



TRASTA KOMERCBANKA

**JSC "TRASTA KOMERCBANKA"
INTERIM CONDENSED FINANCIAL STATEMENTS
AND CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 DECEMBER 2010
UNAUDITED**



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MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

In 2010, Latvia's economy showed the first signs of stabilization (GDP decline stopped, unemployment rate decreased), however, the overall budget deficit, tax increases, public spending cuts and other factors continued to affect adversely the market situation. Under onerous conditions for recovery of Latvia's business setting the Bank's chose as a priority for its work in 2010 fostering of its existing customers' activities and development of financial products, which in the long run would ensure further development of the Bank, rather than making a profit. .

In 2010, the Bank continued to support the customers, experiencing difficulties, by implementing loan restructuring measures. Due to deterioration in solvency of a certain customer group, the ratio of bad loans, for which the Bank in 2010 made provisions in the amount of LVL 4.1 million, in the Bank's loan portfolio increased, and the total amount of provisions reached 16.3 million. LVL .Such provisions affected performance of the Bank and the year 2010 the Bank ended with a loss of LVL 4.4 million. Taking into account the Bank's accumulated retained earnings of previous years in the amount of LVL 22.4 million; this result did not have material impact on Bank's capital. Besides, given the recovery tendencies in the credit market and customer support measures through restructuring of their loan by the Bank, it can be expected that the ratio of bad loans will decrease in the next few years, which will positively affect the volume of savings and Bank's profit performance.

Despite the fact that the Bank had to make provisions, it managed to maintain the capital and reserves at an adequate level, which on 31 December 2010 was LVL 29 million, and a high capital adequacy of 14.9%. The Bank's liquidity as at the end of the reporting period was 59.8%, well above the standard defined by the FCMC and fair enough to meet the existing Bank's obligations. At the end of 2010 the 12th share issue of the Bank completed, consequently 14,230 shares were paid up in the amount of LVL 712 thousand, increasing the Bank's share capital to LVL 7.05 million.

At the end of 2010 the amount of attracted deposits reached LVL 174.9 million. The Bank's deposit structure featured a significant growth of retail deposits - by 61.9%, which were raised from both the existing customers and new business of the Bank. Last year, the number of customers increased by 11.8%, including private persons - residents of Latvia by 24.6%. The decline in legal entities' savings was due the increased demand of companies for working capital in 2010. We highly appreciate our customers' loyalty, which we consider as another proof of Bank's solidity and development potential in the domestic and international markets.

In 2010, the Bank's Group expanded its geographical presence in the world, this time – in the South Caucasus region. In September last year a representative office of the Bank's subsidiary company LLC *TKB Līzings* was established in Azerbaijan. It will consult Group's existing and prospective customers in Azerbaijan, as well as provide information support to Latvian entrepreneurs interested in business development in this region.

Providing its clients with up-to-date knowledge for successful business, in 2010, the Bank conducted a series of educational activities – seminars on tax, export development and working capital balancing issues. In support of Latvian exporting companies the Bank continued to develop its international factoring services. In 2010, the geography of international factoring service provision broadened, involving the CIS countries, e.g., Belarus, Kazakhstan, Azerbaijan and others; so this service is available for risk hedging and export finance to overall 76 countries.

The consolidation group of the Bank consists of the subsidiaries *TKB Nekustamie īpašumi* , *TKB LĪZINGS* and “Heckbert C7 Holdings”, which is classified as held for sale, and its subsidiary “Ferrous Kereskedelmi KFT”. The description of “Heckbert C7 Holdings” and “Ferrous Kereskedelmi KFT” is provided in Note 11 of these financial statements. The amount of Group's assets as at the end of the reporting period was LVL 217.4 million. As a result of making the provisions for bad debts the Group ended the reporting year with a loss of LVL 4.6 million. Next year, the Group intends to continue its development by expanding its operations in different regions and increasing the range of customers and services, having emphasis on service quality and in-depth study of customer needs, and paying more attention to asset quality and work with the bad debts.

On 7 October 2010, changes were made to the composition of Bank Council and Inspection Committee. The Bank council member Charles Edward Treherne resigned and was replaced by Igor Snisarevskis, who previously had held executive positions in several Ukrainian banks and construction companies. In the Inspection Committee instead of its former member Boris Grigs, from October 7, Silvia Gulbe, a certified auditor, started to work.

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MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY) (continued)

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 6 to 25 for the period from 1 January 2010 to 31 December 2010 have been prepared consistently applying relevant accounting methods and the management's judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared on a going concern concept basis. The purpose of the statement is to present comprehensive information regarding the financial standing of the Bank and the Group, performance results, and the Bank's activities-related risks.

For the accounting period from 01 January 2010 to 30 June, the Bank prepared condensed interim financial statements which were audited by "Ernst & Young Baltic", Ltd (Licence No.17). For the accounting period from 01 July 2010 to 31 December the Bank has not performed any additional interim audit. This public financial statement for the period of twelve months has been prepared based on unaudited financial statements for this period.

This financial report was approved by the Board of the Bank on February 28, 2011 and it is available on the Bank's website at www.tkb.eu.

