Joint Stock Company *Parex banka*

Unaudited Public Financial Report for the year ended 31 December 2010

MAXIMUM RECOVERY OF STATE AID

PAREX BANKA

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MANAGEMENT REPORT

Dear Shareholders and Cooperation Partners,

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

Events prior to 1 August 2010

At the beginning of the reporting period, major shareholder of Parex banka – the Republic of Latvia – provided the bank with an aid and additional capital needed. On 23 February 2010, the Cabinet of Ministers approved the increase of the bank's share capital by 31.5 million Lats and on 26 February 2010 the capital was increased by capitalizing the respective share of State Treasury deposits placed in the bank.

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

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

Events after 1 August 2010

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

On 15 September 2010, the European Commission approved Parex banka's restructuring plan. In the international banking sector, such approval is recognised as a significant achievement within the process of Parex banka's

restructuring considering that several European banks had to wait for similar approvals for a much longer period of time.

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

In accordance with restructuring plan of joint stock company Parex banka and decision passed by the Cabinet of Ministers on 28 December 2010, the bank's share capital was increased by 9.7 million Lats. The reason for the transaction was to ensure Parex banka's compliance with the capital adequacy ratio. The issued shares were acquired by state joint stock company Privatization Agency, thus increasing the State's share in the bank's share capital. Accordingly, as of 31 December 2010, the Parex banka shareholders structure was as follows: state joint stock company Privatization Agency owned 81.83 percent of shares, European Bank for Reconstruction and Development – 14.62 percent, and minority shareholders - 3.56 percent of Parex banka's shares.

On 31 December 2010, the loan portfolio of Parex banka and Parex Banka group was 566.3 and 541.6 million Lats accordingly, total assets – 789.3 and 792.1 million Lats. The equity at the end of 2010 was 48.5 and 48.1 million Lats.

In accordance with the requirements of the International Financial Reporting Standards, Parex banka has made provisions for non-performing loans in amount of 115.7 million Lats during the reporting period. This adjustment affected the bank's financial results therefore Parex banka ended 2010 with losses in amount of 152.7 million Lats as planned. Since all cash resources recovered by Parex banka are accumulated for the repayment of syndicated loan and State Aid, no profit from the bank's activities is envisaged according to restructuring plan. Simultaneously, the bank is taking all possible actions to limit losses and caries out deliberative and prudent operational and financial activities, scrutinises all expense items in order to achieve this goal.

Since 1 August 2010 to end of the reporting period, namely, during only five months, Parex banka through targeted and hard work has been able to recover 58 million. This amount largely consisted of monies recovered through restructuring of non-performing loans and sales of securities portfolio as considering still inactive real estate market the purchase price offered by potential buyers for real estate assets repossessed by the bank were significantly lower than its potential market price in majority of cases.

Other significant events

On 30 July 2010 Parex banka filed the claim against its former Members of the Board – Valērijs Kargins and Viktors Krasovickis – asking to compensate damages caused to the bank in the amount of more than 62 million Lats. On

16 August 2010, Riga district Court resolved to secure the claim, simultaneously ordering Parex banka to secure loss compensation which might occur from the enforcement of the decision. On 15 November 2010, Parex banka filed a request with Riga District Court to reduce mentioned security deposit, pointing out, inter alia, that actually the bank who wants to protect its infringed legal interests in fair trial, is put in a considerably more unfavourable position than the defendants.

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

During the reporting period, Parex banka also initiated several proceedings against particular companies of Kolonna group and I. Plaude-Relinger for permanent non-performance of liabilities toward the bank and malicious concealment of assets. Parex banka's management as a thorough and diligent proprietor has indicated several times that to protect tax payers' interests it will use all legitimate means to turn against any dishonest clients' activities or any activities punishable by law.

Main events after the end of the reporting period

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

By the end of February 2011, Parex banka had accumulated 80 million Lats for repayment of the syndication loan. As previously, also in 2011 the funds needed for the repayment of syndicated loan will be recovered through restructuring of non-performing loans and sales of securities portfolio without executing unprofitable forced assets sales transactions
.

Considering the total assets managed by Parex banka, thorough attention is paid to attract properly qualified professionals. Comparing with global generally accepted standards, Parex banka with its human resources of slightly over 100 employees is evaluated as an extremely efficient organization. The basis for such a successful modern company model is

continuous evaluation of administrative resources and deliberative use of outsource service providers.

