TRASTA KOMERCBANKA

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

CONTENTS **PAGE**

Management report of the Bank (Group holding company)	3
Management of the Bank (Group holding company)	5
Financial Statements and Consolidated Financial Statements:	
Statement of Comprehensive income and Consolidated Statement of Comprehensive income	6
Statement of Financial position and Consolidated Statement of Financial position	8
Statements of Changes in Equity and reserves and Consolidated Statement of Changes in Equity and reserves	10
Statements of Cash Flows and Consolidated Statements of Cash Flows	11
Notes to the Financial Statements and Consolidated Financial Statements	13-25

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

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

In 2010, the Bank continued to support the customers, experiencing difficulties, by implementing loan restructuring measures. Due to deterioration in solvency of a certain customer group, the ratio of bad loans, for which the Bank in 2010 made provisions in the amount of EUR 5.9 million, in the Bank's loan portfolio increased, and the total amount of provisions reached 23.2 million. EUR .Such provisions affected performance of the Bank and the year 2010 the Bank ended with a loss of EUR 6.2 million. Taking into account the Bank's accumulated retained earnings of previous years in the amount of EUR 31.9 million; this result did not have material impact on Bank's capital. Besides, given the recovery tendencies in the credit market and customer support measures through restructuring of their loan by the Bank, it can be expected that the ratio of bad loans will decrease in the next few years, which will positively affect the volume of savings and Bank's profit performance.

Despite the fact that the Bank had to make provisions, it managed to maintain the capital and reserves at an adequate level, which on 31 December 2010 was EUR 41 million, and a high capital adequacy of 14.9%. The Bank's liquidity as at the end of the reporting period was 59.8%, well above the standard defined by the FCMC and fair enough to meet the existing Bank's obligations. At the end of 2010 the 12th share issue of the Bank completed, consequently 14,230 shares were paid up in the amount of EUR 1012 thousand, increasing the Bank's share capital to EUR 10.0 million.

At the end of 2010 the amount of attracted deposits reached EUR 248.9 million. The Bank's deposit structure featured a significant growth of retail deposits - by 61.9%, which were raised from both the existing customers and new business of the Bank. Last year, the number of customers increased by 11.8%, including private persons - residents of Latvia by 24.6%. The decline in legal entities' savings was due the increased demand of companies for working capital in 2010. We highly appreciate our customers' loyalty, which we consider as another proof of Bank's solidity and development potential in the domestic and international markets.

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

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

The consolidation group of the Bank consists of the subsidiaries *TKB Nekustamie īpašumi* , *TKB LĪZINGS* and "Heckbert C7 Holdings", which is classified as held for sale, and its subsidiary "Ferrous Kereskedelmi KFT". The description of "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" is provided in Note 11 of these financial statements. The amount of Group's assets as at the end of the reporting period was EUR 309.3 million. As a result of making the provisions for bad debts the Group ended the reporting year with a loss of EUR 6.6 million. Next year, the Group intends to continue its development by expanding its operations in different regions and increasing the range of customers and services, having emphasis on service quality and in-depth study of customer needs, and paying more attention to asset quality and work with the bad debts.

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

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

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

For the accounting period from 01 January 2010 to 30 June, the Bank prepared condensed interim financial statements which were audited by "Ernst & Young Baltic", Ltd (Licence No.17). For the accounting period from 01 July 2010 to 31 December the Bank has not performed any additional interim audit. This public financial statement for the period of twelve months has been prepared based on unaudited financial statements for this period.
This financial report was approved by the Board of the Bank on February 28, 2011 and it is available on the Bank's website at www.tkb.eu.

