 2010.

On July 30, 2010 the new members were elected to the Management Board: Solvita Deglava and Christopher John Gwilliam, who took up their duties on August 1, 2010, and Jurijs Adamovičs, who took up his duties on August 16, 2010.

The Extraordinary Board meeting took place on July 30, 2010, where the new Council of the Bank was elected - Michael J. Bourke, Sarmīte Jumīte, Mary E. Collins and Vladimirs Loginovs. 31 July 2010 was the last working day at the Council of the Bank for Juris Jākobsons , Juris Vaskāns, Klāvs Vasks, Laurence Philip Adams.

On July 31, 2010 the following Board members have finished their work at the Bank's Management Board: Vladimirs Ivanovs, Valters Abele and Guntis Beļavskis. 16th August 2010 was the last working day for Nils Melngailis at the Bank's Management Board (till July 31 – as the Chairman of the Board, from August 1 till August 16 – as the Member of the Board).

The Management of AS Parex banka (hereinafter – the Bank) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 8 to 79 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2010 and 2009 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 3 to 5 presents fairly the financial results of the reporting year and future prospects of the Bank and the Group.

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

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

Christopher John Gwilliam
Chairman of the Management Board

Solvita Deglava
Member of the Management Board

Jurijs Adamovičs
Member of the Management Board

Riga,
05 May 2011

AS Parex banka
Statements of Income
for the years ended 31 December 2010 and 2009

	Notes	2010 Group	2009* Group	2010 Bank	2009* Bank
		LVL 000's			
Interest income	3	71,621	172,310	64,248	153,562
Interest expense	3	(83,495)	(145,883)	(80,297)	(141,315)
Net interest (expense) / income		(11,874)	26,427	(16,049)	12,247
Commission and fee income	4	15,853	28,160	11,569	21,588
Commission and fee expense	4	(4,786)	(8,588)	(3,602)	(6,944)
Net commission and fee income		11,067	19,572	7,967	14,644
Gain / (loss) on transactions with financial instruments, net	5	641	5,655	(316)	5,540
Other income	6	9,253	15,020	6,317	10,291
Other expense		(2,182)	(4,476)	(743)	(4,115)
Administrative expense	7,8	(41,306)	(71,524)	(30,427)	(50,352)
Amortisation and depreciation charge	19,20	(5,882)	(11,348)	(2,740)	(7,752)
Impairment charges and reversals, net	9	(108,826)	(119,699)	(115,731)	(109,693)
Loss on disposal of assets held for sale, net	18	(12,148)	(3,652)	(11,192)	-
Gain on transfer of undertaking	10	12,270	-	-	-
Loss before taxation		(148,987)	(144,025)	(162,914)	(129,190)
Corporate income tax	11	(1,883)	17,015	(950)	18,080
Net loss for the year		(150,870)	(127,010)	(163,864)	(111,110)
Attributable to:					
Equity holders of the Bank		(150,870)	(127,010)	(163,864)	(111,110)
Minority interest		-	-	-	-
		(150,870)	(127,010)	(163,864)	(111,110)

The notes on pages 13 to 79 are an integral part of these financial statements.

*Before the transfer of undertaking

AS Parex banka
Statements of Comprehensive Income
for the years ended 31 December 2010 and 2009

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Net loss for the year	(150,870)	(127,010)	(163,864)	(111,110)
Other comprehensive income:				
*Fair value revaluation reserve: held-to-maturity securities***				
Amortisation	1,451	2,449	923	2,166
Impairment of securities	-	565	-	565
Deferred income tax charged directly to equity	89	12	(3)	(22)
Reclassification of securities to available for sale category**	1,648	-	1,648	-
Transferred to Citadele banka	3,002	-	3,002	-
Fair value revaluation reserve: available-for-sale securities				
Impairment of securities	1,100	2,585	1,100	2,585
Fair value revaluation reserve charged to statement of income	745	11	1,453	(15)
Change in fair value of available for sale securities	558	16,663	123	16,232
Deferred income tax charged directly to equity	(326)	(396)	(305)	(220)
Reclassification of securities from held to maturity category***	(1,648)	-	(1,648)	-
Transferred to Citadele banka	1,014	-	1,001	-
Other comprehensive income for the year	7,633	21,889	7,294	21,291
Total comprehensive loss for the year	(143,237)	(105,121)	(156,570)	(89,819)
Attributable to:				
Equity holders of the Bank	(143,237)	(105,121)	(156,570)	(89,819)
Minority interest	-	-	-	-
	(143,237)	(105,121)	(156,570)	(89,819)

**The reserve is attributable to available-for-sale securities that were reclassified to held-to-maturity securities in 2008. The reserve is amortised to Income statement till the maturity of the securities.

***Upon transfer of undertaking certain securities were reclassified from held to maturity to available for sale category. For more details please see Note 2 (g)

The notes on pages 13 to 79 are an integral part of these financial statements.

*Before the transfer of undertaking

AS Parex banka
Balance Sheets
as at 31 December 2010 and 2009

		LVL 000's			
	Notes	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Assets					
Cash and deposits with central banks	12	26,944	157,502	26,944	142,259
Balances due from credit institutions	13	67,687	220,836	65,837	325,869
Securities held for trading:					
- fixed income	16	821	1,409	821	1,409
- shares and other non-fixed income	17	305	1,443	305	1,443
Derivative financial instruments	28	122	1,913	122	1,922
Financial assets designated at fair value through profit and loss		-	2,770	-	-
Available-for-sale securities:					
- fixed income	16	59,410	104,818	59,410	85,741
- shares and other non-fixed income	17	-	9,531	-	9,458
Loans and receivables to customers	14,15	541,550	1,660,368	566,280	1,445,406
Held-to-maturity securities	16	24,208	299,371	41,365	318,649
Current income tax assets	11	-	7,977	-	7,190
Fixed assets	20	1,756	52,495	1,754	12,545
Goodwill and intangible assets	19	152	3,294	152	585
Investments in subsidiaries	18	-	-	60	72,725
Investment property	21	19,810	9,682	13,627	8,804
Deferred income tax assets	11	-	31,492	-	28,801
Other assets	22	49,321	31,996	12,604	8,344
Total assets		792,086	2,596,897	789,281	2,471,150
Liabilities					
Derivative financial instruments	28	2,002	937	2,002	962
Financial liabilities designated at fair value through profit and loss		-	709	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	24	178,615	552,466	178,615	572,782
- deposits from customers	25	495,865	1,687,849	495,875	1,540,669
- issued debt securities	23	-	90,551	-	90,742
- other financial liabilities		-	5,430	-	-
Current income tax liabilities	11	-	436	-	-
Deferred income tax liabilities	11	-	846	-	-
Other liabilities		25,661	14,774	22,460	9,370
Subordinated liabilities	26	53,030	103,949	53,030	103,956
Total liabilities		755,173	2,457,947	751,982	2,318,481
Equity					
Paid-in share capital	27	271,227	230,027	271,227	230,027
Share premium		12,694	12,694	12,694	12,694
Fair value revaluation reserve – held-to-maturity securities		-	(6,190)	-	(5,570)
Fair value revaluation reserve – available-for-sale securities		(4,685)	(6,128)	(4,685)	(6,409)
Accumulated losses		(242,323)	(91,453)	(241,937)	(78,073)
Total shareholders' equity attributable to the shareholders of the Bank		36,913	138,950	37,299	152,669
Minority interest		-	-	-	-
Total equity		36,913	138,950	37,299	152,669
Total liabilities and equity		792,086	2,596,897	789,281	2,471,150

The notes on pages 13 to 79 are an integral part of these financial statements.

*Before the transfer of undertaking

Changes in the Group's equity are as follows:

	LVL 000's					
	Attributable to equity holders of the Bank					
	Issued share capital	Share premium	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Retained earnings	Total equity
Balance as at 31 December 2008*	**65,027**	**12,694**	**(9,216)**	**(24,991)**	**35,557**	**79,071**
Issue of new shares	165,000	-	-	-	-	165,000
Net loss for the period	-	-	-	-	(127,010)	(127,010)
Other comprehensive loss for the period	-	-	3,026	18,863	-	21,889
Balance as at 31 December 2009*	**230,027**	**12,694**	**(6,190)**	**(6,128)**	**(91,453)**	**138,950**
Issue of new shares	41,200	-	-	-	-	41,200
Net loss for the period	-	-	-	-	(150,870)	(150,870)
Other comprehensive income for the period	-	-	6,190	1,443	-	7,633
Balance as at 31 December 2010	**271,227**	**12,694**	**-**	**(4,685)**	**(242,323)**	**36,913**

*Before the transfer of undertaking

Changes in the Bank's equity are as follows:

	LVL 000's					
	Attributable to equity holders of the Bank					
	Issued share capital	Share premium	Fair value revaluation reserve, attributable to: Held-to-maturity securities	Fair value revaluation reserve, attributable to: Available-for-sale securities	Retained earnings	Total equity
Balance as at 31 December 2008*	**65,027**	**12,694**	**(8,279)**	**(24,991)**	**33,037**	**77,488**
Issue of new shares	165,000	-	-	-	-	165,000
Net loss for the period	-	-	-	-	(111,110)	(111,110)
Other comprehensive loss for the period	-	-	2,709	18,582	-	21,291
Balance as at 31 December 2009*	**230,027**	**12,694**	**(5,570)**	**(6,409)**	**(78,073)**	**152,669**
Issue of new shares	41,200	-	-	-	-	41,200
Net loss for the period	-	-	-	-	(163,864)	(163,864)
Other comprehensive income for the period	-	-	5,570	1,724	-	7,294
Balance as at 31 December 2010	**271,227**	**12,694**	**-**	**(4,685)**	**(241,937)**	**37,299**

The notes on pages 13 to 79 are an integral part of these financial statements.

*Before the transfer of undertaking

	Notes	2010 Group	2009* Group	2010 Bank	2009* Bank
		LVL 000's			
Cash flows from operating activities					
Loss before tax		(148,987)	(144,025)	(162,914)	(129,190)
Amortisation of intangible assets, depreciation of fixed assets and investment property		5,882	11,348	2,740	7,752
Change in impairment allowances and other provisions		112,193	119,699	118,832	109,693
Other non-cash items		(5,509)	240	300	782
Cash generated before changes in assets and liabilities		**(36,421)**	**(12,738)**	**(41,042)**	**(10,963)**
Change in derivative financial instruments		2,468	8,718	2,402	8,522
(Increase)/ decrease in other assets		(3,583)	(4,589)	(9,681)	3,148
Increase / (Decrease) in other liabilities		23,194	(18,535)	24,490	(15,684)
Decrease in trading investments		2,116	3,117	1,784	3,549
(Increase)/ decrease in balances due from credit institutions		1,569	21,855	129,948	(167,816)
Decrease in loans and receivables to customers		96,869	247,090	17,615	176,661
Decrease in balances due to credit institutions and central banks		(40,172)	(33,436)	(47,507)	(20,617)
Increase / (decrease) in deposits from customers		119,551	(132,807)	99,450	(158,879)
Cash generated from / (used in) operating activities before corporate income tax		**165,591**	**78,675**	**177,459**	**(182,079)**
Corporate income tax (paid)		(1,908)	(2,460)	(75)	(808)
Net cash flow generated from / (used in) operating activities		**163,683**	**76,215**	**177,384**	**(182,887)**
Cash flows from investing activities					
(Purchase) of intangible and fixed assets		(546)	(10,499)	(379)	(1,045)
Proceeds from disposal of intangible and fixed assets		2,925	1,284	2,798	648
Acquisitions and investments in subsidiaries		-	-	(9,200)	(21,675)
Cash inflows from maturing held-to-maturity securities		-	37,361	-	59,251
Sale of available-for-sale securities, net		70,719	59,401	93,114	71,117
Net cash flow from investing activities		**73,098**	**87,547**	**86,333**	**108,296**
Cash flows from financing activities					
Paid in share capital		9,700	-	9,700	-
Repayment of syndicated loan		(219,684)	(163,402)	(219,684)	(163,402)
Raised subordinated capital		-	12,928	-	12,932
Net cash flow from financing activities		**(209,984)**	**(150,474)**	**(209,984)**	**(150,470)**
Transferred to Citadele banka		**(314,902)**	**-**	**(303,411)**	**-**
Net cash flow for the year		**(288,105)**	**13,288**	**(246,048)**	**(225,061)**
Cash and cash equivalents at the beginning of the year	30	**374,776**	**361,488**	**330,869**	**555,930**
Cash and cash equivalents at the end of the year	30	**86,671**	**374,776**	**84,821**	**330,869**

The notes on pages 13 to 79 are an integral part of these financial statements.

*Before the transfer of undertaking

Figures in parenthesis represent amounts as at 31 December 2009 or for year ended 31 December 2009, if not stated otherwise. If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures.

AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 05 May 2011. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decision on approval of the financial statements.

NOTE 1. GENERAL INFORMATION

AS Parex banka (hereinafter – the Bank) was registered as a joint stock company on 14 May 1992. The Bank commenced its operations in June 1992.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1522. As at 31 December 2009, the Bank was operating a total of 63 branches and client service centres in Riga and throughout Latvia and had 12 foreign branches and client service centres in Tallinn (Estonia), Narva (Estonia), Tartu (Estonia), Berlin (Germany), Hamburg (Germany), Munich (Germany), Helsinki (Finland), Stockholm (Sweden) and Goteborg (Sweden). After transfer of undertaking as of 31 July 2010 all branches and service centres throughout Latvia were transferred to AS Citadele banka. Also, all foreign branches except for Berlin, Hamburg and Munich branches, were transferred to AS Citadele banka during 2010. The Bank owns directly and indirectly 16 (35) subsidiaries, which operate in various financial markets. The Bank is parent company of the Group.

Until the transfer of undertaking the Bank's main areas of operation included accepting deposits from customers, granting short-term and long-term loans to local municipalities, corporate customers, private individuals and other credit institutions, issuing and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Bank offered its clients also trust management and investment banking services, performed local and international payments, as well as provided a wide range of other financial services.

After the transfer of undertaking the primary objective of Parex bank is to manage the residual assets portfolio by maximising its returns. The Bank does not attract new customers and does not provide full range of banking services any more in accordance with the decision On the State Aid C 26/2009 (ex N 289/2009) approved by the European Commission.

As at 31 December 2010, Bank – 109 (1,971) employees and the Group had 271 (2,868) employees.

2009 comparative figures

Due to the significance of the transfer of undertaking transaction (see note 10), the comparative information of 2009 included in these financial statements is not comparable to the financial information for 2010 as it does not reflect the current business activities of the Bank and the Group after the transfer of undertaking. Nevertheless, in order to comply with International Financial Reporting Standards, the historical information for 2009 has been included in these financial statements.

Impact of financial crisis on the Group and Bank

The collapse of Lehman Brothers in mid-September 2008 and the unprecedented events in subsequent weeks intensified the turmoil in global financial markets leading to increased public uncertainty about the stability of the Latvian financial sector and, in particular, privately owned banks, which did not enjoy support from larger international financial institutions. Notwithstanding the continued growth in the deposit base until the end of September 2008, the Bank thereafter experienced deposit outflows as well as a decrease in the liquidity of its securities portfolio, part of which was held as a liquidity cushion. As a result, at the end of October 2008, the Bank applied to the Government of the Republic of Latvia for support. On 10 November 2008, prior to providing the liquidity support, the State and State Joint-Stock Company "Latvijas Hipotēku un zemes banka" (*Mortgage and Land Bank of Latvia)* entered into an agreement with the major shareholders of the Bank Valērijs Kargins and Viktors Krasovickis for the sale of 51% of their shareholding for a symbolic price of 2 lats to the *Mortgage and Land Bank of Latvia*. The initial response to the takeover was a significant increase in the outflows of deposits during the first days after the announcement, mainly due to the lack of public certainty as to whether the State support was temporary or permanent.

On 1 December 2008, with the aim of stabilising the situation in the Bank the Cabinet of Ministers of the Republic of Latvia and the Financial and Capital Market Commission (FCMC), as a temporary measure under the Credit Institutions Law of Latvia, jointly decided to impose withdrawal restrictions on the Bank's deposits. In order to further stabilise *Parex banka*, a decision to increase the State's shareholding was made and amendments to the agreement concluded on 10 November 2008 were made on 3 December 2008. Under the terms of the amendment, a further 33.83% of *Parex banka's* shares were sold by the former major shareholders to the state-owned *Mortgage and Land Bank of Latvia*, increasing its share to 84.83%. Following this initial Government involvement, the Bank has received further liquidity support from the State Treasury of the Republic of Latvia when necessary. On 24 February 2009, the Government of Latvia decided to transfer the shares of *Parex banka* owned by *Mortgage and Land Bank of Latvia* to *the Privatisation Agency*, to ensure more optimal management of the State's investment and prepare the Bank for a capital increase and future sale. Pursuant to this decision *the Privatisation Agency* acquired *Parex banka's* shares owned by *Mortgage and Land Bank of Latvia*, and respective amendments were made in the shareholders' register on 27 February 2009.

On 24 March 2009, the Cabinet of Ministers resolved to strengthen the capital of the Bank by LVL 227 million, consisting of LVL 165 million share capital and LVL 62 million subordinated loans. On 11 May 2009, the European Commission approved a share capital increase of LVL 140,750 thousand and a subordinated loan amounting to LVL 50,270 thousand. On 22 May 2009, *the Privatisation Agency* paid up the respective capital increase and issued subordinated loan.

Furthermore, on 16 April 2009 the *European Bank for Reconstruction and Development* (EBRD) signed an agreement with *the Privatisation Agency* to purchase 25% of the Bank's share capital, subsequent to the increase of the capital by the State. The closing of this transaction took place on 3 September 2009 and the EBRD became a shareholder in the Bank owning 51,444,325 voting shares.

On 29 October 2009 the Bank's capital was increased further by LVL 24.25 million. The increase was carried out by the largest shareholder of the Bank *the Privatisation Agency* by purchase of a corresponding amount of non-voting shares.

On 23 February 2010, the Latvian Cabinet of Ministers approved an increase of LVL 31.5 million in the *Parex banka's* equity capital. On 26 February 2010, the capital increase was carried out.

