GE Money Bank

JSC "GE Money Bank"
Bank and Consolidated Financial Statements
for the year ended 31 December 2010

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MANAGEMENT REPORT ON THE BANK'S AND THE GROUP'S OPERATIONS DURING 2010

Dear customers, partners, shareholders and colleagues,

In 2010 despite challenging macro-economic banking environment in Latvia, AS "GE Money Bank" (hereinafter "Bank") accomplished its business goals and attained the planned results.
The Bank conducted all the necessary actions to ensure safety and stability for its customers. Bank continued to ensure responsible banking policy in 2010. It was achieved by ensuring high liquidity and capital base that exceeds regulatory requirements. As always, GE Money Bank in Latvia leveraged the experience of its parent company, General Electric Company, one of the largest and most financially secure corporations in the world.

Providing safety and stability

One of the most significant strategic directions in 2010 was ensuring stability for the Bank's customers. Equity capital of the Bank was increased by EUR 14 millions in July. Having regard of this, as well as of the amount of deposits attracted by the Bank, its capital adequacy indicator was 13.87% on 31.12.2010, which exceeds the requirement of 8% established by the Financial and Capital Market Commission (hereinafter – FCMC), while the liquidity ratio was 96.13%, which exceeded the FCMC standard by more than three times.
Despite continuing challenges in the Latvian economy in 2010, the Bank managed to improve its risk management, compliance and controllership systems, introduced several IT projects, as well as implemented cost optimization actions. Exceptional results from risks sales and collections teams resulted in decrease of the expected losses.

The Bank continued to create reserves in 2010. The total amount of the reserves in 2010 was EUR 12,974 million. This amount covers 27% of the credit portfolio. As a result the Bank concluded the year 2010 with unaudited losses EUR 27,777 million. Company's operating loss before tax and provisions was EUR 14,804 million.
The Bank's total assets in 2010 are EUR 297,160 million. EUR 148,561 were allocated in loans; and the deposit volume reached EUR 258,362 million.

Work of the subsidiary companies

The joint stock company „GE Money Atklātais pensiju fonds" continued operations within the Bank's group offering 3rd pillar pension plans "Rumba" and "Tvists" to customers. The investment management company „GE Money Asset Management" managed 2nd pension pillar plans "Džezs" and "Blūzs" and customer investment in three investment funds - "GE Money Eastern Europe Balanced fund", "GE Money European Bond fund" and "GE Money Eastern Europe Equity fund".

Totals assets managed by „GE Money Asset Management" decreased by 11.07 % in the accounting period and at the end of the period were EUR 23.462. 12.05% of these were assets of investment fund, 84.8% - investment plan and 3.15% - private pension fund portfolios. Company's market share in the 2nd pillar pension funds management decreased from 2.3% to 1.69%. Total operating results of the investment management company during the accounting period were a profit of EUR 230.2 thousand (in 2009 – profit EUR 199.8 thousands).

While JSC „GE Money Atklātais pensiju fonds" basic activity income reached EUR 7944 in 2010, APF expenditures exceeded income in the accounting period and total operational results of APF during this period was negative, losses were -10.1 thousand EUR (in 2009 – losses 11.5 thousand EUR).

Corporate citizenship

A key element of the Bank's strategy as well as GE's strategy across all platforms around the world is **corporate social responsibility and education of the society on financial matters.**
In 2010 the Bank continued providing support to an independent non-profit organization "Money Planning Centre" (hereinafter – MPC). The primary goal of the MPC is educating society in various financial matters. JSC "GE Money" established the MPC in 2007 already, as a reaction to the public demand and also to implement a philosophy of responsible lending.

The **Bank and the MPC** supported several projects in 2010 and offered innovative budget planning tools to the society, virtual consultations and seminars were organized by MPC, explaining peculiarities and opportunities of money saving and budget planning. The special electronic teaching guide "Naudas mācība" ("Study of Money"), prepared by MPC, was presented to teachers.

The Bank considers its employees the most valuable asset. Therefore, a significant commitment to the employees has been made in the company: in 2010 more than 568 employees improved their skills by participating in various training programs organized by GE Money Bank Training Centre; several internal initiatives were launched in order to improve employees' chances for career growth. The internal communication environment was improved by creating new information channels and rhythm.

Stable platform for development and growth

We expect that both Latvian society and the banking sector will continue facing economic challenges also in 2011 and for this reason the principle strategic direction of the Bank is to continue managing the company through the current economic cycle, thus ensuring the Bank's security and stability for its customers.

Therefore our focus is **to ensure high capital adequacy and liquidity base, healthy deposit base, providing for efficient risk management and debt collection systems.**

Between the balance date and the date of signing this financial report there have been no events that could significantly influence the results of the accounting period.

In conclusion, we would like to express gratitude to the employees of the Bank for work contributed to the Bank's growth and to the customers and partners for their trust and loyalty to the Bank!

Looking forward to successful cooperation also in 2011.

25 February 2011

INFORMATION ON THE BANK'S MANAGEMENT

Council members as of the date of signing these financial statements

Name	Position	Election date	Resignation date
Aleš Blažek	Deputy Chairman of the Council	28.03.2008. 25.08.2008. 09.04.2009. 17.06.2009. 03.12.2009. 28.12.2010.	
Wilfried Mathias Seidel	Member of the Council	28.03.2008. 25.08.2008. 09.04.2009. 17.06.2009. 03.12.2009.	01.06.2010.
Richard Colin Gaskin	Member of the Council Chairman of the Council	25.08.2008. 09.04.2009. 17.06.2009. 03.12.2009.	01.06.2010.
Neff Richard L	Member of the Council	03.12.2009. 28.12.2010.	
Woodson Alla Konnova	Member of the Council	17.06.2009. 03.12.2009. 01.06.2010. 02.07.2010.	28.12.2010.
Alain Daniel Amiel	Member of the Council	28.12.2010.	
Xavier Pascal Durand	Chairman of the Council	28.12.2010.	
Kelvin Jones	Member of the Council	28.12.2010.	
Galina Gavrich Ruotolo	Member of the Council	28.12.2010.	

Board members as of the date of signing these financial statements

Name	Position	Election date	Resignation date
Inga Vagele	Member of the Board	07.03.2008. 02.02.2009. 11.03.2009.	05.02.2010.
Renārs Bulgakovs	Member of the Board	20.03.2009.	05.02.2010.
Windy Oliver	Member of the Board	01.09.2008. 02.02.2009. 03.09.2009.	12.10.2010.
Arkadiusz Wiktor Przybyl	Member of the Board Chairman of the Board	03.03.2009. 05.02.2010.	28.12.2010.
Francisco Javier Lopez Segura	Member of the Board	05.02.2010.	
Aleksandra Baranova	Member of the Board	02.07.2010.	
Franck Antoine Raymond Marzilli	Member of the Board	02.07.2010.	
Alla Konnova Woodson	Chairperson of the Board	28.12.2010.	

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of JSC "GE Money Bank" ("the Bank") is responsible for the preparation of the Bank's and the Bank and its subsidiaries ("the Group") financial statements for each financial year, ensuring the fair presentation of the financial position as of the year end, and the statement of comprehensive income and cash flows for the year then ended.

While preparing the financial statements included on pages 7 to 64 for the year ended 31 December 2010, management has applied appropriate accounting principles that are based on prudent and reasonable judgments and estimates. In our opinion, all appropriate accounting principles have been consistently applied, including International Financial Reporting Standards as adopted by the European Union and the requirements of the Financial and Capital Market Commission.

The Bank's management is responsible for maintaining proper accounting records and ensuring compliance of these financial statements with the regulations of the Financial and Capital Market Commission on annual reports of credit institutions. Management is responsible for maintaining measures necessary for safeguarding the Group's assets and prevention and detention of fraud and other illegal activities. Management's decisions and approach to the preparation of the financial reports were prudent and reasonable.

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CONSOLIDATED AND BANK INCOME STATEMENT

	Notes	31.12.2010 Group Unaudited	31.12.2010 Bank Unaudited	31.12.2009 Group	31.12.2009 Bank
Interest income	7	13,068	13,068	20,223	20,223
Interest expense	7	(13,716)	(13,766)	(18,581)	(18,621)
Net interest income		**(648)**	**(698)**	**1,642**	**1,602**
Commissions and fee income	8	3,432	3,130	4,279	4,020
Commissions and fee expense	8	(1,172)	(1,169)	(1,330)	(1,326)
Net commission income		**2,260**	**1,961**	**2,949**	**2,694**
Net gain/(loss) on held for trading financial assets		92	92	269	269
Net gain on foreign exchange		2,096	2,096	20,607	20,607
Other operating income	9	2,389	2,389	3,166	3,166
Net operating income		**6,189**	**5,840**	**28,633**	**28,338**
Administrative expenses	10	(20,142)	(20,013)	(23,275)	(23,169)
Other operating expenses	9	(630)	(630)	(277)	(277)
Net impairment allowance expense	11	(12,974)	(12,974)	(35,674)	(35,674)
Loss before Income tax		**(27,557)**	**(27,777)**	**(30,593)**	**(30,782)**
Income tax	29	-	-	505	505
Loss for the period		**(27,557)**	**(27,777)**	**(30,088)**	**(30,277)**

The accompanying notes on pages 14 to 64 form an integral part of these Consolidated and Bank financial statements.

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CONSOLIDATED AND BANK STATEMENT OF COMPREHENSIVE INCOME

	Notes	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Loss for the period		**(27,557)**	**(27,777)**	**(30,089)**	**(30,277)**
Other comprehensive income					
Revaluation of Available-for-sale financial assets		(27)	(27)	(458)	(458)
Gain/(loss) on property revaluation, net of deferred tax		2,191	2,191	(2,652)	(2,652)
Other comprehensive income for the period		**2,164**	**2,164**	**(3,110)**	**(3,110)**
Total comprehensive income for the period		**(25,393)**	**(25,613)**	**(33,199)**	**(33,387)**
Basic and diluted earnings/(losses) per share (EUR)	39	**(57.00)**	**(57.47)**	**(75.57)**	**(76.04)**

CONSOLIDATED AND BANK STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31.12.2010 Group Unaudited	31.12.2010 Bank Unaudited	31.12.2009 Group	31.12.2009 Bank
Cash and due from Bank of Latvia	12	24,377	24,377	27,789	27,789
Financial instruments at fair value through profit or loss		101,987	101,987	110,650	110,650
Shares and other non-fixed income securities	13	2,888	2,888	4,643	4,643
Derivatives	13,16	*2,403*	2,403	*2,214*	*2,214*
Loans and receivables due from credit institutions	14	*485*	485	*2,429*	*2,429*
Loans and receivables due from customers	15	148,561	148,561	203,694	203,694
Available-for-sale financial assets		5,953	5,953	3,755	3,755
Fixed-income securities	13	*5,953*	5,953	*3,755*	*3,755*
Held-to-maturity investments	13	2,787	2,787	2,786	2,786
Investments in subsidiaries	17	-	354	-	354
Intangible assets	18	351	351	491	491
Property and equipment	18	6,029	6,029	7,215	7,215
Deferred expense and accrued income		535	496	1,244	1,212
Current tax assets		241	241	1,956	1,956
Investment property	19	-	-	1,558	1,558
Assets-Held-for-Sale	19	2,060	2,060	-	-
Other assets	20	1,108	1,076	963	959
Total assets		**296,877**	**297,160**	**366,744**	**367,062**

The accompanying notes on pages 14 to 64 form an integral part of these Consolidated and Bank financial statements.

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CONSOLIDATED AND BANK STATEMENT OF FINANCIAL POSITION, CONTINUED

	Notes	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
LIABILITIES					
Financial instruments at fair value through profit or loss		582	582	15,126	15,126
Derivatives	16	1,629	1,629	583	583
Due to credit institutions	21	1,629	1,629	583	583
Financial liabilities at amortized cost		265,930	266,606	310,986	311,478
Deposits	22	257,686	258,362	302,441	302,933
Debt securities	23	5028	5,028	5,026	5,026
Subordinated debt	25	3,216	3,216	3,519	3,519
Deferred income and accrued expense		1,553	1,544	1,393	1,393
Other liabilities	24	821	817	1,130	1,124
Total liabilities		**270,515**	**271,178**	**329,218**	**329,696**
Equity					
Share capital	27	36,427	36,427	32,870	32,870
Share premium		53,033	53,033	42,362	42,362
Reserves		4,005	4,005	4,005	4,005
Property and equipment revaluation reserve		307	307	334	334
Available-for-sale financial assets revaluation reserve		(345)	(345)	(2,537)	(2,537)
Retained earnings/(accumulated losses) of previous years		(39,508)	(39,668)	(9,419)	(9,391)
Loss for the period		(27,557)	(27,777)	(30,089)	(30,277)
Total equity		**26,362**	**25,982**	**37,526**	**37,366**
Total liabilities and equity		**296,877**	**297,160**	**366,744**	**367,062**
OFF-BALANCE SHEET ITEMS					
Guarantees	28	**1,514**	**1,514**	**1,618**	**1,618**
Other commitments	28	**2,299**	**2,299**	**5,477**	**5,477**

The accompanying notes on pages 14 to 64 form an integral part of these Consolidated and Bank financial statements.