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

AS Parex banka
Chairman of the Board
Christopher Gwilliam

Riga, 31 March 2011

The report has been approved by the Management Board of the Bank on March 31, 2011. More detailed information on the financial results of the Bank and the Group for 2009 are available in the audited reports published on Bank's Internet site www.parex.lv

BALANCE SHEETS AS AT 31 DECEMBER 2010 AND 2009

LVL 000's

	Reporting period *Unaudited*	Preceding reporting year *Audited**	Reporting period *Unaudited*	Preceding reporting year *Audited**
	Group	**Group**	**Bank**	**Bank**
Cash and deposits with central banks	26 944	157 502	26 944	142 259
Balances due from credit institutions	67 687	220 836	65 837	325 869
Financial assets held for trading	1 248	4 765	1 248	4 774
Financial assets designated at fair value through profit and loss	-	2 770	-	-
Available-for-sale financial assets	59 410	114 349	59 410	95 199
Loans and receivables to customers:				
Loans to companies and private individuals	541 550	1 660 368	566 280	1 445 406
Held-to-maturity investments	24 208	299 371	41 365	318 649
Prepayments and accrued income	3 857	4 620	3 855	3 529
Fixed assets	1 756	52 495	1 754	12 545
Intangible assets	152	3 294	152	585
Investments in subsidiaries	-	-	258	72 725
Investment property	19 810	12 607	13 627	11 729
Income tax assets	-	39 469	-	35 991
Other assets	45 464	24 451	8 551	1 890
Total assets	**792 086**	**2 596 897**	**789 281**	**2 471 150**
Due to central banks	-	167 966	-	167 966
Demand liabilities to credit institutions	3 962	615	3 962	7 144
Financial liabilities held for trading	2 002	937	2 002	962
Financial liabilities designated at fair value through profit and loss	-	709	-	-
Financial liabilities measured at amortised cost:				
Loans from credit institutions	174 653	383 885	174 653	397 672
Deposits from customers	495 875	1 687 849	495 875	1 540 669
Issued debt securities	-	90 551	-	90 742
Subordinated liabilities	53 030	103 949	53 030	103 956
Other financial liabilities	-	5 430	-	-
Accrued expenses and deferred income	1 821	5 928	1 794	5 025
Income tax liabilities	-	1 282	-	-
Other liabilities	12 638	8 846	9 474	4 345
Total liabilities	**743 981**	**2 457 947**	**740 790**	**2 318 481**
Shareholders' equity	48 105	138 950	48 491	152 669
Total liabilities and shareholders' equity	**792 086**	**2 596 897**	**789 281**	**2 471 150**
Memorandum items				
Contingent liabilities	885	6 826	2 618	11 464
Financial commitments	198	126 088	19 863	166 323

* Auditors: SIA „PricewaterhouseCoopers"

STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

LVL 000's

	Reporting period *Unaudited*	**Respective period of the preceding reporting year** *Audited**	**Reporting period** *Unaudited*	**Respective period of the preceding reporting year** *Audited**
	Group	**Group**	**Bank**	**Bank**
Interest income	75 291	172 310	64 248	153 562
Interest expense	(87 171)	(145 883)	(80 297)	(141 315)
Commission and fee income	16 002	28 160	11 569	21 588
Commission and fee expense	(4 958)	(8 588)	(3 602)	(6 944)
Net gain/ (loss) on available for sale financial assets and financial liabilities	(141)	(11)	(1 119)	15
Net gain/ (loss) on financial assets measured at amortised cost	-	(327)	-	-
Net gain/ (loss) on financial assets or financial liabilities designated at fair value though profit and loss	65	1 557	-	1 491
Net gain/ (loss) on held for trading financial assets and financial liabilities	717	1 792	809	1 778
Gain/ (loss) from foreign exchange trading and revaluation of open positions	-	2 644	-	2 256
Net gain/ (loss) on disposal of non-current assets held for sale	(956)	(3 652)	-	-
Other income	11 311	15 020	6 317	10 291
Other expense	(2 182)	(4 476)	(749)	(4 115)
Administrative expense	(43 335)	(71 524)	(30 427)	(50 352)
Amortisation and depreciation charge	(5 882)	(11 348)	(2 740)	(7 752)
Impairment charge and reversals, net	(108 826)	(119 699)	(115 731)	(109 693)
Restructuring result	12 270	-	-	-
Corporate income tax	(1 883)	17 015	(950)	18 080
(Loss)/ profit for the reporting period	**(139 678)**	**(127 010)**	**(152 672)**	**(111 110)**