On behalf of the Bank's management:



Gundars Grieze
Chairman of the Board

Riga,
February 28, 2011

COMPOSITION OF THE BOARD AND COUNCIL OF THE BANK (GROUP HOLDING COMPANY)

Supervisory Council

Name, surname	Positions	Election date
Igors Buimisters	Chairman of the Council	24.03.2006, reelected 27.03.2009
Alfrēds Čepānis	Member of the Council	30.03.1999, reelected 27.03.2009
Charles E.G. Treherne	Member of the Council	16.03.2001/27.03.2009-06.10.2010
Igors Snisarevskis	Member of the Council	07.10.2010.

On 07 October 2010, the extraordinary shareholder meeting approved changes in the composition of the Council. Igors Buimisters and Alfreds Cepanis were reelected and Igors Snisarevskis was elected to the Council. Charles E.G.Treherne accordingly resigned his post as a member of the Council.

Management Board

Name, surname	Positions	Election date
Gundars Grieze	Chairman of the Board	28.06.1999, reelected 24.03.2009
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reelected 24.03.2009
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reelected 24.03.2009
Svetlana Krasovska	Member of the Board	24.10.1995, reelected 24.03.2009
Tatjana Konnova	Member of the Board	23.03.2006, reelected 24.03.2009

During the current period no changes in the Management Board occurred.

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**STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

In thousands of lats	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest revenue		6 153	9 363	6 045	9 410
Interest expense		(3 896)	(3 664)	(3 910)	(3 685)
Net interest income		2 257	5 699	2 135	5 725
Loan impairment loss, net	5	(4 338)	(12 098)	(4 123)	(11 446)
Net interest income/(loss) after allowance for impairment		(2 081)	(6 399)	(1 988)	(5 721)
Commission income		5 191	5 486	5 183	5 474
Commission expense		(1 049)	(1 308)	(1 049)	(1 308)
Net commission income		4 142	4 178	4 134	4 166
Dividends		3	9	3	9
Net gains from trading financial assets	6	862	2 446	862	2 446
Net realized losses on available for sale financial assets		-	(4)	-	(4)
Net (losses)/gains from foreign currency trading and revaluation	6	550	3 329	550	3 332
Other income		76	126	76	100
Other non-interest (loss)/income		1 491	5 906	1 491	5 883
Salaries and benefits expenses		(4 677)	(4 366)	(4 544)	(4 230)
Administrative expenses		(2 581)	(2 484)	(2 617)	(2 560)
Depreciation		(736)	(692)	(729)	(686)
Other expenses		(197)	(203)	(161)	(198)
Other release of allowance, net		(142)	21	(141)	178
Other non-interest expense		(8 333)	(7 724)	(8 192)	(7 496)
(Loss)/profit before corporate income tax		(4 781)	(4 039)	(4 555)	(3 168)

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**STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME (continued)**

In thousands of lats	Note	The Group		The Bank	
		2010	2009	2010	2009
Corporate income tax		181	368	188	389
(Loss)/profit for the period from continuing operations		(4 600)	(3 671)	(4 367)	(2 779)
Loss after tax for the year from discontinued operations		(22)	(80)	-	807
(Loss)/profit for the period		(4 622)	(3 751)	(4 367)	(1 972)
Other comprehensive income:					
Available for sale financial asset revaluation profit		15	59	15	59
Change in foreign currency translation reserve		-	3 412	-	-
Total comprehensive (loss)/profit		(4 607)	(280)	(4 352)	(1 913)
(Loss)/profit for the period, incl.:		(4 622)	(3 751)	(4 367)	(1 972)
Attributable to equity holders of the Bank		(4 613)	(1 628)	(4 367)	(1 972)
Attributable to minority interest		(9)	(2 123)	-	-
Total comprehensive(loss)/profit, incl.:		(4 607)	(280)	(4 352)	(1 913)
Attributable to equity holders of the Bank		(4 598)	1 843	(4 352)	(1 913)
Attributable to minority interest		(9)	(2 123)	-	-
(Loss)/profit per share (basic and diluted) in lats from continuing operations		(33.49)	(28.96)	-	-
Loss per share (basic and diluted) in lats from discontinuing operations		(0.16)	(0.63)	-	-
Loss per share (basic and diluted) attributable to equity holders of the Bank in lats		(33.59)	(12.84)	-	-

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STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of lats	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
ASSETS					
Cash and balances due from the Bank of Latvia		16 588	11 961	16 588	11 961
Due from credit institutions with a maturity of less than 3 months	7	62 359	121 124	62 359	121 124
<i>On demand</i>		53 147	94 120	53 147	94 120
<i>Other</i>		9 212	27 004	9 212	27 004
Held for trading financial assets		2 224	1 952	2 224	1 952
<i>Fixed income securities</i>		849	978	849	978
<i>Equity shares and other non-fixed income securities</i>		1 277	917	1 277	917
<i>Derivatives</i>		98	57	98	57
Available for sale financial assets		7 960	2 153	7 960	2 153
<i>Fixed income securities</i>		7 911	2 104	7 911	2 104
<i>Equity shares and other non-fixed income securities</i>		49	49	49	49
Due from credit institutions with a maturity of more than 3 months		665	379	665	379
Loans	8	92 119	98 023	93 771	99 212
Accrued income and deferred expenses		127	235	124	233
Long-term projects costs		2 405	2 318	2 405	2 318
Property and equipment	9	8 938	9 321	8 894	9 295
Intangible assets		360	272	360	272
Investments in share capital of subsidiary		-	-	52	52
Corporate income tax assets		20	896	-	881
Deferred tax assets		913	569	913	569
Other assets	10	8 906	2 880	8 621	2 802
Assets of disposal group classified as held for sale	11	13 831	13 849	13 848	13 848
TOTAL ASSETS		217 415	265 932	218 784	267 051