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STATEMENT OF CHANGES IN EQUITY (THE BANK)

	Share capital	Share premium	Revaluation reserve of available-for-sale financial assets	Revaluation reserve of property	Reserves	Retained earnings / accumu-lated losses	Total
31.12.2008	**22,198**	**10,347**	**(2,078)**	**2,986**	**4,005**	**(9,391)**	**28,067**
Increase of share capital	10,672	32,014	-	-	-	-	42,686
Total comprehensive income	-	-	(458)	(2,652)	-	(30,277)	(33,388)
31.12.2009	**32,870**	**42,362**	**(2,537)**	**334**	**4,005**	**(39,668)**	**37,366**
Increase of share capital	3,557	10,671	-	-	-	-	14,228
Total comprehensive income	-	-	2,191	(27)	-	(27,777)	(25,613)
31.12.2010	**36,427**	**53,033**	**(345)**	**307**	**4005**	**(67,445)**	**(25,982)**

The accompanying notes on pages 14 to 64 form an integral part of these Consolidated and Bank financial statements.

STATEMENT OF CHANGES IN EQUITY (THE GROUP)

	Share capital	Share premium	Revaluation reserve of available-for-sale financial assets	Revaluation reserve of property	Reserve capital and other reserves	Retained earnings / accumu-lated loss	Total
31.12.2008	**22,198**	**10,347**	**(2,078)**	**2,986**	**4,005**	**(9,419)**	**28,039**
Increase of share capital	10,672	32,014	-	-	-	-	42,686
Total comprehensive income	-	-	(458)	(2,652)	-	(30,089)	(33,199)
31.12.2009	**32,870**	**42,361**	**(2,536)**	**334**	**4,005**	**(39,508)**	**37,526**
Increase of share capital	3,557	10,672	-	-	-	-	14,229
Total comprehensive income	-	-	2,191	(27)	-	(27,557)	(25,393)
31.12.2010	**36,427**	**53,033**	**(345)**	**307**	**4005**	**(67,065)**	**(26,362)**

The accompanying notes on pages 14 to 64 form an integral part of these Consolidated and Bank financial statements.

CONSOLIDATED AND BANK STATEMENT OF CASH FLOWS

	2010	2010	2009	2009
Cash flows from operating activities	**Group**	**Bank**	**Group**	**Bank**
Loss before income tax	(27,557)	(27,777)	(30,594)	(30,782)
Depreciation, amortization, impairment and write-off of intangible assets and property and equipment	1,783	1,783	2,211	2,211
Loss from sale of property and equipment	104	104	30	30
Increase of impairment allowance	12,974	12,974	35,674	35,674
Result from revaluation of foreign currencies	(36)	(36)	(36)	(36)
Increase/ (decrease) of cash and cash equivalents before changes in assets and liabilities	**(12,732)**	**(12,952)**	**7,285**	**7,097**
Change in loans and receivables due from credit institutions	(50)	(50)	(108)	(108)
Change in loans and receivables due from customers	41,657	41,657	39,805	39,805
Change in available-for-sale financial assets			-	-
Change in held for trading financial assets	1,754	1,754	(2,641)	(2,641)
Change in deferred expense and accrued income	703	710	(842)	(828)
Change in other assets	1,569	1,598	17	17
Change in due to credit institutions	(88)	(88)	(2,117)	(2,117)
Change in deposits	(44,755)	(44,571)	11,949	12,124
Change in held for trading financial liabilities	1,046	1,046	538	538
Change in deferred income and accrued expense	162	162	(969)	(965)
Change in other liabilities	(309)	(307)	616	611
Income tax paid	-	-	-	-
Net cash used in operating activities	**(11,041)**	**(11,041)**	**53,533**	**53,533**

	2010 Group	2010 Bank	2009 Group	2009 Bank
Cash flows from investing activities				
Purchase of property and equipment, and intangibles	(588)	(588)	(361)	(361)
Sale of property and equipment	-	-	21	21
Investments in subsidiaries	-	-	-	-
Net cash from investing activities	**(588)**	**(588)**	**(340)**	**(340)**
Cash flows from financing activities				
Settlement of subordinated liabilities	(303)	(303)	(10,956)	(10,956)
Settlement of debt securities	-	-	(1,994)	(1,994)
Increase of share capital	14,229	14,229	42,686	42,686
Net cash from financing activities	**13,926**	**13,926**	**29,736**	**29,736**
Net (decrease)/increase of cash and cash equivalents	**2,297**	**2,297**	**82,929**	**82,929**
Opening balance of cash and cash equivalents	**120,948**	**120,948**	**37,983**	**37,983**
Effect of exchange rate fluctuations on cash held	36	36	**36**	**36**
Closing balance of cash and its equivalents	**123,280**	**123,280**	**120, 948**	**120,948**

Cash and cash equivalents consist of the following:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Cash and due from Bank of Latvia	24,377	24,377	27,789	27,789
Due from credit institutions including term deposits due in less than three months	99,035	99,035	107,748	107,748
Due to credit institutions including term deposits due in less than three months	(132)	(132)	(14,589)	(14,589)
Total	**123,280**	**123,280**	**120,948**	**120,948**

The accompanying notes on pages 14 to 64 form an integral part of these Consolidated and Bank financial statements.

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NOTES TO THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Information on the Group and Bank

JSC "GE Money Bank" (the "Bank") was founded on 10 September 1992. It was registered in the Republic of Latvia as a joint stock company with limited liability. The main operations of the Bank are issuance of loans, performance of payment transfers and operations with foreign currency both on behalf of customers and as trading activities. The Bank's license allows the Bank to maintain accounts and receive term deposits from individuals and legal entities. The Group's and Bank's legal address is 3, 13.janvara Street, Riga, Latvia, LV - 1050.

The Bank's ultimate controlling party is General Electric Capital which is listed on the New York Stock Exchange. Bank's direct parent is SIA "Finstar Baltic Investment".

The Bank and its subsidiaries (together "the Group") are presented together in these consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2010 incorporate the financial statements of companies mentioned below:

Name of company	Country of registration	Type of activity	Participation, %
IPS "GE Money Asset management"	Latvia	Financial services	100
AS "GE Money atklātais pensiju fonds"	Latvia	Financial services	100

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

The accompanying financial statements of the Group and Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia ('FCMC') in force as at the reporting date.

Functional and Presentation Currency

The financial statements are presented in thousands of euro (EUR 000's), unless otherwise stated, being the Bank's functional currency.

Basis of measurement

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

- financial instruments stated at fair value through profit or loss are stated at fair value;
- derivatives: stated at fair value;
- available-for-sale assets: stated at fair value;
- land and buildings which are revalued periodically.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared using accounting principles consistent with those used in the prior year, except as described later on in section on *New Standards and Interpretations*.

Basis of Consolidation

Subsidiaries are entities controlled by the Bank. Control exists where the Bank has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Fund management

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

Income and expense recognition

All significant income and expense categories, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate on the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

Commission fee income and expenses that are not integral to the effective interest rate on a financial asset or liability are recognized on the transaction date.

As the Group and Bank does not apply hedge accounting, changes to the fair value of derivative financial instruments are recognized in the income statement. Changes to the fair value of derivative financial instruments held for trading are recognized under gain from Foreign currency exchange transactions.

The Bank receives dividends from the equity instruments that are recorded to income when the right to receive payment is established.

Proposed dividends are recognized in the financial statements only when approved by shareholders.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate set by Bank of Latvia on that date.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into LVL using the following exchange rates:

31.12.2010		**31.12.2009**	
EUR	0.702804	EUR	0.702804
USD	0.535	USD	0.489

3. SIGNIFICANT ACCOUNTING POLICIES

Property and equipment and intangible assets

Property and equipment and intangible assets are initially recognized at their acquisition cost including transaction costs, except for buildings which are stated at revalued amounts as described below.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

Land plots, buildings and construction owned by the Group and Bank are revalued to their fair value on the grounds of their market value no less than once per a year. The valuation of real estate is undertaken by an independent certified expert every year. Increase in the value of land plots, buildings and construction is recognized in other comprehensive income and shown in a separate category in equity, being a property and equipment revaluation reserve. A revaluation decrease on an item of land or buildings is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised directly in other comprehensive income.

The revaluation reserve included in equity in respect of specific property and equipment revaluations is transferred directly to retained earnings when the asset is retired or disposed of.

Depreciation and amortization is recognized on a straight-line basis, using the following estimated useful lives:

Vehicles	5 years
Furniture	5-10 years
Buildings	5-50 years
Software	1-5 years
Computers, office equipment	4-6 years

Leasehold improvements are capitalized and amortized over the shorter of the term of the lease agreement or the useful life. Depreciation rates, residual values and useful lives are reviewed at each reporting date.

Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property is measured at cost less depreciation.

Non-current Assets-Held-for-Sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

Fair value is based on market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the financial position date by professional external valuers who hold recognised and relevant professional qualifications.

Financial instruments

Classification

Financial instruments are classified into the following categories:

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

3. SIGNIFICANT ACCOUNTING POLICIES

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

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

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

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

Loans and receivables include regular loans and credit card balances.

Financial liabilities carried at amortized cost include deposits and balances with Central Bank, deposits and balances from banks and current accounts and deposits from customers.

Recognition

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

Measurement

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

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

Held-to-maturity investments and loans and receivables are measured at amortized cost using the effective interest method.

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

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

Fair value measurement principles

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

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

If a market for a financial instrument is not active, the Bank and the Company establishes fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the

3. SIGNIFICANT ACCOUNTING POLICIES

same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank or the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank and the Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank or the Group have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank or the Group and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank or the Company believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

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

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

- a gain or loss on an available-for-sale financial asset is recognized in statement of other comprehensive income (except for impairment losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement calculated using the effective interest method.

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

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Repurchase and reverse repurchase agreements

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

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

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

Derivative financial instruments

Derivative financial instruments include swap, forward, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank and the Group classifies all derivative financial instruments as trading.

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

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

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and the Group account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Offsetting

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

Credit related commitments

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

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

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

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

Investments in subsidiaries

Investments in subsidiaries are stated at the cost by the Bank, less any allowance for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Provisions

Provisions are recognized when the Group and Bank have 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. These provisions mainly relate to the guarantees issued and other off balance sheet items. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Cash and cash equivalents

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

Taxation

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

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

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

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

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

Impairment of financial assets

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

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

The Bank and the Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In assessing collective impairment the Bank and the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

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

Impairment of non-financial assets

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

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

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

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

Share-based payment transactions

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

3. SIGNIFICANT ACCOUNTING POLICIES

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Latvian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Segment reporting

A segment is a distinguishable component of the Group or the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's and Group's has one business segment. The segmentation principal is based on product type (see note No.38).

Earnings per share

Earnings per share is presented for every period for which an income statement is presented. Earning per share is obtained by dividing net profit for the reporting year by the number of weighted average number of ordinary shares outstanding for the respective period.

Employee benefits

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

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred.

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

For more details on accounting for finance lease as a financial instrument classified as Loans and finance lease and other receivables, refer to the accounting policy on Financial instruments.

Operating lease

An operating lease is a lease other than a finance lease.

New Standards and Interpretations

Standards issued and adopted by the Bank and the Group

- *IAS 1(revised), 'Presentation of financial statements'*. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a statement of comprehensive income
  The Bank and the Group has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements.
  Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

3. SIGNIFICANT ACCOUNTING POLICIES

- Amendments to *IFRS 7 Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2009) aim at requiring enhanced disclosures about fair value measurements and liquidity risk associated with financial instruments. These amendments have been adopted by the Bank and the Group to the extent applicable to the Bank's and the Group's operations. Comparative information has been re-presented so that it also is in conformity with the revised standard.
- *IFRS 8 Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which became mandatory for the Group's and the Bank's 2009 consolidated financial statements, requires presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's and the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group and the Bank present segment information in respect of its business segments.