Statements of Comprehensive Income:

LVL 000's

	2010 year *Unaudited*	**2009 year** *Audited**	**2010 year** *Unaudited*	**2009 year** *Audited**
	Group	**Group**	**Bank**	**Bank**
Net change in fair value revaluation reserve of securities	7 633	21 889	7 293	21 291
Other comprehensive income / (loss) for the period	**7 633**	**21 889**	**7 293**	**21 291**
Total comprehensive income / (loss) for the period	**(132 045)**	**(105 121)**	**(145 379)**	**(89 819)**

Changes in the Group's equity are as follows:

LVL 000's

	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2008	**65 027**	**12 694**	**(34 207)**	**35 557**	**79 071**
Issue of new shares	165 000	-	-	-	165 000
Net loss for the period	-	-	-	(127 010)	(127 010)
Other comprehensive income for the period	-	-	21 889	-	21 889
Balance as at 31 December 2009	**230 027**	**12 694**	**(12 318)**	**(91 453)**	**138 950**
Issue of new shares	41 200	-	-	-	41 200
Net loss for the period	-	-	-	(139 678)	(139 678)
Other comprehensive income for the period	-	-	7 633	-	7 633
Balance as at 31 December 2010	**271 227**	**12 694**	**(4 685)**	**(231 131)**	**48 105**

Changes in the Bank's equity are as follows:

LVL 000's

	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2008	**65 027**	**12 694**	**(33 270)**	**33 037**	**77 488**
Issue of new shares	165 000	-	-	-	165 000
Net loss for the period	-	-	-	(111 110)	(111 110)
Other comprehensive income for the period	-	-	21 291	-	21 291
Balance as at 31 December 2009	**230 027**	**12 694**	**(11 979)**	**(78 073)**	**152 669**
Issue of new shares	41 200	-	-	-	41 200
Net loss for the period	-	-	-	(152 672)	(152 672)
Other comprehensive income for the period	-	-	7 294	-	7 294
Balance as at 31 December 2010	**271 227**	**12 694**	**(4 685)**	**(230 745)**	**48 491**

STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

LVL 000's

	Reporting period *Unaudited*	Respective period of the preceding reporting year *Audited*	Reporting period *Unaudited*	Respective period of the preceding reporting year *Audited*
	Group	**Group**	**Bank**	**Bank**
Cash flows from operating activities				
Profit/ (loss) before tax	(137 795)	(144 025)	(151 722)	(129 190)
Amortisation of intangible assets, depreciation of fixed assets	5 882	11 348	2 740	7 752
Change in impairment allowances and other provisions	113 047	119 699	118 832	109 693
Other non-cash items	(5 472)	240	300	782
Cash generated before changes in assets and liabilities	**(24 338)**	**(12 738)**	**(29 850)**	**(10 963)**
Change in derivative financial instruments	2 468	8 718	2 402	8 522
(Increase) in other assets	(6 130)	(4 589)	(9 681)	3 148
(Decrease)/ increase in other liabilities	13 658	(18 535)	15 113	(15 684)
(Increase)/ decrease in trading investments	2 116	3 117	1 784	3 549
Decrease / (increase) in balances due from credit institutions	1 569	21 855	129 948	(167 816)
Decrease/ (increase) in loans and receivables from customers	96 869	247 090	17 615	176 661
(Decrease) in balances due to credit institutions	(40 172)	(33 436)	(47 507)	(20 617)
(Decrease)/ increase in deposits from customers	119 551	(132 807)	99 451	(158 879)
Cash generated from/ (used in) operating activities before corporate income tax	**165 591**	**78 675**	**179 274**	**(182 079)**
Corporate income tax paid	(1 908)	(2 460)	(75)	(808)
Net cash flow generated from/ (used in) operating activities	**163 683**	**76 215**	**179 199**	**(182 887)**
Cash flows from investing activities				
(Purchase) of intangible and fixed assets, net	(546)	(10 499)	(379)	(1 045)
Proceeds from disposal of intangible and fixed assets	2 925	1 284	2 798	648
Acquisitions and investments in subsidiaries	-	-	(9 200)	(21 675)
Cash inflows from maturing held-to-maturity securities	-	37 361	-	59 251
(Purchase)/sale of available-for-sale securities, net	70 719	59 401	93 114	71 117
Net cash flow generated from/ (used in) investing activities	**73 098**	**87 547**	**86 333**	**108 296**
Cash flows from financing activities				
Repayment/ repurchase of debt securities	9 700	-	9 700	-
Repayment of syndicated loans	(219 684)	(163 402)	(217 869)	(163 402)
Raised subordinated capital	-	12 928	-	12 932
Net cash flow used in financing activities	**(209 984)**	**(150 474)**	**(208 169)**	**(150 470)**
Transferred to Citadele	**(314 902)**	**-**	**(303 411)**	**-**
Net decrease in cash and cash equivalents for the period	**(288 105)**	**13 288**	**(246 048)**	**(225 061)**
Cash and cash equivalents at the beginning of the year	**374 776**	**361 488**	**330 869**	**555 930**