On 8 May 2009, the Cabinet of Ministers approved *Parex banka's* restructuring plan (further EC restructuring plan), which was developed to assert the state support and it was submitted to the European Commission. On 22 September 2009, revised EC restructuring plan was submitted. In the meantime, the management of the Bank continued the work on developing additional alternatives for the restructuring of the Bank. On 25 January 2010, Privatisation Agency appointed Nomura International Plc (further – Nomura) as the strategic consultant in respect of the restructuring as well as the sale of the Bank. On 23 March 2010, the Cabinet of Ministers approved the restructuring principles/framework presented by Nomura which is to restructure strategic assets out in a new entity to enable the Bank to continue in business on a commercial basis and for it to be less dependant on State support. On 31 May 2010, it was submitted to the European Commission for its approval.

On 28 July 2010, Parex and AS Citadele banka signed the agreement on the transfer of undertaking. On 1 August 2010 the actual transfer of undertaking took place, whereby certain Parex Banka's assets, liabilities as well as agreements were transferred to AS Citadele Banka. The Bank has developed a long-term strategy with respect to management of the asset pool left after the transfer of undertaking to AS Citadele banka. After the transfer date, the primary objective of Parex banka is to manage the residual assets portfolio by maximising its returns. The Bank does not attract new customers and does not provide full range of banking services any more.

The financial statements have been prepared on a going concern basis. The Bank is operating in line with the EC restructuring plan to achieve the objectives outlined there within the approved time frame till the end of 2017. After the transfer of undertaking on 01 August 2010 the Bank's liabilities have been restructured to match it's assets maturities structure and ensure that Bank's ability to continue as going concern. The Bank does not have any delayed liabilities and it is foreseeable that the Bank will be able to settle its liabilities on time also in the future.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2010. Listed below are those new or amended standards or interpretations which are relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

Improvements to International Financial Reporting Standards (issued in April 2009; most of the amendments are effective for annual periods beginning on or after 1 January 2010).

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The amendments did not have a material effect on these financial statements

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1)(effective for annual period beginning on or after 1 July 2009). The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The amendment did not have a material effect on these financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The amendments did not have a material effect on these financial statements

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The amendments did not have a material effect on these financial statements

The following new and amended IFRSs and interpretations became effective in 2010, but are not relevant for the Group's operations and did not have an impact on these financial statements.

IFRIC 12, Service Concession Arrangements
IFRIC 15, Agreements for the Construction of Real Estate
Embedded Derivatives - Amendments to IFRIC 9 and IAS 39
IFRIC 16, Hedges of a Net Investment in a Foreign Operation
IFRIC 17, Distributions of Non-Cash Assets to Owners
IFRIC 18, Transfers of Assets from Customers
Eligible Hedged Items—Amendment to IAS 39
IFRS 1, First-time Adoption of International Financial Reporting Standards
Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2
Additional Exemptions for First-time Adopters - Amendments to IFRS 1

Certain new standards and interpretations have been published that are voluntary for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has early adopted:

Amendment to IAS 24, Related Party Disclosures, ***issued in November 2009*** (effective for annual periods beginning on or after 1 January 2011). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is assessing the impact of the amended standard on its financial statements.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2010 or later periods and which are not relevant to the Group or are not yet endorsed by the EU:

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).

IFRS 9, Financial Instruments Part 1: Classification and Measurement *(not yet endorsed by the EU)*.

IFRS 9 adoption is required starting 1 January 2013, yet earlier application is also allowed, not yet endorsed by the EU.

IFRIC 19, Extinguishing financial liabilities with equity instruments (effective for annual periods beginning on or after 1 July 2010).

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011).

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).

Improvements to International Financial Reporting Standards, issued in May 2010 effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU).

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7(effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU)

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1. (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU.

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Latvia, Latvian lats ("LVL"). The accompanying financial statements are presented in thousands of Lats (LVL 000's).

c) Basis of Consolidation

As at 31 December 2010 and 2009, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost less impairment provision if any. More detailed information on the group's subsidiaries is presented in Note 18.

The financial statements of AS Parex banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

d) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

Penalty income is recognised on cash-received basis.

e) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

f) Taxation

For the year ended 31 December 2010 corporate income tax is applied at the rate of 15% (2009: 15%) on taxable income generated by the Bank for the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is assessed using the balance sheet liability method. The deferred corporate income tax is determined based on the tax rates that are expected to apply when the temporary differences reverse based on tax rates enacted or substantively enacted by the balance sheet date. The principal temporary differences arise from tax losses carried forward, differing rates of accounting and tax depreciation on the fixed assets, revaluation of securities, as well as the treatment of collective impairment allowances and vacation pay reserve.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

g) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group. All other purchases or sales are recognised as derivative instruments until settlement occurs.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category "financial assets/ liabilities at fair value through profit or loss". Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain securities, which are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract term, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit and loss, potential accounting mismatch is avoided.

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the income statement's line "(Loss)/gain on transactions with financial instruments, net".

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held-to-maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

When available-for-sale assets are reclassified to held-to-maturity category, the fair value of the reclassified available-for-sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset's maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

Upon transfer of undertaking the Bank reclassified certain securities from held to maturity category to available for sale category. The reclassification of held to maturity securities was done in accordance with the IAS 39 paragraph 9, which specifies the exceptional circumstances where reclassification from the held to maturity portfolio is allowed without tainting the portfolio. Restructuring of the Bank is an isolated event that is beyond entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group's available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in other comprehensive income statement. The difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available-for-sale equity instruments are recognised in the income statement.When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. All derivatives are classified as held-for-trading.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments".

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments, which are not designated as hedging instruments, are recognised in the statement of income as they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of "loans and receivables" are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables from customers.

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value plus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

h) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

i) Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/ or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

j) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative expenses.

k) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating the there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those of loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; or
  - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

l) Impairment of available-for-sale and held-to-maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

m) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting, which, in essence, involves recognizing identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable net assets acquired, the discount on acquisition is recognized in the income statement in the year of acquisition.

Following the initial recognition, in Group accounts the goodwill arising from the business combinations is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may be impaired.

n) Intangible Assets

Intangible assets comprise software and capitalised costs relating to leasehold rights. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Subsequent the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 7% to 50%. All intangible assets, except for goodwill, are with definite lives.

o) Fixed Assets

Fixed assets are recorded at historical cost less accumulated depreciation less any impairment losses. Fixed assets are periodically reviewed for impairment. If the recoverable value of a fixed asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	2%
Transport vehicles	20%
Other fixed assets	20% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

p) Investment properties

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.
Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value and are not subject to amortization. Market value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

q) Assets and liabilities held for sale

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such assets are classified as held for sale, because they are acquired primarily for the purpose of selling them in the near term. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell. At least at each reporting date, the Group assesses, whether the value of the repossessed assets is impaired. The impairment loss reduces carrying amount of the asset and is included in the income statement's line "Impairment charges and reversals, net".

Disposal groups, which is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction, are classified in the balance sheet as 'other assets' and 'other liabilities'. Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

r) Provisions

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

s) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:
- commitment to extend loans and advances, credit card and overdraft facilities are recognized on drawdown; and
- financial guarantees and letters of credit are recognized when the related fee received as consideration is recognized.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *r)*.

t) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

u) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

v) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

w) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities and estimating future periods' taxable profit.

Impairment of loans
The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank's LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. LVL 11.2 million (2009: LVL 12.6 million). 5% increase in collateral realisation values would result in LVL 4 million (2009: LVL 5 million) decrease in the Bank's specific impairment level, whereas 5% decrease in the respective values would result in LVL 12 million (2009: LVL 16.6 million) increase in the Bank's specific impairment level.

Impairment of securities
The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors.

Deferred tax asset
As a result of transfer of undertaking, most of the performing assets have been transferred to AS Citadele banka, and in 2010 the management's forecasts indicate that the Bank will not be able to generate taxable profits in foreseeable future and therefore deferred tax asset is not recognised.

x) *Staff costs and related contributions*

The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia 65% (2009: 69%) of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

y) *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Management board of the Bank as its chief operating decision maker.

In accordance with IFRS 8, the Group has only one segment – bank in Latvia, i.e. parent bank.

z) *Transfer of undertaking accounting*

The bank used predecessor method as basis for accounting for the transfer of undertaking.

The assets and liabilities to be transferred were measured in accordance with applicable IFRSs immediately before the classification as "non-current assets held for distribution" (IFRS 5).

After classification of transferable net assets as a "disposal group" these were measured at the lower of the carrying value and fair value less costs to sell.

The carrying amount of net assets that were transferred to AS Citadele banka equalled zero. Since the carrying value of net assets was zero and any possible impairment could not reduce the value of net assets below zero, the fair value less costs to sell of the net assets to be transferred to AS Citadele banka equalled to the carrying amount of those net assets.

As the "disposal group" is determined at the stand alone level, any differences arising on the consolidated level are accounted for as profit or loss from the transfer in the statement of income under heading "Gain on transfer of undertaking".

aa) *Events after the balance sheet date*

Post-year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes if material.

NOTE 3. INTEREST INCOME AND EXPENSE

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Interest income:				
- interest on financial assets measured at amortised cost:	65,958	163,820	59,291	145,630
- interest on loans and receivables to customers	*56,442*	*134,620*	*46,427*	*107,563*
- interest on balances due from credit institutions and central banks	*990*	*2,411*	*2,484*	*8,428*
- interest on held-to-maturity securities	*8,526*	*26,789*	*10,380*	*29,639*
- interest income on financial assets designated at fair value through profit or loss	22	91	-	-
- interest on held for trading securities	106	1,264	106	1,257
- interest on available-for-sale securities	5,535	7,135	4,851	6,675
Total interest income	**71,621**	**172,310**	**64,248**	**153,562**
Interest expense:				
- interest on financial liabilities measured at amortised cost:				
- interest on deposits from customers	*(56,001)*	*(84,963)*	*(52,946)*	*(80,115)*
- interest on balances due to credit institutions and central banks	*(14,618)*	*(45,041)*	*(14,752)*	*(45,387)*
- interest on issued debt securities	*(3,640)*	*(5,236)*	*(3,379)*	*(5,232)*
- interest on subordinated liabilities	*(9,220)*	*(10,581)*	*(9,220)*	*(10,581)*
- interest on other financial liabilities	*(16)*	*(56)*	-	-
- other interest expense	-	*(6)*	-	-
Total interest expense	**(83,495)**	**(145,883)**	**(80,297)**	**(141,315)**
Net interest income	**(11,874)**	**26,427**	**(16,049)**	**12,247**

NOTE 4. COMMISSION AND FEE INCOME AND EXPENSE

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Commission and fee income:				
- transactions with settlement cards	7,523	14,354	6,924	13,316
- payment transfer fee	2,737	5,130	2,135	4,116
- custody, trust and asset management fees	2,132	3,376	2	116
- securities, financial instrument brokerage fees	771	1,088	720	995
- cash disbursement/ transaction commission	632	1,089	490	824
- cash collection	456	836	456	836
- service fee for account maintenance	396	528	310	415
- letters of credit and guarantees	150	291	97	192
- review of loan applications and collateral evaluation	125	100	117	93
- other fees	931	1,368	318	685
Total commission and fee income	**15,853**	**28,160**	**11,569**	**21,588**

*Before the transfer of undertaking

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Commission and fee expense:				
- fees related to settlement card operations	(3,576)	(5,982)	(2,681)	(5,151)
- fees related to correspondent accounts	(727)	(1,447)	(572)	(1,143)
- brokerage and custodian fees:	(284)	(547)	(345)	(637)
- securities, financial instrument brokerage fees	*(159)*	*(412)*	*(161)*	*(266)*
- custody, trust and asset management fees	*(125)*	*(135)*	*(184)*	*(371)*
- other fees	(199)	(612)	(4)	(13)
Total commission and fee expense	**(4,786)**	**(8,588)**	**(3,602)**	**(6,944)**
Net commission and fee income	**11,067**	**19,572**	**7,967**	**14,644**

Commission and fee income and expense from financial instruments not at fair value through profit and loss, other than amounts included in determining the effective interest rate, can be specified as follows:

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Commission and fee income	15,853	28,160	11,569	21,588
Commission and fee expense	(4,786)	(8,588)	(3,602)	(6,944)

NOTE 5. GAIN / (LOSS) ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Gain on trading and revaluation of securities held for trading purposes, net	72	1,792	74	1,778
Gain/ (loss) from disposal of available for sale securities, net	(411)	(11)	(1,119)	15
Gain/ (loss) on financial assets measured at amortised cost, net	270	(327)	-	-
Gain from foreign exchange trading and revaluation of open positions, net	1,905	2,644	1,826	2,256
Gain/ (loss) from trading and revaluation of other derivatives, net	(1,195)	1,557	(1,097)	1,491
Gain / (loss) on trading with financial instruments, net	**641**	**5,655**	**(316)**	**5,540**

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Net gain/ (loss) on financial instruments not at fair value through profit or loss	(141)	(338)	(1,119)	15
Net gain/ (loss) on financial instruments at fair value through profit or loss	782	5,993	803	5,525
Total gain/ (loss) on financial instruments, net	**641**	**5,655**	**(316)**	**5,540**

*Before the transfer of undertaking

NOTE 6. OTHER OPERATING INCOME

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Penalties received	5,826	10,298	3,868	7,972
Dividends received	4	160	1,360	160
Other income	3,423	4,562	1,089	2,159
Total other operating income	**9,253**	**15,020**	**6,317**	**10,291**

NOTE 7. ADMINISTRATIVE EXPENSE

	LVL 000's			
	2010 Group	2009* Group (reclassified)	2010 Bank	2009* Bank (reclassified)
Personnel expense	24,345	45,722	16,464	31,544
Rent, utilities, maintenance	3,377	7,616	3,957	6,463
Consulting and professional fees	4,507	3,745	4,140	2,991
IT expenses	1,716	2,549	1,050	1,266
Non-refundable VAT	1,530	3,046	1,019	2,436
Advertising, marketing	1,447	1,409	1,318	1,154
Communications (telephone, telex)	613	2,244	324	1,699
Car maintenance	467	843	305	432
Travel	455	607	282	405
Office administration expenses	444	558	286	335
Insurance	349	398	223	170
Taxes (real estate tax and other except value added tax and corporate income tax)	247	481	20	56
Security	184	240	120	164
Representation	128	300	84	223
Other administrative expense	1,354	1,764	835	1,014
Expenses related to investment properties	143	2	-	-
Total administrative expense	**41,306**	**71,524**	**30,427**	**50,352**

NOTE 8. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expense. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Remuneration (incl. bonuses):				
- management	1,705	2,967	615	739
- other personnel	18,061	34,051	12,684	24,565
Total remuneration for work	**19,766**	**37,018**	**13,299**	**25,304**
Social security contributions:				
- management	330	515	148	178
- other personnel	4,249	8,189	3,017	6,062
Total social security contributions	**4,579**	**8,704**	**3,165**	**6,240**
Total personnel expense	**24,345**	**45,722**	**16,464**	**31,544**
Average number of personnel during the year	1,905	3,127	1,060	2,167

*Before the transfer of undertaking

NOTE 9. IMPAIRMENT OF ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

An analysis of the change in allowances for impairment of loans and receivables and provisions for off-balance sheet commitments is presented as follows:

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Total allowance for impairment at the beginning of the year, including:	**234,694**	**116,463**	**227,026**	**115,199**
- loans - specifically assessed impairment	187,902	101,797	187,193	104,391
- loans - collectively assessed impairment	46,607	13,656	39,648	9,798
- off-balance sheet commitments - specifically assessed impairment	185	1,010	185	1,010
Charge:	**110,898**	**130,537**	**115,311**	**125,935**
- loans - specifically assessed impairment	98,117	96,644	103,467	96,085
- loans - collectively assessed impairment	12,781	33,893	11,844	29,850
Release:	**(20,833)**	**(11,046)**	**(27,802)**	**(13,415)**
- loans - specifically assessed impairment	(8,588)	(9,327)	(16,609)	(12,586)
- loans - collectively assessed impairment	(12,060)	(890)	(11,008)	-
- off-balance sheet commitments - specifically assessed impairment	(185)	(829)	(185)	(829)
Provision charged to the statement of income, net, including:	**90,065**	**119,491**	**87,509**	**112,520**
- loans - specifically assessed impairment	89,529	87,317	86,858	83,499
- loans - collectively assessed impairment	721	33,003	836	29,850
- off-balance sheet commitments - specifically assessed impairment	(185)	(829)	(185)	(829)
Change of allowance due to write-offs, net	-	**(491)**	-	**(37)**
Transfer:	**(6,198)**	-	-	-
Impairment to other financial and non-financial assets	(6,198)	-	-	-
Effect of changes in currency exchange rates:	**(71,112)**	-	**(53,893)**	-
- loans - specifically assessed impairment	(55,839)	-	(45,147)	-
- loans - collectively assessed impairment	(15,273)	-	(8,746)	-
Effect of changes in currency exchange rates:	**(973)**	**(769)**	**621**	**(656)**
- loans - specifically assessed impairment	(656)	(721)	621	(660)
- loans - collectively assessed impairment	(317)	(52)	-	-
- off-balance sheet commitments - specifically assessed impairment	-	4	-	4
Total allowance for impairment at the end of the year, including:	**246,476**	**234,694**	**261,263**	**227,026**
- loans - specifically assessed impairment	214,738	187,902	229,525	187,193
- loans - collectively assessed impairment	31,738	46,607	31,738	39,648
- off-balance sheet commitments - specifically assessed impairment	-	185	-	185

*Before the transfer of undertaking

An analysis of the change in impairment of other assets is presented as follows:

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Total allowance for impairment at the beginning of the year, including:	**43,818**	**51,330**	**26,517**	**37,106**
- available-for-sale securities	442	5,948	442	5,948
- held-to-maturity securities	14,518	22,828	14,518	22,828
- due from credit institutions	344	1,343	344	1,343
- other financial and non-financial assets	28,514	21,211	11,213	6,987
Charge:	**26,778**	**14,059**	**31,897**	**10,772**
- available-for-sale securities	-	3,839	-	3,839
- held-to-maturity securities	866	2,296	6,994	2,296
- due from credit institutions	149	-	149	-
- other financial and non-financial assets	25,763	7,924	24,754	4,637
Charge from equity reserves due to impairment	**1,100**	**(3,150)**	**1,100**	**(3,150)**
- available-for-sale securities	1,100	(2,585)	1,100	(2,585)
- held-to-maturity securities	-	(565)	-	(565)
Release:	**(9,117)**	**(13,851)**	**(4,775)**	**(13,599)**
- available-for-sale securities	(1,588)	(4,084)	(1,588)	(4,084)
- held-to-maturity securities	(3,161)	(8,150)	(3,179)	(8,150)
- due from credit institutions	-	(1,021)	-	(1,021)
- other financial and non-financial assets	(4,368)	(596)	(8)	(344)
Provision charged to the statement of income, net, including:	**18,761**	**208**	**28,222**	**(2,827)**
- available-for-sale securities	(488)	(245)	488	(245)
- held-to-maturity securities	(2,295)	(5,854)	3,815	(5,854)
- due from credit institutions	149	(1,021)	149	(1,021)
- other financial and non-financial assets	21,395	7,328	24,746	4,293
Change of allowance due to write-offs, net:	**(16,161)**	**(2,753)**	**(14,353)**	**(2,753)**
- available-for-sale securities (write-off)	(488)	(2,692)	(488)	(2,692)
- available-for-sale securities (release of allowance account)	(11,696)	-	(11,696)	-
- held-to-maturity securities	(2,157)	-	(2,157)	-
- other financial and non-financial assets	(1,820)	(61)	(12)	(61)
Reclassification of securities:	**-**	**-**	**-**	**-**
- available-for-sale securities	11,696	-	11,696	-
- held-to-maturity securities	(11,696)	-	(11,696)	-
Transfer:	**6,198**	-	-	-
- loans – specifically assessed impairment to other financial and non – financial assets	6,198	-	-	-
Transfer to Citadele banka on 1 August 2010	**(20,928)**	-	**(29,477)**	-
- due from credit institutions	(540)	-	(540)	-
- other financial and non-financial assets	(20,388)	-	(28,937)	-
Effect of changes in currency exchange rates:	**(51)**	**(1,817)**	**(281)**	**(1,859)**
- available-for-sale securities	46	16	46	16
- held-to-maturity securities	(527)	(1,891)	(464)	(1,891)
- due from credit institutions	47	22	47	22
- other financial and non-financial assets	383	36	90	(6)
Total allowance for impairment at the end of the year, including:	**36,102**	**43,818**	**13,273**	**26,517**
- available-for-sale securities	-	442	-	442
- held-to-maturity securities	-	14,518	6,173	14,518
- due from credit institutions	-	344	-	344
- other financial and non-financial assets	36,102	28,514	7,100	11,213

*Before the transfer of undertaking

NOTE 10. TRANSFER OF UNDERTAKING

Gain on transfer of undertaking on Group level arises from the difference between the carrying value and the fair value of subsidiaries that were transferred to Citadele banka on the day of transfer less impairment provisions for loans to subsidiaries that were transferred to Citadele banka.