New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- Revised *IFRS 3 Business Combinations* (effective for annual periods beginning on or after 1 July 2009) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.
- Amended *IAS 27 Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009,) requires the term minority interest to be replaced by non-controlling interest, which is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of income statement and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not relevant to the Bank's and the Group's financial statements as the Bank and the Group does not have any interests in subsidiaries that will be affected by the revisions to the Standard.
- Amendment to *IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009): clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however, inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Bank's and the Group's financial statements as the Bank and the Group does not apply hedge accounting.
- *IFRIC 12 Service Concession Agreements* (effective for annual financial statements for periods beginning on or after 1 January 2008, as issued by IASB; but effective for periods on or after 1 April 2009, as adopted by EU) applies to service concession operators that are private sector entities operating under public-to-private service concession arrangements. This interpretation explains how to account for the obligations undertaken and rights received in service concession arrangements. As the Bank and the Group does not operate under service concession agreements, this Interpretation does not have any impact on the Bank's and the Group's results of operations and financial position.
- *IFRIC 15 Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009, as issued by IASB, but effective for annual periods beginning on or after 1 January 2010, as adopted by EU): IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases: the agreement meets the definition of a construction contract in accordance with IAS 11.3, the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses. In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Bank's and the Group's financial statements as the Bank and the Group does not provide real estate construction services or develop real estate for sale.
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008, as issued by IASB, but effective for annual periods beginning on or after 1 July 2009, as adopted by EU): the Interpretation explains the type of exposure that may be hedged,

where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to income statement on disposal of the foreign operation. IFRIC 16 is not expected to be relevant to the Company and the Group.

- IFRIC 17 Distributions of Non-cash Assets to *Owners* (effective prospectively for annual periods beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU): the Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in the statement of comprehensive income. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the shareholders it is not possible to determine the effects of application in advance.
- *IFRIC 18 Transfers of Assets from Customers* (effective prospectively for annual reports beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU): the Interpretation provides clarification and guidance on the accounting for transfers of items of property, plant and equipment from customers, or cash to acquire or construct an item of property, plant and equipment. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation.
- *Amendment to IAS 32 Financial instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010) clarifies how to account for certain rights when the issued instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are issued pro rata to the issuer's existing shareholders for a fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer's functional currency. The amendment is not relevant to the Bank's and the Group's financial statements as the Bank and the Group has not issued such instruments at any time in the past.

4. RISK MANAGEMENT

Risk management

Risk management is the cornerstone of the Group's and the Bank's business activity and a key element within its planning process. Through the developed system for the identification, supervision and management of its main financial risks, the Group and the Bank ensure that they have the functional capability to manage the risk in new and existing businesses, and that business plans are consistent with the risk appetite. The Group's and the Bank's risk management system is regularly reviewed taking into account the market conditions and the Group's and the Bank's business strategy in order to set appropriate risk limits and controls.

The Executive Board has the overall responsibility for the establishing and supervision of the Group and Bank's risk management framework. The Group and Bank have established credit risk committee that is responsible for developing and supervising the respective risk management policies and procedures.

The risk appetite is the level of risk the Group and the Bank choose to take to reach its strategic objectives, acknowledging a range of possible outcomes, as business plans are implemented. The Group's and the Bank's risk management framework, combines a top-down view of its capacity to take risk, with a bottom-up view of the business risk profile requested and recommended by each business area. The objectives of the risk appetite framework are to:

- protect the Group's and the Bank's performance;
- improve management control and coordination of risk-taking across businesses; and,
- enable unused risk capacity to be identified and thus profitable opportunities to be highlighted

Risk elements and policy framework

The Group and the Bank identify certain risk factors that they face in the ordinary course of their operations. In order to implement and maintain an appropriate risk management framework, the Group and the Bank have developed and implemented a set of risk management policies.

Credit Risk

Credit risk is the risk of a financial loss to the Group and Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's loans and advances to customers and other banks and investment debt securities. All lending transactions of the Bank are connected with an appropriate level of credit risk. The Group and Bank accept and limit the risk by defining reasonable limits and developing an internal control system for their supervision. According to the credit risk strategy, the responsibility for the credit decision making and management is delegated to the Chief Risk Officer and credit risk committee and Asset Liability Committee for Banks counterparties limits. The board and the council of the Bank approve all credit risk deals above 6 million EUR limit. Bank's counterparties limits are set for direct lending and for other financial instruments (e.g. foreign exchange, debt securities). The principal elements of credit risk management of the Group and the Bank include:

- Evaluation of credit worthiness of borrowers (issuers, transaction counterparties);
- Processes for accepting, issuing and controlling repayment of the loans;
- Undertakings for Credit Risk mitigation, including collateral monitoring and revaluation;
- Limitation of concentration;
- Elements of Portfolio quality monitoring;
- Normative documentation of Credit Risk management and Internal Control system for the activity.

The Groups's and the Bank's Credit Policy defines lending guidelines according to the business strategy and efficient risk management, securing its loan portfolio and protecting the Bank's assets as well as complying with the local regulatory requirements. The policy sets industry lending limits and limits for lending by collateral type in comparison to the Group's and the Bank's asset and deposit base. The Group and the Bank lend to both – private and legal entities and accepts only assessable and manageable loans. The credit policy sets the types of collateral and loan granting conditions, terms and interest rates pricing principles. The Group's and the Bank's credit policy is based on evaluation of credit ratings of the costumers and assessment of the cash flow. The Group and the Bank continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, and, when evaluating client's credit ability, pays most attention to credit risk analysis to evaluate the client's financial condition or the ability to fulfill liabilities under the agreement, business potential and credit guarantee as precise as possible, or otherwise obtained by the Group or the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's or the Bank's specialists. The Group and the Bank credit only those clients that are creditworthy. The Credit Policy stipulates the basic principles of loans issuing, collateral types and maximum acceptance values for various type of collateral. The Group and the Bank accept several items as potential collateral – mortgage, commercial and financial pledge, guarantee or credit risk insurance. Additionally, the Group and the Bank use regular macroeconomic situation stress tests to evaluate the changes in the macroeconomic situation and its impact on the Group's and the Bank's activities. Bank's counterparties risk assessment is defined by using external credit ratings.

Bank ensures regular loan quality assessment and loan loss impairment detection and estimation for problem loans to reflect objective and fair value of the assets. Impairment is calculated as excess of loan book value over the recoverable cash flow from the collateral, where the recovery of the loan is expected to be collateral dependent, or excess of client liabilities over the present value of future expected cash flow from client, where the recovery of the loan is not collateral dependent. Restructuring of problem loans and change of original repayment terms are done in accordance to the internal restructuring guidelines.

Market risk

The profitability and the long term objectives of the Group and the Bank could be adversely affected by worsening economic conditions in the country. Such factors as interest rates, inflation, the availability of credit, cost of credit, the liquidity of the markets could significantly affect the economic activity and the Group and Bank's customers. Foreign currency risk is considered a separate risk and is managed separately.

The Group and the Bank manage their market risk by first identifying different risk factors (market risk due to change in interest rates risk, market risk connected to the quality, credit risk or performance of underlying asset, like shares, credit-linked notes, mortgage bonds, etc.).

The Group and the Bank have a country and sovereigns risk management policy in order to define and identify country risk, its mitigation and control procedures. This policy requires the Group and Bank to establish and regularly monitor the limits on counterparties and lines of business.

Foreign currency risk

Foreign currency (FC) risk is the risk of potential loss, arising from the revaluation of the Group's and the Bank's open currency position (the difference between assets, liabilities and off-balance items) in each of the foreign currencies when there is a movement in foreign currency exchange rates against the functional currency.

The Group and the Bank manage this risk by minimization of its open currency position by:

- setting limits on open currency positions in each currency and in total
- maintaining daily control of the open currency positions, closing the positions on the inter-bank market or with GE Treasury.

The Group and the Bank monitor its established foreign currency limits daily, which decreases the risk of losses from the foreign exchange rate fluctuations and in order to comply with the respective regulations.

Operational Risk

Operational Risk is the possibility to experience losses from inadequate or unsuccessful internal processes, performance of people and systems, or under the influence of external circumstances. The Group and the Bank have established operational risk policy and respective procedures. Bank uses operational risk events and risks register system, where potential or confirmed Operational Risks are identified and assessed in order to:

- ensure that the full range of significant operational risks is encompassed within the risk management process of the Group and the Bank;
- develop controls to mitigate these risks regarding their frequency and their impact;
- improve risk transparency and promote common understanding of risks and controls within the organization.

Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The goal of the interest rate risk policy is to define the Group's and the Bank's interest risk identification, limitation and control practices. In order to minimize interest rate risks according to its assets and liabilities structure, the Group and the Bank balances loans and funding termstructure by repricing using floating interest rates (three or six month RIGIBOR or LIBOR). Interest rates of loans, included in mortgage bonds cover register, are based upon 6 months RIGIBOR or 6 months LIBOR. To reduce the Interest rates risk, the Group and the Bank performs the following activities:

- manages funding (liabilities) which matches to loans portfolio interest rates re-pricing structure;
- manages the pricing for lending business that the matching funding can be maintained;
- places surplus liquidity in a manner, which reduces the total Group and Bank's interest rates re-pricing difference between assets and liabilities for each time period.

Liquidity risk

Liquidity risk is the risk that the Bank and the Group will not be able to satisfy timely legally enforceable claims without substantial losses, as well as the risk of not being able to overcome unplanned changes in resources of the Group and the Bank and/or market conditions, due to insufficient volume of liquid assets at its disposal.

During the year, the Group's and the Bank's assets were managed to meet its current liabilities in accordance with its liquidity management policy. The Group and the Bank maintained a constant amount of liquid assets with the maturity up to 30 days to ensure a compliance with the objective of maintaining such liquid assets at a level of 30% of the Group's and the Bank's current liabilities. The policy defines assets and liabilities maturity structure management guidelines, internal liquidity limits, early warning indicators and the Group's and the Bank's response to liquidity stress situations. The Group's and the Bank's major funding sources during the year have been customer deposits and financial institution deposits, issued bonds and funding sources from the General Electric group.

Risk, which arises from concentration of the risk deals (Concentration risk)

Concentration risk denotes the risk arising from the uneven distribution of credit exposures over counterparties, geography, or industry in the portfolio. Concentration risk is assessed through the following several Risk management areas – Credit, Market, Liquidity, Operational risks.

The Bank manages its lending operations in such a way that the Group and the Bank maintain a well balanced and diversified risk exposure, from which it follows that the loan portfolio has a highly diversified spread of risk. The credit policies of the bank sets:

- Industry concentration limits
- Lending limits by collateral type
- Aggregated lending limits to related customer groups
- Lending limits to persons related to the banks
- Transaction limits within the Group

Residual risk

Residual risk arises when the Group and the Bank fail to realize the value of a credit risk mitigation technique such as guarantees or collateral. The Group and the Bank have chosen to refrain from financing operating lease for transport units. For the other products with collateral, the loan agreement contains rights for the Group and the Bank to regress any residual amount to the borrower.

Money laundering and terrorist financing risk

To manage Money laundering risk the Bank has developed Internal Control System for Prevention of Money Laundering and Terrorism Financing, which ensure compliance with money laundering and terrorism financing prevention laws and regulations. Internal Control System for Prevention of Money Laundering and Terrorism Financing consists of the following elements: client identification, establishment of true beneficiaries, knowing client's economic activities, recognition of unusual and suspicious transactions and their reporting. The Customer Control Division escalates money laundering monitoring results to the Bank's AML Committee on a monthly basis. Bank performs regular employee trainings regarding money laundering and terrorism financing prevention.

Bank's Client policy in force does not anticipate active attraction of non-resident clients.

Trading portfolio management policy

The Policy is aimed at defining financial trading activities the Group and the Bank are involved in, the extent of such involvement and how the Group and the Bank limit trading risks. For purposes of ensuring compliance with the trading portfolio management policy, the assets in the portfolio are valued on a daily basis.

Investment policy

The goal of the policy is to define investment practices, to ensure investment quality and to safeguard the Group's and the Bank's assets, while managing risks. The policy regulates the Group and the Bank's investments in property and equipment and in other company's equity.

The policy of interest conflict situation management

The policy determines the basic principles for management, the timely identification and the prevention of conflict of interest situations that could arise between the Group and the Bank or its subsidiary company, including its employees and persons that directly or implicitly control the Group and the Bank, as well as between its customers.

Client policy

The policy describes cooperation practices between the Group or the Bank and a client: identification requirements and the customer segments the Group and Bank is working with.

Capital management

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank, the lead operating entity of the Group, and for the Group as a whole.

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

The Bank's risk based capital adequacy ratio, as at 31 December 2010, was 13.87% (31 December 2009: 15.92%).

