

**AS “PrivatBank”**

Unaudited Interim Condensed  
Consolidated Financial Statements  
for the year ended 31 December 2010

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## **Dear shareholders, customers and partners!**

The year 2010 was recognised by many experts as the year that the economy started to stabilise. Evaluating the bank's operating results, one can say that AS "PrivatBank" has stood the test of crisis. According to the results of 2010, AS "PrivatBank" holds 14th position in terms of assets (as of the end of 2009 – 15th position), 13th position in terms of deposits (as of the end of 2009 – 15th position), among them 13th position in terms of individuals' deposits (as of the end of 2009 – 11th position), 14th position in terms of loans granted (as of the end of 2009 – 13th position) and 2nd place in terms of assets under management (as of the end of 2009 – 4th position) among 29 Latvian banks.

Last year, the bank increased its share capital by issuing 20 235 126 common registered voting shares of one category of the nominal value 1.00 LVL each. Therefore, the share capital of AS "PrivatBank" has reached 40 470 000 LVL.

In its work, the Bank complies with the corporate management principles. Information on the key elements of AS "PrivatBank" internal control and risk management system that are applied when preparing financial reports is provided in the consolidated statement of AS "PrivatBank" and its subsidiaries for 2010, in the "Notes to Bank and Consolidated Financial Statements" section.

Information specified in Items 3, 4, 6, 8, and 9 of Clause 1 of Article 56.<sup>1</sup> of the Law on the Financial Instruments Market is provided in the consolidated statement of AS "PrivatBank" and its subsidiaries for 2010, in the "Council and Board of Bank" and "Notes to Bank and Consolidated Financial Statements" section.

### **Branch network development**

In the year 2010, AS "PrivatBank" continued its policy of expanding the branch network in the European markets. In June 2010, AS "PrivatBank" branch in Italy opened its doors to customers in the historical centre of Rome near Vatican.

The branch network of AS "PrivatBank" in Portugal was supplemented in October last year with the opening of the bank's branch in Porto, and in November, a settlement group was opened in Algarve.

In the second half of the year 2010, the bank established a subsidiary, SIA "Privat Investment", which would manage the building acquired by the bank.

### **New products and services of the bank**

In April 2010, the unique product in the Latvian banking market, Senior's Package, was supplemented with 3 new free services – bill settlements, transfers within Latvia and short information messages about changes in account.

The prospective customers of the banks were also not neglected. In August, AS "PrivatBank" offered parents a Children's Money Box, a demand deposit that allows children to receive its principal amount and interest after they reach the age of 18.

The remote settlement possibilities offered by AS "PrivatBank" were supplemented in September by introducing telephone banking. The Telephone Bank offers to execute financial operations determined by the Bank with the funds available in accounts, as well as conclude transactions with the Bank via fixed or mobile telephone.

In November, the first cash terminal was opened in Sakta Branch in Riga.

Stimulating entrepreneurship at the time when the economic growth resumes is one of the most important tasks for AS "PrivatBank". For this reason, Micro Overdraft, a short-term loan of up to 12,000 LVL, was included in the range of loan products for entrepreneurs in December.

In December 2010, AS "PrivatBank" customers received the possibility to use the vast ATM network of Latvijas Krājbanka.

The work of AS "PrivatBank" customer support service has been constantly improving and developing to ensure that customers can promptly receive comprehensive information on the financial services provided by AS "PrivatBank". This year, the bank took 1st place in the research conducted by "Metasite Baltic E-Banking Report 2010".

Having evaluated the upgrades made to the website [www.privatbank.lv](http://www.privatbank.lv) and Privat24<sup>EU</sup> Internet Bank, the IT solutions and research company Metasite, which annually conducts a research, comparing the websites of the Baltic commercial banks, ranked the electronic environment of AS "PrivatBank" as the second richest in innovations among the Latvian commercial banks.

#### **Public activities**

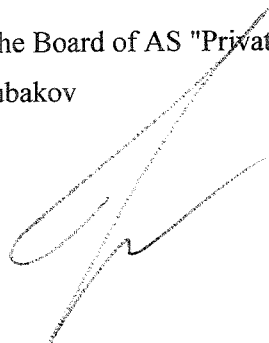
Over the period from April to May 2010, a children's drawing contest "My neighbour, PrivatBank" was held, in which more than 400 children aged under 14 participated, and in August, the Bank awarded the authors of the best 57 drawings.

More than 200 pensioners took part in the contest "Create with Pleasure", which was held by AS "PrivatBank" in honour of the International Seniors' Day.

The bank's main effort in 2011 will be directed towards the further development of the branch network in the Southern and Central Europe and strengthening its positions in the Latvian market.

I would like to express gratitude to AS "PrivatBank" shareholders, customers and partners for successful cooperation last year and wish the best of luck in the new year 2011.