On behalf of the Bank's management:

Gundars Grieze
Chairman of the Board

Riga,
February 28, 2011

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

Supervisory Council

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

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

Management Board

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

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

STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of EUR	Note	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Interest revenue		8 755	13 322	8 601	13 389
Interest expense		(5 544)	(5 213)	(5 563)	(5 243)
Net interest income		**3 211**	**8 109**	**3 038**	**8 146**
Loan impairment loss, net	5	(6 172)	(17 214)	(5 867)	(16 286)
Net interest income/(loss) after allowance for impairment		**(2 961)**	**(9 105)**	**(2 829)**	**(8 140)**
Commission income		7 386	7 806	7 375	7 789
Commission expense		(1 493)	(1 861)	(1 493)	(1 861)
Net commission income		**5 893**	**5 945**	**5 882**	**5 928**
Dividends		4	13	4	13
Net gains from trading financial assets	6	1 227	3 480	1 227	3 480
Net realized losses on available for sale financial assets		-	(6)	-	(6)
Net (losses)/gains from foreign currency trading and revaluation	6	783	4 737	783	4 742
Other income		108	179	108	142
Other non-interest (loss)/income		**2 122**	**8 403**	**2 122**	**8 371**
Salaries and benefits expenses		(6 655)	(6 212)	(6 465)	(6 019)
Administrative expenses		(3 672)	(3 534)	(3 724)	(3 643)
Depreciation		(1 047)	(985)	(1 037)	(976)
Other expenses		(280)	(289)	(229)	(282)
Other release of allowance, net		(202)	30	(201)	253
Other non-interest expense		**(11 856)**	**(10 990)**	**(11 656)**	**(10 667)**
(Loss)/profit before corporate income tax		**(6 802)**	**(5 747)**	**(6 481)**	**(4 508)**

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

In thousands of EUR	Note	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Corporate income tax		258	524	267	554
(Loss)/profit for the period from continuing operations		**(6 544)**	**(5 223)**	**(6 214)**	**(3 954)**
Loss after tax for the year from discontinued operations		(31)	(114)	-	1 148
(Loss)/profit for the period		**(6 575)**	**(5 337)**	**(6 214)**	**(2 806)**
Other comprehensive income:					
Available for sale financial asset revaluation profit		21	84	21	84
Change in foreign currency translation reserve		-	4 855	-	-
Total comprehensive (loss)/profit		**(6 554)**	**(398)**	**(6 193)**	**(2 722)**
(Loss)/profit for the period, incl.:		***(6 575)***	**(5 337)**	**(6 214)**	**(2 806)**
Attributable to equity holders of the Bank		*(6 563)*	*(2 316)*	*(6 214)*	*(2 806)*
Attributable to minority interest		*(12)*	*(3 021)*	-	-
Total comprehensive(loss)/profit, incl.:		***(6 554)***	**(398)**	***(6 193)***	***(2 722)***
Attributable to equity holders of the Bank		*(6 542)*	*2 623*	*(6 193)*	*(2 722)*
Attributable to minority interest		*(12)*	*(3021)*	-	-
(Loss)/profit per share (basic and diluted) in EUR from continuing operations		***(47.65)***	***(41.21)***	**-**	**-**
Loss per share (basic and diluted) in EUR from discontinuing operations		***(0.23)***	***(0.90)***	**-**	**-**
Loss per share (basic and diluted) attributable to equity holders of the Bank in EUR		***(47.79)***	***(18.27)***	**-**	**-**

STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSISITION

In thousands of EUR	Note	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
ASSETS					
Cash and balances due from the Bank of Latvia		23 603	17 019	23 603	17 019
Due from credit institutions with a maturity of less than 3 months	7	88 729	172 343	88 729	172 343
On demand		*75 622*	*133 920*	*75 622*	*133 920*
Other		*13 107*	*38 423*	*13 107*	*38 423*
Held for trading financial assets		3 164	2 778	3 164	2 778
Fixed income securities		*1 208*	*1 392*	*1 208*	*1 392*
Equity shares and other non-fixed income securities		*1 817*	*1 305*	*1 817*	*1 305*
Derivatives		*139*	*81*	*139*	*81*
Available for sale financial assets		11 326	3 063	11 326	3 063
Fixed income securities		*11 256*	*2 993*	*11 256*	*2 993*
Equity shares and other non-fixed income securities		*70*	*70*	*70*	*70*
Due from credit institutions with a maturity of more than 3 months		946	539	946	539
Loans	8	131 074	139 474	133 424	141 166
Accrued income and deferred expenses		181	334	176	332
Long-term projects costs		3 422	3 298	3 422	3 298
Property and equipment	9	12 718	13 264	12 655	13 226
Intangible assets		512	387	512	387
Investments in share capital of subsidiary		-	-	74	74
Corporate income tax assets		28	1 275	-	1 254
Deferred tax assets		1 299	810	1 299	810
Other assets	10	12 672	4 097	12 267	3 986
Assets of disposal group classified as held for sale	11	19 680	19 705	19 704	19 704
TOTAL ASSETS		**309 354**	**378 386**	**311 301**	**379 979**