Sensitivity analysis

Foreign currency sensitivity analysis

A 10 percent weakening of the Lat against the following currencies would have increased (decreased) statement of comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. There is no additional effect on the equity other than through the statement of comprehensive income.

Effect in thousands of EUR

	Group	Bank
31.12.2010		
USD	4	4
EUR	(30)	(30)
LTL	6	6
EEK	3	3
RUB	3	3
31.12.2009		
USD	(4)	(4)
EUR	(23)	(23)
LTL	6	6
EEK	1	1
RUB	0	0

Interest rate sensitivity analysis

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

	31 December 2010		31 December 2009	
	Net income	Equity	Net income	Equity
100 bp parallel increase	-	(260)	-	(174)
100 bp parallel decrease	-	260	-	174

5. CORPORATE GOVERNANCE

The corporate governance of the AS "GE Money Bank" (further in text – Bank) is based on the international standards, the best Corporate governance practice and laws of the Republic of Latvia.
The Bank constantly works on the improvement of its corporate governance. The purpose of the corporate governance is to establish, maintain and continuously develop the operational systems that ensure proper control over operations and management of the operational risks while taking care of customer satisfaction and sustaining good co-operation with the business partners.

Shareholders

SIA "Finstar Baltic Investments" (registration number 40003251655) has directly obtained significant share of AS „GE Money Bank" and owns 511938 shares or 99.983% of AS "GE Money Bank". While SIA „GE Money Latvia Holdings" (registration number 40003871676) has directly obtained significant share of "Finstar Baltic Investments" and owns 57916846 shares or 100% of SIA "Finstar Baltic Investments", and GE Capital International Financing Corporation (registration number 007014522; 06-1575484) has directly obtained significant share of SIA "GE Money Latvia Holdings" and owns 4560 shares or 100% of SIA "GE Money Latvia Holdings".

AS "GE Money Bank" have no shareholders with special control rights, no right of voting restrictions or other restrictions, incl. shareholders' profit share rights that is not related to the part of shares proportionally

owned by shareholders and for this reason AS "GE Money Bank" shareholders act in accordance with the Commercial Law provisions. According to AS "GE Money Bank" Articles of Association, the shareholders' meeting is entitled to resolve if at least half of the paid-up joint stock company equity capital is represented, while the reconvened shareholders' meeting is entitled to resolve irrespective of the equity capital represented at the meeting.

Supervisory Council

The Supervisory Council is responsible for the Bank's development strategy, including goals, risks management and capital adequacy maintenance strategy. The Supervisory Council monitors how the Executive Board insures internal control system establishment and efficient functioning, as well as insures risks monitoring, incl. Risks identification and maintenance policies approval.
AS „GE Money Bank" Articles of Association regulate the procedure of the Supervisory Council members' election and changes to the council composition, as well as authorities of the Council members. According to AS "GE Money Bank" Articles of Association the Shareholders meeting elects Supervisory Council in the composition of 6 (six) members for the term of 5 (five) years. Resolutions of the Supervisory Council shall be passed by simple majority of votes of attending members of the Supervisory Council.

Board

Board is the executive body that manages and represents the Bank. The Executive Board manages and administrates commercial activities of the Bank. The Executive Board takes full responsibility for the Bank's activities as well as for the proper bookkeeping maintenance. The Executive Board acts in accordance with the local legislation, Bank's Charters and Shareholders decisions. The Executive Board asks within the strategies and policies approved by the Supervisory Council.
The Executive Board is responsible for the development of internal risks control system, its maintenance and constant improvement. The Executive Board sets qualitative and quantitative goals for the each sphere in compliance with the strategy approved by the Supervisory Council. The Executive Board approves the organizational structure, insures tasks distribution between the structural units and employees.
The Executive Board insures risks identification and maintenance. The Executive Board controls capital adequacy and its maintenance, as well as develops respective internal documentation.
AS „GE Money Bank" Articles of Association regulates the procedure of the Executive Board members' election and changes to the board composition, as well as authorities of the Executive Board members. According to AS "GE Money Bank" Articles of Association AS „GE Money Bank" Supervisory Council elects the Executive Board in the composition of 5 (five) members for the term of 5 (five) years is elected by . AS „GE Money Bank" Articles of Association provide the following limitations for the Executive Board: the chairman of the Board, as well as every member of the Executive Board is entitled to represent the joint stock company only jointly with another Executive Board member, as well as the Supervisory Council consent is required for resolving on significant items established by the Articles of Association.

Internal Control and Risk management

Within the framework of corporate governance the Bank implements:

- Protection of the rights and securing of the interests of the investors, customers and other related parties;
- Timely and adequate provision of information about the operations and financial performance and other important events of the Bank;
- Compliance with generally adopted GE corporation code of ethics;
- Protection of the rights and securing of the interests of the shareholder.

The Bank has elaborated and implemented an effective internal control system over the operations of the Bank incorporating the management system of the operational risks of the Bank. The internal control system identifies and defines responsibility for maintaining efficient functioning of the specific components of the internal control system by listing the duties and obligations of the shareholders, Council, Board, special committees established by Board, structural units and employees.

To promote effective and comprehensive internal control system in all areas of the Bank activities, the Bank has created following internal control functions:

- Risk control function;
- Compliance function;
- Internal audit function.

Risks control function ensures the controls on Risk management, as well as analyzes reports regarding:

- Processes of loan repayment and recovery;
- Analysis and supervision of lending processes in the branches.

Risk management is the cornerstone of the Bank's business activity and a key element within its planning process. Through the developed system for the identification, supervision and management of its main financial risks, the Bank ensures that it has the functional capability to manage these risks and that business plans are consistent with the Bank's risk appetite. The Bank's risk management system is regularly reviewed taking into account the market conditions and the Bank's business strategy in order to set appropriate risk limits and controls.

The Executive Board has the overall responsibility for the establishing and supervision of the Bank's risk management framework. The Bank has established credit committee, which is responsible for developing and supervising the respective risk management policies and procedures.

The risk appetite is the level of risk the Bank chooses to take to reach its strategic objectives, acknowledging a range of possible outcomes, as business plans are implemented. The Bank's risk management framework combines a top-down view of its capacity to take risk, with a bottom-up view of the business risk profile requested and recommended by each business area. The objectives of the risk appetite framework are to:

- Protect the Bank's performance;
- Improve management control and coordination of risk-taking across businesses; and,
- Enable unused risk capacity to be identified and thus profitable opportunities to be highlighted

The Bank identifies certain risk factors that it faces in the ordinary course of their operations. In order to implement and maintain an appropriate risk management framework, the Bank has developed and implemented a set of policies:

- Credit Risk policy;
- Foreign currency risk policy;
- Operational Risk policy;
- Interest rate risk policy;
- Liquidity risk policy;
- Trading portfolio management policy
- Investment policy
- The policy of interest conflict situation management
- Client policy
- The Anti Money laundering policy
- Capital management policy
- Information system security policy
- Country Risk management policy

Compliance function is one of the Internal Control functions, which is established with the purpose of identification, assessment and management of the risk related to development of the Bank's activity. The Compliance function is ensured by the Compliance Department composed of the , Compliance and Methodology Division, Anti-Money Laundering Division and Branch Control Division.

The Bank has created Compliance Review Board, whose principal functions include: supervision of business of the Bank, ensuring compliance of its business to the legal requirements, introduction of legislative changes in business of the Bank; elaboration of business Compliance policy; execution of requirements for prevention of legalization of proceeds from criminal activity (Anti-Money Laundering); issues of consumer rights protection; analysis of complaints of the customers, as well as evaluation of Operational Risk events and determination of the measures necessary to improve the business.

The Internal Audit function (IAD) performs independent supervision of Internal Control system of the Bank, evaluation of its adequacy and efficiency in order to help the Council of the Bank, the Executive Board and heads of the subordinated structural units execute their functions more efficiently. Employees of the IAD are not involved in performance of daily transactions of the Bank.

The IAD is subordinated to the Audit Committee (which consists of the two members of the Bank Council and one independent committee member) and performs audits in accordance with a work plan approved by the Audit Committee and Council. The IAD performs audit of Bank transactions, processes, internal documentation, services and products, evaluating their lawfulness, compliance with the internal or external regulating documents, risks and management thereof, sufficiency, economic profitability and efficiency.

Internal Audit provides regular reporting on the status of issue resolution to bank's Audit Committee and to Senior Management.

Internal Control function, decision making rights, duties and responsibility of employees are prescribed in charters of structural units, operational procedures and in job descriptions. Internal Control function is separate from daily operations and control function.

In order to ensure internal controls the Management of the Bank (Executive Board) regularly receives and examines the following information:

- Daily financial reports – balance sheet and profit/loss;
- Monthly reports on capital adequacy, liquidity, large risks, country risks, connected persons risks, assets classification (credit quality steps and levels of provisions) and term structure of interest rates;
- Calculation of amount of the monetary reserves.
- List of limits, international credit ratings and assessments of financial state of the transactions partners (counterparties);
- Internal calculations of liquidity;
- Investments summary;
- Capital adequacy forecasts;
- Summary of foreign currencies positions;
- Summary of interest risk positions;
- Reports on the state of the securities portfolio.

More over regarding internal controls for preparation of Financial statements is the responsibility of the Finance department who has established the following key controls:

- Internal documents multiple level control and authorization procedure;
- External and internal transactions authorization procedure;
- Preparation of the financial reports in accordance with the Bank approved procedures, internal instructions and policies;
- Multiple level control and sign-off of the reports prepared.
- Body of specific controls and tests, which ensures regular examination of observance and effectiveness of the controlling processes mentioned above.

Finance Department on a regular basis ensures controls of the following indices and norms:

- Calculation of term structure and liquidity;
- Execution of limits for the counterparties;
- Summary of foreign currencies positions;
- Calculation and execution of amount of the monetary reserve;
- State of the securities portfolio (reports from the Financial Accounting and Control Department);
- Daily level of own funds and monthly capital adequacy;
- Sufficiency of liquid assets (in cooperation with the Treasury and Corporate Customers Servicing Department).

In view of the importance of such a component of corporate governance as independent evaluation and control of the financial standing of the Bank, the Supervisory Council and the Executive Board of the Bank insure that regarding the drawing up of the financial reports the internal control system gives a true and fair representation of the operations and financial standing of the Bank.

In order to protect the rights and ensure the interests of the shareholders and investors, the Bank has established the structure and implemented the principles of good corporate governance ensuring provision of timely and exhaustive information on all the substantial matters that concern the Bank, including its strategic goals, financial situation, business results, structure of owners, and realizing proper control over operations and management of the risks.

6. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Allowances for credit losses

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

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

Valuation of financial instruments

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

All financial instruments that are carried at fair value were valued based on their market values.

Impairment of financial instruments

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

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

7. INTEREST INCOME AND EXPENSE

Interest income is comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Interest income from loans and receivables due from customers	12,409	12,409	19,497	19,497
Interest income from loans and receivables due from credit institutions	303	303	370	370
Interest income from financial assets	356	356	356	356
Total	**13,068**	**13,068**	**20,223**	**20,223**

Interest expense is comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Interest expenses on amortized cost instruments	13,440	13,490	18,296	18,336
Interest expenses on deposits	*12,746*	*12,796*	*16,094*	*16,134*
Interest expenses on deposits of credit institutions	*331*	*331*	*1,111*	*1111*
Interest expenses on debt securities	*100*	*100*	*229*	*229*
Interest expenses on subordinated debt	*263*	*263*	*862*	*862*
Deposit guarantee fund	276	276	285	285
Total	**13,716**	**13,766**	**18,581**	**18,621**

In accordance with the regulations of Financial and Capital Market Commission the payments into the deposit guarantee fund are considered as Bank's interest expense.