Chairman of the Board of AS "PrivatBank"  
Oleksandr Trubakov



22 February 2011

## MEMBERS OF THE COUNCIL AND BOARD

As at the date of signing the financial statements members of the Board and Council of the Bank were as follows:

### Council

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Yuriy Pikush	Chairman of the Council	20.05.2010
Viktor Samarin	Deputy Chairman of the Council	20.05.2010
Timur Novikov	Council member	20.05.2010
Yuriy Kandaurov	Council member	20.05.2010
Vasilijs Meļņiks	Council member	20.05.2010

### Board

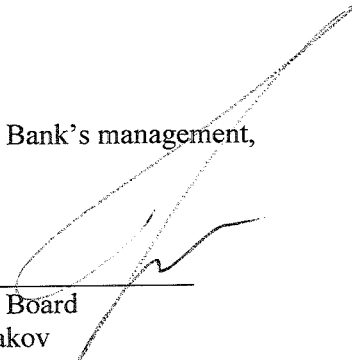
<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Oleksandr Trubakov	Chairman of the Board	08.04.2009
Oleksandr Mekekechko	Board member	08.04.2009
Mykolay Koev	Board member	08.04.2009
Ieva Rācenāja	Board member	31.05.2010

On 22 March 2010 Rolands Pētersons resigned from the Board.

On 20 May 2010 Vasilijs Meļņiks assigned to the Council.

On 31 May 2010 Ieva Rācenāja was appointed to the Board.

On behalf of the Bank's management,

  
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Chairman of the Board  
Oleksandr Trubakov

22 February 2011

## STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

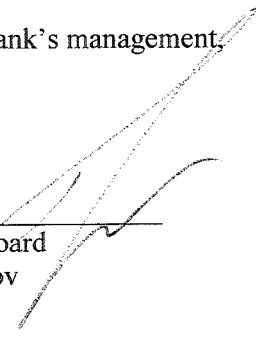
The Management of AS PrivatBank (Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group).

The consolidated and Bank financial statements on pages 7 to 27 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2010 and the results of its operations and cash flows for the year ended 31 December 2010.

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

The management of AS PrivatBank and of the Group is responsible for the maintenance of a proper accounting system, safeguarding the Group's and Bank's assets, and prevention and detection of fraud and other irregularities in the Group and Bank. The management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,



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Chairman of the Board  
Oleksandr Trubakov

22 February 2011

	Note	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Interest income	2	12 063	8 478	12 228	8 594
Interest expense	2	(13 953)	(9 806)	(9 136)	(6 421)
<b>Net interest income</b>		<b>1 890</b>	<b>(1 328)</b>	<b>3 092</b>	<b>2 173</b>
Fee and commission income	3	6 588	4 630	3 758	2 641
Fee and commission expense	4	(849)	(597)	(882)	(620)
<b>Net fee and commission income</b>		<b>5 739</b>	<b>4 033</b>	<b>2 876</b>	<b>2 021</b>
Net gain/(loss) on financial instruments at fair value through profit or loss				6	4
Net foreign exchange income	5	5 442	3 825	3 725	2 618
Other income/(expenses)		269	188	541	380
<b>Operating income</b>		<b>9 560</b>	<b>6 718</b>	<b>10 240</b>	<b>7 196</b>
Impairment losses	6	(15 541)	(10 922)	(22 525)	(15 831)
General administrative expenses	7	(9 441)	(6 635)	(10 134)	(7 122)
<b>Income before tax</b>		<b>(15 422)</b>	<b>(10 839)</b>	<b>(22 421)</b>	<b>(15 757)</b>
Income tax expense		640	450	(37)	(26)
<b>Profit for the year</b>		<b>(14 782)</b>	<b>(10 389)</b>	<b>(22 458)</b>	<b>(15 783)</b>

The condensed Consolidated financial statements as set out on pages 6 to 26 were approved by the Management Board on 22 February 2011.

Chairman of the Board  
Oleksandr Trubakov

	Note	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
<b>ASSETS</b>					
Cash and balances with the Bank of Latvia	8	47 386	33 303	14 162	9 953
Financial instruments at fair value through profit or loss	10	293	206	425	299
Loans and receivables from banks	9	182 553	128 299	115 200	80 963
Loans and receivables from customers	11	122 694	86 230	117 896	82 858
Available-for-sale assets	12	40	28	100	70
Held-to-maturity assets		6 057	4 257		
Property and equipment		12 585	8 845	2 425	1 704
Intangible assets		196	138	202	142
Deferred tax asset		720	506	57	40
Prepaid income tax		100	70	91	64
Other assets	14	18 769	13 191	6 608	4 644
<b>Total Assets</b>		<b>391 393</b>	<b>275 073</b>	<b>257 166</b>	<b>180 737</b>

The condensed Consolidated financial statements as set out on pages 7 to 27 were approved by the Management Board on 22 February 2011.