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STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of lats	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
LIABILITIES					
Due to credit institutions		2 416	2 143	2 416	2 143
<i>On demand</i>		2 389	2 118	2 389	2 118
<i>Term deposits with a maturity of more than 3 months</i>		27	25	27	25
Financial liabilities held for trading		4	-	4	-
<i>Derivative financial instruments</i>		4	-	4	-
Due to customers	12	174 928	221 061	174 929	221 061
<i>On demand</i>		117 714	109 076	117 715	109 076
<i>Term deposits</i>		57 214	111 985	57 214	111 985
Debt securities issued		2 809	2 811	3 513	3 514
Accrued expenses and deferred income		503	595	493	586
Corporate income tax liabilities		25	-	25	-
Other liabilities	13	3 746	2 950	3 735	2 945
Liabilities before subordinated liabilities		184 431	229 560	185 115	230 249
Subordinated liabilities		4 673	4 166	4 673	4 166
TOTAL LIABILITIES		189 104	233 726	189 788	234 415
EQUITY AND RESERVES					
Share capital	14	7 049	6 337	7 049	6 337
Share premium		111	111	111	111
Reserve capital and other reserves		3 804	3 804	3 804	3 804
Available for sale financial assets revaluation reserves		(6)	(21)	(6)	(21)
Retained earnings		17 353	21 966	18 038	22 405
Equity and reserves attributable to shareholders of the Bank		28 311	32 197	28 996	32 636
Minority shareholder interest		-	9	-	-
Total equity and reserves		28 311	32 206	28 996	32 636
TOTAL LIABILITIES AND EQUITY AND RESERVES		217 415	265 932	218 784	267 051

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**STATEMENTS OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENTS OF
CHANGES IN EQUITY**

(1) The Group

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Foreign exchange translation reserve	Retained earnings	Total	Minority shareholder interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2008	6 337	111	3 804	(80)	(3 412)	23 594	30 354	2 994	33 348
<i>Net loss for the period</i>	-	-	-	-	-	(1 628)	(1 628)	(2 123)	(3 751)
<i>Other comprehensive expenses</i>	-	-	-	59	3 412	-	3 471	-	3 471
Total comprehensive loss	-	-	-	59	3 412	(1 628)	1 843	(2 123)	(280)
Sale of subsidiary	-	-	-	-	-	-	-	(862)	(862)
BALANCE AS AT 31 DECEMBER 2009	6 337	111	3 804	(21)	-	21 966	32 197	9	32 206
BALANCE AS AT 31 DECEMBER 2009	6 337	111	3 804	(21)	-	21 966	32 197	9	32 206
<i>Net loss for the period</i>	-	-	-	-	-	(4 613)	(4 613)	(9)	(4 622)
<i>Other comprehensive income</i>	-	-	-	15	-	-	15	-	15
Total comprehensive loss	-	-	-	15	-	(4 613)	(4 598)	(9)	(4 607)
Issue of share capital	712	-	-	-	-	-	712	-	712
BALANCE AS AT 31 DECEMBER 2010	7 049	111	3 804	(6)	-	17 353	28 311	-	28 311

(2) The Bank

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2008	6 337	111	3 804	(80)	24 377	34 549
<i>Net profit for the period</i>	-	-	-	-	(1 972)	(1 972)
<i>Other comprehensive income</i>	-	-	-	-	59	59
Total comprehensive income	-	-	-	-	59	(1 913)
BALANCE AS AT 31 DECEMBER 2009	6 337	111	3 804	(21)	22 405	32 636
BALANCE AS AT 31 DECEMBER 2009	6 337	111	3 804	(21)	22 405	32 636
<i>Net profit for the period</i>	-	-	-	-	(4 367)	(4 367)
<i>Other comprehensive income</i>	-	-	-	-	15	15
Total comprehensive loss	-	-	-	-	15	(4 352)
Issue of share capital	712	-	-	-	-	712
BALANCE AS AT 31 DECEMBER 2010	7 049	111	3 804	(6)	18 038	28 996