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

In thousands of EUR	Note	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
LIABILITIES					
Due to credit institutions		3 437	3 050	3 437	3 050
On demand		*3 399*	*3 014*	*3 399*	*3 014*
Term deposits with a maturity of more than 3 months		*38*	*36*	*38*	*36*
Financial liabilities held for trading		6	-	6	-
Derivative financial instruments		6	-	6	-
Due to customers	12	248 901	314 541	248 902	314 541
On demand		*167 493*	*155 201*	*167 494*	*155 201*
Term deposits		*81 408*	*159 340*	*81 408*	*159 340*
Debt securities issued		3 997	4 000	4 999	5 000
Accrued expenses and deferred income		716	846	701	834
Corporate income tax liabilities		36	-	36	-
Other liabilities	13	5 329	4 196	5 315	4 189
Liabilities before subordinated liabilities		**262 422**	**326 633**	**263 396**	**327 614**
Subordinated liabilities		6 649	5 928	6 649	5 928
TOTAL LIABILITIES		**269 071**	**332 561**	**270 045**	**333 542**
EQUITY AND RESERVES					
Share capital	14	10 029	9 017	10 029	9 017
Share premium		158	158	158	158
Reserve capital and other reserves		5 413	5 413	5 413	5 413
Available for sale financial assets revaluation reserves		(9)	(30)	(9)	(30)
Retained earnings		24 692	31 255	25 665	31 879
Equity and reserves attributable to shareholders of the Bank		**40 283**	**45 813**	**41 256**	**46 437**
Minority shareholder interest		-	12	-	-
Total equity and reserves		**40 283**	**45 825**	**41 256**	**46 437**
TOTAL LIABILITIES AND EQUITY AND RESERVES		**309 354**	**378 386**	**311 301**	**379 979**

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

(1) The Group

In thousands of EUR	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Foreign exchange transalation reserve	Retained earnings	Total	Minority shareholder interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2008	**9 017**	**158**	**5 413**	**(114)**	**(4 855)**	**33 571**	**43 190**	**4 260**	**47 450**
Net loss for the period	-	-	-	-	-	*(2 316)*	*(2 316)*	*(3 021)*	*(5 337)*
Other comprehensive expenses	-	-	-	*84*	*4 855*	-	*4 939*	-	*4 939*
Total comprehensive loss	-		-	84	4 855	(2 316)	2 623	(3 021)	(398)
Sale of subsidiary	-	-	-	-	-	-	-	(1 227)	(1 227)
BALANCE AS AT 31 DECEMNER 2009	**9 017**	**158**	**5 413**	**(30)**	**-**	**31 255**	**45 813**	**12**	**45 825**
BALANCE AS AT 31 DECEMBER 2009	**9 017**	**158**	**5 413**	**(30)**	**-**	**31 255**	**45 813**	**12**	**45 825**
Net loss for the period	-	-	-	-	-	*(6 563)*	*(6 563)*	*(12)*	*(6 575)*
Other comprehensive income	-	-	-	*21*	-	-	*21*	-	*21*
Total comprehensive loss	-	-	-	21	-	(6 563)	(6 542)	(12)	(6 554)
Issue of share capital	1 012	-	-	-	-	-	1 012	-	1 012
BALANCE AS AT 31 DECEMBER 2010	**10 029**	**158**	**5 413**	**(9)**	**-**	**24 692**	**40 283**	**-**	**40 283**