On 1 August 2010 following assets and liabilities were transferred or sold to AS Citadele banka:

	LVL 000's	
	31/07/2010 Group	31/07/2010 Bank
Assets		
Cash and deposits with central banks	149,594	136,919
Balances due from credit institutions	164,894	167,919
Securities held for trading:		
- fixed income securities	5	5
- shares and other non-fixed income securities	-	-
Derivative financial instruments	1,322	1,385
Financial assets designated at fair value through profit and loss	2,646	-
Available-for-sale securities:		
- fixed income securities	71,488	36,138
- shares and other non-fixed income securities	9,438	9,391
Loans and receivables to customers	862,466	748,921
Held-to-maturity securities	222,529	212,398
Current income tax assets	115	-
Assets held for sale	4,178	-
Fixed assets	44,409	7,681
Goodwill and intangible assets	2,925	525
Investments in subsidiaries	-	57,233
Investment property	951	-
Deferred income tax assets	29,358	29,226
Other assets	7,598	4,772
Total assets	**1,573,916**	**1,412,513**
Liabilities		
Derivative financial instruments	934	947
Financial liabilities designated at fair value through profit and loss	917	-
Financial liabilities measured at amortised cost:		
- balances due to credit institutions and central banks	128,901	135,589
- deposits from customers	1,268,790	1,099,783
- issued debt securities	110,830	110,863
- other financial liabilities	6,732	-
Current income tax liabilities	5	-
Deferred income tax liabilities	491	-
Other liabilities	9,315	5,901
Subordinated liabilities	51,300	51,306
Other reserves	(4,385)	(3,944)
Total liabilities	**1,573,830**	**1,400,445**
Net receivable as a result of the transfer		**12,068**

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Current corporate income tax	256	1,055	-	-
Deferred income tax	980	(19,178)	303	(19,364)
Tax withheld abroad	647	1,418	647	1,418
Prior year adjustments	-	(310)	-	(134)
Total corporate income tax expense	**1,883**	**(17,015)**	**950**	**(18,080)**

*Before the transfer of undertaking

The reconciliation of the Bank's and the Group's pre-tax loss for the year to the corporate income tax expense for the year may be specified as follows:

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Loss before corporate income tax	(148,987)	(144,025)	(162,914)	(129,190)
Corporate income tax (at standard rate)**	**(22,348)**	**(21,604)**	**(24,437)**	**(19,379)**
Permanent differences, net	(13,137)	(3,618)	(8,965)	(4,505)
Prior year adjustments	-	(310)	-	(134)
Unrecognised deferred tax assets	37,368	8,517	34,352	5,938
Total effective corporate income tax	**1,883**	**(17,015)**	**950**	**(18,080)**

** standard rate for the year ended 31 December 2010 was 15% (2009: 15%).

The movements in deferred corporate income tax asset can be specified as follows:

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
As at 1 January	(30,646)	(11,852)	(28,801)	(9,679)
Charge to statement of income	980	(19,178)	303	(19,364)
Charge to statement of comprehensive income***	308	384	(728)	242
Transferred to Citadele banka	29,358	-	29,226	-
Total deferred income tax (asset) at the end of the year	**-**	**(30,646)**	**-**	**(28,801)**

Deferred corporate income tax assets and liabilities can be specified as follows:

	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	146	1,249	-	286
Other deferred tax liabilities	240	189	-	-
Deferred tax assets:				
Vacation pay accrual	(27)	(349)	(22)	(324)
Revaluation of securities and derivatives***	(73)	(47)	(73)	(3)
Non-taxable impairment allowance	(4,886)	(7,632)	(4,761)	(6,333)
Unutilised tax losses	(30,453)	(29,861)	(29,492)	(28,365)
Other deferred tax assets	(2,315)	(2,712)	(4)	-
Net deferred corporate income tax (asset)	**(37,36ℓ**	**(39,163)**	**(34,352)**	**(34,739)**
Unrecognised deferred tax asset****	37,368	8,517	34,352	5,938
Recognised deferred corporate income tax (asset)	**-**	**(30,646)**	**-**	**(28,801)**

***all changes in deferred tax liability that are charged directly to statement of comprehensive income are related to revaluation of securities.
**** the Group does not recognise deferred tax asset in accordance with the policy described in Note 2(x).

*Before the transfer of undertaking

The movements in tax accounts of the Bank during 2010 can be specified as follows:

	Balance as at 31/12/2009*	Calculated in 2010	Paid in 2010	Transferred	Balance as at 31/12/2010
Corporate income tax	7,190	(138)	(7,127)	352	277
including corporate income tax withheld abroad	-	*(460)*	*460*	-	-
Social security contributions	(588)	(4,180)	4,682	-	(86)
Personal income tax	(838)	(3,616)	3,898	-	(556)
Value added tax	87	54	25	(352)	(186)
Real estate tax	-	(49)	49	-	-
Total tax (payable)/ receivable	**5,851**	**(8389)**	**1987**	**-**	**(551)**

NOTE 12. CASH AND DEPOSITS WITH CENTRAL BANKS

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Cash	-	38,543	-	35,098
Deposits with the Bank of Latvia	26,944	101,671	26,944	101,671
Demand deposits with other central banks	-	17,288	-	5,490
Total cash and deposits with central banks	**26,944**	**157,502**	**26,944**	**142,259**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the mandatory reserve requirement calculated on the basis of attracted funding.

As at 31 December 2010 and 2009, none of the amounts due from central banks were past due.

NOTE 13. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Due from credit institutions registered in OECD countries	-	199,566	-	172,487
Due from credit institutions registered in Latvia	66,566	10,462	64,728	9,839
Due from credit institutions registered in other non-OECD countries	1,121	11,152	1,109	143,887
Total gross balances due from credit institutions	**67,687**	**221,180**	**65,837**	**326,213**
Incl. impaired balances	-	*490*	-	*490*
Impairment allowance	-	(344)	-	(344)
Total net balances due from credit institutions	**67,687**	**220,836**	**65,837**	**325,869**

As at 31 December 2010, the Bank did not have inter-bank deposits with Latvian credit institutions (2009: 1).
As at 31 December 2010 and 2009, none of the amounts due from credit institutions were past due.

*Before the transfer of undertaking

The following table presents the Group's and Bank's balances due from credit institutions according to maturity profile:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Correspondent accounts (nostro)	59,739	68,189	57,889	52,399
Overnight deposits	-	140,306	-	131,432
Total demand deposits	**59,739**	**208,495**	**57,889**	**183,831**
Term deposits with credit institutions:				
due within 1 month	920	7,859	920	491
due within 1-3 months	7,028	3,915	7,028	17,901
due within 3-6 months	-	459	-	123,990
due within 6-12 months	-	54	-	-
due within 1-5 years	-	398	-	-
Total term deposits	**7,948**	**12,685**	**7,948**	**142,382**
Total gross balances due from credit institutions	**67,687**	**221,180**	**65,837**	**326,213**
Impairment allowance	-	(344)	-	(344)
Total net balances due from credit institutions	**67,687**	**220,836**	**65,837**	**325,869**

The above balances represent a maximum credit risk exposure to the Group and the Bank respectively.

NOTE 14. LOANS AND RECEIVABLES TO CUSTOMERS

The following table represents the current classes of the Group's loans:

	Group, LVL 000's					
	31/12/2010			31/12/2009*		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total credit exposure
Regular loans	763,348	23	763,371	1,496,432	2,082	1,498,514
Utilised credit lines	18,439	112	18,551	131,403	43,090	174,493
Finance leases	337	-	337	146,308	-	146,308
Debit balances on settlement cards	4,641	26	4,667	90,675	72,985	163,660
Overdraft facilities	1,201	37	1,238	7,436	7,917	15,353
Loans under reverse repurchase agreements	1	-	1	599	-	599
Factoring	58	-	58	15,480	14	15,494
Due from investment and brokerage firms	1	-	1	6,544	-	6,544
Total loans and receivables to customers	**788,026**	**198**	**788,224**	**1,894,877**	**126,088**	**2,020,965**
Impairment allowance	(246,476)	-	(246,476)	(234,509)	(185)	(234,694)
Total net loans and receivables to customers	**541,550**	**198**	**541,748**	**1,660,368**	**125,903**	**1,786,271**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

*Before the transfer of undertaking

The following table represents the current classes of the Bank's loans:

	Bank, LVL 000's					
	31/12/2010			31/12/2009*		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total credit exposure
Regular loans	776,428	23	776,451	1,336,857	1,158	1,338,015
Utilised credit lines	44,876	19,777	64,653	224,301	92,550	316,851
Debit balances on settlement cards	4,641	26	4,667	81,390	61,411	142,801
Overdraft facilities	1,201	37	1,238	7,731	11,204	18,935
Loans under reverse repurchase agreements	1	-	1	-	-	-
Factoring	58	-	58	14,077	-	14,077
Due from investment and brokerage firms	1	-	1	6,468	-	6,468
Finance leases	337	-	337	1,423	-	1,423
Total loans and receivables to customers	**827,543**	**19,863**	**847,406**	**1,672,247**	**166,323**	**1,838,570**
Impairment allowance	(261,263)	-	(261,263)	(226,841)	(185)	(227,026)
Total net loans and receivables to customers	**566,280**	**19,863**	**586,143**	**1,445,406**	**166,138**	**1,611,544**

The table below provides information about loans with renegotiated terms:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Carrying amount of restructured loans	302,251	451,995	309,408	451,208

Loans and advances by customer profile may be specified as follows:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Privately held companies	557,795	1,111,524	597,312	1,077,302
Private individuals	230,231	734,115	230,231	554,336
State owned enterprises	-	27,845	-	20,990
Public and religious institutions	-	9,235	-	8,966
Municipality owned enterprises	-	8,280	-	7,642
Local municipalities	-	3,876	-	3,009
Government	-	2	-	2
Total gross loans and receivables to customers	**788,026**	**1,894,877**	**827,543**	**1,672,247**
Impairment allowance	(246,476)	(234,509)	(261,263)	(226,841)
Total net loans and receivables to customers	**541,550**	**1,660,368**	**566,280**	**1,445,406**

*Before the transfer of undertaking

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Real estate purchase and management	314,298	435,752	325,714	438,358
Electricity, gas and water supply	58,017	55,046	58,017	53,945
Trade	49,398	157,239	49,398	114,305
Transport and communications	35,202	201,671	35,202	165,896
Manufacturing	34,545	67,819	34,545	54,130
Financial intermediation	21,470	44,566	49,571	169,539
Construction	20,826	69,552	20,826	32,662
Hotels, restaurants	12,095	52,663	12,095	49,968
Agriculture and forestry	170	16,454	170	3,230
Other industries	11,774	60,000	11,774	35,878
Total gross loans and receivables to corporate customers	**557,795**	**1,160,762**	**597,312**	**1,117,911**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Latvian residents	471,088	1,049,126	482,179	1,113,614
OECD region residents	128,965	43,703	129,289	41,170
Non-OECD region residents	187,973	802,048	216,075	517,463
Total gross loans and receivables to customers	**788,026**	**1,894,877**	**827,543**	**1,672,247**
Impairment allowance	(246,476)	(234,509)	(261,263)	(226,841)
Total net loans and receivables to customers	**541,550**	**1,660,368**	**566,280**	**1,445,406**

NOTE 15. LEASES

The following table represents finance leases analysed by type of assets:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Transport vehicles	157	110,426	157	214
Real estate	142	6,121	142	1,142
Manufacturing equipment	27	9,361	27	27
Other	11	20,400	11	40
Total present value of finance lease payments, excluding impairment	**337**	**146,308**	**337**	**1,423**
Impairment allowance	(73)	(12,620)	(73)	(96)
Net present value of finance lease payments	**264**	**133,688**	**264**	**1,327**

*Before the transfer of undertaking

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Gross investment in finance leases receivable:				
within 1 year	89	46,243	89	208
later than 1 year and no later than in 5 years	140	115,064	140	1,380
later than in 5 years	108	6,194	108	-
Total gross investment in finance leases	**337**	**167,501**	**337**	**1,588**
Unearned finance income receivable:				
within 1 year	-	9,685	-	61
later than 1 year and no later than in 5 years	-	11,095	-	104
later than in 5 years	-	413	-	-
Total	**-**	**21,193**	**-**	**165**
Present value of minimum lease payments receivable:				
within 1 year	89	36,558	89	147
later than 1 year and no later than in 5 years	140	103,969	140	1,276
later than in 5 years	108	5,781	108	-
Total	**337**	**146,308**	**337**	**1,423**

NOTE 16. FIXED INCOME SECURITIES

The Group's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2010				31/12/2009*			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	-	-	-	-	174,906	16,717	-	191,623
Municipality bonds	24,208	2,352	-	26,560	29,251	3,629	-	32,880
Credit institution bonds	-	48,248	821	49,069	74,605	63,290	1,405	139,300
Corporate bonds	-	6,091	-	6,091	22,189	11,511	4	33,704
Other financial institution bonds	-	2,719	-	2,719	11,457	9,671	-	21,128
Managed funds	-	-	-	-	1,481	-	-	1,481
Total gross fixed income securities	**24,208**	**59,410**	**821**	**84,439**	**313,889**	**104,818**	**1,409**	**420,116**
Impairment allowance	-	-	-		(14,518)	-	-	(14,518)
Total net fixed income securities	**24,208**	**59,410**	**821**	**84,439**	**299,371**	**104,818**	**1,409**	**405,598**

The above table represents a maximum credit risk exposure to the Group and the Bank respectively.

*Before the transfer of undertaking

The Bank's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2010				31/12/2009*			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	-	-	-	-	174,760	386	-	175,146
Municipality bonds	24,208	2,352	-	26,560	27,242	3,511	-	30,753
Credit institution bonds	-	48,248	821	49,069	69,894	57,671	1,405	128,970
Corporate bonds	-	6,091	-	6,091	19,634	10,727	4	30,365
Other financial institution bonds	23,330	2,719	-	26,049	40,156	13,446	-	53,602
Managed funds	-	-	-	-	1,481	-	-	1,481
Total gross fixed income securities	**47,538**	**59,410**	**821**	**107,769**	**333,167**	**85,741**	**1,409**	**420,317**
Impairment allowance	(6,173)	-		(6,173)	(14,518)	-	-	(14,518)
Total net fixed income securities	**41,365**	**59,410**	**821**	**101,596**	**318,649**	**85,741**	**1,409**	**405,799**

As at 31 December 2010, the carrying amount of the Group's and Bank's securities on which the payments are past due was LVL 9,319 thousand (2009: LVL 3,057 thousand). As at 31 December 2010, the carrying amount of securities, on which the payments were delayed for more than 12 months, amounted to LVL 2,270 thousand (2009: LVL 901 thousand).

As at 31 December 2010, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to LVL 2,561 thousand (2009: LVL 7,611 thousand).

As at 31 December 2010, the net carrying amount of securities, which were restructured during the year, amounted to LVL 42 thousand (2009: LVL 857 thousand).

In 2008, due to changes of intentions in relation to the holding period of the securities, the Bank resolved to reclassify available-for-sale securities to held-to-maturity portfolio in accordance with the policy described in Note 2(g). In 2010, on the transfer of undertaking, the Bank resolved to reclassify certain held to maturity securities to available-for-sale category. As at 31 December 2010 the carrying amount of the aforementioned securities is LVL 69,416 thousand. If the securities were not reclassified, the carrying amount as at 31 December 2010 would be LVL 65,206 thousand.

