AS Latvijas Krājbanka

Consolidated Annual Report

for the year ended
31 December 2010

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AS LATVIJAS KRAJBANKA MANAGEMENT REPORT

Year 2010 has shown some indicators acknowledging ability of Latvian economy to overcome the recent recession. Mainly that reflected in the increase of export and GDP. At the same time taxation changes and government's activities to restrict the budget deficit have left a negative impact on purchasing capacity of population and the overall mood. The economical situation in Latvia remains fragile and dependent on world's economical trends.

The indicators of Latvian economy's recovery in 2010 made impact on ratios of commercial banking sector. According to the information of Financial and Capital Market Commission the average liquidity ratio of the banking sector continued growing and reached 67.87 (the minimum ratio is 30%). During this time banks continued increasing their capital – in 2010 fourteen Latvian banks have increased their capital by LVL 324.4 million in total.

AS Latvijas Krājbanka (hereinafter referred to as Latvijas Krājbanka or the Bank) in 2010 continued following the processes of Latvian economy, at the same time implementing its strategic aims, took part in the social life and supported significant cultural events. The Bank continued offering new and modern products and ensuring the accessibility of its products and services throughout the territory of Latvia.

Financial data

Latvian commercial banking sector completed year 2010 with loss amounting to more than LVL 300 million. During the reporting period, there was a downward trend of the loss observed in the sector, and the total loss amount was substantially lower than in the corresponding period of 2009.

The Bank ended 2010 with a increase in Net retained earnings totalling LVL 1,551 thousand. The amount of decrease in net retained earnings for the Latvijas Krājbanka Group (hereinafter referred to as the Group) comprised LVL 3,246 million. The total amount of the Bank assets as of 31 December 2010 comprised LVL 656 million (the Group – LVL 654 million). Over the year, the assets grew by more than LVL 86million, mostly due to the increase of non-banking deposits.

Due to the traditionally high loyalty of clients, the amount of deposits from private individuals in 2010 grew by almost LVL 30.0 million and the Bank ranked forth among Latvian commercial banks in terms of deposits from private individuals. In 2010 Latvijas Krājbanka retained stable positions in the Latvian commercial banking sector by the key bank performance indices – the Bank ranked sixth in terms of deposit amount, and tenth in terms of loan and asset amount.

Latvijas Krājbanka maintained a high capital adequacy level, which was 11.2 – 13.2% during the reporting period (while the statutory ratio is 8%). The Bank's liquidity over the period remained on the average sector level of 55 - 81% (the statutory rate is 30%). At the end of 2010, the Bank's capital adequacy and liquidity ratios were 14.33 % and 66.58 % respectively.

In 2010 the Bank continued adhering to the cautious lending policy, by carefully evaluating industry, return and risk indices for each loan. At the same time Latvijas Krājbanka issued new credits and continued its cooperation with companies that represent essential sectors of the national economy, presented development plans and opportunities and were willing to cooperate with the bank on mutually beneficial basis.

Major news in the Bank's products and services

In 2010 Latvijas Krājbanka retained its first place among Latvian commercial banks by the number of client service centres – as of 31st December 2010 Latvijas Krājbanka was represented by 109 customer service centres throughout Latvia, of which 28 were mini banks, but the number of ATMs reached 197.

In 2010 Krājbanka continued developing product packages by implementing a *Self-employed Businessman Package* for individuals. In supplement to *Businss Package* (for operating and big companies) was created a *Starter Package* for recently established small companies. By combining several of banks services (a bank account, Online banking and an e-signature sample) *Institution Package* was developed especially for the use of municipalities, government and regional government institutions. There have also been some changes to the *Amber Package* which was improved by offering its owners special privileges concerning cash withdrawing from account, payment of bills and Regular payment order registration. The Bank started offering Latvian municipalities a possibility to considerably simplify the single allowance payment system for private individuals by issuing *Social Card*.

The Bank continued its work on improving the functionality of Online Banking and introducing new services to improve customer convenience. The clients of Latvijas Krājbanka who are subject to the residence declaration requirement were able do it electronically, using an identification system of Online Banking for access to State Regional Development Agency's portal www.latvija.lv. Also in the first half of 2010, users of Online Banking obtained the opportunity, after attaining identification within the web portal www.epakalpojumi.lv, to receive notices on real estate tax payments electronically, by registering their e-mail address. Furthermore Online Bank clients received the access to new e-services, such as mansLMT, CoolTaxi, and BTA.