Chairman of the Board  
Oleksandr Trubakov



<b>LIABILITIES</b>	<b>Note</b>	<b>2010 '000 EUR</b>	<b>2010 '000 LVL</b>	<b>2009 '000 EUR</b>	<b>2009 '000 LVL</b>
Financial instruments at fair value through profit or loss	10	1	1	30	21
Deposits and balances from banks	15	14 900	10 472	22 876	16 077
Current accounts and deposits from customers	16	322 411	226 592	190 659	133 996
Provisions	17	515	362	615	432
Mortgage bonds	18	7 009	4 926	16 039	11 272
Subordinated borrowings		9 896	6 955	9 045	6 357
Deferred tax liability				41	29
Corporate income tax payable		-	-	-	-
Other liabilities	19	10 001	7 028	5 212	3 662
<b>Total Liabilities</b>		<b>364 733</b>	<b>256 336</b>	<b>244 517</b>	<b>171 846</b>
Share capital	20	57 584	40 470	28 791	20 235
Other reserves		5 398	3 793	5 398	3 793
Retained earnings		(36 322)	(25 526)	(21 540)	(15 137)
<b>Total Shareholders' Equity</b>		<b>26 660</b>	<b>18 737</b>	<b>12 649</b>	<b>8 891</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>391 393</b>	<b>275 073</b>	<b>257 166</b>	<b>180 737</b>
Commitments and Contingencies		3 176	2 232	3 052	2 145

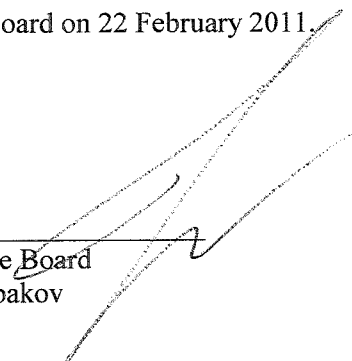
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Chairman of the Board  
Oleksandr Trubakov

Note	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss/Profit before income tax	(15 423)	(10 839)	(22 421)	(15 757)
Loss on disposal of property and equipment	-	-	842	592
Amortisation and depreciation	676	475		
Impairment losses (recoveries)	15 541	10 922	21 387	15 031
	<b>794</b>	<b>558</b>	<b>(192)</b>	<b>(134)</b>
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations</b>				
(Increase)/decrease in balances due from banks	6 606	4 643	(29 485)	(20 722)
Increase in loans and advances to non-banking customers and receivables	(19 251)	(14 081)	24 532	17 241
Decrease in assets available-for-sale investments	60	42	18	13
(Increase)/decrease in derivative assets and liabilities	104	73	(1 070)	(752)
(Increase)/decrease in other assets	(12 117)	(7 965)	(1 507)	(1 059)
Increase in balances due to banks	7 072	4 970	(10 058)	(7 069)
Increase in balances due to customers	131 752	92 596	(5 908)	(4 152)
Increase in other liabilities	4 649	3 267	4 007	2 816
	<b>119 669</b>	<b>84 103</b>	<b>(19 663)</b>	<b>(13 818)</b>
<b>Increase in cash and cash equivalents from operating activities before corporate income tax</b>				
Corporate income tax paid	(100)	(70)	(138)	(97)
	<b>119 569</b>	<b>84 033</b>	<b>(19 801)</b>	<b>(13 915)</b>
<b>Net cash and cash equivalents from/(used in) operating activities</b>				
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(11 881)	(8 350)	(976)	(686)
Proceeds from sale of subsidiaries net cash disposed of	-	-	1	1
Proceeds from sale of property and equipment	-	-	6	4
Purchase held-to-maturity-assets	(6 057)	(4 257)		
	<b>(17 938)</b>	<b>(12 607)</b>	<b>(969)</b>	<b>(681)</b>
<b>Decrease in cash and cash equivalents from investing activities</b>				
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Repayment of debt securities	(9 030)	(6 346)	(4 952)	(3 480)
Subordinated deposit	851	598	13 638	9 585
Share issue	28 792	20 235	9 045	6 357

<b>Increase in cash and cash equivalents from financing activities</b>	<u>20 613</u>	<u>14 487</u>	<u>17 731</u>	<u>12 462</u>
<b>Net cash flow for the period</b>	<u>122 244</u>	<u>85 913</u>	<u>(3 039)</u>	<u>(2 134)</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>28 204</u>	<u>26 850</u>	<u>33 913</u>	<u>28 984</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>160 447</u>	<u>112 762</u>	<u>41 241</u>	<u>26 850</u>

The condensed Consolidated financial statements as set out on pages 7 to 27 were approved by the Management Board on 22 February 2011.