8. COMMISSIONS AND FEE INCOME AND EXPENSE

Commissions and fee income are comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Commissions from opening and servicing customers' accounts	1,429	1,127	1,807	1,549
Commissions from payment cards	1,285	1,285	1,439	1,439
Commissions for settlement of utilities payments	304	304	468	468
Commissions from cash withdrawal	296	296	442	442
Commissions from guarantees	28	28	28	28
Other	90	90	94	94
Total	**3,432**	**3,130**	**4,278**	**4,020**

Expenses are as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Operations with payment cards	983	983	1,069	1,069

Services of correspondent banks	138	138	203	203
Other	51	48	58	54
Total	**1,172**	**1,169**	**1,330**	**1,326**

9. OTHER OPERATING INCOME AND EXPENSES

Other income is comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Encashment services	17	17	477	477
Penalties, contractual penalties and delay charges received	1,581	1,581	1,138	1,138
Rental Income and income from sale of Real Estate Owned	23	23	44	44
Income from provision of loan issuance and call - centre service to AS GE Money	259	259	359	359
Corrections related to prior year VAT	-	-	771	771
Other	509	509	377	377
Total	**2,389**	**2,389**	**3,166**	**3,166**

Other expenses are comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Credit cards production	53	53	139	139
Revaluation of Assets-Held-for-Sale	503	503	-	-
Other	74	74	138	138
Total	**630**	**630**	**277**	**277**

10. ADMINISTRATIVE EXPENSES

Administrative expenses are comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Salaries, bonuses and allowances	7,770	7,691	9,751	9,678
Remuneration to the Supervisory Council and Management Board	73	73	549	549
Total salaries, bonuses and allowances	**7,843**	**7,764**	**10,300**	**10,227**
Social tax	1,920	1,901	2,258	2,241
Depreciation, amortization, loss on sale and revaluation of intangible assets and property and equipment	1,860	1,860	1,981	1,981
Rental expenses	670	670	1,070	1,070
Post, telegraph and other communication expenses related to customer servicing	546	542	641	641
Maintenance and rent of vehicles	588	588	608	608
Advertisement expenses	68	68	586	586
Software maintenance	596	596	448	448

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Expenses for utility services	408	408	535	535
Repairs of buildings and equipment	98	98	181	181
Security expenses	83	83	184	184
Office expenses	100	100	162	162
Legal expenses	710	710	767	767
Professional services	91	64	259	246
Business trips expenses	67	67	30	30
Representation expenses	4	4	9	8
Collection expenses	293	293	552	552
Training of personnel	9	9	61	61
Real estate tax and other taxes	51	51	55	55
Insurance expenses	27	27	41	41
Management and consultation fees	2,326	2,326	1,360	1,360
Non-deductible VAT	1,333	1,333	417	417
Other	451	451	770	768
Total	**20,142**	**20,013**	**23,275**	**23,169**

11. ALLOWANCE FOR DOUBTFUL LOANS AND OTHER ASSETS

The Group's and Bank's impairment allowance movements in 2010 and 2009 are as follows:

Impairment Allowance

	Group	Bank
Balance as at 31 December 2008	**16,101**	**16,174**
Additional allowance	35,674	35,674
Decrease of allowance	(4,042)	(4,042)
write-off	*(4,042)*	*(4,042)*
Balance as at 31 December 2009	**47,733**	**47,806**
Additional allowance	12,974	12,974
Decrease of allowance	(5,306)	(5,306)
write-off	*(5,306)*	*(5,306)*
Balance as at 31 December 2010	**55,401**	**55,474**

Allowances for impairment losses were made for the following statement of financial position assets:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Loans and receivables due from customers (Note 15)	55,401	55,401	47,733	47,733
Investments in subsidiaries	-	73	-	73
Total	**55,401**	**55,474**	**47,733**	**47,806**

For all loans, which were written off in 2010 and 2009, previously a specific allowance was made in the amount of 100%.

12. CASH AND DUE FROM BANK OF LATVIA

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Cash	12,078	12,077	9,408	9,408
Correspondent account in the Bank of Latvia	12,299	12,299	18,381	18,381
Total	**24,377**	**24,377**	**27,789**	**27,789**

13. INVESTMENTS IN FINANCIAL ASSETS

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Held for trading financial assets	**2,888**	**2,888**	**4,643**	**4,643**
Shares and other non-fixed income securities	*2,403*	*2,403*	*2,214*	*2,214*
Derivatives	*485*	*485*	*2,429*	*2,429*
Available-for-sale financial assets	**5,953**	**5,953**	**3,755**	**3,755**
Held-to-maturity financial assets	**2,787**	**2,787**	**2,786**	**2,786**
	11,628	**11,628**	**11,184**	**11,184**

Financial instruments by listing:

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Held for trading financial assets				
Non-quoted securities	2,403	2,403	2,214	2,214
Non-quoted derivatives (Note 16)	485	485	2,429	2,429
Total	**2,888**	**2,888**	**4,643**	**4,643**
Available-for-sale financial assets				
Quoted debt securities	5,953	5,953	3,755	3,755
Total	**5,953**	**5,953**	**3,755**	**3,755**
Held-to-maturity investments				
Quoted debt securities	2,787	2,787	2,786	2,786
Total	**2,788**	**2,788**	**2,786**	**2,786**
Total	**11,628**	**11,628**	**11,184**	**11,184**

Financial instruments by type:

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Fixed income government securities	8,740	8,740	6,541	6,541
Total bonds and other fixed-income securities	**8,741**	**8,741**	**6,541**	**6,541**
Shares and other non-fixed income securities	**2,403**	**2,403**	**2,214**	**2,214**
Derivatives	**485**	**485**	**2,429**	**2,429**
Total	**11,628**	**11,628**	**11,184**	**11,184**

Bonds and other fixed-income securities by country are as follows:

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Latvia	8,740	8,740	6,541	6,541
Total	**8,740**	**8,740**	**6,541**	**6,541**

Shares and other non-fixed income securities by country are as follows:

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Latvia	2,325	2,325	2,150	2,150
OECD countries	78	78	64	64
Total	**2,403**	**2,403**	**2,214**	**2,214**

14. LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS

Loans and receivables due from credit institution is comprised as follows:

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Demand deposits				
Credit institutions of OECD countries	51,415	51,415	79,486	79,486
Latvian credit institutions	30,023	30,023	27,663	27,663
Credit institutions non-OECD countries	17,598	17,598	599	599
Total demand deposits	**99,036**	**99,036**	**107,748**	**107,748**
Term deposits				
Credit institutions of OECD countries	2,951	2,951	2,901	2,901
Total term deposits	**2,951**	**2,951**	**2,901**	**2,901**
Total deposits	**101,987**	**101,987**	**110,649**	**110,649**

Concentration of placements with banks and other financial institutions

As at 31 December 2010 and 2009 the Bank had four and six loans with banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2010 and 2009 were EUR 65,778 thousand and EUR 88,833 thousand, respectively.

15. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

Loans by groups are comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Government	137	137	514	514
Corporate	146,432	146,432	182,719	182,719
Individuals	51,425	51,425	60,401	60,401
State controlled companies and municipalities	5,968	5,968	7,793	7,793
Gross loans	**203,962**	**203,962**	**251,427**	**251,427**
Allowances for loan losses (Note 11)	*(55,401)*	*(55,401)*	*(47,733)*	*(47,733)*
Total	**148,561**	**148,561**	**203,694**	**203,694**

Loans issued by type:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Mortgage loans	47,390	47,390	55,159	55,159
Commercial loans	18,032	18,032	26,633	26,633
Industrial loans	128,510	128,510	155,610	155,610
Finance lease	5,558	5,558	9,336	9,336
Consumer loans	899	899	1,604	1,604
Credit cards	647	647	1,763	1,763
Other	2,925	2,925	1322	1322
Gross loans	**203,962**	**203,962**	**251,427**	**251,427**
Allowances for loan losses (Note 11)	*(55,401)*	*(55,401)*	*(47,733)*	*(47,733)*
Total	**148,561**	**148,561**	**203,694**	**203,694**

Finance lease is comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
up to 1 year	1,636	1,636	1,146	1,146
1-5 years	3,570	3,570	7,369	7,369
above 5 years	351	351	821	821
Total	**5,557**	**5,557**	**9,336**	**9,336**

Amounts below represent the maximum credit exposure of finance lease contracts:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Gross investment in finance lease	5,736	5,736	9,641	9,641
Unearned finance income	178	178	305	305
Net investment in finance lease	**5,558**	**5,558**	**9,336**	**9,336**

Loans by industry are comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Industry				
Manufacturing industry	24,922	24,922	27,819	27,819
Trade	11,670	11,670	13,403	13,403
Real estate, renting and other business activities	14,172	14,172	18,782	18,782
Agriculture, forestry and fishing	12,042	12,042	16.551	16.551
Transport, storage and communications	8,221	8,221	11,639	11,639
Other community, social and personal service activities	6,417	6,417	7,211	7,211
Construction	4,240	4,240	5,526	5,526
Electricity, gas and water supply	4,751	4,751	8,559	8,559
Hotels and restaurants	5,938	5,938	7,113	7,113
Financial services	57,151	57,151	72,252	72,252
Mining and quarrying	1,406	1,406	1,616	1,616
Other	1,614	1,614	555	555
Total	**152,544**	**152,544**	**191,026**	**191,026**
Loans to individuals	51,418	51,418	60,401	60,401
Gross loans	**203,962**	**203,962**	**251,427**	**251,427**
Allowances for loan losses (Note 11)	*(55,401)*	*(55,401)*	*(47,733)*	*(47,733)*
Total	**148,561**	**148,561**	**203,694**	**203,694**

Group's and Bank's loans issued by country of customers:

Country	Gross loans		Allowance		Net loans	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Latvia	203,829	250,813	(55,365)	(47,717)	148,464	203,094
OECD countries	9	475	(7)	(3)	1	472
Other countries	124	139	(28)	(13)	95	128
Total	**203,962**	**251,427**	**(55,401)**	**(47,733)**	**148,561**	**203,694**

Loans by classification and grouped:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Loans assessed on individual basis	**163,394**	**163,394**	**203,082**	**203,082**
Standard	90,734	90,734	136,433	136,433
Watch-list	8,996	8,996	9,609	9,609
Substandard	20,950	20,950	35,682	35,682
Doubtful	40,758	40,758	20,095	20,095
Bad	1,957	1,957	1,263	1,263
Allowances	*(46,014)*	*(46,014)*	*(36,123)*	*(36,123)*
Net loans assessed on individual basis	**117,381**	**117,381**	**166,959**	**166,959**
Gross loans assessed collectively	**40,567**	**40,567**	**48,345**	**48,345**
Allowances	*(9,387)*	*(9,387)*	*(11,610)*	*(11,610)*
Net loans assessed collectively	**31,180**	**31,180**	**36,735**	**36,735**
Net loans, Total	**148,561**	**148,561**	**203,694**	**203,694**

Loan classification is based on Financial and Capital Market Commission's guidelines.

The following table provides the analysis of the loan portfolio of the Bank and Group by types of collateral as at 31 December 2010 and 31 December 2009 as grouped by relating gross carrying loan amounts:

EUR'000	31.12.2010	% of loan portfolio	31.12.2009	% of loan portfolio
Commercial buildings	52,089	26	60,830	24
Commercial assets pledge	19,525	10	25,218	10
Land mortgage	19,863	9	26,252	10
Mortgage on residential properties	37,649	18	43,705	18
Guarantee	3,246	2	4,139	2
Deposit	57,144	28	68,400	27
Other	14,446	7	22,883	9
Gross loans	**203,962**	**100**	**251,427**	**100**
Allowances for loan losses	*(55,401)*	-	*(47,733)*	-
Total	**148,561**	**-**	**203,694**	**-**

Loan quality by delinquency periods:

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Loans with no impairment allowance	**58,540**	**58,540**	**132,782**	**132,782**
Loans without delinquency	57,994	57,994	124,729	124,729
Delinquent loans	546	546	8,053	8,053
Delinquent up to 30 days	215	215	*5,521*	*5,521*
Delinquent 30-60 days	60	60	*724*	*724*
Delinquent 60-90 days	122	122	*225*	*225*
Delinquent over 90 days	149	149	*1,583*	*1,583*
Loans with an impairment allowance	**145,422**	**145,422**	**118,645**	**118,645**
Loans without delinquency	59,324	59,324	26,386	26,386
Delinquent loans	86,098	86,098	92259	92259
Delinquent up to 30 days	6,403	6,403	*5,260*	*5,260*
Delinquent 30-60 days	2,018	2,018	*3,589*	*3,589*
Delinquent 60-90 days	1,151	1,151	*2,490*	*2,490*
Delinquent over 90 days	76,526	76,526	*80,920*	*80,920*
Loans, total	**203,962**	**203,962**	**251,427**	**251,427**
Impairment allowance	(55,401)	(55,401)	*(47,733)*	*(47,733)*
Net loans, total	**148,561**	**148,561**	**203,694**	**203,694**

Breakdown for the impairment allowance by delinquency group:

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Group	**Bank**	**Group**	**Bank**
Allowances for Delinquent loans				
Loans without delinquency	7,750	7,750	6,938	6,938
Delinquent loans	47,651	47,651	40,795	40,795
Delinquent up to 30 days	1,540	1,540	*1436*	*1436*
Delinquent 30-60 days	952	952	*1141*	*1141*
Delinquent 60-90 days	677	677	*831*	*831*
Delinquent over 90 days	*44,482*	*44,482*	*37,387*	*37,387*
Total	**55,401**	**55,401**	**47,733**	**47,733**

The amount of restructured loans (principals) as of 31 December 2010 was EUR 49,907 thousand.