(2) The Bank

In thousands of EUR	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2008	**9 017**	**158**	**5 413**	**(114)**	**34 685**	**49 159**
Net profit for the period	-	-	-	-	*(2 806)*	*(2 806)*
Other comprehensive income	-	-	-	*84*	-	*84*
Total comprehensive income	-	-	-	84	(2 806)	(2 722)
BALANCE AS AT 31 DECEMBER 2009	**9 017**	**158**	**5 413**	**(30)**	**31 879**	**46 437**
BALANCE AS AT 31 DECEMBER 2009	**9 017**	**158**	**5 413**	**(30)**	**31 879**	**46 437**
Net profit for the period	-	-	-	-	*(6 214)*	*(6 214)*
Other comprehensive income	-	-	-	*21*	-	*21*
Total comprehensive loss	-	-	-	21	(6 214)	(6 193)
Issue of share capital	1 012	-	-	-	-	1 012
BALANCE AS AT 31 DECEMBER 2010	**10 029**	**158**	**5 413**	**(9)**	**25 665**	**41 256**

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of EUR	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Cash flow as a result of operating activity:				
Loss before corporate income tax	(6 802)	(5 747)	(6 481)	(4 508)
Loss before tax for the period from discontinued operations	(31)	(114)	-	1 148
Amortisation and depreciation	1 047	985	1 037	976
Increase in allowance for impairment of debts	6 790	17 235	6 485	16 309
Increase/(decrease) in other provisions	202	(23)	201	(248)
Foreign currency revaluation loss	2 109	(2 104)	2 109	(2 104)
Gain from revaluation of financial assets	(1 596)	(3 455)	(1 596)	(3 455)
Income adjustments	(43)	(164)	(95)	(164)
Loss on disposal of fixed and intangible assets	3	13	3	13
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**1 679**	**6 626**	**1 663**	**7 967**
Decrease of held for trading financial assets	1 255	4 064	1 255	4 064
Decrease in due from credit institutions	2 618	8 893	2 618	8 893
(Increase)/decrease in loans	(3 172)	7 214	(3 431)	7 442
(Increase)/decrease in accrued income and deferred expense	73	(148)	74	(144)
Increase in other assets	(6 112)	(1 123)	(5 868)	(1 288)
Decrease in due to credit institutions	-	(36)	-	(36)
(Decrease)/increase in deposits	(65 641)	87 459	(65 640)	87 453
(Decrease)/increase in accrued expenses and deferred income	(131)	(11)	(132)	(7)
Increase in other liabilities	1 239	97	1 232	134
	(68 192)	**113 035**	**(68 229)**	**114 478**
Corporate income tax paid	1 050	(615)	1 067	(546)
(Decrease)/increase in cash and cash equivalents from operating activities	**(67 142)**	**112 420**	**(67 162)**	**113 932**
Cash flows from investing activities				
Purchase of tangible and intangible fixed assets, net	(629)	(2 342)	(595)	(2 326)
Increase in available-for-sale financial assets	(8 242)	(2 617)	(8 242)	(2 617)
Purchase of net assets of disposal group classified as held for sale	-	(2 204)	-	(3 732)
Cash flow of disposal group classified as held for sale	14	-	-	-
Cash outflow on long-term projects	(124)	(51)	(124)	(51)
Decrease in cash and cash equivalents from investing activities	**(8 981)**	**(7 214)**	**(8 961)**	**(8 726)**

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

In thousands of EUR	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Cash flows from financing activities				
Subordinated liabilities issue	684	196	684	196
Repayment of subordinated liabilities	(157)	(1 500)	(157)	(1 500)
Issue of share capital	1012	-	1012	-
(Decrease)/increase in cash and cash equivalents from financing activities	**1539**	**(1 304)**	**1 539**	**(1 304)**
(Decrease)/increase in cash and cash equivalents	**(74 584)**	**103 902**	**(74 584)**	**103 902**
Cash and cash equivalents at the beginning of the period	**185 429**	**80 087**	**185 429**	**80 087**
Foreign currency revaluation (loss)/profit	**(1 912)**	**1 440**	**(1 912)**	**1 440**
Cash and cash equivalents at the end of the period	**108 933**	**185 429**	**108 933**	**185 429**