The quality of services provided by the Bank was affirmed by the "Deutsche Bank's STP Excellence Award", which the Bank has received for the fourth consecutive year. Deutsche Bank has appreciated the quality of processing of payments by Latvijas Krājbanka and acknowledged the professionalism of its employees.

Performance of the Bank and Group Companies

The paid-in share capital of Latvijas Krājbanka as of 4th October 2010 comprised LVL 25,824,248 (31st December 2009 – LVL 19,324,248). The capital adequacy ratio in 2010 was within the limits of 11.2 – 13.2%, thus substantially exceeding the requirements defined by Financial and Capital Market Commission (8%).

At the end of the first quarter of 2010, there was a change in the shareholders structure of the Bank. AB Bankas Snoras increased its participation in the share capital of Krājbanka from 53.22% (31.12.2009) to 88.91%.

At the end of the year (29th December 2010) the shareholders of the Bank decided to exclude Bank's shares from the regulated market, which will stop the quotation of the shares on AS "NASDAQ OMX Riga" Baltic Second list. Concerning this action Bank's major shareholder AB Bankas Snoras expressed a mandatory redemption offer of the shares to other shareholders. This offer is valid from 28th January 2011 till 28th February 2011.

At the beginning of February 2010, the first foreign representative office of Krājbanka was registered in London. It represents the Bank, its subsidiaries and the services provided by the Group. The representative office observes opportunities of the financial markets, investment possibilities and business environment and develops relationship with the corresponding banks.

During the reported period the Group's companies continued the successful development of their activity.

The amount of gross written premiums of the Bank's subsidiary AAS LKB Life (hereinafter referred to as LKB Life) during the reporting period has increased by 230%, reaching almost 540,000 LVL – this shows that LKB Life is the fastest growing life insurance company in Latvia.
During 2010 a completely new and unique accumulative insurance product was developed on the Latvian market - "Complex life insurance", which unites accumulation of savings with the best features of insurance and health care. Thus a significant announcement of entry into health insurance market was made.

SIA "LKB Līzings" (hereinafter referred to as LKB Līzings) in 2010 focused on improvement of the payment discipline, debt recovery and realization of leased items alienated from clients as well as improvement of its internal processes and development of the program "Lease manager".
The portfolio of LKB Līzings as of 31st December 2010 comprised LVL 17,224,000. The majority of company's leasing portfolio consisted of passenger vehicles – 52% and industrial leasing – 41%, the rest of portfolio was commercial transport leasing – 7%. In 2010 the amount of granted funding increased by 45% comparing to 2009. In the end of 2010 LKB Līzings became a member of „International Factors Group" Association, which allows the company to support Latvian export companies. In the end of December LKB Līzings introduced a new financial product – factoring, which is accessible in local and export transactions to supplement liquid assets of companies, balance cash flow and supervise customer credit risk.

Last year was a year of fast growth for the Bank subsidiary AS IBS "Renesource Capital", which offers broker services. During the last year the number of clients has increased by more than 5 times, also a fast increase in attracted assets and opened financial instrument accounts could be seen.
In 2010 AS IBS "Renesource Capital" continued developing its broker activity model by focusing their basic activity on marginal currency transactions (FOREX), mediatory transactions concerning precious metals and share trade.

In late May, Latvijas Krājbanka established several new subsidiaries to carry out management and administration of real estate - SIA LKB Rīgas īpašumi, SIA LKB Property, SIA Jēkaba 2, and SIA Brīvības 38. The companies were established in order to optimize the activities of Krājbanka by dividing the assets unrelated to the main banking activity.

During 2010 Krājbanka signed agreements with AS Finasta Holding on the sale of the shares owned by Latvijas Krājbanka in AS "Ieguldījumu pārvaldes sabiedrība "LKB Krājfondi"", AS "Ieguldījumu pārvaldes sabiedrība "LKB Asset Management"" and AS "Pirmais atklātais pensiju fonds". These changes will not affect the Bank's obligations, and the agreements signed with the clients and their provisions will remain in force. Further management of investment assets will be provided by the investment group AS Finasta Holding.

Also in 2010 the Bank also continued accumulating the necessary savings for possible losses, problematic financial assets, which substantially affected the ratios of profits from the Bank's financial activity. Due to the cautious lending policy of the Bank during the previous years, risk management, control policy and procedures the amount of the Bank's special accumulations is lower than in the Latvian banking sector in general. The diversification of the Banks credit portfolio by industries and the capitalization level of the Bank allowed it to avoid losses, which could be made by active participation in the construction industry's funding projects during last years.