As at 31 December 2010 the Group and Bank had one borrower, whose loan balance exceeded 10% of loans to customers (2009: one borrower). The gross value of this loans as at 31 December 2010 EUR 57,144 thousand (2009: EUR 72,276 thousands). This loan has been issued to a related party registered in Latvia.

16. DERIVATIVE ASSETS AND LIABILITIES

Fair value of the Group's and the Bank's foreign currency swaps is as follows:

	31.12.2010 Assets	31.12.2010 Liabilities	31.12.2009 Assets	31.12.2009 Liabilities
Notional value	81,287	82,431	137,623	(135,779)
Fair value	**485**	**(1,629)**	**2,429**	**(583)**

Concentration of Derivative assets and liabilities

As at 31 December 2010 and 2009 the Bank had one and one financial services company (a related party "GE Financial Markets"), respectively, whose balances exceeded 10% of total derivatives. The gross value of these balances as of 31 December 2010 were EUR 485 and EUR (1,629) and as of 31 December 2009 EUR 2,429 and EUR (583) thousand, respectively.

17. INVESTMENTS IN SUBSIDIARIES

Participation in subsidiaries as of 31 December 2010 is as follows:

Name of company	Country of incorpo-ration	Type of activity	Gross carrying amount	Allowance	Net value	Investment, %
IPS "GE Money Asset management"	Latvia	Financial services	213	-	213	100
JSC „GE Money Atklātais pensiju fonds"	Latvia	Financial services	213	(72)	141	100
Total			**426**	**(72)**	**354**	

Participation in subsidiaries as of 31 December 2009 was as follows:

Name of company	Country of incorpo-ration	Type of activity	Gross carrying amount	Allowance	Net value	Investment, %
IPS "GE Money Asset management"	Latvia	Financial services	213	-	213	100
JSC „GE Money Atklātais pensiju fonds"	Latvia	Financial services	213	(72)	141	100
Total			**426**	**(72)**	**354**	

In Feb 2011 participation in subsidiary JSC „GE Money Atklātais pensiju fonds" was increased by EUR 28 thousand.

18. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Group's property and equipment and intangible assets

	Land and buildings	Lease-hold improve-ments	Vehicles	Office equip-ment	Software licenses	Total
Historical cost or revalued amount						
As of 31.12.2008	7,036	1,696	508	7,263	3,480	19,983
Purchases	-	-	-	117	148	265
Revaluation	(2,853)	-	-	-	-	(2,853)
Reconstruction	-	-	-	-	97	97
Disposals	-	(82)	(16)	(142)	-	(240)
As of 31.12.2009	**4,183**	**1614**	**492**	**7,238**	**3,725**	**17,252**
Purchases	48	-	-	482	33	563
Revaluation	(516)	-	-	-	-	(516)
Reconstruction	20	-	-	-	4	24
Disposals	(323)	(184)	(367)	(37)	-	(911)
As of 31.12.2010	3,412	1,430	125	7,683	3,762	16,412
Accumulated depreciation						
As of 31.12.2008	**149**	**740**	**353**	**3,749**	**2,793**	**7,784**
Charge for the year	101	161	74	1,152	441	1,929
Depreciation on disposals	-	(65)	(16)	(87)	-	(168)
As of 31.12.2009	**250**	**836**	**411**	**4,814**	**3,234**	**9,545**
Charge for the year	78	111	16	912	176	1,293
Depreciation on disposals	(323)	(142)	(310)	(31)		(806)
As of 31.12.2010	5	805	117	5,695	3,410	10,032
Net book value						
As of 31.12.2008	**6,887**	**956**	**155**	**3,513**	**688**	**12,199**
As of 31.12.2009	**3,933**	**778**	**81**	**2,423**	**491**	**7,706**
As of 31.12.2010	**3,406**	**626**	**9**	**1,988**	**351**	**6,380**

Bank's property and equipment and intangible assets

	Land and buildings	Lease-hold improve-ments	Vehicles	Office equip-ment	Software licenses	Total
Historical cost or revalued amount						
As of 31.12.2008	**7,036**	**1,696**	**508**	**7,263**	**3,480**	**19,983**
Purchases	-	-	-	117	148	265
Revaluation	(2,853)	-	-	-	-	(2,853)
Reconstruction	-	-	-	-	97	97
Disposals	-	(82)	(16)	(142)	-	(240)
As of 31.12.2009	**4,183**	**1,614**	**492**	**7,238**	**3,725**	**17,252**
Purchases	48	-	-	482	33	563
Revaluation	(516)	-	-	-	-	(516)
Reconstruction	20	-	-	-	4	24
Disposals	(323)	(184)	(367)	(37)	-	(911)
As of 31.12.2010	**3,412**	**1,430**	**125**	**7,683**	**3,762**	**16,412**
Accumulated depreciation						
As of 31.12.2008	**149**	**740**	**353**	**3,749**	**2,793**	**7,784**
Charge for the year	101	161	74	1,152	441	1,929
Depreciation on disposals	-	(65)	(16)	(87)	-	(168)
As of 31.12.2009	**250**	**836**	**411**	**4,814**	**3,234**	**9,545**
Charge for the year	78	111	16	912	176	1,293
Depreciation on disposals	(323)	(142)	(310)	(31)	-	(806)
As of 31.12.2010	**5**	**805**	**117**	**5,695**	**3,410**	**10,032**
Net book value						
As of 31.12.2008	**6,887**	**956**	**155**	**3,514**	**687**	**12,199**
As of 31.12.2009	**3,933**	**778**	**81**	**2,423**	**491**	**7,706**
As of 31.12.2010	**3,406**	**626**	**9**	**1,988**	**351**	**6,380**

	Group		Bank	
Depreciation, amortization and loss on disposal of property and equipment and intangible assets	**31.12.2010**	**31.12.2009**	**31.12.2010**	**31.12.2009**
Amortization of intangible assets and depreciation of property and equipment	1,293	1,929	1,293	1,929
Carrying amount of disposed property and equipment	50	51	50	51
Total	**1,343**	**1,980**	**1,343**	**1,980**

In the year 2010, the Bank revalued assets under "land and buildings". As a result the Bank has recognized a EUR 517 thousand revaluation adjustment .

19. INVESTMENT PROPERTY

Bank's and Group's Investment property

	Land and buildings
Historical cost	
As of 31.12.2009	**1,558**
Reclassified to Assets-Held-for-Sale	1,558
As of 31.12.2010	**-**
Accumulated depreciation	
As of 31.12.2009	**-**
Charge for the year	-
As of 31.12.2010	**-**
Net book value	
As of 31.12.2009	**1,558**
As of 31.12.2010	**-**

In 2009 and 2010 the Bank obtained the property by taking a possession of collaterals via the court auctions.

In 2009 the property was classified as Investment property according to IAS 40. The fair value of the property as of 31 December 2009 was 1,703 thousand EUR. The management assessed depreciation during the year as not significant. The amount of the direct operating costs included in profit/loss as of 31 December 2009 was EUR 467 thousand.

At the end of 2010 the Management of the Bank has developed the strategic plan and initiated an active program to start selling activities of repossessed properties. As a result of these plans the respective properties were reclassified from Investment property category to Assets held for sale. The property was revalued at the lower of its carrying amount and fair value less costs to sale (Note 9).

20. OTHER ASSETS

Other assets are as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Money in transit	439	439	201	201
Accounts receivable	165	165	139	139
Other assets repossessed	178	178	296	296
Other assets	326	293	327	323
Total	**1,108**	**1,075**	**963**	**959**

21. DUE TO CREDIT INSTITUTIONS

Due to credit institutions are comprised as follows:

Demand	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Latvian credit institutions	132	132	14,589	14,589
Total demand deposits	**132**	**132**	**14,589**	**14,589**
Term deposits				
World Bank's transit funds	450	450	537	537
Total term deposits	**450**	**450**	**537**	**537**
Total	**582**	**582**	**15,126**	**15,126**

Concentration of deposits with banks and other financial institutions

As at 31 December 2010 and 2009 the Bank had zero and one bank and financial institutions, respectively, whose balances exceeded 10% of total deposits with banks and other financial institutions. The gross value of these balances as of 31 December 2010 and 2009 were EUR 0 thousand and EUR 14,313 thousand, respectively.

22. DEPOSITS

Deposits by Clients' residence are comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Residents of the Republic of Latvia	169,962	170,638	216,021	216,513
Residents of OECD countries	81,408	81,408	81,296	81,296
Residents of non-OECD countries	6,316	6,316	5,124	5,124
Total	**257,686**	**258,362**	**302,441**	**302,933**

Demand and term deposits are comprised as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Demand deposits				
Central governments	60	60	111	111
Local governments	5,562	5,562	2,490	2,490
Financial services	6,467	6,823	7,113	7,164
State controlled companies	1,958	1,958	1,580	1,580
Corporates	23,937	23,937	30,354	30,354
Individuals	59,449	59,449	58,510	58,510
Other	944	944	737	737
Total demand deposits	**98,377**	**98,733**	**100,895**	**100,946**
Term deposits				
State controlled companies	101	101	-	-
Local governments	1,702	1,702	814	814
Financial services	107,804	108,124	123,414	123,855
Corporates	11,804	11,804	12,259	12,259
Individuals	37,806	37,806	64,976	64,976
Other	92	92	83	83
Total term deposits	**159,309**	**159,629**	**201,546**	**201,987**
Total demand and term deposits	**257,686**	**258,362**	**302,441**	**302,933**

As at 31 December 2010 the Group and Bank had one depositor, whose deposit balance exceeded 10% of deposits to customers. The gross value of this deposit as at 31 December 2010 EUR 70,000 thousand. This deposit has been received from a related party as a collateral for the loan issued to the related party. No deposits are blocked.

23. DEBT SECURITIES

The coverage register of mortgage bonds at the Bank is maintained in accordance with the legislation of the Republic of Latvia, including regulatory documents covering mortgage transactions.

The Bank manages mortgage claims included in the coverage register of mortgage bonds according to their remaining value separately from other assets.

The mortgage claims included in the coverage register of mortgage bonds according to their remaining value are used to ensure that only those liabilities that result from the issue of mortgage bonds are met.

Mortgage bonds in circulation according to their total face value are fully covered with mortgage loans. The total interest expenses of mortgage bonds are covered with the total interest income from mortgage loans of the same amount.

In 2009 and 2010, the Bank did not issue any mortgage bonds.

In 2010, repayment of the mortgage bonds did not happen. In 2009, the Bank repaid mortgage bonds of USD3 million at maturity.

Total amount of the debt securities issued by the Bank as at 31 December 2010 consist of mortgage bonds in circulation for total nominal value (excluding accrued interest) of EUR 5,000 thousand (2009 – EUR 5,000 thousand).

(a) Mortgage bonds in circulation (Group and Bank)

ISIN	Issue	Amount	Nominal value	Registered volume	Coupon rate	Maturity date	Amount in circulation	2010 Carrying value	2009 Carrying value
LV0000800373	BTB 5YR EUR C02	50,000	100	5,000 EUR	2.25%*	01.10.2011	5,000	5,000	5,000
Accrued interest								28	26
Total								**5,028**	**5,026**

* floating coupon interest rate (6 month EUR LIBOR plus 1.15%), which is changed five business days before 1 April and 1 October.

(b) Structure of mortgage bonds coverage

Mortgage bonds in circulation are secured by assets included in the Mortgage Bond Cover Register which as of 31 December 2010 amounted to EUR 6,508 thousand (2009 – EUR 7,930 thousand). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans amounting to EUR 6,508 thousand (2009 mortgage loans amounting to EUR 7,930 thousand). All transactions with the bonds are administered by the Riga Stock Exchange, and the bonds are filed in the exchange.

As of 31 December 2010, the amount of assets included in the Mortgage Bond Cover Register exceeded the amount of mortgage bonds in circulation by 30.2% (2009 – 10.3%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement: 10%).

24. OTHER LIABILITIES

Other liabilities are as follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Money in transit	34	34	23	23
Tax liabilities	70	70	474	474
Other	717	713	633	627
Total	**821**	**817**	**1,130**	**1,124**

25. SUBORDINATED DEBT

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Subordinated bonds	3,216	3,216	3,519	3,519
Total	**3,216**	**3,216**	**3,519**	**3,519**

As of 31 December 2010, the total nominal value of issued subordinated bonds was EUR 3,146 thousand (2009: EUR 3,142 thousand). Subordinated bonds are recognized at their amortized cost and mature on 10 January 2011. Subordinated bonds have a floating coupon interest rate at 6 months LVL RIGIBOR plus 2.00%. In January 2011 subordinated bonds were fully repaid.