  
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 Chairman of the Board  
 Oleksandr Trubakov

**Attributable to equity holders of the Group**

	Share capital '000 LVL	Other reserves '000 LVL	Retained earnings/ (accumulated losses) '000 LVL	Total equity '000 LVL
<b>Balance at 1 January 2009</b>	<b>10 650</b>	<b>3 719</b>	<b>690</b>	<b>15 089</b>
Increase in share capital	9 585	-	-	9 585
Reserves	-	44	(44)	-
Total comprehensive income	-	-	(15 783)	(15 783)
<b>Balance at 31 December 2009</b>	<b>20 235</b>	<b>3 793</b>	<b>(15 137)</b>	<b>8 891</b>
Increase in share capital	20 235	-	-	20 235
Reserves	-	-	-	-
Total comprehensive income	-	-	(10 389)	(10 389)
<b>Balance at 31 December 2010</b>	<b>40 470</b>	<b>3 793</b>	<b>(25 526)</b>	<b>18 737</b>

**Attributable to equity holders of the Group**

	Share capital '000 EUR	Other reserves '000 EUR	Retained earnings/ (accumulated losses) '000 EUR	Total equity '000 EUR
<b>Balance at 1 January 2009</b>	<b>15 153</b>	<b>5 335</b>	<b>981</b>	<b>21 469</b>
Increase in share capital	13 638	-	-	13 638
Reserves	-	63	(63)	-
Total comprehensive income	-	-	(22 458)	(22 458)
<b>Balance at 31 December 2009</b>	<b>28 791</b>	<b>5 398</b>	<b>(21 540)</b>	<b>12 649</b>
Increase in share capital	28 793	-	-	28 793
Reserves	-	-	-	-
Total comprehensive income	-	-	(14 782)	(14 782)
<b>Balance at 31 December 2010</b>	<b>57 584</b>	<b>5 398</b>	<b>(36 322)</b>	<b>26 660</b>

The condensed Consolidated financial statements as set out on pages 7 to 27 were approved by the Management Board on 22 February 2011.

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Chairman of the Board  
Oleksandr Trubakov

# 1 Background

## (a) Principal activities

AS "PrivatBank" (the "Bank") was established in the Republic of Latvia ("Latvia") as a joint stock company and was granted its general banking license on 31 July 1992 (reissued on 17 September 1998). The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC"). The Bank has 12 branches and 9 cash offices from which it conducts business throughout Latvia. The registered address of the Bank's head office is Terbatas street 4, Riga, Latvia. The majority of the Bank's assets and liabilities are located in Latvia. The average number of people employed by the Bank during the year was 306 (2009: 330).

The consolidated financial statements include the financial statements for the year ended 31 December 2010 of AS "PrivatBank" (the "Bank") and its subsidiaries (together referred to as the "Group").

The subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	Ownership %	
			2010	2009
SIA "PrivatLizings"	Latvia	Finance and operating lease activities	100	100
SIA "PrivatConsulting"	Latvia	Consulting and travel services	100	100
SIA "Amber Real"	Latvia	Real estate company	100	100
SIA "PrivatInvestment"	Latvia	Maintenance and service management of Bank's real estate	100	-

### *Basis of Preparation*

## (b) Statement of compliance

The financial statements of the Group and the 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 in force as at balance sheet date.

The financial statements were authorised for issue by the Management Board on 22 February 2011. The financial statements may be amended by the shareholders.

## (c) Basis of measurement

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

- financial assets and liabilities at fair value through profit or loss are stated at fair value;
- derivatives are stated at fair value;

- available-for-sale assets are stated at fair value except those whose fair value cannot be reliably estimated.

**(d) Functional and Presentation Currency**

The financial statements are presented in the Group's and the Bank's functional currency in thousands of lats (LVL 000's), unless otherwise stated.

***Significant accounting policies***

The accounting policies have been consistently applied and there are no changes in accounting policies as compared to 2009.

**Basis of consolidation**

***Subsidiaries***

For the purposes of the Group consolidated financial statements, subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an 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.

Intra-group transactions and unrealized profit arising from intra-group transactions are excluded in the course of consolidation. Unrealized losses are eliminated similarly except that such losses are eliminated to the extent that there is no evidence of impairment.

**Foreign currency translation**

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 spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised directly in equity.

Foreign exchange rates for the key currencies at the end of the reporting period were the following (LVL vs 1 unit of foreign currency):

<i>Currency</i>	<i>Reporting date</i>	
	31.12.2010	31.12.2009
USD	0.5350	0.4890
EUR	0.7028	0.7028

## 2 Net interest income

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
<b>Interest income</b>				
Loans and receivables from customers	7 739	5 439	9 249	6 500
Loans and receivables from banks	3 419	2 403	2 558	1 798
Held-to-maturity investments	418	294		
Penalties from delayed interest payments	484	340	415	292
Other interest income	3	2	6	4
	<b>12 063</b>	<b>8 478</b>	<b>12 228</b>	<b>8 594</b>
<b>Interest expense</b>				
Current accounts and deposits from customers	12 015	8 444	6 783	4 767
Mortgage bonds	272	191	766	538
Deposits and balances from banks	1 104	776	1 242	873
Payments in Deposit guarantee fund	562	395	345	243
	<b>13 953</b>	<b>9 806</b>	<b>9 136</b>	<b>6 421</b>
<b>Net interest income</b>	<b>(1 890)</b>	<b>(1 328)</b>	<b>3 092</b>	<b>2 173</b>

## 3 Fee and commission income

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Current account servicing	3 776	2 654	2 647	1 860
Payment cards servicing	377	265	363	255
Asset management fees	1 614	1 134	243	171
Other commission income	821	577	505	355
	<b>6 588</b>	<b>4 630</b>	<b>3 758</b>	<b>2 641</b>