Public activities

Considering the Bank's extensive network of customer service centres, it has set a goal to pay special attention to the customers not only in the capital city but also throughout Latvia. It refers to both the development of Bank's business services and the support of social and cultural life.

Using the experience of a Great friend (Lieldraugs) of the Overall Song and Dance Celebration, Latvijas Krājbanka supported Latgales Song Celebration which took place during the first weekend of June in Daugavpils. This Celebration has both cultural and historical significance, as well as takes a special place in the further strategic development of the region.
Krājbanka has adhered to the traditions and supported new performance of the play "Skroderdienas Silmačos" at the Latvian National Theatre.

The Bank continued its successful cooperation with LNT - on the last Sunday before Līgo feast Latvijas Krājbanka in collaboration with LNT invited families from the whole Latvia to Open-air museum to experience an unprecedented event – to participate in creation of the biggest Līgo wreath in Latvia. More than 8,500 people from the whole Latvia attended the event, but TV viewers could watch the event all day long in live broadcasts of LNT.

Responding to the invitation of the Latvian Children's Fund, the Bank supported the camp for children with special needs organized by he Fund in summer 2010.
With Krājbanka support city of Salacgrīva got an additional beautiful and precious event– Salacgrīvas classical music festival and the championship of students from musical academies organized by Moscow's virtuosos, which earned the acknowledgement of locals and visitors. Krājbanka also supported municipality of Sigulda, earning the title of Siguldas Opera music festivals general organizer.
Autumn season started with the support in publishing Dailes theatre's musical double album "Spēlēju, dancoju", which was made in honour of the 90th anniversary of Dailes theatre by the record company "Upe tuviem un tāliem".

With the support of Krājbanka the biggest musical event of the year in Latvia took place in November – two concerts of the Birmingham symphonic orchestra in Latvian National opera with conduction of Andris Nelsons. With one of the worlds best orchestra's played pianist Vestard Šimkus.

Latvijas Krājbanka is the oldest Latvian commercial bank, which has retained its traditions and values. At the same time the Bank actively follows the processes of economy in Latvia and world, processes in Latvian society, implementing the newest technological trends in its services and aiming for the highest possible level of customer service.

We would like to thank the employees of AS "Latvijas Krājbanka" in the name of Latvijas Krājbankas management for their contribution in achievement of banks strategic goals.

We wish success and luck to our clients and cooperation partners!

Yours sincerely

Raimondas Baranauskas	Ivars Priedītis
Chairman of the Council	Chairman of the Board / President

Riga,
15 March 2011

COUNCIL AND BOARD OF THE BANK

As at the date of signing these financial statements, the Members of the Council of the Bank were as follows:

Council

Name, surname	***Position***	***Date of appointment\ reappointment***
Raimondas Baranauskas	Chairman of the Council	28/10/2005 \ 26/03/2010
Aleksandrs Antonovs	Deputy Chairman of the Council	28/10/2005 \ 26/03/2010
Naglis Stancikas	Council Member	28/10/2005 \ 26/03/2010
Oļegs Suhorukovs	Council Member	28/10/2005 \ 26/03/2010
Vladimirs Antonovs	Council Member	07/09/2009 \ 26/03/2010

On 26 March 2010, the extraordinary shareholders` meeting of AS Latvijas Krājbanka resolved to make changes in the Council. The new Council is elected for a period of three years and its term of office begins on 26 March 2010. The new Council consists of the following re-elected members: Raimondas Baranauskas, Aleksandrs Antonovs, Naglis Stancikas, Oļegs Suhorukovs, and Vladimirs Antonovs. Mārtiņš Bondars was not re-elected to the Council of AS Latvijas Krājbanka. Raimondas Baranauskas and Aleksandrs Antonovs were elected as Chairman of the Council and Deputy Chairman of the Council respectively at the Council's meeting on 29 March 2010.

There have been no other changes in the Council from 26 March 2010 until the date of signing these financial statements.

COUNCIL AND BOARD OF THE BANK

As at the date of signing these financial statements, the Members of the Board of the Bank were as follows:

Board

Name, surname	***Position***	***Date of appointment\ reappointment***
Ivars Priedītis	Chairman of the Board / President	18/07/2007 \ 18/07/2010
Dzintars Pelcbergs	First Deputy Chairman of the Board / First Vice President	02/01/2006 \ 03/01/2009
Svetlana Ovčiņņikova	Board Member	19/06/2006\ 20/06/2009
Mārtiņš Zalāns	Board Member	29/12/2010

According to the decision of the Council of 13 December 2010, Mārtiņš Zalāns was elected as Board Member for the three-year term of office starting from 29 December 2010.