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STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Cash flow as a result of operating activity:				
Loss before corporate income tax	(4 781)	(4 039)	(4 555)	(3 168)
Loss before tax for the period from discontinued operations	(22)	(80)	-	807
Amortisation and depreciation	736	692	729	686
Increase in allowance for impairment of debts	4 772	12 113	4 557	11 462
Increase/(decrease) in other provisions	142	(16)	141	(174)
Foreign currency revaluation loss	1 482	(1 479)	1 482	(1 479)
Gain from revaluation of financial assets	(1 122)	(2 428)	(1 122)	(2 428)
Income adjustments	(30)	(115)	(67)	(115)
Loss on disposal of fixed and intangible assets	2	9	2	9
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	1 179	4 657	1 167	5 600
Decrease of held for trading financial assets	882	2 856	882	2 856
Decrease in due from credit institutions	1 840	6 250	1 840	6 250
(Increase)/decrease in loans	(2 229)	5 070	(2 411)	5 230
(Increase)/decrease in accrued income and deferred expense	51	(104)	52	(101)
Increase in other assets	(4 296)	(789)	(4 125)	(905)
Decrease in due to credit institutions	-	(25)	-	(25)
(Decrease)/increase in deposits	(46 133)	61 466	(46 132)	61 462
(Decrease)/increase in accrued expenses and deferred income	(92)	(8)	(93)	(5)
Increase in other liabilities	871	68	866	94
	(47 927)	79 441	(47 954)	80 456
Corporate income tax paid	738	(432)	750	(384)
(Decrease)/increase in cash and cash equivalents from operating activities	(47 189)	79 009	(47 204)	80 072
Cash flows from investing activities				
Purchase of tangible and intangible fixed assets, net	(443)	(1 646)	(418)	(1 635)
Increase in available-for-sale financial assets	(5 792)	(1 839)	(5 792)	(1 839)
Purchase of net assets of disposal group classified as held for sale	-	(1 549)	-	(2 623)
Cash flow of disposal group classified as held for sale	10	-	-	-
Cash outflow on long-term projects	(87)	(36)	(87)	(36)
Decrease in cash and cash equivalents from investing activities	(6 312)	(5 070)	(6 297)	(6 133)

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**STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)**

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Cash flows from financing activities				
Subordinated liabilities issue	481	138	481	138
Repayment of subordinated liabilities	(110)	(1 054)	(110)	(1 054)
Issue of share capital	712	-	712	-
(Decrease)/increase in cash and cash equivalents from financing activities	1 083	(916)	1 083	(916)
(Decrease)/increase in cash and cash equivalents	(52 418)	73 023	(52 418)	73 023
Cash and cash equivalents at the beginning of the period	130 320	56 285	130 320	56 285
Foreign currency revaluation (loss)/profit	(1 344)	1 012	(1 344)	1 012
Cash and cash equivalents at the end of the period	76 558	130 320	76 558	130 320

Cash and cash equivalents are calculated as follows

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Due from credit institutions with a maturity of less than 3 months	62 359	120 477	62 359	120 477
Cash and balances due from the Bank of Latvia and other Central Banks	16 588	11 961	16 588	11 961
Due to credit institutions with a maturity of less than 3 months	(2 389)	(2 118)	(2 389)	(2 118)
CASH AND CASH EQUIVALENTS	76 558	130 320	76 558	130 320

Reflection of the received and (paid) sums of interest income/(expense) and dividends is provided below:

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest income received during the reporting period	6 583	8 711	6 503	8 759
Interest expenses paid during the reporting period	(3 710)	(3 538)	(3 725)	(3 561)
Dividends paid during the reporting period	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

JSC "Trasta Komercbanka" (hereinafter – the Bank) has been registered as a joint stock company, in the Latvian Register of Companies with the identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

By the end of the period the Bank had five representative offices outside Latvia, i.e. in Canada, Kazakhstan, Tadjikistan, Ukraine and Belarus. Their mission is to represent interests of the Bank in the respective countries, maintain relations with the Bank customers and provide them with necessary information. The Bank has a foreign branch in Cyprus and two branches in Latvia – in Liepaja and Daugavpils. Their functions incorporate provision of financial services to customers of the Bank.

The consolidation group of the Bank consists of the subsidiaries *TKB Nekustamie īpašumi*, *TKB LĪZINGS* and "Heckbert C7 Holdings", which is classified as held for sale, and its subsidiary "Ferrous Kereskedelmi KFT". The description of "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" is provided in Note 11 of these financial. Services provided by *TKB Nekustamie īpašumi* and *TKB LĪZINGS* extend the range of services offered by the Bank.

This financial statements were approved by the Board of the Bank on 28 February 2011.

2 ACCOUNTING AND ASSESSMENT PRINCIPLES

(1) General principles

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 as adopted by European Union and do not include a complete set of financial statements as required by IAS 1 „*Presentation of Financial Statements*”. Therefore, these interim condensed financial statements should be analysed together with the Group’s and Bank’s financial statements for the previous reporting year.

The monetary unit used in the financial statements is **the lat (LVL)**, the monetary unit of the Republic of Latvia. All amounts in the financial statements are reported in **thousands of Lats (LVL 000’s)**.

The Bank maintains its accounts based on appropriate accounting methods and policies which have been applied on a consistent basis. Since the end of the previous reporting year, no other changes in accounting policies have been made.