*Before the transfer of undertaking

	Group, LVL 000's					
	31/12/2010			31/12/2009*		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Government bonds:						
Latvia	-	-	-	173,947	-	173,947
OECD	-	-	-	6,229	-	6,229
Non-OECD	-	-	-	11,447	-	11,447
Total government bonds	**-**	**-**	**-**	**191,623**	**-**	**191,623**
Municipality bonds:						
OECD	-	-	-	118	-	118
Non-OECD	26,559	-	26,559	32,761	-	32,761
Total municipality bonds	**26,559**	**-**	**26,559**	**32,879**	**-**	**32,879**
Credit institution bonds:						
Latvia	893	-	893	6,758	-	6,758
OECD	29,046	-	29,046	70,178	19,134	89,312
Non-OECD	19,130	-	19,130	43,231	-	43,231
Total credit institution bonds	**49,069**	**-**	**49,069**	**120,167**	**19,134**	**139,301**
Corporate bonds (OECD and non-OECD)	6,091	-	6,091	30,585	3,120	33,705
Other financial institution bonds (OECD and non-OECD)	2,720	-	2,720	19,227	1,900	21,127
Managed funds	-	-	-	-	1,481	1,481
Total gross fixed income securities	**84,439**	**-**	**84,439**	**394,481**	**25,635**	**420,116**
Impairment allowance	-	-	-	(10,246)	(4,272)	(14,518)
Total net fixed income securities	**84,439**	**-**	**84,439**	**384,235**	**21,363**	**405,598**

	Bank, LVL 000's					
	31/12/2010			31/12/2009*		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Government bonds:						
Latvia	-	-	-	173,893	-	173,893
Non-OECD	-	-	-	1,253	-	1,253
Total government bonds	**-**	**-**	**-**	**175,146**	**-**	**175,146**
Municipality bonds:						
Non-OECD	26,559	-	26,559	30,752	-	30,752
Total municipality bonds	**26,559**	**-**	**26,559**	**30,752**	**-**	**30,752**
Credit institution bonds:						
Latvia	893	-	893	6,626	-	6,626
OECD	29,046	-	29,046	61,470	19,134	80,604
Non-OECD	19,130	-	19,130	41,740	-	41,740
Total credit institution bonds	**49,069**	**-**	**49,069**	**109,836**	**19,134**	**128,970**
Corporate bonds (OECD and non-OECD)	6,091	-	6,091	27,246	3,120	30,366
Other financial institution bonds (OECD and non-OECD)	2,720	23,330	26,050	11,562	42,040	53,602
Managed funds	-	-	-	-	1,481	1,481
Total gross fixed income securities	**84,439**	**23,330**	**107,769**	**354,542**	**65,775**	**420,317**
Impairment allowance	-	(6,173)	(6,173)	(10,246)	(4,272)	(14,518)
Total net fixed income securities	**84,439**	**17,157**	**101,596**	**344,296**	**61,503**	**405,799**

*Before the transfer of undertaking

NOTE 17. SHARES AND OTHER NON-FIXED INCOME SECURITIES

The following table provides the classification of the Group's shares and other non-fixed income securities between available for sale and fair value through profit and loss (where all securities are held for trading) portfolio:

	LVL 000's					
	31/12/2010			31/12/2009*		
	Available for sale	Held for trading	Total	Available for sale	Held for trading	Total
Equity shares:						
in Latvian corporate entities	-	82	82	-	649	649
in OECD financial entities	-	190	190	15	-	15
in OECD corporate entities	-	33	33	58	673	731
in non-OECD corporate entities	-	-	-	1	121	122
Total equity shares	-	305	305	74	1,443	1,517
Managed funds	-	-	-	9,457	-	9,457
Total shares and other non-fixed income securities	**-**	**305**	**305**	**9,531**	**1,443**	**10,974**

The Group possess limited information on the structure of investments in managed funds, which are managed on the behalf of investors by other financial institutions. As such, these investments are not analysed by their ultimate issuer. Investments in funds, where the Group does not possess sufficient information on portfolios' composition between fixed income securities and shares are classified as investments in shares and other non-fixed income securities.

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Latvian entities' equity shares:				
listed	82	649	82	649
unlisted	-	-	-	-
Total Latvian entities' equity shares	82	649	82	649
Foreign entities' equity shares:				
listed	33	361	33	361
unlisted	190	506	190	490
Total foreign entities' equity shares	223	867	223	851
Mutual investment funds	-	9,458	-	9,401
Total shares and other non-fixed income securities	**305**	**10,974**	**305**	**10,901**

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due.

*Before the transfer of undertaking

NOTE 18. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank's investments in subsidiaries may be specified as follows:

	LVL 000's	
	2010	2009*
Balance as at 1 January	**72,725**	**51,442**
Establishment of new subsidiaries	-	50
Equity investments in the existing subsidiaries	9,200	21,626
Sale of subsidiaries	(11)	-
Reclassified to held for sale	(198)	
Transferred or sold to Citadele banka	(57,233)	-
Impairment	(24,423)	(393)
Balance as at 31 December	**60**	**72,725**

In January 2009, March 2009 and December 2009, the Bank paid up additional share issue of AS Parex bankas (Lithuania) amounting LTL 8,149 thousand, LTL 34,528 thousand and LTL 63,530 thousand, respectively.

On 29 September 2009, the Bank established a subsidiary company SIA NIF, which in October 2009 set up three subsidiary companies – SIA NIF Dzīvojamie Īpašumi, SIA NIF Komercīpašumi and SIA NIF Zemes Īpašumi. In November and December 2009 SIA NIF established two more subsidiaries – OU Restruktureeritud Kinnisvarafond (Estonia) and UAB Nekilnojamojo turto valdymo fondas Lithuania (in 2010 renamed to UAB NIF Lietuva). The purpose of the established subsidiaries is to ensure more effective management of the repossessed assets.

In 2010 SIA NIF established three more subsidiaries – SIA NIF Projekts 1, SIA NIF Projekts 2, SIA NIF Projekts 3.

In August 2010, upon transfer of undertaking, the Bank has transferred part of its subsidiaries and other related companies to Citadele banka. For more details see the table below.

On 1 August 2010 the Bank sold its investment in subsidiary AS Parex Bankas at net book value. Due to new circumstances affecting the sales price were discovered after the sales transaction took place the parties accepted the decrease in the sales price by LVL 11,192 thousand, which should be settled by 31 December 2011. The respective adjustments were made in these financial statements.

*Before the transfer of undertaking

As at 31 December 2010 and 2009, the Bank held the following investments in subsidiaries:

			As at 31/12/2010			As at 31/12/2009*			Investment carrying value LVL 000's	
Company	Country of registration	Business profile	Share capital in LVL 000's	The Bank's share (%)	% of total voting rights	Share capital in LVL 000's	The Bank's share (%)	% of total voting rights	31/12/2010	31/12/2009
AB Parex Bankas**	Lithuania	Banking				58,386	100.0	100.0	-	57,000
AP Anlage & Privatbank AG**	Switzerland	Banking	-	-	-	4,720	100.0	100.0	-	9,702
AS Parex Atklātais Pensiju Fonds**	Latvia	Pension fund	-	-	-	450	100.0	100.0	-	454
IPAS Parex Asset Management**	Latvia	Finance	-	-	-	4,150	100.0	100.0	-	4,151
ZAO Parex Asset Management**	Russia	Finance	-	-	-	426	100.0	100.0	-	-
OOO Parex Asset Management Ukraina**	Ukraine	Finance	-	-	-	564	100.0	100.0	-	-
UAB Parex Investiciju Valdymas**	Lithuania	Finance	-	-	-	730	100.0	100.0	-	-
OU Parex Leasing & Factoring**	Estonia	Finance	-	-	-	351	100.0	100.0	-	313
UAB Parex Faktoringas ir Lizingas**	Lithuania	Finance	-	-	-	305	100.0	100.0	-	-
SIA Rīgas Pirmā Garāža**	Latvia	REM*	-	-	-	352	100.0	100.0	-	-
SIA Parex Private Banking	Latvia	REM*	180	100.0	100.0	180	100.0	100.0	10	10
SIA Parex Express Kredīts**	Latvia	Leasing	-	-	-	31	100.0	100.0	-	613
SIA E&P Baltic Properties**	Latvia	Finance	-	-	-	20	50.0	50.0	-	-
SIA Parex Līzings un Faktorings**	Latvia	Leasing	-	-	-	200	100.0	100.0	-	-
AAS Parex Dzīvība**	Latvia	Life insurance	-	-	-	3,000	100.0	100.0	-	-
OOO Laska Lizing	Ukraine	Leasing	65	100.0	100.0	65	100.0	100.0	-	122
OOO Ekspress Lizing	Russia	Leasing	57	100.0	100.0	57	100.0	100.0	-	76
OOO Parex Leasing & Factoring	Azerbaijan	Leasing	30	100.0	100.0	30	100.0	100.0	-	-
OOO Parex Leasing	Russia	Leasing	113	100.0	100.0	113	100.0	100.0	-	-
IOOO Pareks Lizing	Belarus	Leasing	-	-	-	7	100.0	100.0	-	12
OOO Extroleasing	Russia	Leasing	164	100.0	100.0	164	100.0	100.0	-	222
OOO Extrocredit	Russia	Finance	-	99.0	99.0	-	99.0	99.0	-	-
OOO Parex Leasing & Factoring	Georgia	Leasing	24	100.0	100.0	24	100.0	100.0	-	-
Regalite Holdings Limited	Cyprus	Finance	6	100.0	100.0	6	100.0	100.0	-	-
Calenia Investments Limited**	Cyprus	Finance	-	-	-	-	100.0	100.0	-	-
OOO Parex Investments Ukraine**	Ukraine	Finance	-	-	-	40	100.0	100.0	-	-
SIA RPG Interjers**	Latvia	REM*	-	-	-	2	100.0	100.0	-	-
OAO Parex Ukrainian Equity Fund**	Ukraine	Finance	-	-	-	-	100.0	100.0	-	-
SIA PR Speciālie Projekti**	Latvia	Commercial pledges' administrator	-	-	-	2	100.0	100.0		-
SIA NIF	Latvia	REM*	50	100.0	100.0	50	100.0	100.0	50	50
SIA NIF Dzīvojamie Īpašumi	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Komercīpašumi	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Zemes Īpašumi	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 1	Latvia	REM*	2	100.0	100.0				-	
SIA NIF Projekts 2	Latvia	REM*	2	100.0	100.0				-	
SIA NIF Projekts 3	Latvia	REM*	2	100.0	100.0				-	
UAB NIF Lietuva	Lithuania	REM*	2	100.0	100.0	2	100.0	100.0	-	-
OU Restruktureeritud Kinnisvarafond	Estonia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
Total investments in subsidiaries									**60**	**72,725**

*Before the transfer of undertaking
** Transferred or sold to Citadele banka
*** REM – real estate management

NOTE 19. INTANGIBLE ASSETS

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Goodwill from acquisition of subsidiaries:				
AP Anlage & Privatbank AG	-	1,246	-	-
AB Parex Bankas	-	35	-	-
SIA Parex Express Kredīts	-	123	-	-
	-	1,404	-	-
Software	152	957	152	577
Other intangible assets	-	920	-	8
Total intangible assets excluding advances	152	3,281	152	585
Advances for intangible assets	-	13	-	-
Total net book value of intangible assets	**152**	**3,294**	**152**	**585**

For the purposes of goodwill impairment assessment the Bank compared the total carrying amount of the cash-generating units to their recoverable amount. For this purpose the recoverable amount was determined based on fair value less costs to sell, which was derived from an analysis of recent actual merger & acquisition transactions that are comparable to the cash-generating units under review. The impairment test did not result in the recognition of any impairment loss.

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2010 can be specified as follows:

	LVL 000's			
	Goodwill from acquisition of subsidiaries	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost				
As at 31 December 2008*	**1,404**	**8,689**	**2,141**	**12,234**
Additions	-	329	19	348
Disposals	-	(4)	-	(4)
Impairment	-	(2)	2	(0)
As at 31 December 2009*	**1,404**	**9,012**	**2,162**	**12,578**
Additions	-	10	287	297
Disposals	-	-	(1)	(1)
Transfer to Citadele banka	(1,404)	(8,818)	(2,448)	(12,670)
Transfer to assets held-for-sale	-	(38)	-	(38)
As at 31 December 2010	**-**	**166**	**-**	**166**
Accumulated amortisation				
As at 31 December 2008*	**-**	**7,381**	**818**	**8,199**
Charge for the year	-	677	423	1,100
Reversal due to disposals	-	(2)	-	(2)
Transfer		(1)	1	-
As at 31 December 2009*	**-**	**8,055**	**1,242**	**9,297**
Charge for the year	-	85	459	544
Reversal due to disposals	-	-	(1)	(1)
Transfer to Citadele banka	-	(8,126)	(1,700)	(9,826)
Transfer to assets held-for-sale	-	-	-	-
As at 31 December 2010	**-**	**14**	**-**	**14**
Net book value				
As at 31 December 2008*	**1,404**	**1,308**	**1,323**	**4,035**
As at 31 December 2009*	**1,404**	**957**	**920**	**3,281**
As at 31 December 2010	**-**	**152**	**-**	**152**
Impairment allowance				
As at 31 December 2009*	**-**	**-**	**(447)**	**(447)**
As at 31 December 2010	**-**	**-**	**-**	**-**

*Before the transfer of undertaking

NOTE 20. FIXED ASSETS

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Leasehold improvements	160	3,020	160	3,020
Land and buildings	1,293	37,801	1,293	4,127
Transport vehicles	-	1,998	-	1,071
Other fixed assets	289	8,853	287	3,504
Construction in progress	-	-	-	-
Total fixed assets excluding advances	1,742	51,672	1,740	11,722
Advances for fixed assets	14	823	14	823
Total net book value of fixed assets	**1,756**	**52,495**	**1,754**	**12,545**

The following changes in the Group's fixed assets excluding advances for fixed assets took place during the years ended 31 December 2010 and 31 December 2009:

	LVL 000's					
	Leasehold improve-ments	Land and buildings	Transport vehicles	Other fixed assets	Construction in progress	Total fixed assets excluding advances
Historical cost						
As at 31 December 2008*	**10,797**	**12,169**	**8,622**	**33,768**	**23,667**	**89,023**
Additions	354	11	223	5,360	4,203	10,151
Disposals	(5,317)	-	(3,937)	(2,726)	-	(11,980)
Reclassification						
Transfer	-	27,870	-	-	(27,870)	-
Impairment charge	-	198	-	-	-	198
As at 31 December 2009*	**5,834**	**40,248**	**4,908**	**36,402**	**-**	**87,392**
Additions	6	-	20	68	-	94
Disposals	(1,198)	(2,271)	(1,595)	(8,290)	-	(13,354)
Transfer to Citadele banka	(3,654)	(35,253)	(2,706)	(25,827)	-	(67,440)
Transfer to assets held-for-sale	-	(1,063)	(337)	(428)	-	(1,828)
As at 31 December 2010	**988**	**1,661**	**290**	**1,925**	**-**	**4,864**
Accumulated depreciation						
As at 31 December 2008*	**4,667**	**897**	**4,116**	**25,818**	**-**	**35,498**
Charge for the year	3,420	1,550	1,108	4,165	-	10,243
Reversal due to disposals	(5,273)	-	(2,314)	(2,434)	-	(10,021)
As at 31 December 2009*	**2,814**	**2,447**	**2,910**	**27,549**	**-**	**35,720**
Charge for the year	962	1,868	476	2,020	-	5,326
Reversal due to disposals	(937)	(196)	(1,044)	(8,219)	-	(10,396)
Transfer to Citadele banka	(2,011)	(3,751)	(1,887)	(19,389)	-	(27,038)
Transfer to assets held-for-sale	-	-	(165)	(325)	-	(490)
As at 31 December 2010	**828**	**368**	**290**	**1,636**	**-**	**3,122**
Net book value						
As at 31 December 2008*	**6,130**	**11,272**	**4,506**	**7,950**	**23,667**	**53,525**
As at 31 December 2009*	**3,020**	**37,801**	**1,998**	**8,853**	**-**	**51,672**
As at 31 December 2010	**160**	**1,293**	**-**	**289**	**-**	**1,742**
Impairment allowance						
As at 31 December 2008*	**-**	**(4,279)**	**-**	**-**	**(13,721)**	**(18,000)**
As at 31 December 2009*	**-**	**(17,802)**	**-**	**-**	**-**	**(17,802)**
As at 31 December 2010	**-**	**-**	**-**	**-**	**-**	**-**

*Before the transfer of undertaking

The following changes in the Bank's fixed assets excluding advances for fixed assets took place during the years ended 31 December 2010 and 31 December 2009:

	LVL 000's				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding prepayments
Historical cost					
As at 31 December 2008*	**10,703**	**4,575**	**5,461**	**29,826**	**50,565**
Additions	354	-	-	420	774
Disposals	(5,225)	-	(2,441)	(1,877)	(9,543)
As at 31 December 2009*	**5,832**	**4,575**	**3,020**	**28,369**	**41,796**
Additions	6	-	-	37	43
Disposals	(1,197)	(2,271)	(1,440)	(8,263)	(13,171)
Transferred to Citadele banka	(4,454)	(814)	(1,580)	(18,524)	(25,372)
As at 31 December 2010	**187**	**1,490**	**-**	**1,619**	**3,296**
Accumulated depreciation					
As at 31 December 2008*	**4,648**	**360**	**2,979**	**23,392**	**31,379**
Charge for the year	3,370	88	636	3,190	7,284
Reversal due to disposals	(5,206)	-	(1,666)	(1,717)	(8,589)
As at 31 December 2009*	**2,812**	**448**	**1,949**	**24,865**	**30,074**
Charge for the year	962	62	177	1,281	2,482
Reversal due to disposals	(941)	(11)	(921)	(8,207)	(10,080)
Transferred to Citadele banka	(2,806)	(302)	(1,205)	(16,607)	(20,920)
As at 31 December 2010	**27**	**197**	**-**	**1,332**	**1,556**
Net book value					
As at 31 December 2008*	**6,055**	**4,215**	**2,482**	**6,434**	**19,186**
As at 31 December 2009*	**3,020**	**4,127**	**1,071**	**3,504**	**11,722**
As at 31 December 2010	**160**	**1,293**	**-**	**287**	**1,740**

NOTE 21. INVESTMENT PROPERTY

Changes in the Bank's investment property may be specified as follows:

	LVL 000's	
	Group	Bank
Balance as at 1 January 2010	**9,682**	**8,804**
Additions	12,389	6,158
Disposals	(134)	(86)
Impairment	(1,435)	(1,435)
Currency exchange difference	166	186
Reclassification to other assets	(147)	-
Transfer to Citadele banka	(711)	-
Balance as at 31 December 2010	**19,810**	**13,627**

NOTE 22. OTHER ASSETS

Other assets comprise accrued income, prepaid expenses, non-current assets and disposal groups held for sale, money in transit, other assets.