## 4 Fee and commission expense

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Commission fee for transfers	452	318	364	256
Commission fee for credit card servicing	100	70	90	63
Encashment fees	88	62	78	55
Other	209	147	350	246
	<b>849</b>	<b>597</b>	<b>882</b>	<b>620</b>

## 5 Net foreign exchange income

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Net gain from revaluation of financial assets and liabilities	5 271	3 705	3 789	2 663
Net loss on spot transactions and derivatives	171	120	(64)	(45)
	<b>5 442</b>	<b>3 825</b>	<b>3 725</b>	<b>2 618</b>

## 6 Impairment losses

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
<b>Allowances for impairment losses</b>	<b>25 606</b>	<b>17 996</b>	<b>4 007</b>	<b>2 816</b>
Goodwill impairment			1 138	800
Increase in the loan loss allowances	22 025	15 479	22 234	15 626
Recovery of prior period loan loss allowances	(6 484)	(4 557)	(847)	(595)
<i>Total net impairment for current period</i>	<i>41 147</i>	<i>28 918</i>	<i>26 532</i>	<i>15 831</i>
Write-off of the loan loss allowances	(1 476)	(1 037)	(926)	(651)
<b>Total allowances at the end of the year</b>	<b>39 671</b>	<b>27 881</b>	<b>25 606</b>	<b>17 996</b>

## 7 General administrative expenses

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Salary of members of the Council and the Board	188	132	194	136
Remuneration to staff	4 472	3 143	4 630	3 254
Social taxes	1 107	778	1 150	808
Advertisement and marketing	545	383	514	361
Depreciation and amortisation	676	475	845	594
Office maintenance and redecoration	948	666	68	48
Communications and post	572	402	603	424
Transportation and business trips	144	101	189	133
Professional services	141	99	148	104
Legal services	21	15	87	61
Staff training	18	13	10	7
Other	609	428	1 696	1 192
	<b>9 441</b>	<b>6 635</b>	<b>10 134</b>	<b>7 122</b>



## 8 Cash and balances with the Bank of Latvia

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Cash	1 973	1 387	2 107	1 481
Due from Bank of Latvia	30 710	21 583	2 800	1 968
Minimum reserve deposit	14 703	10 333	9 255	6 504
	<b>47 386</b>	<b>33 303</b>	<b>14 162</b>	<b>9 953</b>

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account with the Bank of Latvia in LVL.

In accordance with the Bank of Latvia's regulations the Bank is required to maintain a compulsory reserve set based on the average monthly balance of the following items:

- + deposits from the public
- less liabilities against credit institutions
- less balance due to the State Treasury on its consolidated account with the Bank
- + bonds and other debt securities issued by the Bank.

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the 31 December 2010 and 31 December 2009.

## 9 Loans and receivables from banks

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
<b>Nostro accounts</b>				
Latvian commercial banks	640	450	988	694
Banks domiciled in OECD countries	12 325	8 662	7 757	5 452
Non-OECD banks	1 325	931	1 611	1 132
<b>Total nostro accounts</b>	<b>14 290</b>	<b>10 043</b>	<b>10 356</b>	<b>7 278</b>
<b>Loans and deposits</b>				
Latvian commercial banks	4 671	3 283	4 728	3 323
OECD banks	152 165	106 942	95 443	67 078
Non-OECD banks	11 427	8 031	4 673	3 284
<b>Total loans and deposits</b>	<b>168 263</b>	<b>118 256</b>	<b>104 844</b>	<b>73 685</b>
	<b>182 553</b>	<b>128 299</b>	<b>115 200</b>	<b>80 963</b>

## 10 Financial instruments at fair value through profit or loss

LVL '000	Notional amount		Fair value			
	31.12.2010	31.12.2009	Assets		Liabilities	
			31.12.2010	31.12.2009	31.12.2010	31.12.2009
Forward currency exchange agreements	21 184	13 239	206	299	1	21
<b>Total</b>	<b>21 184</b>	<b>13 239</b>	<b>206</b>	<b>299</b>	<b>1</b>	<b>21</b>

EUR '000	Notional amount		Fair value			
	31.12.2010	31.12.2009	Assets		Liabilities	
			31.12.2010	31.12.2009	31.12.2010	31.12.2009
Forward currency exchange agreements	30 142	18 837	293	425	1	30
<b>Total</b>	<b>30 142</b>	<b>18 837</b>	<b>293</b>	<b>425</b>	<b>1</b>	<b>30</b>