Cash and cash equivalents are calculated as follows

In thousands of EUR	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Due from credit institutions with a maturity of less than 3 months	88 729	171 424	88 729	171 424
Cash and balances due from the Bank of Latvia and other Central Banks	23 603	17 019	23 603	17 019
Due to credit institutions with a maturity of less than 3 months	(3 399)	(3 014)	(3 399)	(3 014)
CASH AND CASH EQUIVALENTS	**108 933**	**185 429**	**108 933**	**185 429**

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

In thousands of EUR	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Interest income received during the reporting period	9 367	12 395	9 253	12 463
Interest expenses paid during the reporting period	(5 279)	(5 034)	(5 300)	(5 067)
Dividends paid during the reporting period	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

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

2 ACCOUNTING AND ASSESSMENT PRINCIPLES

(1) General principles

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

The Group's and Bank's functional currency is Latvian lat (LVL), however, these financial statements have been presented in euro (EUR). Euro has been applied as presentation currency in these financial statements, because of requirements of NASDAQ OMX Riga Rules "On Listing and Trading of Financial Instruments on the Markets regulated by the Exchange". All assets and liabilities are translated into presentation currency at official exchange rate established by the Bank of Latvia, which during the period have been fixed at 0.702804 lats per 1 euro. All amounts in the financial statements are reported in **thousands of EUR (EUR 000's).**

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

(2) Consolidation principles

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

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING AND ASSESSMENT PRINCIPLES (continued)

(3) Foreign currency exchange rates

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

4 RISK CONTROL AND MANAGEMENT

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

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

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

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

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

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

5 LOAN IMPAIRMENT LOSS, NET

In thousands of EUR	The Group		The Bank	
	2010	2009	2010	2009
Balance as at 1 January	**24 297**	**7 062**	**23 107**	**6 798**
incl. for due from credit institutions	*2 104*	*-*	*2 104*	*-*
incl. for loans	*22 193*	*7 062*	*21 003*	*6 798*
Additional ***individual*** allowance	9 680	17 500	9 368	16 531
Additional ***collective*** allowance	1 557	297	1 557	297
Release of ***individual*** allowances	(3 715)	(583)	(3 708)	(542)
Release of ***collective*** allowances	(1 350)		(1 350)	
Loans write-off	(6 366)	-	(6 366)	-
Effect of changes in currency exchange rates	618	21	618	23
Balance as at 31 December	**24 721**	**24 297**	**23 226**	**23 107**
incl. for due from credit institutions	*-*	*2 104*	*-*	*2 104*
incl. for loans	*24 721*	*22 193*	*23 226*	*21 003*

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

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

Changes in profit/loss from the financial instruments held for trading are mainly associated with fair value changes of these securities, whereof profit of 878 thousand EUR in the reporting period (2009: profit of 1 211 thousand EUR) is related to equity securities and profit of 349 thousand EUR in the reporting period (2009: profit of 2 269 thousand EUR) is related to debt securities.

Changes in profit/loss from foreign currency are related to decrease in the volume of trade transactions and changes in currency rates, as well as loss on the exchange rate difference resulting from the Bank's investment that is described in Note 11 and recorded in U.S. dollars. According to IFRS, this investment is recorded at the acquisition date, the amount of exchange rate and balance in terms of lats does not change. Given that the Bank intends to sell this investment and to receive income in U.S. dollars, the Bank has valued this investment in U.S. dollars, including it the calculation of open foreign exchange position. To minimize the possible currency fluctuation risk, the said position is covered with various financial commitments in U.S. dollars. As a result of revaluation of these commitments the Banks has suffered losses in the amount of 1 834 thousand EUR in 2010. The Bank is planning to cover these losses by realizing the above mentioned investment.