Cash and cash equivalents at the end of the period	**86 671**	**374 776**	**84 821**	**330 869**

CONSOLIDATION GROUP

No.	Name of company	Registration number	Registration address	Country of domicile	Company type*	% of total paid-in share capital	% of total voting rights	Basis for inclusion in the group**
1	AS "Parex banka"	LV-40003074590	Latvia, Riga LV-1010, Republikas laukums 2A	LV	BNK	100	100	MAS
2	Regalite Holdings Limited	CY-HE93438	Cyprus, Nicosia 1075, 58 Arch. Makarios 3 Avenue, Iris Tower, 6th floor, office 602	CY	PLS	100	100	MS
3	OOO "Parex Leasing and Factoring"	AZ-1105-T10-3749	Azerbaijan, Baku AZ1065, Dz.Dzabbarli 44, "Caspian Plaza"	AZ	LIZ	100	100	MS
4	OOO "Ekspress Lizing"	RU-1037867006726	Russia, St. Petersburg 192019, Sedova 11, liter A	RU	LIZ	100	100	MS
5	LLC "Laska Lizing"	UA-33104543	Ukraine, Kiev 03150, Dimitrova 5	UA	LIZ	100	100	MS
6	LLC "Parex Leasing"	RU-1047796715603	Russia, Moscow 111116, Energeticheskaja 3	RU	LIZ	100	100	MS
7	OOO "Extroleasing"	RU-1027739537220	Russia, Moscow 111116, Energeticheskaja 3	RU	LIZ	100	100	MS
8	SIA "Parex Private Banking"	LV-40003103438	Latvia, Riga LV-1050, Smilšu 7	LV	PLS	100	100	MS
9	OOO "Extrocredit"	RU-1067746758518	Russia, Moscow 111116, Energeticheskaja 3	RU	CFI	99	99	MMS
10	LLC "Parex Leasing and Factoring"	GE-205224461	Georgia, Tbilisi, Kazbegi avenue 44	GE	LIZ	100	100	MS
11	SIA "NIF"	LV-40103250571	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
12	SIA "NIF Dzīvojamie īpašumi"	LV-40103253915	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
13	SIA "NIF Komercīpašumi"	LV-40103254003	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
14	SIA "NIF Zemes īpašumi"	LV-40103255348	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
15	UAB "Nekilnojamojo turto valdymo fondas"	LT-302462108	Lithuania, Vilnius LT03107, K.Kalinausko 13	LT	PLS	100	100	MMS
16	OÜ "Restruktureeritud Kinnisvarafond"	EE-11788043	Estonia, Tallinn 10119, Roosikrantsi 2	EE	PLS	100	100	MMS
17	SIA "NIF Projekts 1"	LV-50103300111	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
18	SIA "NIF Projekts 2"	LV-40103353475	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
19	SIA "NIF Projekts 3"	LV-40103353511	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS

*BNK – bank, CFI – other financial institution, LIZ – leasing company, PLS – company providing various support services.
** MS – subsidiary company, MMS – subsidiary of the subsidiary company, MAS – parent company.

INFORMATION ABOUT PAREX BANKA'S BRANCHES

As at 31 December 2010 the Bank was operating a total of 2 branches, including 2 foreign branches, and 4 representative offices.