(2) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements according to International Accounting Standard 27. The consolidation was based on control over the subsidiaries arising from the majority of voting rights in the subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING AND ASSESSMENT PRINCIPLES (continued)

(3) Foreign currency exchange rates

		<u>31.12.2010</u>	<u>31.12.2009</u>
LVL 1 =	EUR	1.423	1.423
	USD	1.869	2.045
	GBP	1.214	1.277
	RUB	56.818	60.976
	UAH	14.881	16.393

3 INTERNAL CONTROL SYSTEM FOR PREVENTION OF LAUNDERING THE PROCEEDS DERIVED FROM CRIME AND TERRORISM FINANCING

The internal control system for prevention of money laundering and terrorism financing is a set of document and measures, which the bank observes and improves on a regular basis in order to ensure rigid management of money laundering and terrorism financing risk.

Within the framework of the internal control system for prevention of money laundering and terrorism financing the Bank has defined the procedure for identification and monitoring of customers (true beneficial owners) and unusual and suspicious financial transactions, and submission of reports thereof, it has developed a risk-based approach to customer due diligence, acceptance and supervision of transactions performed by customers, it organizes training of employees on a regular basis to provide them with necessary knowledge for the prevention of money laundering and terrorism financing and to ensure practical application of this knowledge to the measures prescribed in the internal control system documents.

In order to ensure sufficient compliance with the legislation of the prevention of money laundering and terrorism financing and best international practices, the Internal Audit Division of the Bank inspects and evaluates efficiency of the internal control system regularly.

The Bank continuously develops its internal control system, including the technical equipment. Since 2007, the Bank has yearly drafted and approved a plan of measures for upgrading the internal control system for prevention of money laundering and terrorism financing. Within the scope of this plan the Bank improves its technical supply and conducts employee training and knowledge testing.

Since 2006, employees of the Bank has been regular participants of training programs organized by the Consultation and Training centre to the Association of Commercial banks of Latvia on the prevention of money laundering and terrorism financing, and they have successfully passed exams and accordingly obtained certificates. Overall, 37 employees of the Bank possess such certificates.

At the beginning of 2010, a new unit – Customer Payments Monitoring Division started its work as part of the Customer Service Department. Main purpose of the new unit is to perform ongoing monitoring of customer payments.

At the end of 2010, the work on the implementation of the internationally recognized automated transaction monitoring system was finalized. This system ensures monitoring of customers according to certain criteria and parameters and provides alerts on deviations from the model of customer behavior and on possible suspicious transactions.

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4 RISK CONTROL AND MANAGEMENT

In order to manage risks and meet the performance standards for Bank activities - capital adequacy, liquidity, foreign currency positions and risk control and administration of Bank transactions - the Bank has approved its Risk Management Policy and other policies, including its Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, Country Risk Management Policy, Lending Policy, Trading Portfolio Policy and other policies approved by the Council and the Board of the Bank. These policies have been developed in accordance with the Strategic Plan of the Bank, and they are regularly updated based on the development of the market and Bank core activities.

These policies set the principles according to which the Bank defines:

- ✓ General guidelines applied by the Bank in its operations in order to minimise all kinds of risks which may result in losses;
- ✓ Classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- ✓ General day-to-day control and administration of the Bank's risk exposures.

The main purpose of the Bank's Risk Management Policy is to describe and determine the set of measures which would help the Bank to minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not fully paid in a timely fashion, or where the Bank incurs losses of another kind.

The Bank's Risk Management Policy is implemented by the Council, the Board, the Asset-Liability Assessment Committee (hereinafter – ALCO), the Loan Committee and the Loan Assessment Committee of the Bank, as well as by the respective structural units of the Bank engaged in risk transaction control.

The Risk Control and Management Policy of the Group did not differ materially from the Bank's policies.

5 LOAN IMPAIRMENT LOSS, NET

In thousands of lats	The Group		The Bank	
	2010	2009	2010	2009
Balance as at 1 January	17 076	4 963	16 240	4 778
<i>incl. for due from credit institutions</i>	1 479	-	1 479	-
<i>incl. for loans</i>	15 597	4 963	14 761	4 778
Additional <i>individual</i> allowance	6 804	12 299	6 584	11 618
Additional <i>collective</i> allowance	1 094	209	1 094	209
Release of <i>individual</i> allowances	(2 611)	(410)	(2 606)	(381)
Release of <i>collective</i> allowances	(949)		(949)	
Loans write-off	(4 474)	-	(4 474)	-
Effect of changes in currency exchange rates	434	15	434	16
Balance as at 31 December	17 374	17 076	16 323	16 240
<i>incl. for due from credit institutions</i>	-	1 479	-	1 479
<i>incl. for loans</i>	17 374	15 597	16 323	14 761

The cause of significant impairment in the previous period is the deterioration of general economic and financial situation, which resulted in inability of borrowers to repay their loans.

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6 NET PROFIT/(LOSS) FROM FINANCIAL ASSETS HELD FOR TRADING AND FOREIGN CURRENCY TRADING

Changes in profit/loss from the financial instruments held for trading are mainly associated with fair value changes of these securities, whereof profit of 617 thousand lats in the reporting period (2009: profit of 851 thousand lats) is related to equity securities and profit of 245 thousand lats in the reporting period (2009: profit of 1 595 thousand lats) is related to debt securities.