On 17 January 2011, Andrejs Surmačs resigned as Board Member and was appointed as Vice President of the Bank.

There have been no other changes in Board from 17 January 2011 until the date of signing these financial statements.

Appointment and dismissal of the Board Members can be made in accordance with the Commercial Law and the Articles of Association of the Bank. The Council has a right to appoint and dismiss the Board Members. The Board Members are elected for a three-year period and the Council elects the Chairman of the Board (President) and the First Deputy Chairman of the Board (First Vice President) from among the Board Members.

The Board manages the Bank in accordance with the laws of the Republic of Latvia, the Articles of Association and the decisions of the shareholders' meeting. The Council approval is necessary for certain Board's decisions, which refers to the approval of business principles and policies, budget and operating plan, documents governing the lending policy, remuneration of internal auditors, assigning the loan categories specified in the Bank's statutory documents as well as share capital increases following the procedure laid down in Clause 5.16 of the Articles of Association.

According to the Commercial Law, only the shareholders' meeting is competent to decide on issue and repurchase of the Bank's shares. As it is provided in Clause 5.16 of the Articles of Association, the Board will be authorised to decide on the increase of the Bank's share capital by an amount not exceeding LVL 3,900,000 (three million nine hundred thousand lats) until 1 September 2014. In the event of an increase of the share capital according to the procedure laid down in Clause 5.16 of the Articles of Association, the new share issue will be paid only in cash no later than three months from the date of the respective Board's decision.

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of AS Latvijas Krājbanka (hereinafter – the Bank) is responsible for the preparation of the financial statements of the Bank.

The financial statements set out on pages 9 to 76 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2010 and the results of its operations, changes in shareholders' equity and cash flows for the year then ended.

The 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 Latvijas Krājbanka are responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia, instruction of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

Raimondas Baranauskas Chairman of the Council	Ivars Priedītis Chairman of the Board / President

Riga,
15 March 2011

LVL '000	Notes	Group 2010	Group 2009	Bank 2010	Bank 2009
Interest revenue	3,4	25,226	34,229	25,169	32,437
Interest expense	3,4	(22,646)	(24,404)	(22,805)	(24,170)
Net interest revenue		**2,580**	**9,825**	**2,364**	**8,267**
Commission and fee revenue	5	9,128	8,247	9,100	7,866
Financial intermediation	7	-	5,620	-	4,920
Commission and fee expense	5	(3,583)	(2,374)	(3,755)	(2,836)
Net commission and fee revenue		**5,545**	**11,493**	**5,345**	**9,950**
Dividend revenue		16	-	16	100
Net result on sale of securities and foreign exchange trading and revaluation	6	4,255	8,217	4,233	8,308
Penalty income	8	-	2,949	-	2,949
Other operating revenue	9	10,385	2,110	9,049	977
Operating revenue		**22,781**	**34,594**	**21,007**	**30,551**
Personnel expense	10	(10,625)	(11,361)	(9,962)	(10,357)
Depreciation and amortisation expense	26,27	(1,852)	(2,221)	(1,653)	(2,057)
Other operating expense	11	(12,398)	(11, 115)	(11,680)	(9,928)
Total operating expense		**(24,875)**	**(24,697)**	**(23,295)**	**(22,342)**
Impairment losses	12	(896)	(11,345)	(940)	(9,753)
Impairment of tangible assets	27	(637)	(431)	(676)	(431)
Loss before corporate income tax from continuing operations		**(3,627)**	**(1,879)**	**(3,904)**	**(1,975)**
Corporate income tax	14	91	(56)	622	(3)
Loss for the reporting year from continuing operations		**(3,536)**	**(1,935)**	**(3,282)**	**(1,978)**
Profit/ (loss) after tax for the reporting period from discontinued operations	25	(175)	-	253	-
Loss for the reporting year		**(3,711)**	**(1,935)**	**(3,029)**	**(1,978)**
Attributable to:					
Shareholders of the Bank.		(3,711)	(1,935)	(3,029)	(1,978)
Non-controlling interest		-	-	-	-
Foreign currency revaluation reserve		-	632	-	-
Net change of the revaluation reserve		465	(597)	-	(597)
Total comprehensive (loss) for the reporting year		**(3,246)**	**(1,900)**	**(3,029)**	**(2,575)**
Attributable to:					
Shareholders of the Bank.		(3,246)	(1,900)	(3,029)	(2,575)
Non-controlling interest		-	-	-	-
Transfer of the revaluation reserve to the retained earnings	13	-	-	4,580	-
(Accumulated deficit)/ retained earnings, net		**(3,246)**	**(1,900)**	**1,551**	**(2,575)**
Basic earnings per share (Lats per share)	15	**(0.177)**	**(0.143)**		
From continuing operations		(0.169)	(0.143)		
From discontinuing operations		(0.008)	-		
Diluted earnings per share (Lats per share)	15	**(0.177)**	**(0.143)**		
From continuing operations		(0.169)	(0.143)		
From discontinuing operations		(0.008)	-		