## 11 Loans and receivables from customers

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
<b>Commercial loans</b>				
Loans to corporates	32 228	22 650	-	-
Loans to small and medium size companies	45 737	32 144	45 885	32 248
<b>Total commercial loans</b>	<b>77 965</b>	<b>54 794</b>	<b>45 885</b>	<b>32 248</b>
<b>Loans to individuals</b>				
Consumer loans	1 264	888	1 541	1 083
Credit cards	2 223	1 562	2 755	1 936
Auto loans	3 443	2 420	4 246	2 984
Mortgage loans	77 470	54 447	88 705	62 342
Other	-	-	292	206
<b>Total loans to individuals</b>	<b>84 400</b>	<b>59 317</b>	<b>97 539</b>	<b>68 551</b>
<b>Gross loans and advances to customers</b>	<b>162 365</b>	<b>114 111</b>	<b>143 424</b>	<b>100 799</b>
Impairment allowance	(39 671)	(27 881)	(25 528)	(17 941)
<b>Net loans and advances to customers</b>	<b>122 694</b>	<b>86 230</b>	<b>117 896</b>	<b>82 858</b>

During the year ended 31 December 2010 the Bank renegotiated 268 commercial loans that would otherwise be past due or impaired of LVL 17 169 thousand (31 December 2009: 690 commercial loans; LVL 29 366 thousand). Such restructuring activity is aimed at managing customer relationships and maximizing collection opportunities.

(a) Industry analysis of the loan portfolio

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Trade	6 296	4 425	6 540	4 596
Manufacturing	13 588	9 550	3 004	2 111
Mining/metallurgy	1 116	784	1 264	888
Finance	23 029	16 185	12 484	8 774
Real estate	8 661	6 087	9 176	6 449
Agriculture, forestry and timber	4 003	2 813	1 978	1 390
Other commercial loans	21 272	14 950	11 440	8 040
Loans to individuals	84 400	59 317	97 538	68 551
	<b>162 365</b>	<b>114 111</b>	<b>143 424</b>	<b>100 799</b>
Impairment allowance	(39 671)	(27 881)	(25 528)	(17 941)
	<b>122 694</b>	<b>86 230</b>	<b>117 896</b>	<b>82 858</b>

(b) Geographical analysis of the loan portfolio

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Latvia	126 049	88 588	140 541	98 773
OECD countries	6 609	4 645	1 733	1 218
Non-OECD countries	29 707	20 878	1 150	808
	<b>162 365</b>	<b>114 111</b>	<b>143 424</b>	<b>100 799</b>
Impairment allowance	(39 671)	(27 881)	(25 528)	(17 941)
	<b>122 694</b>	<b>86 230</b>	<b>117 896</b>	<b>82 858</b>

## 12 Available-for-sale assets

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Equity investments				
Corporate shares	40	28	100	70
	<b>40</b>	<b>28</b>	<b>100</b>	<b>70</b>

## 13 Investments in subsidiaries

Name	Country of Incorporation	Main Activity	% Controlled		2010	2009
			2010	2009	Carrying Value '000 LVL	Carrying Value '000 LVL
SIA "PrivatLizings"	Latvia	Finance and operating lease activities	100	100	10	10
SIA "PrivatConsulting"	Latvia	Consulting and travel services	100	100	2	2
SIA "Amber Real"	Latvia	Real estate company	100	100	2	2
SIA "Privat Investment"	Latvia	Maintenance and service management of Bank's real estate	100	-	10	
					<b>24</b>	<b>14</b>

Name	Country of Incorporation	Main Activity	% Controlled		2010	2009
			2010	2009	Carrying Value '000 EUR	Carrying Value '000 EUR
SIA "PrivatLizings"	Latvia	Finance and operating lease activities	100	100	14	14
SIA "PrivatConsulting"	Latvia	Consulting and travel services	100	100	3	3
SIA "Amber Real"	Latvia	Real estate company	100	100	3	3
SIA "Privat Investment"	Latvia	Maintenance and service management of Bank's real estate	100	-	14	
					<b>34</b>	<b>20</b>

## 14 Other assets

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Stock	14 620	10 275	3 175	2 231
Security deposits	1 485	1 044	1 460	1 026
Gold	9	6	6	4
Accrued income	354	249	206	145
Deffered expenses	304	214	330	232
VAT receivable	92	65	371	261
Other	1 905	1 338	1 113	782
Impairment allowance	-	-	(53)	(37)
	<b>18 769</b>	<b>13 191</b>	<b>6 608</b>	<b>4 644</b>

## 15 Deposits and balances from banks

### (a) Geographical profile:

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Credit institutions registered in Latvia	8 899	6 254	487	342
Credit institutions registered in OECD countries			20 014	14 066
Credit institutions registered in other non-OECD countries	6 001	4 218	2 375	1 669
	<u>14 900</u>	<u>10 472</u>	<u>22 876</u>	<u>16 077</u>

### (b) Deposits and balances from banks by type:

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Vostro accounts	6 860	4 821	537	377
Term deposits	1 597	1 123	22 339	15 700
Loans from banks	6 443	4 528	-	-
	<u>14 900</u>	<u>10 472</u>	<u>22 876</u>	<u>16 077</u>

### (c) Concentration of Deposits and balances from banks

As at 31 December 2010 and 2009 the Bank had two and one bank and financial institutions, respectively, whose balances exceeded 10% of total Deposits and balances from banks. The gross value of these balances as of 31 December 2010 and 2009 were LVL 8 154 thousand and LVL 14 063 thousand, respectively.