Changes in profit/loss from foreign currency are related to decrease in the volume of trade transactions and changes in currency rates, as well as loss on the exchange rate difference resulting from the Bank's investment that is described in Note 11 and recorded in U.S. dollars. According to IFRS, this investment is recorded at the acquisition date, the amount of exchange rate and balance in terms of lats does not change. Given that the Bank intends to sell this investment and to receive income in U.S. dollars, the Bank has valued this investment in U.S. dollars, including it the calculation of open foreign exchange position. To minimize the possible currency fluctuation risk, the said position is covered with various financial commitments in U.S. dollars. As a result of revaluation of these commitments the Banks has suffered losses in the amount of 1 289 thousand lats in 2010. The Bank is planning to cover these losses by realizing the above mentioned investment.

7 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF LESS THAN 3 MONTHS

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Due from credit institutions registered in the Republic of Latvia	6 488	10 276	6 488	10 276
Due from credit institutions registered in the foreign countries	55 871	111 817	55 871	111 817
	62 359	122 093	62 359	122 093
Impairment loss	-	(969)	-	(969)
	62 359	121 124	62 359	121 124

Changes in claims on credit institutions are related to the fact that at the previous year-end the Bank had attracted customer deposits with duration of 3-6 months, which in turn reduced the volume of deposits during the reporting period, and consequently the claims on credit institutions, too.

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In thousands of lats	The Group		The Bank	
	2010	2009	2010	2009
8 LOANS				
Private enterprises	88 386	91 688	84 150	87 212
Private persons	19 556	20 086	19 311	19 793
Related companies	-	-	5 132	5 336
Financial institutions	14	64	14	64
Employees	1 537	1 782	1 487	1 568
Total gross loans	109 493	113 620	110 094	113 973
Impairment allowances, <i>individually assessed</i>	(16 543)	(14 922)	(15 492)	(14 086)
Impairment allowances, <i>collectively assessed</i>	(831)	(675)	(831)	(675)
	92 119	98 023	93 771	99 212

Loans by types of loans may be specified as follows:

Mortgage loans	41 347	47 076	41 231	46 887
Commercial loans	27 147	29 977	32 279	35 313
Industrial loans	12 273	11 469	12 273	11 469
Finance lease	4 305	4 682	-	-
Overdrafts	4 379	1 959	4 379	1 959
Reverse REPO	-	1 182	-	1 182
Consumer loans	433	311	323	199
Factoring	247	417	247	417
Secured by deposit	432	395	432	395
Payment card loans	335	317	335	317
Other	18 595	15 835	18 595	15 835
	109 493	113 620	110 094	113 973

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9 TANGIBLE ASSETS

The major part of Bank's fixed assets consists of the principal office building and land parcel located at 9 Miesnieku Street, Riga. During the reporting period the Bank has not made any significant acquisition of fixed assets

10 OTHER ASSETS

The other assets mostly consist of balances in brokerage companies and real property that served as collateral of issued loans and that came into the possession of Bank. Bank's balances in brokerage companies at the end of the reporting period comprised 2 520 thousands of lats (2009: 1 477 thousand lats), and which secure Bank's and customers' operations with securities. The real property is planned to be sold. At the end of the reporting period the value of such real property amounted to LVL 3192 thousand (2009: 359 thousand lats).

11 ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE DISCONTINUED OPERATIONS

At the end of the 2009 year the Bank purchased 100% of the share capital of Cyprus Company „Heckbert C7 Holdings“, which owns 100% of the share capital of the company “Ferrous Kereskedelmi KFT” (Hungary), which is the owner of 25.085% of the share capital of the Ukrainian gas company “Dewon”. The purpose of this transaction was to obtain control over 25.085% of the share capital of “Dewon”. “Heckbert C7 Holdings” and “Ferrous Kereskedelmi KFT” do not performed any other commercial activities except the holding of the shares of “Dewon”.

The shares of “Heckbert C7 Holdings” were acquired through selling the direct and indirect holding in the commercial bank “Misto Bank” of Ukraine through netting of mutual claims. The value of this transaction was USD 28 million that corresponds to 13 701 thousand lats. Besides, additional expenses related to the transaction were paid in the amount of 147 thousand. Independent evaluation of the impairment did not show any impairment of the investment. Independent experts have measured the fair value of the shares of “Dewon” which proved to be much higher than the investment purchase price.

The purpose of purchasing this investment is its further realization, thus according to International Financial Reporting Standard 5 the investment is classified as “financial assets held for sale”. Such classification has the following justification:

1. this asset is available for immediate sale;
2. management of the Bank is determined to sell this asset;
3. management of the Bank is actively involved in searching a buyer of this asset and has made an agreement with an agent;
4. the investment realization price is based on its current fair value;
5. management of the Bank is planning to finalize this selling within a year.

The assets and liabilities of this subsidiary are disclosed in the Group's consolidated financial statements separated from other Group's assets and liabilities as the assets and liabilities of disposal group classified as held for sale.

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11 ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE DISCONTINUED OPERATIONS (continued)

Presented below is the information about the assets and liabilities of disposal group classified as held for sale, and also results of its activity.