The accompanying notes on pages 9 to 76 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

LVL '000	Notes	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Assets					
Cash and demand deposits with central banks	16	135,859	44,332	135,859	44,332
Due from credit institutions	17	104,627	102,464	103,435	102,239
Financial assets at fair value through profit or loss	18	11,172	5,721	11,172	5,509
Loans and advances to customers	19	331,728	361,186	332,152	368,568
Held-to-maturity investments	21	9,676	11,426	9,659	11,108
Investment properties	22	26,675	1,153	23,600	1,153
Assets held for sale and discontinued operations	25	66	4,275	193	4,275
Investments in subsidiaries	23	-	-	22,038	4,322
Intangible assets	26	1,264	1,537	1,115	1,191
Tangible assets	27	17,842	19,537	6,751	19,313
Prepayments and accrued income		833	717	810	702
Corporate income tax receivable		172	689	172	689
Other assets	28	14,290	13,731	9,456	6,505
Total assets		**654,204**	**566,768**	**656,412**	**569,906**
Liabilities					
Due to credit institutions	29	2,058	16,431	2,058	16,431
Deposits from customers	30	575,502	476,155	577,752	480,418
Derivatives	20	64	172	64	172
Debt securities issued	31	-	3,546	-	3,546
Deferred income and accrued expense	32	2,393	1,422	2,341	1,376
Provisions for off-balance sheet commitments		-	-	376	902
Corporate income tax liability		-	45	-	-
Deferred tax liability	14	225	847	225	847
Liabilities directly associated with the assets classified as held for sale	25	121	-	94	-
Other liabilities	33	2,372	3,496	1,371	1,115
Subordinated debt	34	15,491	15,181	15,491	15,181
Total liabilities		**598,226**	**517,295**	**599,772**	**519,988**
Equity					
Paid-in share capital	35	25,824	19,324	25,824	19,324
Share premium	35	19,138	15,887	19,138	15,887
Reserve capital and other reserves	35	626	626	626	626
Revaluation reserve	35,27	5,232	4,767	187	4,767
Retained earnings		5,153	8,864	10,865	9,314
Total equity attributable to equity holders		55,973	49,468	56,640	49,918
Non-controlling interest		5	5	-	-
Total shareholders' equity		**55,978**	**49,473**	**56,640**	**49,918**
Total liabilities and shareholders' equity		**654,204**	**566,768**	**656,412**	**569,906**

The accompanying notes on pages 9 to 76 form an integral part of these financial statements.

Group LVL '000	Notes	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Foreign currency translation reserve	Retained earnings	Non-controlling interest	Total equity and non-controlling interest
		Attributable to the Bank's shareholders							
Balance as at 31 December 2008		**12,149**	**12,300**	**626**	**5,364**	**(322)**	**10,800**	**663**	**41,580**
Loss for the period		-	-	-	-	-	(1,935)	-	(1,935)
Other comprehensive income		-	-	-	(597)	322	-	310	35
Total comprehensive income		-	-	-	(597)	322	(1,935)	310	(1,900)
Share issue		7,175	3,587	-	-	-	-	-	10,762
Non controlling interest of subsidiaries acquired		-	-	-	-	-	-	(968)	(968)
Dividends paid		-	-	-	-	-	(1)	-	(1)
Balance as at 31 December 2009		**19,324**	**15,887**	**626**	**4,767**	**-**	**8,864**	**5**	**49,473**
Loss for the period		-	-	-	-	-	(3,711)	-	(3,711)
Other comprehensive income		-	-	-	465	-	-	-	465
Total comprehensive income		-	-	-	465	-	(3,711)	-	(3,246)
Share issue		6,500	3,251	-	-	-	-	-	9,751
Balance as at 31 December 2010	35	**25,824**	**19,138**	**626**	**5,232**	**-**	**5,153**	**5**	**55,978**