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

In thousands of EUR	The Group		The Bank	
	2010	2009	2010	2009
Due from credit institutions registered in the Republic of Latvia	9 232	14 621	9 232	14 621
Due from credit institutions registered in the foreign countries	79 497	159 101	79 497	159 101
	88 729	**173 722**	**88 729**	**173 722**
Impairment loss	-	(1 379)	-	(1 379)
	88 729	**172 343**	**88 729**	**172 343**

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

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of EUR	The Group		The Bank	
	2010	2009	2010	2009
8 LOANS				
Private enterprises	125 762	130 460	119 735	124 091
Private persons	27 826	28 580	27 477	28 164
Related companies	-	-	7 302	7 592
Financial institutions	20	91	20	91
Employees	2 187	2 536	2 116	2 231
Total gross loans	**155 795**	**161 667**	**156 650**	**162 169**
Impairment allowances, ***individually assessed***	(23 539)	(21 233)	(22 044)	(20 043)
Impairment allowances, ***collectively assessed***	(1 182)	(960)	(1 182)	(960)
	131 074	**139 474**	**133 424**	**141 166**

Loans by types of loans may be specified as follows:

Mortgage loans	58 832	66 984	58 666	66 715
Commercial loans	38 627	42 653	45 929	50 246
Industrial loans	17 463	16 319	17 463	16 319
Finance lease	6 125	6 662	-	-
Overdrafts	6 231	2 787	6 231	2 787
Reverse REPO	-	1 682	-	1 682
Consumer loans	616	443	460	283
Factoring	351	593	351	593
Secured by deposit	615	562	615	562
Payment card loans	477	451	477	451
Other	26 458	22 531	26 458	22 531
	155 795	**161 667**	**156 650**	**162 169**

9 TANGIBLE ASSETS

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

10 OTHER ASSETS

The other assets mostly consist of balances in brokerage companies and real property that served as collateral of issued loans and that came into the possession of Bank. Bank's balances in brokerage companies at the end of the reporting period comprised 3 586 thousands of EURs (2009: 2 102 thousand EUR), and which secure Bank's and customers' operations with securities. The real property is planned to be sold. At the end of the reporting period the value of such real property amounted to EUR 4 542 thousand (2009: 511 thousand EUR).

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

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

The shares of "Heckbert C7 Holdings" were acquired through selling the direct and indirect holding in the commercial bank "Misto Bank" of Ukraine through netting of mutual claims. The value of this transaction was USD 28 million that corresponds to 19 495 thousand EUR. Besides, additional expenses related to the transaction were paid in the amount of 209 thousand. Independent evaluation of the impairment did not show any impairment of the investment. Independent experts have measured the fair value of the shares of "Dewon" which proved to be much higher than the investment purchase price.

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

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

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

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

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

ASSETS/LIABILITIES	2010	2009
Investments in share capital of subsidiary	19 704	19 704
Other assets	1	26
Other liabilities	(25)	(25)
Net assets directly associated with disposal group	**19 680**	**19 705**

12 DUE TO CUSTOMERS

In thousands of EUR	The Group		The Bank	
	2010	2009	2010	2009
Private enterprises	188 532	275 732	188 532	275 732
Individuals	56 070	34 621	56 070	34 621
Non-governmental-organizations servicing individuals	295	221	295	221
Financial institutions	3 967	3 950	3 968	3 950
Local government	37	17	37	17
	248 901	**314 541**	**248 902**	**314 541**

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

13 OTHER LIABILITIES

Other liabilities include suspense accounts, unpaid dividends, money in transit andother liabilieties.

Suspense accounts (cleared after the period) represent payments received by the Bank where the beneficiary is not clearly identified. In the reporting period this amount was 1 356 thousand EUR (2009: 272 thousand EUR). After clarification they are credited to customer accounts.

The unpaid dividends of previous periods during the reporting period amounted to 2 514 thousand EUR (2009: 2 514 thousand EUR).

The funds, transferred to other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit. In the reporting period this amount was 1 174 thousand EUR (2009: 290 thousand EUR).

14 SHARE CAPITAL

The Bank's registered and paid up share capital Bank's registered and paid up share capital on 31 December, 2010 amounted to 10 029 thousand EUR (2009: 9 017 thousand EUR), consisting of 140 972 ordinary voting shares, with a nominal value of EUR 71. The total number of shareholders is 47, out of which 10 legal entities and 37 individuals.

In December 2009, shareholders of the Bank decided to increase the share capital. As of the end of the reporting period shareholders had paid 1 012 thousand EUR for 14 230 shares with a nominal value of 71 EUR.
No other changes occured in the Bank's share capital during the reporting period.