## 16 Current accounts and deposits from customers

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
<b>Demand deposits</b>				
Residents:				
State companies	70	49	142	100
Private enterprises	5 891	4 140	2 536	1 782
Individuals	37 871	26 616	10 386	7 299
Other	87	61	50	35
Non-residents:				
Residents of OECD countries	37 971	26 686	29 287	20 583
Residents of non-OECD countries	37 149	26 109	25 605	17 996
<b>Total demand deposits</b>	<b>119 039</b>	<b>83 661</b>	<b>68 006</b>	<b>47 795</b>
<b>Term deposits</b>				
Residents:				
State companies	595	418	236	166
Individuals	129 571	91 064	75 572	53 112
Private enterprises	5 793	4 071	2 342	1 646
Other	148	104	47	33
Non-residents:				
Residents of OECD countries	30 034	21 108	24 004	16 870
Residents of non-OECD countries	37 231	26 166	20 452	14 374
<b>Total term deposits</b>	<b>203 372</b>	<b>142 931</b>	<b>122 653</b>	<b>86 201</b>
<b>Total current accounts and deposits from customers</b>	<b>322 411</b>	<b>226 592</b>	<b>190 659</b>	<b>133 996</b>

The maturity structure of customer deposits as per agreement terms at 31 December 2009 was as follows:	2010		2009	
	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Demand deposits	119 039	83 661	68 006	47 795
Term deposits:				
up to 3 months	67 988	47 782	68 365	48 047
3 to 6 months	30 717	21 588	15 764	11 079
6 months to one year	72 128	50 692	28 272	19 870
more than one year	32 539	22 869	10 252	7 205
<b>Total demand and term deposits</b>	<b>322 411</b>	<b>226 592</b>	<b>190 659</b>	<b>133 996</b>

### (a) Blocked accounts

As of 31 December 2010, the Bank maintained customer deposit balances of LVL 1 357 thousand (2009: LVL 1 739 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

## 17 Provisions

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Provision for unused vacation	323	227	269	189
Other liabilities	192	135	346	243
	<u>515</u>	<u>362</u>	<u>615</u>	<u>432</u>

## 18 Mortgage bonds

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Mortgage bonds issued	7 009	4 926	16 039	11 272
	<u>7 009</u>	<u>4 926</u>	<u>16 039</u>	<u>11 272</u>

As at 31 December 2010, the Bank and Group had LVL 4 926 thousand (2009: LVL 11 272 thousand) of bonds outstanding, including accrued interest of LVL 6 thousand (2009: LVL 27 thousand).

On 15 December 2006, the Bank issued 5-year mortgage bonds for EUR 7,000 thousand (LVL 4,920), and the accrued interest as at 31 December 2010 was LVL 6 thousand (2009: LVL 6 thousand). The coupon rate of these bonds is 6M EUR LIBOR + 1.6%. As at 31 December 2010 coupon rate of these bonds was 2.875% (2009: 2.625%).

## 19 Other liabilities

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
Accrued expenses	847	595	602	423
Security deposits	7 235	5 085	854	600
Amounts in clearing	627	441	3 076	2 162
Other	1 292	907	678	477
	<u>10 001</u>	<u>7 028</u>	<u>5 210</u>	<u>3 662</u>

## 20 Share capital and treasury shares

### (a) Issued capital and share premium

Share capital consists of common shares entitling equal rights to dividends, liquidation quota and voting rights at the shareholders meeting. All shares are fully paid up. The immediate and ultimate parent of the Bank is CJS Commercial Bank "PrivatBank" (Ukraine).

The authorized and issued share capital comprises 40 470 000 ordinary shares (2009: 20 235 000). All shares have a par value of LVL 1

Shareholders as at 31 December 2010 are as follows:

Shareholder	Country	Shares LVL	Holding, %	Voting rights
Closed Joint Stock Commercial Bank "PrivatBank"	Ukraine	30 359 520	75,0173	With voting rights
Unimain Holdings Limited	Cyprus	9 584 617	23,6833	Without voting rights
M. Esterovs	USA	524 724	1.2966	With voting rights
J. Skvorcova	Latvia	300	0.0007	With voting rights
A. Laško	Latvia	153	0.0004	With voting rights
V. Bīriņš	Latvia	371	0.0009	With voting rights
O.Trubakov	Ukraine	189	0.0005	With voting rights
O. Mekekechko	Ukraine	126	0.0003	With voting rights
		<b>40 470 000</b>	<b>100.00</b>	

Shareholder	Country	Shares EUR	Holding, %	Voting rights
Closed Joint Stock Commercial Bank "PrivatBank"	Ukraine	43 197 705	75,0173	With voting rights
Unimain Holdings Limited	Cyprus	13 637 681	23,6833	Without voting rights
M. Esterovs	USA	746 615	1.2966	With voting rights
J. Skvorcova	Latvia	427	0.0007	With voting rights
A. Laško	Latvia	218	0.0004	With voting rights
V. Bīriņš	Latvia	528	0.0009	With voting rights
O.Trubakov	Ukraine	269	0.0005	With voting rights
O. Mekekechko	Ukraine	179	0.0003	With voting rights
		<b>57 583 622</b>	<b>100.00</b>	

Other reserves of LVL 3 793 thousand (2009: LVL 3 793 thousand) represent retained earnings set aside by the Board. The reserves are distributable.