ASSETS/LIABILITIES	2010	2009
Investments in share capital of subsidiary	13 848	13 848
Other assets	1	18
Other liabilities	(18)	(17)
Net assets directly associated with disposal group	13 831	13 849

12 DUE TO CUSTOMERS

In thousands of lats	The Group		The Bank	
	2010	2009	2010	2009
Private enterprises	132 501	193 786	132 501	193 786
Individuals	39 406	24 332	39 406	24 332
Non-governmental-organizations servicing individuals	207	155	207	155
Financial institutions	2 788	2 776	2 789	2 776
Local government	26	12	26	12
	174 928	221 061	174 929	221 061

Changes in deposits are related to the fact that at the previous year-end the Bank had attracted customer deposits with duration of 3-6 months, which in turn reduced the volume of deposits in the reporting period.

13 OTHER LIABILITIES

Other liabilities include suspense accounts, unpaid dividends, money in transit and other liabilities.

Suspense accounts (cleared after the period) represent payments received by the Bank where the beneficiary is not clearly identified. In the reporting period this amount was 953 thousand lats (2009: 191 thousand lats). After clarification they are credited to customer accounts.

The unpaid dividends of previous periods during the reporting period amounted to 1 767 thousand lats (2009: 1 767 thousand lats).

The funds, transferred to other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit. In the reporting period this amount was 825 thousand lats (2009: 204 thousand lats).

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14 SHARE CAPITAL

The Bank's registered and paid up share capital Bank's registered and paid up share capital on 31 December, 2010 amounted to 7 049 thousand LVL (2009: 6 337 thousand LVL), consisting of 140 972 ordinary voting shares, with a nominal value of LVL 50. The total number of shareholders is 47, out of which 10 legal entities and 37 individuals.

In December 2009, shareholders of the Bank decided to increase the share capital. As of the end of the reporting period shareholders had paid 712 thousand lats for 14 230 shares with a nominal value of 50 lats. No other changes occurred in the Bank's share capital during the reporting period.

List of shareholders:

Shareholder	Country	Shareholding 31 December 2010		Shareholding 31 December 2009	
		%	LVL'000	%	LVL'000
I.Buimisters	Latvia	37.63	2 653	37.10	2 351
S.Tarassenoks*	Latvia	12.72	896	14.15	896
SIA "C&R Invest"	Latvia	13.70	966	13.58	861
C.E.G. Treherne	Great Britain	9.31	656	9.18	582
GCK Holdings					
Netherlands B.V.	Netherlands	6.95	490	6.80	431
Rikam S.A.H.	Luxembourg	6.85	483	6.79	430
Figon Co Limited	Cyprus	3.19	225	3.16	201
Another shareholders		9.65	680	9.24	585

* Since Sergejs Tarassenoks passed away, his shares are included in the succession mass.

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15 SEGMENT ANALYSIS

The analysis of segments of the Group and Bank includes only one segment since the Group / Bank considers its operation as a whole and does not break it down into separate segments. The following analysis of segments is based on the Group's and the Bank's internal reports.

(1) Balance

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Cash	16 588	11 961	16 588	11 961
Balance from credit institutions	63 004	122 920	63 004	122 920
Loans and receivables	108 439	112 226	109 085	112 595
Other state fixed income securities	8 736	3 066	8 736	3 066
Shares and other investments	1 326	966	15 225	14 866
Fixed assets and intangible assets	9 298	9 594	9 254	9 567
Other assets	27 716	22 500	13 502	8 512
Total assets	235 107	283 233	235 394	283 487
Balances due to banks	2 416	2 143	2 416	2 143
Deposits	174 399	220 731	174 400	220 731
Issued bonds	2 803	2 806	3 506	3 509
Other liabilities	5 016	4 120	4 969	4 080
Impairment and accrued liabilities	17 542	17 113	16 488	16 276
Equity	32 931	36 320	33 615	36 748
Total equity and liabilities	235 107	283 233	235 394	283 487
Total assets per internal reporting	235 107	283 233	235 394	283 487
Reconciling items:				
<i>Impairment¹</i>	(17 542)	(17 113)	(16 488)	(16 276)
<i>Other reconciling items²</i>	(150)	(188)	(122)	(160)
Total assets per IFRS statements	217 415	265 932	218 784	267 051
Total liabilities per internal reporting	202 176	246 913	201 779	246 739
Reconciling items:				
<i>Impairment¹</i>	(17 542)	(17 113)	(16 488)	(16 276)
<i>Subordinated liabilities³</i>	4 620	4 112	4 620	4 112
<i>Other reconciling items²</i>	(150)	(186)	(123)	(160)
Total liabilities per IFRS statements	189 104	233 726	189 788	234 415

¹ For internal reporting purposes impairment is shown as a liability and not netted with related assets.

² Other reconciling items mostly represent cut-off and classification required by IFRS.

³ For internal reporting purposes the subordinated liabilities are classified as equity.