List of shareholders:

Shareholder	Country	Shareholding 31 December 2010		Shareholding 31 December 2009	
		%	EUR'000	%	EUR'000
I.Buimisters	Latvia	37.63	3 775	37.10	3 345
S.Tarasenoks*	Latvia	12.72	1 275	14.15	1 275
SIA "C&R Invest"	Latvia	13.70	1 374	13.58	1 225
C.E.G. Treherne	Great Britain	9.31	933	9.18	828
GCK Holdings Netherlands B.V.	Netherlands	6.95	697	6.80	613
Rikam S.A.H.	Luxembourg	6.85	687	6.79	612
Figon Co Limited	Cyprus	3.19	320	3.16	286
Another shareholders		9.65	968	9.24	833

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

15 SEGMENT ANALYSIS

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

(1) Balance

In thousands of EUR	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Cash	23 603	17 019	23 603	17 019
Balance from credit institutions	89 647	174 899	89 647	174 899
Loans and receivables	154 295	159 683	155 214	160 209
Other state fixed income securities	12 430	4 363	12 430	4 363
Shares and other investments	1 887	1 374	21 664	21 152
Fixed assets and intangible assets	13 230	13 651	13 167	13 613
Other assets	39 435	32 015	19 211	12 111
Total assets	**334 527**	**403 004**	**334 936**	**403 366**
Balances due to banks	3 437	3 049	3 437	3 049
Deposits	248 148	314 071	248 150	314 071
Issued bonds	3 988	3 993	4 989	4 993
Other liabilities	7 137	5 862	7 070	5 806
Impairment and accrued liabilities	24 960	24 350	23 460	23 159
Equity	46 857	51 679	47 830	52 288
Total equity and liabilities	**334 527**	**403 004**	**334 936**	**403 366**
Total assets per internal reporting	**334 527**	**403 004**	**334 936**	**403 366**
Reconciling items:				
Impairment[1]	*(24 960)*	*(24 350)*	*(23 460)*	*(23 159)*
Other reconciling items[2]	*(213)*	*(268)*	*(175)*	*(228)*
Total assets per IFRS statements	**309 354**	**378 386**	**311 301**	**379 979**
Total liabilities per internal reporting	**287 670**	**351 325**	**287 106**	**351 078**
Reconciling items:				
Impairment[1]	*(24 960)*	*(24 350)*	*(23 460)*	*(23 159)*
Subordinated liabilities[3]	*6 574*	*5 851*	*6 574*	*5 851*
Other reconciling items[2]	*(213)*	*(265)*	*(175)*	*(228)*
Total liabilities per IFRS statements	**269 071**	**332 561**	**270 045**	**333 542**

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

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

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

15 SEGMENT ANALYSIS (continued)

(2) Profit and loss statement

In thousands of EUR	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Interest revenue	8 752	13 309	8 596	13 376
Commission revenue	7 389	7 819	7 380	7 802
Profit from trading	2 012	8 224	2 013	8 229
Impairment	5 156	664	5 149	845
Other income	108	842	108	804
Total revenues	**23 417**	**30 858**	**23 246**	**31 056**
Interest expenses	5 544	5 258	5 563	5 289
Commission expenses	1 493	1 861	1 493	1 861
Administration expenses[1]	11 410	10 815	11 262	10 720
Tax expenses	(258)	(524)	(267)	(553)
Impairment	11 574	18 512	11 218	17 541
Other expenses	198	159	191	152
Total expenses	**29 961**	**36 081**	**29 460**	**35 010**
Profit	**(6 544)**	**(5 223)**	**(6 214)**	**(3 954)**
Total revenues per internal reporting	**16 141**	**21 128**	**15 976**	**21 178**
Reconciling item, net [2]	-	-	-	-
Total revenues per IFRS statements	**16 141**	**21 128**	**15 976**	**21 178**

[1] The Bank's administration expenses include depreciation charge in the amount of 1 037 thousand EURs (2009: 976 thousand EUR). The Group's administration expenses accordingly include depreciation charge in the amount of 1047 thousand EUR (2009: 985 thousand EUR).