ISSUED SHARE CAPITAL AS AT 31 DECEMBER 2010

Shareholders	Nominal value (LVL)	Number of shares	Paid-in share capital (LVL)	Voting rights	Paid-in share capital (%)
SJSC "Privatizācijas Aģentūra"	1	221 933 292	221 933 292	156 283 292	81.83%
EBRD	1	39 631 824	39 631 824	39 631 824	14.61%
Other	1	9 662 179	9 662 179	5 468 323	3.56%
Total		**271 227 295**	**271 227 295**	**201 383 439**	**100%**

MANAGEMENT OF THE BANK AS AT 31 DECEMBER 2010

Council of the Bank

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

Management of the Bank

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

Roberts Stuģis was dismissed from duties as a member of the Management Board according to 15 March 2010 Council's decision.

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

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

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

The Extraordinary Board meeting took place on July 30, 2010, where the new Council of the Bank was elected - Michael J. Bourke, Sarmīte Jumīte, Mary E. Collins and Vladimirs Loginovs. 31st July 2010

was the last working day at the Council of the Bank for Juris Jākobsons , Juris Vaskāns, Klāvs Vasks, Laurence Philip Adams.

INFORMATION ON CERTAIN PARTIES THAT WERE RELATED TO THE BANK AT THE MOMENT IT RECEIVED STATE AID

Pursuant to FCMC regulations on preparation of quarterly public reports of banks (Article 14[1]) the following table represents summary of material transactions with certain parties that were related to the Bank at the moment it received the State Aid:

LVL 000's

	2010 year			2009 year		
	Period-end balance	**Average interest rate ***	**Interest income/ (expense)**	**Period-end balance**	**Average interest rate ***	**Interest income/ (expense)**
Loans issued by the Bank	1 893	0.00%	534	29 038	2.10%	1 016
Deposits placed with the Bank	-	-	(1 109)	28 006	7.90%	(3 024)
Subordinated financing provided to the bank	36 005	6.00%	(3 084)	36 008	11.20%	(4 768)

* according to period-end rates

Loan contracts were entered into force in the period from 2002 – 2008 and are maturing in 2018. Loans are USD and EUR denominated.

Subordinated financing contracts were entered into force in 2008 and have maturities ranging 2015 through 2018. Subordinated financing is LVL and EUR denominated. Prior repayment can be unilaterally requested only upon liquidation of the Bank.

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

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised cost (LVL 000's) 31/12/2010	Amortised cost (LVL 000's) 31/12/2009
Private person	Latvia	LVL	7 500	6M Rigibid + 3%	28/09/2007	26/09/2017	7 502	7 502
Private person	Latvia	LVL	7 500	6M Rigibid + 3%	28/09/2007	26/09/2017	7 502	7 502
Private person	Latvia	EUR	15 000	12%	20/06/2008	14/05/2015	10 601	10 602
Private person	Latvia	LVL	1 500	6M Rigibid + 3%	30/10/2008	30/10/2018	1 500	1 500
Private person	Latvia	LVL	1 500	6M Rigibid + 3%	30/10/2008	30/10/2018	1 500	1 500
Private person	Latvia	LVL	2 284	6M Rigibid + 3%	04/12/2008	18/09/2015	2 284	2 285
Private person	Latvia	LVL	2 284	6M Rigibid + 3%	04/12/2008	18/09/2015	2 284	2 285
Private person	Latvia	LVL	1 416	6M Rigibid + 3%	04/12/2008	29/09/2015	1 416	1 416
Private person	Latvia	LVL	1 416	6M Rigibid + 3%	04/12/2008	29/09/2015	1 416	1 416
Total							36 005	36 008

RISK MANAGEMENT

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

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

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

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

Credit risk

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

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent Risk Management Division. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of

creditworthiness of a legal entity includes analysis of the industry, the company, and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board.

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

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

Market risk

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

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

Interest rate risk

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

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

Liquidity risk

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

Under ordinary circumstances the Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management, as well as liquidity risk measurement, monitoring and reporting, is ensured by the Risk Management Division and Finance Planning and

Control Division. Liquidity risk management in the Group is coordinated by the Risk Management Division and Finance Planning and Control Division. However the main source of liquidity is the funding provided by the State Treasury. In 2010 the Bank is in compliance with liquidity ratio requirements and meets mandatory reserve requirements in the Bank of Latvia.

Currency risk

Currency risk is related to mismatch in foreign currency asset and liability positions that impact the Group's cash flow and financial results via fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Day-to-day currency risk monitoring, management and reporting is the responsibility Risk Management Division and Finance Planning and Control Division. The Group has set

a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. To assess currency risk, the Group also uses scenario analysis.

Operational risk

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

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

The Group applies following approaches for operational risk management:

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