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15 SEGMENT ANALYSIS (continued)

(2) Profit and loss statement

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest revenue	6 151	9 354	6 041	9 401
Commission revenue	5 193	5 495	5 187	5 483
Profit from trading	1 414	5 780	1 415	5 783
Impairment	3 624	467	3 619	594
Other income	76	591	76	565
Total revenues	16 458	21 687	16 338	21 826
Interest expenses	3 896	3 695	3 910	3 717
Commission expenses	1 049	1 308	1 049	1 308
Administration expenses ¹	8 020	7 601	7 915	7 534
Tax expenses	(181)	(368)	(188)	(389)
Impairment	8 135	13 010	7 885	12 328
Other expenses	139	112	134	107
Total expenses	21 058	25 358	20 705	24 605
Profit	(4 600)	(3 671)	(4 367)	(2 779)
Total revenues per internal reporting	11 344	14 849	11 228	14 884
Reconciling item, net ²	-	-	-	-
Total revenues per IFRS statements	11 344	14 849	11 228	14 884

¹ The Bank's administration expenses include depreciation charge in the amount of 729 thousand lats (2009: 686 thousand lats). The Group's administration expenses accordingly include depreciation charge in the amount of 736 thousand lats (2009: 692 thousand lats).

² Reconciling item is mainly due to cut-off, as well as nominal interest rate accounting used for internal reporting purposes in contrast to effective interest rate accounting used for IFRS compliant financial statements.

(3) The Group's income analysis by the place of customers' residence

In thousands of lats	<u>2010</u>		<u>2009</u>	
	<u>Latvian residents</u>	<u>Latvian non-residents</u>	<u>Latvian residents</u>	<u>Latvian non-residents</u>
Interest income	2 333	3 820	3 796	5 567
Commission income	355	4 836	326	5 160
Total income	2 688	8 656	4 122	10 727

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15 SEGMENT ANALYSIS (continued)

(4) The Bank's income analysis by the place of customers' residence

In thousands of lats	2010		2009	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest income	2 240	3 805	3 675	5 735
Commission income	347	4 836	315	5 159
Total income	2 587	8 641	3 990	10 894

16 OFF-BALANCE SHEET ITEMS

Off-balance liabilities

In thousands of lats	The Group		The Bank	
	2010	2009	2010	2009
Contingent liabilities	6 128	6 759	6 423	7 145
<i>including guarantees</i>	138	436	433	822
<i>including rent commitments</i>	5 990	6 323	5 990	6 323
Commitments to customers	6 544	2 543	8 625	4 436
<i>including unused credit limits</i>	6 415	2 417	8 496	4 310
<i>including letters of credit</i>	35	83	35	83
<i>including other liabilities</i> ¹	94	43	94	43
	12 672	9 302	15 048	11 581

¹ Other liabilities are disclosed as the Bank's future liabilities for acquisition of fixed assets.

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17 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, chairpersons and members of the council and management board, internal service manager and members and other employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, and brokerage etc. These transactions are conducted on normal business terms.

(1) Amount of the Group transactions with related persons is presented below

In thousands of lats	2010				2009			
	Share-holders	Other related parties ¹	Council and board	Total	Share-holders	Other related parties ¹	Council and board	Total
Assets								
Loans	141	2 502	434	3 077	659	4 195	133	4 987
<i>Allowance for loans</i>	(3)	(2)	(14)	(19)	(12)	(1 022)	(2)	(1 036)
Loans, net	138	2 500	420	3 058	647	3 173	131	3 951
Liabilities								
Deposits	7	1 139	144	1 290	9	1 143	204	1 356
Non-balance items								
Unused credit lines	39	8	35	82	22	7	22	51
Comprehensive income report								
	2010				2009			
Interest income	5	71	8	84	27	105	8	140
Commissions income	5	22	3	30	3	24	2	29
Interest expense	(1)	(11)	(5)	(17)	-	(12)	(11)	(23)
Reserve decreasing income, net	9	968	(12)	965	(12)	(987)	(2)	(1 001)
Other expenses	(14)	(15)	(43)	(72)	(16)	(54)	(41)	(111)

¹ Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

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17 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Amount of the Bank transactions with related persons is presented below

In thousands of lats	<u>2010</u>					<u>2009</u>				
	Shareholders	Subsidiary companies	Other related persons ¹	Council and Board	Total	Shareholders	Subsidiary companies	Other related	Council and Board	Total
Assets										
Credits	117	5 132	2 502	424	8 175	546	5 336	4 139	108	10 129
<i>Reserves for unsecured credits</i>	(3)	-	(2)	(14)	(19)	(12)	-	(1 022)	(2)	(1 036)
Credits, net	114	5 132	2 500	410	8 156	534	5 336	3 117	106	9 093
Liabilities										
Deposits	7	1	1 139	144	1 291	9	7	1 143	204	1 363
Non-balance items										
Unused credit limits	39	2 081	8	35	2 163	22	1 892	7	22	1 943
Comprehensive income report										
	<u>2010</u>					<u>2009</u>				
Interest income	3	170	70	7	250	19	410	101	6	536
Commissions income	5	1	22	3	31	3	1	24	2	30
Interest expenditure	(1)	(15)	(11)	(5)	(32)	-	(21)	(12)	(11)	(44)
Reserve decreasing income, net	9	-	968	(12)	965	(12)	39	(987)	(2)	(962)
Other expenses	(14)	(80)	(15)	(43)	(152)	(16)	(128)	(54)	(41)	(239)

¹ Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

18 EVENTS AFTER BALANCE SHEET DATE

During the period from the last day of the reporting period until the publication date of these financial statements there have not been any subsequent events that could materially affect these statements or notes thereto.

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