NOTE 23. ISSUED DEBT SECURITIES

As at 31 December 2010 and 2009, the Bank had the following outstanding debt issues:

					Debt outstanding (LVL 000's)	
Issue date	Issue amount	Coupon	Payment, frequency	Maturity	31/12/2010	31/12/2009*
May, 2007	EUR 200 million	5.625%	Annual	May, 2011	-	90,742
Total					**-**	**90,742**

*Before the transfer of undertaking

On 15 February 2010, the Bank concluded its first issue of debt securities amounting to EUR 17.7 million, and reached conceptual agreement of restructuring restricted deposits amounting to EUR 130 million into two-year deposits. These measures were undertaken in the process of restructuring Bank deposits that are subject to restrictions, thus significantly reducing total balance of such deposits and improving the Bank's liquidity.

The issued debt securities were transferred to Citadele banka upon transfer of undertaking.

	Amortisation charge of hedge effectiveness	
	2010**	2009*
EUR 200 million notes	1,088	1,869
Total	**1,088**	**1,869**

** includes period from 01.01.2010 till 31.07.2010

NOTE 24. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Due to credit institutions registered in OECD countries	170,232	407,457	170,232	421,449
Due to credit institutions registered in Latvia	8,383	142,862	8,383	142,860
Due to credit institutions registered in other non-OECD countries	-	2,147	-	8,473
Total balances due to credit institutions and central banks	**178,615**	**552,466**	**178,615**	**572,782**

The following table presents the Group's and Bank's balances due to credit institutions and central banks according to maturity profile:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Balances on demand	-	190	-	745
Overnight deposits	-	425	-	6,399
Total balances repayable on demand	**-**	**615**	**-**	**7,144**
Loans from credit institutions:				
due within 1 month	10,990	10,662	10,990	23,525
due within 1-3 months	2,109	367,726	2,109	368,294
due within 3-6 months	165,516	3,387	165,516	3,813
due within 6-12 months	-	6,852	-	6,782
due within 1-5 years	-	163,224	-	163,224
Total loans from credit institutions	**178,615**	**551,851**	**178,615**	**565,638**
Total due to credit institutions	**178,615**	**552,466**	**178,615**	**572,782**

The bank has concluded several repo transactions, whereby it pledged part of the securities portfolio against the financing received. Please refer to Note 29 for more details.

Syndicated loans restructuring
As at 31 December 2010, the Bank had 2 syndicated loans outstanding, amounting to EUR 82.5 million and EUR 150 million (2009: EUR 192.5 million and EUR 350 million). The original maturities of the facilities were 19 February 2009 and 26 June 2009, respectively. As a result of the difficult liquidity situation in October 2008 and the resulting takeover of majority shareholding by the State, several covenants of the above agreements were breached until the transfer of undertaking took place in March 2009.

The main terms and conditions of the loan agreement are as follows:

- 40% of the total facility or EUR 310 million is payable on 15 February 2010. The interest rate margin applicable until this date is 300 basis points over EURIBOR applicable to the interest rate period as selected by the Bank; (*the amount has been paid on the agreed date*)

*Before the transfer of undertaking

- The residual of the total facility or EUR 232.5 million is payable on 5 May 2011. The interest rate margin applicable until this date is 350 basis points over EURIBOR applicable to the interest rate period as selected by the Bank;
- The repayment of the loan is guaranteed by the State guarantee;
- The Bank has to maintain a minimum capital adequacy ratio of 8%; and
- The State is allowed to continue secured financing of the Bank as deemed necessary.

Repayment of the syndicated loans

On 15 February 2010, the Bank repaid EUR 310 million to the syndicated lenders. EUR 165 million were repaid from the Bank's resources and EUR 145 million were provided by the State Treasury through placing a deposit with the Bank in the respective amount.

NOTE 25. DEPOSITS FROM CUSTOMERS

The following table presents deposits from customers according to customer profile:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Government	450,804	635,276	450,804	634,559
Private individuals	31,243	488,489	31,243	411,540
Privately held companies	13,759	461,019	13,769	404,029
Public and religious institutions	59	2,846	59	1,878
State owned enterprises	-	48,411	-	48,260
Financial institutions	-	41,079	-	29,745
Municipalities	-	10,729	-	10,658
Total deposits from customers	**495,865**	**1,687,849**	**495,875**	**1,540,669**

On 1 December 2008, Financial and Capital Markets Commission and Cabinet of Ministers decided to impose restrictions on deposit withdrawals in AS Parex bank (Latvia), applicable to all customer deposits with the Bank as at the respective date. The restrictions do not apply to any funds received on the customers' accounts after the restrictions date, as well as state and municipalities' payments made by companies with number of employees exceeding 250. All corporate clients were only allowed to make business-purpose payments. The initial term of the restrictions ended on 1 July 2009 and was further prolonged to 1 December 2009, 1 July 2010, 31 December 2010 and 1 July 2011, thereafter. Nevertheless the restrictions have been softened since they were imposed.

Financing support from the Ministry of Finance

As a result of significant decrease in deposit base in October-November 2008, the Bank was forced to apply for the State support. State Treasury of Latvia has made a number of deposits on a secured basis, receiving part of Bank's loan portfolio as collateral (please refer to Note 29 for details on assets pledged). As at 31 December 2010, the following financing support received from the State Treasury was outstanding (2009: LVL 626,810):

Agreement currency	Interest rate (%)	Agreement date	Maturity date	Amortised cost LVL 000's 31/12/2010
EUR	5.146	05/08/2010	05/08/2011	13,560
EUR	5.146	05/08/2010	05/08/2011	13,560
EUR	5.146	05/08/2010	05/02/2012	35,155
EUR	5.146	05/08/2010	05/08/2012	35,155
EUR	5.146	05/08/2010	05/02/2013	17,075
EUR	5.146	05/08/2010	05/08/2013	17,075
EUR	5.146	05/08/2010	05/02/2014	20,088
EUR	5.146	05/08/2010	05/08/2014	20,088
EUR	5.146	05/08/2010	05/02/2015	22,600
EUR	5.146	05/08/2010	05/08/2015	11,297
EUR	5.156	12/08/2010	12/08/2015	11,303
EUR	5.156	12/08/2010	12/02/2016	25,111
EUR	5.156	12/08/2010	12/08/2016	25,111
EUR	5.156	12/08/2010	12/02/2017	55,387
EUR	5.156	12/08/2010	12/08/2017	68,052
EUR	5.158	13/08/2010	13/08/2017	59,809
Total Ministry of Finance deposits				**450,426**

*Before the transfer of undertaking

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Demand deposits	18,768	372,375	18,778	310,391
Term deposits:				
due within 1 month	427	565,899	427	532,701
due within 1-3 months	7,481	528,015	7,481	506,733
due within 3-6 months	2,172	65,302	2,172	50,979
due within 6-12 months	28,967	94,889	28,967	80,136
due within 1-5 years	204,509	61,230	204,509	59,624
due in more than 5 years	233,541	139	233,541	105
Total term deposits	477,097	1,315,474	477,097	1,230,278
Total deposits from customers	**495,865**	**1,687,849**	**495,875**	**1,540,669**

NOTE 26. SUBORDINATED DEBT

The following table represents the details of Group's subordinated capital:

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised cost (LVL 000's) 31/12/2010	Amortised cost (LVL 000's) 31/12/2009*
Privatisation Agency**	Latvia	EUR	53,128	16.12%	22/05/2009	21/05/2016	-	37,857
EBRD**	UK	EUR	18,400	6M Euribor + 7%	11/09/2009	08/08/2016	-	13,106
Notes-private placement	UK	EUR	20,000	5.564%	28/12/2007	28/12/2017	13,204	13,165
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,502	7,502
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,502	7,502
Notes – public issue	n/a	EUR	5,050	11%	08/05/2008	08/05/2018	3,820	3,813
Private person	Latvia	EUR	15,000	12%	20/06/2008	14/05/2015	10,602	10,602
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,500
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,500
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,284	2,285
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,284	2,285
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Total							**53,030**	**103,949**

**Transferred to Citadele banka upon transfer of undertaking

On 22 May 2009, with the consent of European Commission, the Privatisation Agency issued a subordinated loan amounting to EUR 71,528 thousand (LVL 50,270 thousand). On 11 September 2009, the Bank received a subordinated loan from EBRD amounting to EUR 18.4 million. The interest rate on the loan is the equivalent to the 6 months EURIBOR + 7% *p.a.*. The loan matures in 7 years. The entire amount received was used to partly repay the subordinated debt to the *Privatisation Agency*.

The EUR 20,000 thousand subordinated debt was attracted through private placement of subordinated notes. The notes were issued at discount and net proceeds amounted to EUR 18,672 thousand. The notes are to be redeemed at 100%. The Bank has the right to extend the term of the notes until 28 December 2022, in which case the Bank also has the right to redeem the notes after the original maturity date giving a notice within 30-60 days.

As at 31 December 2010, included in the subordinated debt are LVL 36 million (2009: LVL 36 million) attributable to the former related parties of the Bank. These transactions were entered into by previous executive management of the Bank. During 2010, the Bank recognised LVL 3.1 million (2008: LVL 4.8 million) interest expense on the aforementioned balance.

*Before the transfer of undertaking

NOTE 27. ISSUED SHARE CAPITAL

As at 31 December 2010, the Bank's registered and paid-in share capital was LVL 271,227 thousand. In accordance with the Bank's statutes, the share capital consists of 211,083 thousand ordinary shares with voting rights and 60,143 thousand ordinary shares without voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2010, they all were issued and fully paid. As at 31 December 2010, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2010 and 2009.

As at 31 December 2010, the Bank had 61 (2009: 61) shareholders. The respective shareholdings as at 31 December 2010 and 2009 may be specified as follows:

	31/12/2010			31/12/2009*		
	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights
Privatisation Agency	221,933	81.83	77.60	168,921	73.44	71.74
European Bank for Reconstruction and Development	39,632	14.61	19.68	51,444	22.36	25.55
Other	9,662	3.56	2.72	9,662	4.20	2.71
Total	**271,227**	**100.00**	**100.00**	**230,027**	**100.00**	**100.00**

Changes in the shareholding structure

On 16 April 2009, *European Bank for Reconstruction and Development* (EBRD) concluded a share purchase agreement with *Privatisation Agency*, whereby 51.44 million of the Bank's shares with voting rights were agreed to be sold to EBRD whereby EBRD would acquire 25% of the share capital of *Parex banka* plus one share.

Capital increases

On 24 March 2009, the Cabinet of Ministers resolved to provide financing in the amount of LVL 227 million to renew the capital base of the Bank. The amount will be provided in form of share capital increase by LVL 165 million and subordinated loan amounting to LVL 62 million. As at the date of signing the financial statements, the European Commission has approved the share capital increase of LVL 140,750 thousand and an additional subordinated loan amounting LVL 50,270 thousand. On 22 May 2009, *Privatisation Agency* paid up the respective capital increase

On 29 October 2009 the Bank's capital was further increased by LVL 24.25 million. The increase was carried out by the largest shareholder of the Bank *Privatisation Agency* by purchase of a corresponding amount of non-voting shares.

On 23 February 2010, the Latvian Cabinet of Ministers approved an increase of LVL 31.5 million in the Bank's share capital. On 26 February 2010, the capital increase was carried out. The increase was done by *Privatisation Agency*.

On 30 July 2010 in accordance with Share Purchase Agreement regarding purchase of shares of JSC Citadele between *Privatisation Agency* and JSC Citadele banka and European Bank for Reconstruction and Development (EBRD) and the Republic of Latvia 11.812.501 registered ordinary shares with voting rights were sold by EBRD to *Privatisation Agency*.

On 30 November 2010, the Latvian Cabinet of Ministers approved an increase of LVL 9.7 million in the Bank's share capital. On 30 December 2010, the capital increase was carried out. The increase was done by *Privatisation Agency.*

*Before the transfer of undertaking

NOTE 28. MEMORANDUM ITEMS

Memorandum items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2010 and 2009.

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Contingent liabilities:				
Outstanding guarantees	885	6,127	2,618	10,881
Outstanding letters of credit	-	699	-	583
Total contingent liabilities	**885**	**6,826**	**2,618**	**11,464**
Financial commitments:				
Loans granted, not fully drawn down	23	1,219	23	295
Unutilised credit lines and overdraft facilities	149	51,870	19,814	104,617
Credit card commitments	26	72,985	26	61,411
Other financial commitments	-	14	-	-
Total financial commitments	**198**	**126,088**	**19,863**	**166,323**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

The Group:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2010	31/12/2009*	31/12/2010		31/12/2009*	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	-	37,422	-	-	683	(685)
Forwards	-	8,203	-	-	111	(13)
Swaps	206,559	480,569	122	(2,002)	818	(172)
Total foreign exchange contracts	**206,559**	**526,194**	**122**	**(2,002)**	**1,612**	**(870)**
Other financial instruments:						
Interest rate swaps	-	4,890	-	-	260	(14)
Other derivatives	-	7,028	-	-	41	(53)
Total other financial instruments	**-**	**11,918**	**-**	**-**	**301**	**(67)**
Derivative financial instruments	**206,559**	**538,112**	**122**	**(2,002)**	**1,913**	**(937)**

The Bank:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2010	31/12/2009*	31/12/2010		31/12/2009*	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	-	37,544	-	-	683	(685)
Forwards	-	28,878	-	-	129	(33)
Swaps	206,559	484,382	122	(2,002)	809	(177)
Total foreign exchange contracts	**206,559**	**550,804**	**122**	**(2,002)**	**1,621**	**(895)**
Other financial instruments:						
Interest rate swaps	-	4,890	-	-	260	(14)
Other derivatives	-	7,028	-	-	41	(53)
Total other financial instruments	**-**	**11,918**	**-**	**-**	**301**	**(67)**
Derivative financial instruments	**206,559**	**562,722**	**122**	**(2,002)**	**1,922**	**(962)**

*Before the transfer of undertaking

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which among others arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2010, more than 99% (2009: 96%) of the fair value (assets) on foreign exchange contracts is attributable to credit and finance institutions and central government. As at 31 December 2010 and 2009, none of the payments receivable arising out of derivative transactions was past due.

NOTE 29. ASSETS PLEDGED

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Due from credit institutions*	7,028	21,182	7,028	21,182
Available-for-sale securities	*8,135*	*64,772*	*8,135*	*64,772*
Held-to-maturity securities	-	*217,465*	-	*217,465*
Total securities pledged	8,135	282,237	8,135	282,237
Loans to customers	541,550	1,227,536	566,280	1,227,536
Total assets pledged	**556,713**	**1,530,955**	**581,443**	**1,530,955**
Due to credit institutions and central banks	9,136	167,966	9,136	167,966
Deposits from State Treasury	446,322	626,810	446,322	626,810
Total liabilities secured by pledged assets	**455,458**	**794,776**	**455,458**	**794,776**

* The amount consists of several placements to secure various Bank's transactions in the ordinary course of business.
As at 31 December 2010, the Bank has entered into several repo agreements with Bank of Latvia and European Central Bank, whereby it pledged part of its securities portfolio against the financing facilities received.

Further, the Bank has concluded several agreements with State Treasury of Latvia, whereby it pledged part of the loan portfolio as a security to the financing received. The respective pledges are registered with Commercial Register. Please refer to Note 25 for more detailed information on deposits received from the State Treasury.

NOTE 30. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2010 and 2009:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Cash and demand deposits with central banks	26,944	157,502	26,944	142,259
Deposits with other credit institutions*	59,739	217,889	57,889	195,754
Demand deposits due to other credit institutions	(12)	(615)	(12)	(7,144)
Total cash and cash equivalents	**86,671**	**374,776**	**84,821**	**330,869**

** Deposits include term facilities with initial agreement term of 3 months or less.

NOTE 31. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in a number of legal proceedings related to its customers in Latvia and abroad, including CIS countries.

In July 2009, the State Revenue Service (SRS) has completed a tax audit of the Bank which covered the years of 2007 and 2008. The tax audit report assessed claims for additional taxes to be paid by the Bank. The Bank did not agree with the SRS audit team's assessment and has appealed to the General Director of the SRS. Subsequently, the decision for a part of additional taxes payable was withdrawn. In respect to the residual part of the decision, which remained unchanged and constitutes ca LVL 0.8 million in additional tax and ca LVL 0.8 million in penalties, the Bank appealed to the Administrative court. By decision of Administrative city court payment obligation for penalties is postponed till hearing in the court. By decision of Administrative

*Before the transfer of undertaking

city court payment obligation for penalties is postponed till hearing in the court. By decision of Administrative district court additional tax in amount LVL 5 thousand was withdrawn, obligation to pay residual part will be decided in hearing in Administrative court. Hearing of the court is stated for 13 May 2011. As at 31 December 2010, years 2009 and 2010 are open to tax audits in the Bank.

On 10 February 2010 the Bank as respondent received AS “Latvijas Krājbanka” Claimant’s Request for Arbitration submitted to London Court of International Arbitration (LCIA). According to mentioned request AS „Latvjas Krājbanka” requested from the Bank repayment of the termination fee of EUR 2’000’000 supplemented with escrow account interest and penalty fee, which was withheld by the Bank in accordance with Share Purchase Agreement (SPA) concluded on 24 April 2008 between the Bank as the seller and AS „Latvijas Krājbanka” as the purchaser regarding 100% shares of AP Anlage & Privatbank AG, being Bank’s subsidiary,. As the Bank is in line with its legal and contractual obligations AS “Latvijas Krājbanka” has an obligation to pay termination fee caused by termination of SPA, the management believes that LCIA will not satisfy AS “Latvijas Krājbanka” claim to collect the amount mentioned in Claimant’s request. Accordingly, no provisions were established in respect to this matter.

The management of the Bank believes that any legal proceedings pending as at 31 December 2010 and 2009 will not result in material losses for the Group.

NOTE 32. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, state and municipal institutions, members of the Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group’s companies/ Bank and their related companies are stated in one line, accordingly.

The Bank of Latvia is not considered as related party as it is operating as an independent institution according to special law.

The following table present the outstanding balances and terms of the Group’s transactions with counterparties, which were related parties as at 31 December 2010.