26. DEFERRED TAX LIABILITIES

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Deferred tax liabilities:				
temporary difference due to accelerated tax depreciation	351	351	458	458
temporary difference arising from provisions	(91)	(91)	(122)	(122)
temporary difference from revaluation			60	60
deferred tax asset from tax losses	(5,761)	(5,761)	(5,852)	(5,852)
Deferred tax asset	5,501	5,501	**5,456**	**5,456**
Unrecognized deferred tax asset	**5,501**	**5,501**	5,456	5,456
Deferred tax asset recognized in statement of financial position	**-**	**-**	-	-
Deferred tax liabilities at the beginning of the year	-	-	-	-
Deferred tax charged to revaluation reserve from land and building revaluation	-	-	60	60
Deferred tax charged to profit or loss	-	-	(60)	(60)
Deferred tax liabilities at the end the year	**-**	**-**	**-**	**-**

27. SHARE CAPITAL

Issued share capital is as follows:

	Par value per share (EUR)	31.12.2010	31.12.2009
Ordinary shares	71	36,427	32,870
Total		**36,427**	**32,870**

	31.12.2010	31.12.2009
Number of shares	512,025	462,025

All shares have been fully paid. As at 31 December 2010 and 2009, the Bank did not own any of its own shares.
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank as well as entitled to residual capital.
As at 31 December 2010 and 2009 the Bank had 13 and 13 shareholders, respectively.
Board and council members have no shares at 31 December 2010 and 31 December 2009.

The immediate controlling party and its share is as follows:

31.12.2010

Name	Number of shares	Total amount	Investment in share capital, %
SIA "FINSTAR BALTIC INVESTMENTS"	511,938	36,421	99,983
Total	**511,938**	**36,421**	**99,983**

31.12.2009

Name	Number of shares	Total amount	Investment in share capital, %
SIA "FINSTAR BALTIC INVESTMENTS"	461,938	32,864	99.98
Total	**461,938**	**32,864**	**99,98**

The ultimate controlling party of the Group and Bank is US corporation General Electric.
Reserve capital of the Bank consists partly of reserves created for statutory purposes (EUR 1,699 thousand) and partly of a reserve for shared based payment transaction recorded in 2006 (EUR 2,306 thousand).

28. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are follows:

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Issued guarantees	1,514	1,514	1,618	1,618
Total issued guarantees	**1,514**	**1,514**	**1,618**	**1,618**
Other commitments				
Unused credit lines	2,299	2,299	5,477	5,477
Total other commitments	**2,299**	**2,299**	**5,477**	**5,477**
Total off-balance sheet items	**3,813**	**3,813**	**7,095**	**7,095**

Commitments to extend credit, from guarantees and letters of credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans and issued guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilized in the extension of loans. The management of the Group believes

the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

Litigation

The Bank and the Group has considered that there are currently no litigation processes which could cause significant material losses to the Bank and to the Group.

29. TAX EXPENSES AND TAXES PAID

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Deferred tax charge	-	-	60	60
Overprovided income tax for 2006	-	-	445	445
Income tax (charge) / benefit	**-**	**-**	**505**	**505**

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Profit/ (loss) before tax	(27,557)	(27,777)	(21,502)	(21,634)
Expected tax charge, applying current tax rate of 15%	(4,133)	(4,166)	(3,225)	(3,245)
Tax effect of non-deductible expenses/exempt income	(212)	(212)	(158)	(138)
Under(over)provided in prior periods			(313)	(313)
Change in deferred tax asset assessment	4,345	4,378	3,341	3,341
Income tax charge / (benefit)			**(355)**	**(355)**

During 2010 the Bank transferred EUR 235 thousand tax losses that had not been recognized for deferred tax purposes with tax group, but outside the Group and Bank. This has not had an effect of deferred tax recognized in the statement of comprehensive income or statement of financial position.

In accordance with the law "On Corporate Income Tax" tax loss carry-forwards can be covered in chronological order from taxable income during the following eight years:

	Tax losses, EUR	Expiry term
Tax losses of 2010	26,030	2018
Tax losses of 2009	30,879	2017
Total	**56,909**	

The Bank has paid the following taxes:

	31.12.2010	31.12.2009
Social security payments	2,045	3,076
Personal income tax	1,881	1,813
Income tax	-	-
Value added tax	333	447
Real estate tax	51	55
Income tax from non-residents	-	-
Total	**4,310**	**5,391**

30. MATURITY STRUCTURE OF ASSETS AND LIABILITIES

The following table shows Financial assets of the Group by remaining contractual maturity dates as at 31 December 2010.

	1 month	1-3 months	3-12 months	Over 1 year	No maturity	Over-due	Total
Financial assets							
Cash and deposit with the Bank of Latvia	24,377	-	-	-	-	-	24,377
Financial instruments at fair value through profit or loss	139	346	-	-	2,403	-	2,888
Loans and advances due from financial institutions	99,036	-	-	-	2,951	-	101,987
Loans and advances due from customers	4,309	5,579	64,191	51,639	-	22,843	148,561
Available-for-sale instruments	-	-	17	5,936	-	-	5,953
Held-to-maturity instruments	-	-	97	2,691	-	-	2,788
Total financial assets	**127,861**	**5,925**	**64,305**	**60,266**	**5,354**	**22,843**	**286,554**

The following table shows Financial assets of the Bank by remaining contractual maturity dates as at 31 December 2010.

	1 month	1-3 months	3-12 months	Over 1 year	No maturity	Over-due	Total
Financial assets							
Cash and deposit with the Bank of Latvia	24,377	-	-	-	-	-	24,377
Financial instruments at fair value through profit or loss	139	346	-	-	2,403	-	2,888
Loans and advances due from financial institutions	99,036	-	-	-	2,951	-	101,987
Loans and advances due from customers	4,309	5,579	64,191	51,639	-	22,843	148,561
Available-for-sale instruments			17	5,936			5,953
Held-to-maturity instruments			97	2,691			2,788
Total financial assets	**127,861**	**5,925**	**64,305**	**60,266**	**5,354**	**22,843**	**286,554**

The following table shows Financial assets of the Group by remaining contractual maturity dates as at 31 December 2009.

	1 month	1-3 months	3-12 months	Over 1 year	No maturity	Over-due	Total
Financial assets							
Cash and deposit with the Bank of Latvia	27,789	-	-	-	-	-	27,789
Financial instruments at fair value through profit or loss	3,557	1,022	-	-	64	-	4,643
Loans and advances due from financial institutions	100,789	6,959	-	-	2,901	-	110,649
Loans and advances due from customers	5,535	7,844	24,552	144,150	-	21,613	203,694
Available-for-sale instruments	3,624	-	19	112	-	-	3,755
Held-to-maturity instruments	-	-	95	2,691	-	-	2,786
Total financial assets	**141,294**	**15,825**	**24,666**	**146,953**	**2,965**	**21,613**	**353,316**

The following table shows Financial assets of the Bank by remaining contractual maturity dates as at 31 December 2009.

	1 month	1-3 months	3-12 months	Over 1 year	No maturity	Over-due	Total
Financial assets							
Cash and deposit with the Bank of Latvia	27,789	-	-	-	-	-	27,789
Financial instruments at fair value through profit or loss	3,557	1,022	-	-	64	-	4,643
Loans and advances due from financial institutions	100,789	6,959	-	-	2,901	-	110,649
Loans and advances due from customers	5,535	7,844	24,552	144,150	-	21,613	203,694
Available-for-sale instruments	3,624	-	19	112	-	-	3,755
Held-to-maturity instruments	-	-	95	2,691	-	-	2,786
Total financial assets	**141,294**	**15,825**	**24,666**	**146,953**	**2,965**	**21,613**	**353,316**

The following table shows Financial liabilities of the Group by remaining contractual maturity dates as at 31 December 2010. The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the balance sheet date.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities						
Financial instruments at fair value through profit or loss	-	-	-	-	-	-
Deposits and balances due to financial institutions	132	-	94	355	581	581
Current accounts and deposits due to customers	128,638	6,862	105,634	21,272	262,406	257,687
Other borrowed funds	3,226	-	5,112	-	8,338	8,244
Derivative liabilities	606	1,004	-	-	1,610	1,629
Credit related commitments	**132,602**	**7,866**	**110,840**	**21,627**	**272,935**	**268,141**

The following table shows Financial liabilities of the Bank by remaining contractual maturity dates as at 31 December 2010. The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the balance sheet date.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities						
Financial instruments at fair value through profit or loss	-	-	-	-	-	-
Deposits and balances due to financial institutions	132	-	94	355	581	581
Current accounts and deposits due to customers	129,036	6,862	105,634	21,601	263,133	258,363
Other borrowed funds	3,226	-	5,112	-	8,338	8,244
Derivative liabilities	606	1,004	-	-	1,610	1,629
Credit related commitments	**133,000**	**7,866**	**110,840**	**21,956**	**273,662**	**268,817**

The following table shows Financial liabilities of the Group by remaining contractual maturity dates as at 31 December 2009. The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the balance sheet date.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities						
Financial instruments at fair value through profit or loss	-	-	-	-	-	-
Deposits and balances due to financial institutions	275	14,556	90	448	15,369	15,127
Current accounts and deposits due to customers	135,204	21,676	54,827	99,048	310,755	302,441
Other borrowed funds	398	-	497	8,644	9,539	8,544
Derivative liabilities	55	528	-	-	583	583
Credit related commitments	**135,932**	**36,760**	**55,414**	**108,140**	**336,246**	**326,695**

The following table shows Financial liabilities of the Bank by remaining contractual maturity dates as at 31 December 2009. The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the balance sheet date.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities						
Financial instruments at fair value through profit or loss	-	-	-	-	-	-
Deposits and balances due to financial institutions	275	14,556	90	448	15,369	15,127
Current accounts and deposits due to customers	135,262	21,704	54,913	99,368	311,247	302,934
Other borrowed funds	398	-	497	8,644	9,539	8,544
Derivative liabilities	55	528	-	-	583	583
Credit related commitments	**135,990**	**36,788**	**55,500**	**108,460**	**336,738**	**327,188**

31. INTEREST RATE REPRICING

The Group's interest rate repricing analysis as of 31 December 2010 is as follows:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets							
Cash and deposit with the Bank of Latvia	12,299	-	-	-	-	12,077	24,376
Financial instruments at fair value through profit or loss	29,601	52,390	-	-	-	2,403	84,394
Loans and advances due from financial institutions	101,987	-	-	-	-	-	101,987
Loans and advances due from customers	12,338	51,615	51,995	221	765	31,628	148,562
Available-for-sale instruments	-	-	-	5,953	-	-	5,953
Held-to-maturity instruments	-	-	-	2,787	-	-	2,787
Total financial assets	**156,225**	**104,005**	**51,995**	**8,961**	**765**	**46,108**	**368,059**
Financial liabilities							
Financial instruments at fair value through profit or loss	30,558	53,050	-	-	-	-	83,608
Deposits and balances due to financial institutions	132	-	450	-	-	-	582
Current accounts and deposits due to customers	127,196	76,805	32,916	18,936	-	1,833	257,686
Other borrowed funds	3,174	-	5,070	-	-	-	8,244
Total financial liabilities	**161,060**	**129,855**	**38,436**	**18,936**	**-**	**1,833**	**350,120**
Net position as at 31 December 2010	**(4,835)**	**(25,850)**	**13,559**	**(9,975)**	**765**	**44,275**	**17,939**
Net position as at 31 December 2009	**9,713**	**47,264**	**(31,440)**	**(27,503)**	**(11,424)**	**37,225**	**23,835**

The Bank's interest rate repricing analysis as of 31 December 2010 is as follows:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets							
Cash and deposit with the Bank of Latvia	12,299	-	-	-	-	12,077	24,376
Financial instruments at fair value through profit or loss	29,601	52,390	-	-	-	2,403	84,394
Loans and advances due from financial institutions	101,987	-	-	-	-	-	101,987
Loans and advances due from customers	12,338	51,615	51,995	221	765	31,628	148,562
Available-for-sale instruments	-	-	-	5,953	-	-	5,953
Held-to-maturity instruments	-	-	-	2,787	-	-	2,787
Total financial assets	**156,225**	**104,005**	**51,995**	**8,961**	**765**	**46,108**	**368,059**
Financial liabilities							
Financial instruments at fair value through profit or loss	30,558	53,050	-	-	-	-	83,608
Deposits and balances due to financial institutions	132	-	450	-	-	-	582
Current accounts and deposits due to customers	127,595	76,805	32,916	19,213	-	1,833	258,362
Other borrowed funds	3,174	-	5,070	-	-	-	8,244
Total financial liabilities	**161,459**	**129,855**	**38,436**	**19,213**	**-**	**1,833**	**350,796**
Net position as at 31 December 2010	**(5,234)**	**(25,850)**	**13,559**	**(10,251)**	**765**	**44,275**	**17,263**
Net position as at 31 December 2009	**9,654**	**47,235**	**(31,525)**	**(27,503)**	**(9,053)**	**37,320**	**26,128**

32. FOREIGN CURRENCY RISK

The Group's currency position as at 31 December 2010 by currencies are as follows:

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, EUR	
In foreign currency					
EUR	198,495	198,915	(418)	(294)	(1.14)
USD	13,381	13,300	81	43	0.17
LTL	445	186	259	53	0.20
EEK	653	0	653	29	0.11
RUB	1,866	339	1,527	27	0.10
Other, long				89	0.30
Other, short				(1)	0.00
			Total long position (+)%	241	0.94
			Total short position (-)%	(295)	(1.14)
			Total position	**295**	**1.14**

Shareholders' equity has been calculated according to the regulations of the Financial and Capital Market Commission, see note 35.