## 21 Funds under trust management

	2010 '000 EUR	2010 '000 LVL	2009 '000 EUR	2009 '000 LVL
<b>Assets under management</b>				
Loans to residents of OECD countries	73 555	51 695	31 467	22 115
Loans to residents of other countries	41 374	29 078	24 072	16 918
	<b>114 929</b>	<b>80 773</b>	<b>55 539</b>	<b>39 033</b>
<b>Liabilities under management</b>				
Deposits of residents of OECD countries	19 037	13 379	17 782	12 497
Deposits of residents of other countries	95 255	67 394	37 757	26 536
	<b>114 929</b>	<b>80 773</b>	<b>55 539</b>	<b>39 033</b>



## 22 Related party transactions

The Bank's immediate parent is CJS Commercial Bank "PrivatBank", (Ukraine). The party with ultimate control over the Bank is Commercial Bank "PrivatBank", (Ukraine).

The outstanding balances and average interest rates as of 31 December 2010 with members of the Board of Directors and the Management Board are as follows:

	2010 '000 LVL	Average Interest Rate	2009 '000 LVL	Average Interest Rate
<b>Balance Sheet</b>				
<b>Assets</b>				
Loans and receivables from customers	91	2.97%	184	4.11%
Deposits and current accounts	177	3.14%	183	8.50%

	2010 '000 EUR	Average Interest Rate	2009 '000 EUR	Average Interest Rate
<b>Balance Sheet</b>				
<b>Assets</b>				
Loans and receivables from customers	129	2.97%	262	4.11%
Deposits and current accounts	252	3.14%	260	8.50%

Amounts included in the income statement in relation to transactions with members of the Board of Directors and the Management Board are as follows:

	2010 '000 LVL	2009 '000 LVL
<b>Income statement</b>		
Interest income	3	6
Interest expense	6	1

	2010 '000 EUR	2009 '000 EUR
<b>Income statement</b>		
Interest income	4	9
Interest expense	9	1

**(a) Transactions with other related parties**

The outstanding balances and the related average interest rates as of 31 December 2010 and related statement of comprehensive income amounts of transactions for the year ended 31 December 2010 with other related parties are as follows. Other related parties include TaoPrivatBank, Georgia, PrivatBank Kipra, Unimain Holding Ltd.

**Group**

	Parent company		Other subsidiaries of the Parent company				Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	Average contractual interest rate		Average contractual interest rate					
	'000 LVL		'000 LVL		'000 LVL		'000 LVL	
<b>Balance Sheet</b>								
<b>Assets</b>								
Balance on correspondent account	118	119	-	-	980	-	118	1 099
Term deposits	6	5	2.69	2.69	341	-	6	346
Funds in settlement (VISA, PrivatMoney)	97	104	-	-	-	-	97	104
Held-to-maturity bonds	4 257		8				4 257	
<b>Liabilities</b>								
Balance on loro account	3 632	110	-	-	227	22	3 859	132
Short-term deposits		-	-	-	1 406	-		1 406
					6			
Subordinated loans		-	-	-	6 955	357	6 955	6 357
Funds in settlement (PrivatMoney)		51	-	-	-	-		51
Open currency deals		99	-	-	2	-		101
<b>Statement of comprehensive income</b>								
Interest income	296	2	-	-	5	-	301	2
Interest expense	464	181	-	-	204	329	668	510
Fee and commission income	114	108	-	-	-	-	114	108
Fee and commission expense	35	38	-	-	-	-	35	38

	Parent company		Other subsidiaries of the Parent company				Total		
	2010	2009	2010	2009	2010	2009	2010	2009	
	'000 EUR		Average contractual interest rate		'000 EUR		Average contractual interest rate		'000 EUR
<b>Balance Sheet</b>									
<b>Assets</b>									
Balance on correspondent account	168	169		-	1 394		-	168	1 563
Term deposits	9	7	2.69	2.69	485		-	9	492
Funds in settlement (VISA, PrivatMoney)	138	148		-	-		-	138	148
Held-to-maturity bonds	6 057		8					6 057	
<b>Liabilities</b>									
Balance on loro account	5 168	157		-	323	31	-	5 491	188
Short-term deposits		-		-	2 001		-		2 001
Subordinated loans		-		-	9 896	9 045	-	9 896	9 045
Funds in settlement (PrivatMoney)		73		-	-		-		73
Open currency deals		141		-	3		-		144
<b>Statement of comprehensive income</b>									
Interest income	421	3		-	7	-	-	428	7
Interest expense	660	258		-	290	468	-	950	726
Fee and commission income	162	154		-	-		-	162	154
Fee and commission expense	50	54		-				50	54