	Amount in LVL 000’s 31/12/2010	Interest income/ expense 01/01/2010-31/12/2010	Amount in LVL 000’s 31/12/2009*	Interest income/ expense 01/01/2009-31/12/2009*
Due from credit institutions:	56,061	101		
Credit Institutions	56,061	*101*		
Securities:	-	-	173,947	18,887
Latvian treasury bills and government bonds	-	-	*173,947*	*18,887*
Loans and receivables:	-	3	4,001	243
Management	-	*3*	*990*	*50*
State institutions	-	-	*2*	*2*
Municipality institutions	-	-	*3,009*	*191*
Derivatives – assets:	122	-	304	-
State Treasury	122	-	*304*	-
Financial commitments and outstanding guarantees:	-	-	1,839	-
Management	-	-	*293*	-
State institutions	-	-	*164*	-
Municipality institutions	-	-	*1,382*	-
Total credit exposure to related parties	**56,183**	**104**	**180,091**	**19,130**
Due to related parties:	461,802	28,693	696,635	42,262
Deposits from State Treasury	*450,426*	*28,285*	*627,491*	*36,767*
Subordinated loans from shareholder	-	-	*50,963*	*4,495*
Management	-	*1*	*455*	*10*
State institutions	-	-	*7,068*	*354*
Municipality institutions	-	-	*10,658*	*636*
Credit institutions	*11,376*	*407*		
Derivatives – liabilities:	2,001	-	-	-
Credit institutions	*2,001*	-	-	
Subsidiaries - banks	-	-	-	-
Total amounts due to related parties	**463,803**	**28,693**	**696,635**	**42,262**

*Before the transfer of undertaking

The following table presents the outstanding balances and terms of the Bank's transactions with counterparties, which were related parties as at 31 December 2010.

	Amount in LVL 000's 31/12/2010	Interest income/ expense 01/01/2010-31/12/2010	Amount in LVL 000's 31/12/2009*	Interest income/ expense 01/01/2009-31/12/2009*
Credit exposure to related parties				
Due from related parties:	56,061	101	-	-
Credit Institutions	*56,061*	*101*	-	-
Securities:	23,330	2,149	214,087	22,822
Latvian treasury bills and government bonds	-	-	*173,947*	*18,887*
Subsidiaries	*23,330*	*2,149*	*40,140*	*3,935*
Loans and receivables:	39,517	5,955	306,965	17,159
Management	-	*3*	*361*	*13*
State institutions	-	-	*2*	*2*
Municipality institutions	-	-	*3,009*	*191*
Subsidiaries - banks	-	*1,684*	*141,986*	*6,561*
Subsidiaries - other	*39,517*	*4,268*	*161,607*	*10,392*
Derivatives – assets:	122	-	333	-
Credit institutions	*122*			
Subsidiaries - banks	-	-	*29*	-
State Treasury	-	-	*304*	-
Financial commitments and outstanding guarantees:	-	-	64,205	-
Management	-	-	*293*	-
State institutions	-	-	*164*	-
Municipality institutions	-	-	*1,382*	-
Subsidiaries - banks	-	-	*367*	-
Subsidiaries - other	-	-	*61,999*	-
Total credit exposure to related parties	**119,030**	**8,205**	**585,590**	**39,981**
Due to related parties:	461,802	28,762	709,858	42,687
Deposits from State Treasury	*450,426*	*28,285*	*627,491*	*36,767*
Subordinated loans from shareholders	-	-	*50,963*	*4,495*
Management	-	*1*	*171*	*3*
State institutions	-	-	*7,068*	*354*
Municipality institutions	-	-	*10,658*	*636*
Credit institutions	*11,376*	*407*	-	-
Subsidiaries - banks	-	-	*10,602*	*300*
Subsidiaries - other	-	*69*	*2,905*	*132*
Derivatives – liabilities:	2,001	-	31	-
Credit institutions	*2,001*	-		
Subsidiaries - banks	-	-	*31*	-
Total amounts due to related parties	**463,803**	**28,762**	**709,889**	**42,687**

*Before the transfer of undertaking

NOTE 33. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Management board of the Bank as its chief operating decision maker. Banking Latvia is a reportable operating segment whose operating results are regularly reviewed by the board. The Board reviews financial information prepared based on International Financial Reporting Standards.
The following table reconciles the management information with these financial statements:

LVL 000's

	Segment reported in the monthly report to the Management Board		*Other business units not consolidated in management reporting*											
	Banking - Latvia		*Banking - other countries*		*Asset management*		*Leasing*		*Other*		*Eliminations and consolidation adjustments*		*Group*	
	2010	*2009**	*2010*	*2009**	*2010*	*2009**	*2010*	*2009**	*2010*	*2009**	*2010*	*2009**	*2010*	*2009**
Total income from external customers **	67,406	153,988	8,183	19,560	2,313	3,406	9,533	23,488	14	28	-	-	87,449	200,470
Total income from internal customers **	8,411	21,162	22	399	9	366	25	163	-	5	(8,467)	(22,095)	-	-
Total segment revenue	*75,817*	*175,150*	*8,205*	*19,959*	*2,322*	*3,772*	*9,558*	*23,651*	*14*	*33*	*(8,467)*	*(22,095)*	*87,449*	*200,470*
Net interest income	16,049	12,247	1,570	5,272	117	383	3,064	9,823	(702)	(646)	(8,249)	(652)	11,849	26,427
Net commission income	7,967	14,644	652	1,776	2,073	3,117	354	(29)	(15)	28	36	36	11,067	19,572
(Loss)/ gains on transactions with financial instruments, net	(316)	5,540	1,650	1,197	21	61	646	(1,143)	(55)	-	(1,305)	-	641	5,655
Administrative expense	30,427	50,352	5,098	9,920	1,726	3,311	5,559	8,918	1,188	794	(663)	(1,771)	43,335	71,524
Other operating income/ (expense), net	5,574	6,176	487	1,028	(20)	129	2,338	3,362	2,611	1,638	(1,861)	(1,789)	9,129	10,544
Segment result	**(162,914)**	**(129,190)**	**(6,257)**	**(18,097)**	**226**	**(378)**	**(15,203)**	**(9,623)**	**(19,400)**	**(1,610)**	**(54,561)**	**14,873**	**(148,987)**	**(144,025)**
Segment assets	789,281	2,471,150	-	337,722	-	15,437	39,970	169,476	16,453	54,380	(53,618)	(451,268)	792,086	2,596,897
Segment liabilities	751,982	2,318,481	-	289,440	-	3,051	51,220	172,351	16,834	57,723	(64,863)	(383,099)	755,173	2,457,947
Depreciation and amortisation	2,740	7,752	386	973	39	84	342	703	2,375	1,836	-	-	5,882	11,348
Impairment charge, gross	142,780	136,707	5,132	16,477	260	673	16,250	10,777	17,915	-	(52,608)	(20,039)	129,729	144,595
No of employees at the end of the period	109	1,971	-	447	-	124	133	316	-	10	-	-	271	2,868

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.
***Income is defined as total of gross interest and commission and fee income*

*Before the transfer of undertaking

NOTE 34. RISK MANAGEMENT

Risk management polices

Since the transfer of undertaking on 1 August 2010 the Bank has limited possibility to manage certain risks, in particular, interest rate risk, country risk, to some extent credit risk and risk limits. Nevertheless the Bank is putting all the efforts to limit risks and has the following risk management policies.

The Group's risk is managed according to principles set out in Group's Risk and Capital Management Policy. The Group adheres to the following key risk management principles:

- Undertaking an acceptable risk level is one of the Group's main functions in all areas of operation. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group' business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group's employee about the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential elements of risk management. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks;
- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by an independent unit unrelated to customer servicing - Risk Management Division.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) Credit risk

Credit risk is the risk that the Group will incur losses from debtor's non-performance or default. The group is exposed to credit risk in to its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent Risk Management Division. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes analysis of the industry, the company, and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Credit risk identification, monitoring and reporting is the responsibility of Risk Management Division.

The tables below provide details of the Group's loan portfolio delinquencies:

	Group, LVL 000's								
	31/12/2010								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	36,259	-	15,146	10	1	-	-	1	51,417
Not delayed - impaired	62,015	2,715	-	-	-	1,201	-	-	65,931
Total not delayed loans	**98,274**	**2,715**	**15,146**	**10**	**1**	**1,201**	**-**	**1**	**117,348**
Past due loans - not impaired									
Delayed days:									
=< 29	3,195	-	1,253	-	-	-	-	-	4,448
30-59	1,769	-	1,556	1	-	-	-	-	3,326
60-89	3,221	-	382	190	-	-	-	-	3,793
90 and more	301,268	4,723	2,285	122	-	-	24	-	308,422
Total past due loans - not impaired	**309,453**	**4,723**	**5,476**	**313**	**-**	**-**	**24**	**-**	**319,989**
Total past due loans - impaired	**357,408**	**11,001**	**14,748**	**4,318**	**-**	**-**	**34**	**-**	**387,509**
Total gross loans and receivables to customers	**765,135**	**18,439**	**35,370**	**4,641**	**1**	**1,201**	**58**	**1**	**824,846**
Impairment allowance	(234,370)	(6,880)	(6,744)	(4,506)	-	(634)	(22)	-	(253,156)
Total net loans and receivables to customers	**530,765**	**11,559**	**28,626**	**135**	**1**	**567**	**36**	**1**	**571,690**

Mostly, not-delayed loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. More than 88% are secured by real estate collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15). Loans under reverse repurchase agreements are secured with securities that can be sold in case of client's default.

As at 31 December 2010, included in the loan class "regular loans" are past due and impaired loans with gross amount of LVL 357 million, where the estimated value of collateral amounts to approximately LVL 160 million.

	Group, LVL 000's								
	31/12/2009*								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	729,443	88,778	74,958	62,849	599	5,330	14,115	6,109	982,181
Not delayed - impaired	95,041	5,868	78	-	-	-	24	435	101,446
Total not delayed loans	**824,484**	**94,646**	**75,036**	**62,849**	**599**	**5,330**	**14,139**	**6,544**	**1,083,627**
Past due loans - not impaired									
Delayed days:									
=< 29	80,327	2,208	20,920	2,140	-	178	-	-	105,773
30-59	23,958	504	5,246	1,747	-	250	74	-	31,779
60-89	29,287	4,362	2,198	1,312	-	21	-	-	37,180
90 and more	200,973	9,224	9,703	4,319	-	352	178	-	224,749
Total past due loans - not impaired	**334,545**	**16,298**	**38,067**	**9,518**	**-**	**801**	**252**	**-**	**399,481**
Total past due loans - impaired	**337,403**	**20,459**	**33,205**	**18,308**		**1,305**	**1,089**	**-**	**411,769**
Total gross loans and receivables to customers	**1,496,432**	**131,403**	**146,308**	**90,675**	**599**	**7,436**	**15,480**	**6,544**	**1,894,877**
Impairment allowance	(181,694)	(14,959)	(12,620)	(21,811)		(1,313)	(1,553)	(559)	(234,509)
Total net loans and receivables to customers	**1,314,738**	**116,444**	**133,688**	**68,864**	**599**	**6,123**	**13,927**	**5,985**	**1,660,368**

As at 31 December 2009, included in the loan class "regular loans" are past due and impaired loans with gross amount of LVL 300 million, where the estimated value of collateral amounts to approximately LVL 187 million.

*Before the transfer of undertaking

The tables below provide details of the Bank's loan portfolio delinquencies:

	Bank, LVL 000's								
	31/12/2010								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	39,011	9,526	5	10	1	-	-	1	48,554
Not delayed - impaired	70,537	19,628	-	-	-	1,201	-	-	91,366
Total not delayed loans	**109,548**	**29,154**	**5**	**10**	**1**	**1,201**	**-**	**1**	**139,920**
Past due loans - not impaired									
Delayed days:									
=< 29	3,195	-	-	-	-	-	-	-	3,195
30-59	1,769	-	-	1	-	-	-	-	1,770
60-89	3,221	-	-	190	-	-	-	-	3,411
90 and more	301,267	4,723	251	122	-	-	24	-	306,387
Total past due loans - not impaired	**309,452**	**4,723**	**251**	**313**	**-**	**-**	**24**	**-**	**314,763**
Total past due loans - impaired	**357,428**	**10,999**	**81**	**4,318**	**-**	**-**	**34**	**-**	**372,860**
Total gross loans and receivables to customers	**776,428**	**44,876**	**337**	**4,641**	**1**	**1,201**	**58**	**1**	**827,543**
Impairment allowance	(237,467)	(18,561)	(73)	(4,506)	-	(634)	(22)	-	(261,263)
Total net loans and receivables to customers	**538,961**	**26,315**	**264**	**135**	**1**	**567**	**36**	**1**	**566,280**

Bank, LVL 000's
31/12/2009*

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	593,079	114,170	1,188	56,367	-	6,071	14,045	6,033	790,953
Not delayed - impaired	150,015	87,477	7	-	-	-	-	435	237,934
Total not delayed loans	**743,094**	**201,647**	**1,195**	**56,367**	**-**	**6,071**	**14,045**	**6,468**	**1,028,887**
Past due loans - not impaired									
Delayed days:									
=< 29	67,941	1,153	5	1,756	-	175	-	-	71,030
30-59	21,906	387	7	1,521	-	-	-	-	23,821
60-89	28,059	4,168	1	1,156	-	21	-	-	33,405
90 and more	184,134	7,730	138	2,282	-	352	-	-	194,636
Total past due loans - not impaired	**302,040**	**13,438**	**151**	**6,715**	**-**	**548**	**-**	**-**	**322,892**
Total past due loans - impaired	**291,723**	**9,216**	**77**	**18,308**	**-**	**1,112**	**32**	**-**	**320,468**
Total gross loans and receivables to customers	**1,336,857**	**224,301**	**1,423**	**81,390**	**-**	**7,731**	**14,077**	**6,468**	**1,672,247**
Impairment allowance	(183,211)	(21,429)	(96)	(20,027)	-	(1,119)	(400)	(559)	(226,841)
Total net loans and receivables to customers	**1,153,646**	**202,872**	**1,327**	**61,363**	**-**	**6,612**	**12,677**	**5,909**	**1,445,406**

*Before the transfer of undertaking

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Outstanding specific impairment as at 31/12/2009*	**147,144**	**9,237**	**10,596**	**18,308**	**-**	**1,127**	**1,096**	**394**	**187,902**
Impairment charge for the reported period - specific	84,357	800	6,568	6,137	105	106	-	43	98,117
Release of previously established impairment allowance - specific	(8,535)	-	-	(6)	(3)	-	-	(43)	(8,588)
Impairment charged to the statement of income, net	**75,822**	**800**	**6,568**	**6,131**	**102**	**106**	**-**	**-**	**89,529**
Change of impairment allowance due to write-offs, net	-	-	-	-	-	-	-	-	-
Transferred to Citadele	(18,108)	(4,851)	(10,553)	(20,110)	(102)	(645)	(1,076)	(394)	(55,839)
To other assets	(10)	-	(6,188)	-	-	-	-	-	(6,198)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(293)	-	(363)	-	-	-	-	-	(656)
Outstanding specific impairment as at 31/12/2010	**204,555**	**5,186**	**60**	**4,329**	**-**	**588**	**20**	**-**	**214,738**

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Outstanding specific impairment as at 31/12/2009*	**151,721**	**15,759**	**59**	**18,308**	**-**	**934**	**18**	**394**	**187,193**
Impairment charge for the reported period - specific	88,109	8,967	-	6,137	105	106	-	43	103,467
Release of previously established impairment allowance - specific	(16,556)	-	-	(6)	(3)	-	(1)	(43)	(16,609)
Impairment charged to the statement of income, net	**71,553**	**8,967**	**-**	**6,131**	**102**	**106**	**(1)**	**-**	**86,858**
Change of impairment allowance due to write-offs, net	-	-	-	-	-	-	-	-	-
Transferred to Citadele	(16,230)	(7,859)	-	(20,110)	(102)	(452)	-	(394)	(45,147)
Increase/ (decrease) in impairment allowance due to currency fluctuations	617	-	1	-	-	-	3	-	621
Outstanding specific impairment as at 31/12/2010	**207,661**	**16,867**	**60**	**4,329**	**-**	**588**	**20**	**-**	**229,525**

*Before the transfer of undertaking

The tables below provide details of the Group's and Bank's securities portfolio quality:

	Group, LVL 000's							
	31/12/2010				31/12/2009*			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	-	4,928	-	4,928	-	13,087	-	13,087
AA	-	1,378	-	1,378	7,876	10,410	-	18,286
A	-	8,325	-	8,325	27,614	37,367	-	64,981
BBB/Baa	-	35,419	-	35,419	77,792	28,372	-	106,164
Other lower ratings	-	188	-	188	168,446	11,633	4	180,083
Not rated	24,208	9,172	821	40,374	32,161	3,949	1,405	37,515
Total gross fixed income securities	**24,208**	**59,410**	**821**	**84,439**	**313,889**	**104,818**	**1,409**	**420,116**
Incl. impaired securities	-	-	-	-	*21,682*	-	-	*21,682*
Impairment allowance	-	-	-	-	(14,518)	-	-	(14,518)
Total net fixed income securities	**24,208**	**59,410**	**821**	**84,439**	**299,371**	**104,818**	**1,409**	**405,598**

	Bank, LVL 000's							
	31/12/2010				31/12/2009*			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	-	4,928	-	4,928	-	5,097	-	5,097
AA	-	1,378	-	1,378	5,418	8,301	-	13,719
A	-	8,325	-	8,325	20,897	34,799	-	55,696
BBB/Baa	-	35,419	-	35,419	72,756	17,645	-	90,401
Other lower ratings	-	188	-	188	167,256	11,490	4	178,750
Not rated	47,538	9,172	821	57,531	66,840	8,409	1,405	76,654
Total gross fixed income securities	**47,538**	**59,410**	**821**	**107,769**	**333,167**	**85,741**	**1,409**	**420,317**
Incl. impaired securities	*8,258*	-	-	*8,258*	*21,682*	-	-	*21,682*
Impairment allowance	(6,173)	-	-	(6,173)	(14,518)	-	-	(14,518)
Total net fixed income securities	**41,365**	**59,410**	**821**	**101,596**	**318,649**	**85,741**	**1,409**	**405,799**

*Before the transfer of undertaking

GEOGRAPHICAL PROFILE

The following table provides an analysis of the Group's and Bank's assets and liabilities, as well as memorandum items outstanding as at 31 December 2010 and 2009 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2010, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	26,944	-	-	-	-	26,944
Balances due from credit institutions	57,334	12	10,342	2,000	-	69,688
Securities held for trading	903	-	-	-	223	1,126
Available-for-sale securities	2,469	-	28,985	25,208	2,748	59,410
Loans and receivables to customers	285,865	78,863	44,852	138,220	23,887	571,687
Held-to-maturity securities	24,208	-	-	-	-	24,208
Derivatives financial instruments	122	-	-	-	-	122
Other assets	35,690	2,497	556	149	9	38,901
Total assets	**433,535**	**81,372**	**84,735**	**165,577**	**26,867**	**792,086**
Liabilities						
Financial liabilities measured at amortised cost	521,416	-	206,093	-	-	727,509
Derivative financial instruments	2,002	-	-	-	-	2,002
Other liabilities	24,389	6	6	1,261	-	25,662
Total liabilities	**547,807**	**6**	**206,099**	**1,261**	**-**	**755,173**
Equity	36,913	-	-	-	-	36,913
Total liabilities and equity	**584,720**	**6**	**206,099**	**1,261**	**-**	**792,086**
Memorandum items						
Contingent liabilities	-	-	885	-	-	885
Financial commitments	-237	384	38	12	1	198