The Group's currency position as at 31 December 2009 by currencies are as follows:

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, EUR	
In foreign currency					
EUR	17,324	17,418	(94)	(45)	(0.12)
USD	222,730	223,064	(334)	(234)	(0.63)
LTL	356	57	299	61	0.16
EEK	743	427	316	14	0.04
RUB	901	847	54	1	0.00
Other, long				175	0.5
Other, short				(14)	(0.04)
			Total long position (+)%	251	0.67
			Total short position (-)%	(293)	(0.79)
			Total position	**293**	**0.79**

Shareholders' equity has been calculated according to the regulations of the Financial and Capital Market Commission, see note 35.

The Bank's currency position as at 31 December 2010 per currencies are as follows:

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, EUR	
In foreign currency					
EUR	198,495	198,915	(418)	(294)	(1.18)
USD	13,381	13,300	81	43	0.17
LTL	445	186	259	53	0.21
EEK	653	0	653	29	0.12
RUB	1,866	339	1,527	27	0.11
Other, long				89	0.40
Other, short				(1)	0.00
		Total long position (+)%		241	0.97
		Total short position (-)%		(295)	(1.18)
		Total position		**295**	**1.18**

Shareholders' equity has been calculated according to the regulations of the Financial and Capital Market Commission, see note 35.

The Bank's currency position as at 31 December 2009 per currencies are as follows:

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, EUR	
In foreign currency					
EUR	17,329	17,423	(94)	(47)	(0.13)
USD	222,830	223,165	(334)	(235)	(0.64)
LTL	356	57	299	61	0.16
EEK	743	427	316	14	0.04
RUB	901	847	54	1	0.00
Other, long				147	0.4
Other, short				(13)	(0.03)
		Total long position (+)%		223	0.60
		Total short position (-)%		(293)	(0.80)
		Total position		**293**	**0.80**

* Excluding EUR. Starting from 2006 EUR open position is excluded from the total position calculation.

Shareholders' equity has been calculated according to the regulations of the Financial and Capital Market Commission, see note 35.

33. RELATED PARTY TRANSACTIONS

Group's transactions with the related parties are as follows:

Related party 31.12.2010	**Loans**	**Total risk transactions (excluding impairment)**	**Risk transactions to capital (excluding impairment) %**
Corporates	57,144	0	0
Total	**57,144**	**0**	**0**

Related party 31.12.2009	**Loans**	**Total risk transactions (excluding impairment)**	**Risk transactions to capital (excluding impairment) %**
Corporates	72,279	3,884	10.55
Total	**72,279**	**3,884**	**10.55**

Bank's transactions with the related parties are as follows:

Related party 31.12.2010	**Loans**	**Total risk transactions (excluding impairment)**	**Risk transactions to capital (excluding impairment) %**
Corporates	57,144	0	0
Total	**57,144**	**0**	**0**

Related party 31.12.2009	**Loans**	**Total risk transactions (excluding impairment)**	**Risk transactions to capital (excluding impairment) %**
Corporates	72,279	3,884	10.55
Total	**72,279**	**3,884**	**10.55**

Bank's and Group's transactions with the related parties are as follows:

Derivatives	**31.12.2010**	**31.12.2009**
Derivative assets	485	2,429
Derivative liabilities	1,629	583

Bank's related party deposits are as follows:

	31.12.2010	31.12.2009
Deposits	83,084	77,736
Total	**83,084**	**77,736**

Transactions with the related parties:

	Group 2010	Bank 2010	Group 2009	Bank 2009
Interest income	8,130	8,130	9,639	9,639
Interest expense	(4,518)	(4,567)	(4,922)	(4,962)
Commissions fee income and other operation income	259	259	360	360
Net gain on foreign exchange	2,033	2,033	18,590	18,590
Administrative expenses	(2,563)	(2,563)	(2,171)	(2,171)

34. TRUST ASSETS AND LIABILITIES

The structure of the Group's managed assets and liabilities is as follows:

Type of assets	Country	31.12.2010	31.12.2009
Pension plans	Latvia	760	754
Investment fund	Latvia	2 820	2 548
Investment plans of state funded pension scheme funds	Latvia	19 870	23 100
Total		**23 450**	**26 402**

Type of liability	Country	31.12.2010	31.12.2009
Individuals	Latvia	21 121	24 251
Corporates	Latvia	2 329	2 151
Total		**23 450**	**26 402**

During 2010 and at the end of 2009 there were no assets or liabilities under management on the bank balance sheet.

35. CAPITAL ADEQUACY

Group's and Bank equity calculation in accordance with the guidelines of the FCMC as of 31.12.2010

	Group	Bank
Tier 1 capital		
Share capital	36,427	36,427
Share premium	53,033	53,033
Reserves	3,660	3,660
Retained earnings from prior years	(39,509)	(39,668)
Current period loss	(27,557)	(27,777)
Deductions from the capital base		
Intangible assets	(351)	(351)
Other deductions	-	(354)
Total tier 1 capital	**25,703**	**24,969**
Tier 2 capital		
Subordinated capital	-	-
Other deductions	-	-
Total tier 2 capital	**-**	**-**
Total capital	**25,703**	**24,969**
Capital requirement	**14,338**	**14,401**
Total capital adequacy ratio	**14,34%**	**13,87%**

Group's and Bank equity calculation in accordance with the guidelines of the FCMC as of 31.12.2009

	Group	Bank
Tier 1 capital		
Share capital	32,870	32,870
Share premium	42,361	42,362
Reserves	1,468	1,468
Retained earnings from prior years	(9,419)	(9,391)
Current period loss	(30,089)	(30,277)
Deductions from the capital base		
Intangible assets	(491)	(491)
Other deductions	-	(178)
Total tier 1 capital	**36,700**	**36,363**
Tier 2 capital		
Subordinated capital	704	704
Other deductions	-	(178)
Total tier 2 capital	**704**	**528**
Total capital	**37,404**	**36,889**
Capital requirement	**18,986**	**18,543**
Total capital adequacy ratio	**15.76%**	**15.92%**

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord. The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2009 and 31 December 2008.

36. NUMBER OF EMPLOYEES

	31.12.2010 Group	31.12.2010 Bank	31.12.2009 Group	31.12.2009 Bank
Positions				
Senior management	4	4	3	3
Managers of operational units	30	30	35	35
Managers of other units	74	74	61	61
Accountants, operators, clients servicing specialists	395	394	420	417
Lawyers	16	16	7	7
Information system specialists	42	42	43	43
Other employees	36	36	2	2
Total	**597**	**596**	**571**	**568**

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of the Group's financial assets and liabilities as of 31 December 2010 is:

	Financial instruments at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
Assets							
Cash and due from Bank of Latvia	-	-	24,376	-	-	**24,376**	**24,376**
Loans and receivables due from credit institutions	-	-	101,987	-	-	**101,987**	**101,987**
Non-pledged trading assets	2,403	-	-	-	-	**2,403**	**2,403**
Derivative assets	485	-	-	-	-	**485**	**485**
Loans and receivables due from customers	-	-	148,561	-	-	**148,561**	**148,561**
Investment securities:							
Measured at fair value	-	-	-	*5,953*	-	***5,953***	***5,953***
Measured at amortized cost	-	*2,787*	-	-	-	***2,787***	***2,787***
Total assets	**2,888**	**2,787**	**274,924**	**5,953**	**-**	**286,552**	**286,681**
Liabilities							
Deposits from banks	-	-	-	-	582	**582**	**582**
Derivative liabilities	1,629	-	-	-	-	**1,629**	**1,629**
Deposits from customers	-	-	-	-	257,686	**257,686**	**259,566**
Debt securities issued measured at amortized cost	-	-	-	-	5,028	**5,028**	**5,011**
Subordinated liabilities	-	-	-	-	3,216	**3,216**	**3,294**
Total liabilities	**1,629**	**-**	**-**	**-**	**187,306**	**188,451**	**270,082**

The fair value of the Group's financial assets and liabilities as of 31 December 2009 is:

	Financial instruments at fair value through profit or loss	Held-to-maturity	Loans and receivables	Avail-able-for-sale	Other amortized cost	Total carrying amount	Fair value
Assets							
Cash and due from Bank of Latvia	-	-	27,789	-	-	**27,789**	**27,789**
Loans and receivables due from credit institutions	-	-	110,649	-	-	**110,649**	**110,649**
Non-pledged trading assets	2,214	-	-	-	-	**2,214**	**2,214**
Derivative assets	2,429	-	-	-	-	**2,429**	**2,429**
Loans and receivables due from customers	-	-	203,694	-	-	**203,694**	**203,694**
Investment securities:							
Measured at fair value	-	-	-	*3,755*	-	***3,755***	***3,755***
Measured at amortized cost	-	*2,786*	-	-	-	***2,786***	***2,066***
Total assets	**4,643**	**2,786**	**342,132**	**3,755**	**-**	**353,316**	**352,748**
Liabilities							
Deposits from banks	-	-	-	-	15,127	**15,127**	**15,127**
Derivative liabilities	583	-	-	-	-	**583**	**583**
Deposits from customers	-	-	-	-	302,441	**302,441**	**302,872**
Debt securities issued measured at amortized cost	-	-	-	-	5,026	**5,026**	**5,011**
Subordinated liabilities	-	-	-	-	3,519	**3,519**	**3,519**
Total liabilities	**583**	**-**	**-**	**-**	**326,113**	**326,696**	**327,112**

The estimated fair value of loans and advances and deposits represents the discounted amount of estimated future cash flows expected to be received.

Fair value for securities is based on market prices or broker/dealer price quotations.

The fair value hierarchy table:

2010	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Financial instruments at fair value through profit or loss	-	2,888	-	2,888
Available-for-sale financial assets	5,953	-	-	5,953
	5,953	**2,888**	**-**	**8,841**
Financial liabilities				
Financial instruments at fair value through profit or loss	-	1,629	-	1,629
	-	**1,629**	**-**	**1,629**

2009				
Financial assets	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial instruments at fair value through profit or loss	-	4,643	-	4,643
Available-for-sale financial assets	3,755	-	-	3,755
	3,755	**4,643**	**-**	**8,398**
Financial liabilities				
Financial instruments at fair value through profit or loss	-	583	-	583
	-	**583**	**-**	**583**

38. SEGMENT REPORTING

	Mortgage		Commercial		Consumer		Others		Total	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Revenues	916	1,989	10,074	14,466	1,383	2,645	9,314	29,185	21,687	48,285
Total	**916**	**1,989**	**10,074**	**14,466**	**1,383**	**2,645**	**9,314**	**29,185**	**21,687**	**48,285**

39. EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2009 and 31 December 2008 was based on the profit attributable to ordinary shareholders and weighted average number of shares in issue. The Bank and the Group does not have dilutive potential ordinary shares.

	2010 Group	2010 Bank	2009 Group	2009 Bank
Net profit attributable to the shareholders	(27,557)	(27,777)	(30,592)	(30,782)
Weighted average number of shares at 31 December	687,809	687,809	404,843	404,843
Earnings/ (losses) per share (EUR per share)	**(57.00)**	**(57.47)**	**(75.57)**	**(76.04)**

On 28 July 2010 increase of share capital of the Bank by EUR 3.6 million was registered in Commercial Register of Republic of Latvia, which together with the increase in share premium resulted in an increase of the Bank's equity by EUR 14 million. The number of shares was increased from 462,025 to 512,025.

40. SUBSEQUENT EVENTS

There were no significant events after reporting date, which could impact the results of Financial Statements for 2010

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