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

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

In thousands of EUR	2010 Latvian residents	2010 Latvian non-residents	2009 Latvian residents	2009 Latvian non-residents
Interest income	3 320	5 435	5 401	7 921
Commission income	505	6 881	464	7 342
Total income	**3 825**	**12 316**	**5 865**	**15 263**

15 SEGMENT ANALYSIS (continued)

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

In thousands of EUR	2010 Latvian residents	2010 Latvian non-residents	2009 Latvian residents	2009 Latvian non-residents
Interest income	3 187	5 414	5 229	8 160
Commission income	494	6 881	448	7 341
Total income	**3 681**	**12 295**	**5 677**	**15 501**

16 OFF-BALANCE SHEET ITEMS

Off-balance liablities

In thousands of EUR	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Contingent liabilities	**8 719**	**9 617**	**9 139**	**10 167**
including guarantees	*196*	*620*	*616*	*1 170*
including rent commitments	*8 523*	*8 997*	*8 523*	*8 997*
Commitments to customers	**9 312**	**3 618**	**12 273**	**6 312**
including unused credit limits	*9 128*	*3 439*	*12 089*	*6 133*
including letters of credit	*50*	*118*	*50*	*118*
including other liabilities [1]	*134*	*61*	*134*	*61*
	18 031	**13 235**	**21 412**	**16 479**

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

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

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

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

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

In thousands of EUR	2010				2009			
	Share-holders	Other related parties[1]	Council and board	Total	Share-holders	Other related parties[1]	Council and board	Total
Assets								
Loans	201	3 560	618	**4 379**	938	5 969	189	**7 096**
Allowance for loans	*(4)*	*(3)*	*(20)*	***(27)***	*(17)*	*(1 454)*	*(3)*	***(1 474)***
Loans, net	197	3 557	598	**4 352**	921	4 515	186	**5 622**
Liabilities								
Deposits	10	1 621	205	**1 836**	13	1 626	290	**1 929**
Non-balance items								
Unused credit lines	55	11	50	**116**	31	10	31	**72**
Comprehensive income report		2010				2009		
Interest income	7	101	11	**119**	38	149	11	**198**
Commissions income	7	31	4	**42**	4	34	3	**41**
Interest expense	(1)	(16)	(7)	**(24)**	-	(17)	(16)	**(33)**
Reserve decreasing income, net	13	1 377	(17)	**1 373**	(17)	(1 404)	(3)	**(1 424)**
Other expenses	(20)	(21)	(61)	**(102)**	(23)	(77)	(58)	**(158)**

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

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

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

In thousands of EUR	2010					2009				
	Shareholders	Subsidiary companies	Other related persons[1]	Council and Board	Total	Shareholders	Subsidiary companies	Other related	Council and Board	Total
Assets										
Credits	166	7 302	3 560	603	**11 631**	777	7 592	5 889	154	**14 412**
Reserves for unsecured credits	*(4)*	-	*(3)*	*(20)*	**(27)**	*(17)*	-	*(1 454)*	*(3)*	***(1 474)***
Credits, net	162	7 302	3 557	583	**11 604**	760	7 592	4 435	151	**12 938**
Liabilities										
Deposits	10	1	1 621	205	**1 837**	13	10	1 626	290	**1 939**
Non-balance items										
Unused credit limits	55	2 961	11	50	**3 077**	31	2 692	10	31	**2 764**
Comprehensive income report	2010					2009				
Interest income	4	242	100	10	**356**	27	583	144	9	**763**
Commissions income	7	1	31	4	**43**	4	1	34	3	**42**
Interest expenditure	(1)	(21)	(16)	(7)	**(45)**	-	(30)	(17)	(16)	**(63)**
Reserve decreasing income, net	13	-	1 377	(17)	**1 373**	(17)	55	(1 404)	(3)	**(1 369)**
Other expenses	(20)	(114)	(21)	(61)	**(216)**	(23)	(182)	(77)	(58)	**(340)**

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

18 EVENTS AFTER BALANCE SHEET DATE

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

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