	Group as at 31/12/2009*, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	121,955	12,079	20,304	-	3,164	157,502
Balances due from credit institutions	10,462	2,388	122,411	8,166	77,409	220,836
Securities held for trading	2,055	-	4	121	672	2,852
Financial assets designated at fair value through profit or loss	1,470	-	1,300	-	-	2,770
Available-for-sale securities	10,621	9,920	56,407	11,342	26,059	114,349
Loans and receivables to customers	874,287	289,916	145,238	264,185	86,742	1,660,368
Held-to-maturity securities	198,094	-	26,673	51,148	23,456	299,371
Derivatives financial instruments	1,515	-	337	-	61	1,913
Other assets	109,556	7,977	883	18,358	162	136,936
Total assets	**1,330,015**	**322,280**	**373,557**	**353,320**	**217,725**	**2,596,897**
Liabilities						
Financial liabilities designated at fair value through profit or loss	709	-	-	-	-	709
Financial liabilities measured at amortised cost	1,345,186	97,261	634,853	55,318	307,627	2,440,245
Derivative financial instruments	718	-	92	-	127	937
Other liabilities	9,764	1,194	1,198	3,363	537	16,056
Total liabilities	**1,356,377**	**98,455**	**636,143**	**58,681**	**308,291**	**2,457,947**
Equity	138,950	-	-	-	-	138,950
Total liabilities and equity	**1,495,327**	**98,455**	**636,143**	**58,681**	**308,291**	**2,596,897**
Memorandum items						
Contingent liabilities	1,383	1,873	306	1,373	1,891	6,826
Financial commitments	76,907	14,091	703	10,332	24,055	126,088

*Before the transfer of undertaking

	Bank as at 31/12/2010, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	26,944	-	-	-	-	26,944
Balances due from credit institutions	55,498	-	10,339	-	-	65,837
Securities held for trading	903	-	-	-	223	1,126
Available-for-sale securities	2,469	-	28,985	25,208	2,748	59,410
Loans and receivables to customers	296,956	79,187	44,860	121,390	23,887	566,280
Held-to-maturity securities	24,208	-	-	17,157	-	41,365
Derivatives financial instruments	122	-	-	-	-	122
Other assets	25,471	2,162	555	-	9	28,197
Total assets	**432,571**	**81,349**	**84,739**	**163,755**	**26,867**	**789,281**
Liabilities						
Financial liabilities measured at amortised cost	521,419	-	206,100	-	-	727,519
Derivative financial instruments	2,002	-	-	-	-	2,002
Other liabilities	22,461	-	-	-	-	22,461
Total liabilities	**545,882**	**-**	**206,100**	**-**	**-**	**751,982**
Equity	37,299	-	-	-	-	37,299
Total liabilities and equity	**583,181**	**-**	**206,100**	**-**	**-**	**789,281**
Memorandum items						
Contingent liabilities	1,733	-	885	-	-	2,618
Financial commitments	19,287	384	38	153	1	19,863

	Bank as at 31/12/2009*, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	121,955	-	20,304	-	-	142,259
Balances due from credit institutions	9,839	142,001	111,642	1,458	60,929	325,869
Securities held for trading	2,055	-	4	121	672	2,852
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale securities	10,408	-	47,472	15,816	21,503	95,199
Loans and receivables to customers	920,782	57,329	143,330	237,243	86,722	1,445,406
Held-to-maturity securities	198,093	-	25,033	82,111	13,412	318,649
Derivatives financial instruments	1,495	29	337	-	61	1,922
Other assets	138,401	28	358	173	34	138,994
Total assets	**1,403,028**	**199,387**	**348,480**	**336,922**	**183,333**	**2,471,150**
Liabilities						
Financial liabilities measured at amortised cost	1,345,133	7,178	623,545	49,254	283,039	2,308,149
Derivative financial instruments	712	31	92	-	127	962
Other liabilities	8,075	5	1,139	114	37	9,370
Total liabilities	**1,353,920**	**7,214**	**624,776**	**49,368**	**283,203**	**2,318,481**
Equity	152,669	-	-	-	-	152,669
Total liabilities and equity	**1,506,589**	**7,214**	**624,776**	**49,368**	**283,203**	**2,471,150**
Memorandum items						
Contingent liabilities	1,368	367	127	8,607	995	11,464
Financial commitments	106,364	8,934	5,938	21,032	24,055	166,323

*Before the transfer of undertaking

b) Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in foreign exchange rates, interest rates and other factors.

Due to the specific nature and limited scale of the Bank's operations since the transfer of undertaking of the Bank on 1 August, the Group does not take up new market risks. Market risk assessment, evaluation of undertaken positions, as well as risk monitoring and reporting is carried out by Finance Planning and Control Division and Risk Management Division.

c) Interest rate risk

Interest rate risk is related to the negative impact of interest rate changes on the Group's interest income and economic value.

Interest rate risk measurement, management and reporting in the Group is coordinated by Finance Planning and Control Division and Risk Management Division. Bank's interest rate risk assessment and relevant decision making is carried out by the Bank's Management Board.

The following table represents the impact of a parallel change in all interest rates by 1.0% on Group's and Bank's pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity:

Scenario: +1%	LVL 000's			
	2010 Group	2009* Group	2010 Bank	2009* Bank
Pre-tax loss	(1,377)	(865)	(1,377)	(31)
Securities fair value revaluation reserve	(635)	(1,770)	(635)	(2,424)
Total pre-tax effect on equity	**(2,012)**	**(2,635)**	**(2,012)**	**(2,455)**
Estimated net effect on equity	**(2,012)**	**(2,240)**	**(2,012)**	**(2,087)**
Scenario: -1%				
Pre-tax profit	1,377	848	1,377	32
Securities fair value revaluation reserve	683	1,875	683	2,848
Total pre-tax effect on equity	**2,060**	**2,723**	**2,060**	**2,880**
Estimated net effect on equity	**2,060**	**2,315**	**2,060**	**2,449**

The following table represents the impact of a several LVL interest rate change scenarios on the Bank's* pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity.

Scenario	**+5%**	**+10%**	**+15%**	**-5%**
	2010	2010	2010	2010
Pre-tax profit/ (loss)	(6,885)	(13,768)	(20,652)	6,885
Securities fair value revaluation reserve	(2,794)	(4,888)	(6,545)	4,074
Total pre-tax effect on equity	**(9,679)**	**(18,656)**	**(27,197)**	**10,959**
Estimated net effect on equity	**(9,679)**	**(18,656)**	**(27,197)**	**10,959**
	2009*	2009*	2009*	2009*
Pre-tax profit	(7,500)	(7,500)	(21,965)	7,689
Securities fair value revaluation reserve	(240)	(240)	(626)	280
Total pre-tax effect on equity	**(7,740)**	**(7,740)**	**(22,591)**	**7,969**
Estimated net effect on equity	**(6,579)**	**(6,579)**	**(19,202)**	**6,774**

The Bank's LVL-denominated financial assets and liabilities constitute almost all of the Group's LVL-denominated financial assets and liabilities.

*Before the transfer of undertaking

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in many cases, particularly in respect of loans and receivables to customers, the Group intends to realise assets through collection over time. Users of these financial statements are therefore advised to use caution when using this data to evaluate the Group's financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks
The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from and credit institutions/ Balances due to credit institutions and central banks
The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to short-term maturity profiles.

Loans and receivables to customers
The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by LVL 5.5 million.

Held to maturity securities
Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Customer deposits
The fair value of customer deposits repayable on demand is their carrying amount. Since the majority of deposits are State Treasury funds with variable interest rates, the carrying value of the deposit portfolio is a close approximation of the fair value of the portfolio If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by LVL 11.2 million.

Issued debt and subordinated liabilities
Due to illiquidity of all the subordinated liabilities as at the end of year, it was assumed that the best estimate of fair value are the quotes of market participants provided for the listed debt instruments.

Fair value hierarchy

Quoted market prices
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2010.

			Fair value		
	Carrying value	**Adjustment to (arrive at) fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	26,944	-	-	26,944	-
Balances due from credit institution	69,688	-	-	69,688	-
Held-for-trading securities	1,126	-	1,126		-
Derivatives	122	-	-	122	-
Available-for-sale securities	59,410	-	59,410	-	-
Loans and receivables to customers	571,687	-	-	-	571,687
Held to maturity securities	41,365	(4,940)	36,425	-	-
Total financial assets	**770,342**	**(4,940)**	**96,961**	**96,754**	**571,687**
Derivatives	2,002	-	-	2,002	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	178,615	-	-	178,615	-
Customer deposits	495,865	-	-	-	495,865
Subordinated liabilities	53,030	(30)	-	-	53,000
Total financial liabilities	**729,512**	**(30)**	**-**	**180,617**	**548,865**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2009*.

	Carrying value	**Adjustment to (arrive at) fair value**	**Fair value**		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	157,502	-	-	145,423	12,079
Balances due from credit institution	220,836	-	-	220,836	-
Held-for-trading securities	2,852	-	2,852	-	-
Financial assets designated at fair value through profit or loss	2,770	-	2,770	-	-
Derivatives	1,913	-	-	1,913	-
Available-for-sale securities	114,349	1,224	115,573	-	-
Loans and receivables to customers	1,660,368	(36,136)	-	-	1,624,232
Held to maturity securities	299,371	(51,914)	233,518	13,939	-
Total financial assets	**2,459,961**	**(86,826)**	**354,713**	**382,111**	**1,636**
Derivatives	937	-	-	937	-
Financial liabilities designated at fair value through profit or loss	709	-	709	-	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	552,466	(162)	-	552,301	3
Customer deposits	1,687,849	(3,353)		32,532	1,651,964
Issued debt	90,551	(11,796)	78,755	-	-
Subordinated liabilities	103,949	(13,514)	-	-	90,435
Other financial liabilities	5,430	(1,169)	-	-	4,261
Total financial liabilities	**2,441,891**	**(29,994)**	**79,464**	**585,770**	**1,746,663**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2010.

	Carrying value	**Adjustment to (arrive at) fair value**	**Fair value**		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	26,944	-	-	26,944	-
Balances due from credit institution	65,836	-	-	65,836	-
Held-for-trading securities	1,126	-	1,126		-
Derivatives	122	-	-	122	-
Available-for-sale securities	59,410	-	59,410	-	-
Loans and receivables to customers	566,280	-	-	-	566,280
Held to maturity securities	41,365	(4,940)	36,425	-	-
Total financial assets	**761,083**	**(4,940)**	**96,961**	**92,902**	**566,280**
Derivatives	2,002	-	-	2,002	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	178,615	-	-	178,615	-
Customer deposits	495,875	-	-	-	495,875
Subordinated liabilities	53,030	(30)	-	-	53,000
Total financial liabilities	**729,522**	**(30)**	**-**	**180,617**	**548,875**

*Before the transfer of undertaking

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2009*.

	Carrying value	Adjustment to (arrive at) fair value	Fair value: Quoted market prices	Fair value: Valuation technique - observable market inputs	Fair value: Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	142,259	-	-	142,259	-
Balances due from credit institution	325,869	-	-	325,869	-
Held-for-trading securities	2,852	-	2,852	-	-
Derivatives	1,922	-	-	1,922	-
Available-for-sale securities	95,199	1,224	96,423	-	-
Loans and receivables to customers	1,445,406	(36,832)	-	-	1,408,574
Held to maturity securities	318,649	(53,235)	265,414	-	-
Total financial assets	**2,332,156**	**(88,843)**	**364,689**	**470,050**	**1,408,574**
Derivatives	962	-	-	962	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	572,782	-	-	572,782	-
Customer deposits	1,540,669	(1,923)	-	-	1,538,746
Issued debt	90,742	(11,796)	78,946	-	-
Subordinated liabilities	103,956	(13,514)	-	-	90,442
Total financial liabilities	**2,309,111**	**(27,233)**	**78,946**	**573,744**	**1,629,188**

d) Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of Risk and Compliance Sector, while risk monitoring and reporting is the responsibility of Finance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are equal to the requirements by Latvian legislation. To manage the currency risk, the Group and Bank derivative financial instruments. To assess currency risk, the Group uses scenario analysis. In the event of exchange rates for all currencies in which the Group and the Bank has open positions adversely change by 1%, the potential total decrease in the Group's and Bank's pre-tax profit would amount to approximately LVL 0.3 million and LVL 0.4 million as at 31 December 2010 and LVL 1.1 million and LVL 0.9 million as at 31 December 2009, accordingly.

*Before the transfer of undertaking

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2010 and 2009 by currency profile:

	Group as at 31/12/2010, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	26,944	-	-	-	-	-	-	-	26,944
Balances due from credit institutions	13,669	7,150	46,219	-	47	587	7	8	67,687
Securities held for trading	82	223	821	-	-	-	-	-	1,126
Available-for-sale securities	-	33,125	26,138	-	-	-	-	147	59,410
Loans and receivables to customers	7,506	86,749	415,526	-	4,360	21,521	-	5,888	541,550
Held-to-maturity securities	-	-	24,208	-	-	-	-	-	24,208
Derivatives financial instruments	122	-	-	-	-	-	-	-	122
Other assets	27,202	16,036	5,180	5,622	-	343	15,430	1,226	71,039
Total assets	**75,525**	**143,283**	**518,092**	**5,622**	**4,407**	**22,451**	**15,437**	**7,269**	**792,086**
Liabilities									
Financial liabilities measured at amortised cost	132	5,338	668,936	-	45	29	-	-	674,480
Derivative financial instruments	2,002	-	-	-	-	-	-	-	2,002
Other liabilities	50,637	5	28,042	-	-	6	-	1	78,691
Total liabilities	**52,771**	**5,343**	**696,978**	**-**	**45**	**35**	**-**	**1**	**755,173**
Equity	36,913	-	-	-	-	-	-	-	36,913
Total liabilities and equity	**89,684**	**5,343**	**696,978**	**-**	**45**	**35**	**-**	**1**	**792,086**
Net long/ (short) position for balance sheet items	(14,159)	137,940	(178,886)	5,622	4,362	22,416	15,437	7,268	-
Off-balance sheet claims arising from foreign exchange									
Swap exchange contracts	88,500	(158,142)	118,059	(1)	(4,546)	(25,243)	(9,504)	(10,996)	(1,873)
Net long/ (short) positions on foreign exchange	88,500	(158,142)	118,059	(1)	(4,546)	(25,243)	(9,504)	(10,996)	(1,873)
Net long/ (short) position as at 31 December 2010	**74,341**	**(20,202)**	**(60,827)**	**5,621**	**(184)**	**(2,827)**	**5,933**	**(3,728)**	**(1,873)**
Exchange rates applied as at 31 December 2010 (LVL for 1 foreign currency unit)	-	0.535	0.702804	0.0672	0.0449	0.203	0.0176	-	-

	Group as at 31/12/2009*, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	121,304	3,462	11,524	4	676	10,839	341	9,352	157,502
Balances due from credit institutions	596	89,125	116,541	329	18	111	5,032	9,084	220,836
Securities held for trading	650	577	1,409	-	-	-	-	216	2,852
Financial assets designated at fair value through profit or loss	656	143	1,971	-	-	-	-	-	2,770
Available-for-sale securities	3,708	21,119	74,618	2,914	-	2,338	3,011	6,641	114,349
Loans and receivables to customers	64,495	306,344	1,157,850	3,930	17,831	84,489	11,456	13,973	1,660,368
Held-to-maturity securities	173,883	66,473	59,015	-	-	-	-	-	299,371
Derivatives financial instruments	1,580	238	64	-	11	20	-	-	1,913
Other assets	100,769	2,538	6,813	2,268	538	7,770	14,389	1,851	136,936
Total assets	**467,641**	**490,019**	**1,429,805**	**9,445**	**19,074**	**105,567**	**34,229**	**41,117**	**2,596,897**
Liabilities									
Financial liabilities designated at fair value through profit or loss	-	143	566	-	-	-	-	-	709
Financial liabilities measured at amortised cost	383,761	248,317	1,670,824	6	24,334	59,024	7,907	46,072	2,440,245
Derivative financial instruments	849	3	63	-	18	4	-	-	937
Other liabilities	6,786	1,574	2,274	480	153	745	2,615	1,429	16,056
Total liabilities	**391,396**	**250,037**	**1,673,727**	**486**	**24,505**	**59,773**	**10,522**	**47,501**	**2,457,947**
Equity	138,950	-	-	-	-	-	-	-	138,950
Total liabilities and equity	**530,346**	**250,037**	**1,673,727**	**486**	**24,505**	**59,773**	**10,522**	**47,501**	**2,596,897**
Net long/ (short) position for balance sheet items	(62,705)	239,982	(243,922)	8,959	(5,431)	45,794	23,707	(6,384)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	3,552	78	(1,419)	-	-	(3)	(25)	(2,158)	25
Forward foreign exchange contracts	5,995	1,213	(7,116)	-	4	-	-	-	96
Swap exchange contracts	(1,627)	(257,062)	257,238	-	(6,915)	-	(13,732)	22,710	612
Net long/ (short) positions on foreign exchange	*7,920*	*(255,771)*	*248,703*	-	*(6,911)*	*(3)*	*(13,757)*	*20,552*	*733*
Net long/ (short) position as at 31 December 2009	(54,785)	(15,789)	4,781	8,959	(12,342)	45,791	9,950	14,168	733
Exchange rates applied as at 31 December 2009 (LVL for 1 foreign currency unit)	-	0.489	0.702804	0.06100	0.0449	0.2040	0.0164	-	-

*Before the transfer of undertaking

	Bank as at 31/12/2010, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
<u>Assets</u>									
Cash and deposits with central banks	26,944	-	-	-	-	-	-	-	26,944
Balances due from credit institutions	11,833	7,150	46,219	-	45	575	7	8	65,837
Securities held for trading	82	223	821	-	-	-	-	-	1,126
Available-for-sale securities	-	33,125	26,138	-	-	-	-	147	59,410
Loans and receivables to customers	7,506	97,241	429,686	-	4,360	21,521	78	5,888	566,280
Held-to-maturity securities	-	6,111	24,272	-	-	-	10,982	-	41,365
Derivatives financial instruments	122	-	-	-	-	-	-	-	122
Other assets	24,922	2,179	197	553	-	27	-	319	28,197
Total assets	**71,409**	**146,029**	**527,333**	**553**	**4,405**	**22,123**	**11,067**	**6,362**	**789,281**
<u>Liabilities</u>									
Financial liabilities measured at amortised cost	132	5,344	668,940	-	45	29	-	-	674,490
Derivative financial instruments	2,002	-	-	-	-	-	-	-	2,002
Other liabilities	47,441	5	28,042	-	-	2	-	-	75,490
Total liabilities	**49,575**	**5,349**	**696,982**	**-**	**45**	**31**	**-**	**-**	**751,982**
Equity	37,299	-	-	-	-	-	-	-	37,299
Total liabilities and equity	**86,874**	**5,349**	**696,982**	**-**	**45**	**31**	**-**	**-**	**789,281**
Net long/ (short) position for balance sheet items	(15,465)	140,680	(169,649)	553	4,360	22,092	11,067	6,362	-
<u>Off-balance sheet claims arising from foreign exchange</u>									
Swap exchange contracts	88,500	(158,142	118,059	(1)	(4,546)	(25,243)	(9,504)	(10,996)	(1,873)
Net long/ (short) positions on foreign exchange	88,500	(158,142	118,059	(1)	(4,546)	(25,243)	(9,504)	(10,996)	(1,873)
Net long/ (short) position as at 31 December 2010	**73,035**	**(17,462)**	**(51,590)**	**552**	**(186)**	**(3,151)**	**1,563**	**(4,634)**	**(1,873)**
Exchange rates applied as at 31 December 2010(LVL for 1 foreign currency unit)	-	0.535	0.702804	0.0672	0.0449	0.203	0.0176	-	-

	Bank as at 31/12/2009*, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	121,297	3,051	10,742	1	663	157	304	6,044	142,259
Balances due from credit institutions	-	89,782	231,303	4	13	34	652	4,081	325,869
Securities held for trading	650	577	1,409	-	-	-	-	216	2,852
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available-for-sale securities	3,654	19,446	64,890	2,914	-	-	2,964	1,331	95,199
Loans and receivables to customers	63,516	296,909	1,057,551	3	12,384	568	598	13,877	1,445,406
Held-to-maturity securities	173,883	70,084	57,647	-	-	-	17,035	-	318,649
Derivatives financial instruments	1,609	238	64	-	11	-	-	-	1,922
Other assets	133,250	2,291	3,155	3	33	48	22	192	138,994
Total assets	**497,859**	**482,378**	**1,426,761**	**2,925**	**13,104**	**807**	**21,575**	**25,741**	**2,471,150**
Liabilities									
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	384,312	227,963	1,620,446	6	24,344	160	7,658	43,260	2,308,149
Derivative financial instruments	878	3	63	-	18	-	-	-	962
Other liabilities	5,857	1,435	1,649	-	108	3	83	235	9,370
Total liabilities	**391,047**	**229,401**	**1,622,158**	**6**	**24,470**	**163**	**7,741**	**43,495**	**2,318,481**
Equity	152,669	-	-	-	-	-	-	-	152,669
Total liabilities and equity	**543,716**	**229,401**	**1,622,158**	**6**	**24,470**	**163**	**7,741**	**43,495**	**2,471,150**
Net long/ (short) position for balance sheet items	(45,857)	252,977	(195,397)	2,919	(11,366)	644	13,834	(17,754)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	3,555	88	(1,609)	-	-	141	-	(2,148)	27
Forward foreign exchange contracts	5,996	998	(6,903)	-	4	-	-	-	95
Swap exchange contracts	(1,628)	(260,337)	261,910	-	(6,915)	(1,020)	(13,979)	22,566	597
Net long/ (short) positions on foreign exchange	*7,923*	*(259,251)*	*253,398*	-	*(6,911)*	*(879)*	*(13,979)*	*20,418*	*719*
Net long/ (short) position as at 31 December 2009	**(37,934)**	**(6,274)**	**58,001**	**2,919**	**(18,277)**	**(235)**	**(145)**	**2,664**	**719**
Exchange rates applied as at 31 December 2009 (LVL for 1 foreign currency unit)	-	0.489	0.702804	0.06100	0.0449	0.2040	0.0164	-	-

*Before the transfer of undertaking

e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

Under ordinary circumstances the Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management, as well as liquidity risk measurement, monitoring and reporting is ensured by the Risk Management Division and Finance Planning and Control Division. Liquidity risk management in the Group is coordinated by the Risk Management Division and Finance Planning and Control Division. However the main source of liquidity is the funding provided by the State Treasury. In 2010 the Bank is in compliance with liquidity ratio requirements and meets mandatory reserve requirements in the Bank of Latvia.

The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

Year	*High*	*Low*	*Average*	*Year-end*
2010	443%	45%	155%	443%
2009*	44%	24%	34%	41%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

*Before the transfer of undertaking

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2010

	Group as at 31/12/2010, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	26,944	-	-	-	-	-	26,944
Balances due from credit institutions	67,687	-	-	-	-	-	67,687
Securities held for trading	-	-	-	-	1,126	-	1,126
Available-for-sale securities	179	5,928	5,220	5,845	9,954	32,284	59,410
Loans and receivables to customers	119,346	15,356	10,209	62,546	167,973	166,120	541,550
Held-to-maturity securities	-	-	-	-	-	24,208	24,208
Derivatives financial instruments	122	-	-	-	-	-	122
Other assets	449	6,648			51,215	12,727	71,039
Total assets	**214,727**	**27,932**	**15,429**	**68,391**	**230,268**	**235,339**	**792,086**
Liabilities							
Financial liabilities measured at amortised cost	30,185	9,590	167,688	28,697	204,509	233,541	674,210
Derivative financial instruments	2,002	-	-	-	-	-	2,002
Other liabilities	147	3,355	-	11,192	6,819	57,178	78,691
Total liabilities	**32,334**	**12,945**	**167,688**	**39,889**	**211,328**	**290,719**	**754,903**
Equity						36,913	36,913
Total liabilities and equity	**32,334**	**12,945**	**167,688**	**39,889**	**211,328**	**327,632**	**792,086**
Net balance sheet position – long/ (short)	182,393	14,987	(152,259)	28,502	18,940	(92,293)	0
Memorandum items							
Contingent liabilities	885	-	-	-	-	-	885
Financial commitments	198	-	-	-	-	-	198

As described in Note 25, the FCMC has imposed certain drawdown restrictions on the customer deposits at the Bank. However, for the purposes of the disclosures in this note the deposits are classified in accordance with their contractual maturities. As at 31 December 2010, LVL 23 million (2009: LVL 280 million) of deposits qualified for the restrictions according to the FCMC's decision. The management of the Bank believes that the Bank's liquidity position is and will be such as to allow the Bank to operate on a going concern basis for a period of at least 12 months from the date of signing this financial report.

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2010

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2010:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	1,863	19,593	169,156	42,024	303,350	291,842	827,828
Memorandum items							
Contingent liabilities	2,618	-	-	-	-	-	2,618
Financial commitments	19,863	-	-	-	-	-	19,863

As described in Note 25, FCMC has imposed certain drawdown restrictions on customer funds at the Bank. However, for the purposes of this analysis, it is assumed that no such restrictions exist.

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2009

	Group as at 31/12/2009*, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	157,502	-	-	-	-	-	157,502
Balances due from credit institutions	216,010	3,915	459	54	136	262	220,836
Securities held for trading	624	-	-	-	781	1,447	2,852
Financial assets designated at fair value through profit or loss	-	463	662	72	527	1,046	2,770
Available-for-sale securities	75	3,922	4,879	12,613	38,613	54,247	114,349
Loans and receivables to customers	89,013	230,757	23,907	194,565	515,563	606,563	1,660,368
Held-to-maturity securities	989	14,463	4,715	2,562	163,594	113,048	299,371
Derivatives financial instruments	1,349	256	58	171	79	-	1,913
Other assets	11,875	3,650	11,496	3,075	18,394	88,446	136,936
Total assets	**477,437**	**257,426**	**46,176**	**213,112**	**737,687**	**865,059**	**2,596,897**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	709	-	709
Financial liabilities measured at amortised cost	949,677	895,845	68,845	102,053	319,737	104,088	2,440,245
Derivative financial instruments	840	38	3	4	52	-	937
Other liabilities	8,492	2,415	324	1,523	1,235	2,067	16,056
Total liabilities	**959,009**	**898,298**	**69,172**	**103,580**	**321,733**	**106,155**	**2,457,947**
Equity	-	-	-	-	-	138,950	138,950
Total liabilities and equity	**959,009**	**898,298**	**69,172**	**103,580**	**321,733**	**245,105**	**2,596,897**
Net balance sheet position – long/ (short)	(481,572)	(640,872)	(22,996)	109,532	415,954	619,954	-
Memorandum items							
Contingent liabilities	6,826	-	-	-	-	-	6,826
Financial commitments	126,088	-	-	-	-	-	126,088

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2009

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2009*:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	-	-	-	2	709	-	711
Financial liabilities measured at amortised cost	965,090	898,796	75,501	108,949	384,314	107,135	2,539,785
Memorandum items							
Contingent liabilities	6,826	-	-	-	-	-	6,826
Financial commitments	126,088	-	-	-	-	-	126,088

*Before the transfer of undertaking

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2010

	Bank as at 31/12/2010, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	26,944	-	-	-	-	-	26,944
Balances due from credit institutions	65,837	-	-	-	-	-	65,837
Securities held for trading	-	-	-	-	1,126	-	1,126
Available-for-sale securities	179	5,928	5,220	5,845	9,954	32,284	59,410
Loans and receivables to customers	119,346	15,356	10,209	62,546	167,973	190,850	566,280
Held-to-maturity securities	11,269	2,604	2,587	697	-	24,208	41,365
Derivatives financial instruments	122	-	-	-	-	-	122
Other assets	-	-	-	-	15,791	12,406	28,197
Total assets	**223,697**	**23,888**	**18,016**	**69,088**	**194,844**	**259,748**	**789,281**
Liabilities							
Financial liabilities measured at amortised cost	30,195	9,590	167,688	28,967	204,509	233,541	674,490
Derivative financial instruments	2,002	-	-	-	-	-	2,002
Other liabilities	-	-	-	11,192	7,400	56,898	75,490
Total liabilities	**32,197**	**9,590**	**167,688**	**40,159**	**211,909**	**290,439**	**751,982**
Equity						37,299	37,299
Total liabilities and equity	**32,197**	**9,590**	**167,688**	**40,159**	**211,909**	**327,738**	**789,281**
Net balance sheet position – long/ (short)	191,500	14,298	(149,672)	28,929	(17,065)	(67,990)	-
Memorandum items							
Contingent liabilities	2,618	-	-	-	-	-	2,618
Financial commitments	19,863	-	-	-	-	-	19,863

Banks's contractual undiscounted cash flows of the financial liabilities as at 31 December 2010

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	1,961	19,593	169,156	42,024	303,350	291,842	827,926
Memorandum items							
Contingent liabilities	2,618	-	-	-	-	-	2,618
Financial commitments	19,863	-	-	-	-	-	19,863

As described in Note 25, FCMC has imposed certain drawdown restrictions on customer funds at the Bank. However, for the purposes of this analysis, it is assumed that no such restrictions exist.

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2009

	Bank as at 31/12/2009*, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	142,259	-	-	-	-	-	142,259
Balances due from credit institutions	183,978	17,901	123,990	-	-	-	325,869
Securities held for trading	624	-	-	-	781	1,447	2,852
Available-for-sale securities	-	2,010	-	4,724	36,388	52,077	95,199
Loans and receivables to customers	21,353	236,415	65,822	165,879	406,364	549,573	1,445,406
Held-to-maturity securities	989	14,545	7,140	17,248	168,558	110,169	318,649
Derivatives financial instruments	1,370	244	58	171	79	-	1,922
Other assets	9,193	-	-	-	13,130	116,671	138,994
Total assets	**359,766**	**271,115**	**197,010**	**188,022**	**625,300**	**829,937**	**2,471,150**
Liabilities							
Financial liabilities measured at amortised cost	873,761	875,027	54,792	86,918	313,590	104,061	2,308,149
Derivative financial instruments	865	38	3	4	52	-	962
Other liabilities	7,648	-	-	-	-	1,722	9,370
Total liabilities	**882,274**	**875,065**	**54,795**	**86,922**	**313,642**	**105,783**	**2,318,481**
Equity	-	-	-	-	-	152,669	152,669
Total liabilities and equity	**882,274**	**875,065**	**54,795**	**86,922**	**313,642**	**258,452**	**2,471,150**
Net balance sheet position – long/ (short)	(522,508)	(603,950)	142,215	101,100	311,658	571,485	-
Memorandum items							
Contingent liabilities	11,464	-	-	-	-	-	11,464
Financial commitments	166,323	-	-	-	-	-	166,323

*Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2009**

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	876,085	877,396	61,079	92,996	377,742	107,098	2,392,396
Memorandum items							
Contingent liabilities	11,464	-	-	-	-	-	11,464
Financial commitments	166,323	-	-	-	-	-	166,323

*Before the transfer of undertaking

Group's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Group's derivatives settled on a gross basis as at 31 December 2010.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange contracts	(1,879)	-	-	-	-	-	(1,879)

Group's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Group's derivatives settled on a gross basis as at 31 December 2009.*

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange contracts	(830)	(27)	(3)	(4)	-	-	(864)
Interest rate derivatives	-	(3)	-	-	-	-	(3)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(20,869)	(415)	-	-	-	-	(21,284)
inflow	21,035	426	-	-	-	-	21,461
Other derivatives:							
outflow	-	-	-	-	(53)	-	(53)
inflow	-	-	-	-	41	-	41

Bank's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Bank's derivatives settled on a gross basis as at 31 December 2010.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange contracts	(1,879)	-	-	-	-	-	(1,879)

Bank's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Bank's derivatives settled on a gross basis as at 31 December 2009.*

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange contracts	(830)	(27)	(3)	(4)	-	-	(864)
Interest rate derivatives	-	(3)	-	-	-	-	(3)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(45,875)	-	-	-	-	-	(45,875)
inflow	46,036	-	-	-	-	-	46,036
Other derivatives:							
outflow	-	-	-	-	(53)	-	(53)
inflow	-	-	-	-	41	-	41

*Before the transfer of undertaking

f) Operational risk

Oerational risk is the risk of suffering losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not undertake / accept operational risks with potential impact exceeding 10% of the Group's net annual revenues, or risks with unquantifiable impact that are concurrently unmanageable (it is impossible to prevent such risks or provide for their consequences – e.g. non-compliance with legal regulations etc.) , irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- "Four-eye-principle" and segregation of duties;
- Business continuity planning;
- Insurance;
- Investments in appropriate data processing and information protection technologies.

g) Capital management

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's (FCMC), the bank regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8% of risk weighted assets.

Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity.

The Capital Requirements Directive (CRD), which implements Basel II capital regulations in the EU, came into full force on 1 January 2008. In Latvia the directive was implemented through FCMC regulations. Among the options provided in the regulations, the Bank and Group has chosen to use standardized approach in credit risk calculations and basic indicators approach in calculating operation risk charge.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements. For more details on capital increase, please refer to Note 27.

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel II* framework) can be disclosed as follows:

	LVL 000's			
	31/12/2010 Group	31/12/2009* Group	31/12/2010 Bank	31/12/2009* Bank
Tier 1				
- paid-in share capital	271,227	230,027	271,227	230,027
- share premium	12,694	12,694	12,694	12,694
- audited retained earnings/ (accumulated loss) (not subject to dividend distribution)*	(242,343)	(91,231)	(241,937)	(78,071)
Less				
- negative fair value revaluation reserve	(4,685)	(12,318)	(4,685)	(11,979)
- intangible assets	(152)	(3,220)	(152)	(585)
- additional equity charge in accordance with FCMC requirements (50% from total)	(164)	(3,144)	(164)	(3,144)
- revaluation gain in relation to own credit risk	-	-	-	-
- Investments in subsidiaries – insurance company (50% from total)	-	(1,500)	-	-
Total Tier 1	**36,598**	**131,308**	**36,984**	**148,942**
Tier 2				
- subordinated debt – total	49,310	103,120	49,310	103,127
- subordinated debt – excess over 50% from Tier 1	(25,334)	(35,144)	(25,141)	(27,084)
- additional equity charge in accordance with FCMC requirements (50% from total)	(164)	(3,144)	(164)	(3,144)
- investments in subsidiaries – insurance company (50% from total)*	-	(1,500)	-	-
Total Tier 2	**23,813**	**63,332**	**24,005**	**72,899**
Equity to be utilised in the capital adequacy ratio	**60,410**	**194,640**	**60,989**	**221,841**
Credit risk and counterparty risk capital charge by regulatory asset classes:				
Central governments and banks	-	784	-	182
Municipalities	425	2,730	425	2,648
Government institutions	-	33	-	33
Credit institutions	3,343	9,406	3,070	22,508
Companies	6,791	70,825	9,873	72,911
Assets falling under "retail" definition	12	8,158	12	5,451
Qualifying residential mortgage loans	237	10,937	237	8,076
Assets falling under "past due" definition	45,763	40,720	47,780	33,228
Covered bonds	3	175	3	175
Investment funds	-	754	-	752
Other assets	5,535	18,076	3,487	13,347
Other risk capital charges:				
Foreign currency open positions subject to capital charge	1,321	5,815	759	5,248
Fixed income securities position risk capital charge	69	188	69	188
Equity instruments' position risk capital charge	37	173	37	173
Operational risk capital charge	-	18,105	-	13,910
Total capital charges	**63,536**	**186,879**	**65,752**	**178,830**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	**7.61%**	**8.3%**	**7.42%**	**9.9%**

In 2010 the Group and Bank has suffered significant impairment losses. As a result, as at 31 December 2010, Group's and Bank's capital base was deteriorated to the level, where the minimum capital adequacy ratio requirement was no longer met.

NOTE 33. EVENTS AFTER THE BALANCE SHEET DATE

On February 2011 Bank and State Treasury agreed to prolong till August 2011 maturity term of deposit with initial maturity term in February 2011.

*Before the transfer of undertaking