Bank LVL '000	Notes	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2008		**12,149**	**12,300**	**626**	**5,364**	**11,293**	**41,732**
Loss for the period		-	-	-	-	(1,978)	(1,978)
Other comprehensive income		-	-	-	(597)	-	(597)
Total comprehensive income		-	-	-	(597)	(1,978)	(2,575)
Share issue		7,175	3,587	-	-	-	10,762
Dividends paid		-	-	-	-	(1)	(1)
Balance as at 31 December 2009		**19,324**	**15,887**	**626**	**4,767**	**9,314**	**49,918**
Loss for the period		-	-	-	-	(3,029)	(3,029)
Other comprehensive income		-	-	-	(4,580)	4,580	-
Total comprehensive income		-	-	-	(4,580)	1,551	(3,029)
Share issue		6,500	3,251	-	-	-	9,751
Balance as at 31 December 2010	35	**25,824**	**19,138**	**626**	**187**	**10,865**	**56,640**

During the first half of 2009, the Bank paid dividends on preferred shares in the amount of LVL 0.244 per share.

The accompanying notes on pages 9 to 76 form an integral part of these financial statements.

LVL '000	Notes	Group 2010	Group 2009	Bank 2010	Bank 2009
Cash flows to/ from operating activities					
(Loss) before corporate income tax		(3,627)	(1,879)	(3,904)	(1,975)
(Loss) from discontinued operations		(175)	-	-	-
Depreciation and amortisation expense	26,27	1,852	2,221	1,653	2,057
Increase in provisions and liabilites		833	11,345	940	9,753
(Gain)/loss on foreign currency translation		(1,496)	2,847	(1,468)	2,740
(Gain) on revaluation of investments		(1,648)	(515)	(1,648)	(499)
(Gain) on revaluation of investments property		(8,672)	(599)	(8,319)	(599)
Loss from revaluation of tangible assets		638	431	676	431
Other non-cash items included in profit before tax		-	(2,389)	-	(2,389)
(Gain) on sale of subsidiary		-	(336)	-	-
Loss from disposal of fixed and intangible assets	9,11	24	9	23	9
(Decrease) /increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities		**(12,271)**	**11,135**	**(12,047)**	**9,528**
(Increase)/ decrease in balances due from credit institutions		(4,596)	6,367	(3,412)	5,414
Decrease / (increase) in loans and advances to customers	19	15,619	(35,807)	18,015	(37,481)
(Increase) / decrease in financial assets at fair value through profit or loss		(4,331)	716	(4,543)	789
Decrease in financial assets held for trading		-	313	-	-
(Increase) / decrease available-for-sale financial assets		(66)	1	-	-
(Increase)in prepayments and accrued income		(116)	(141)	(108)	(150)
Decrease / (increase) in other assets		1,540	(4,611)	(550)	(2,903)
(Decrease) in balances due to credit institutions		(401)	(13,284)	(401)	(10,192)
Increase/ (decrease) in deposits from customers		99,347	(105,631)	97,334	(104,377)
Net decrease/(increase) in derivatives	21	420	(570)	420	(570)
(Decrease) in debt securities issued		-	(58)	-	(58)
Increase/(decrease) in deferred income and accrued expense		971	(102)	965	(98)
(Decrease)/ increase in other liabilities		(1,003)	(166)	256	(919)
Net increase/ (decrease) in cash and cash equivalents from operating activities		**95,113**	**(141,838)**	**95,929**	**(141,017)**
Corporate income tax paid		(73)	(45)	-	-
Net increase/ (decrease) in cash and cash equivalents		95,040	(141,883)	95,929	(141,017)
Cash flows to/ from investing activities					
(Purchase) of investment properties		(1,214)	-	(1,214)	-
Proceeds from sale subsidiaries		-	-	1,619	-
(Purchase) of fixed and intangible assets	27, 28	(864)	(708)	(827)	(563)
Proceeds from disposal of fixed and intangible assets		343	224	2	15
Investment in subsidiaries, net		-	-	(1,658)	(905)
(Purchase) of held to maturity investments		(5,714)	(2,996)	(5,714)	(2,996)
Proceeds from held to maturity investments		7,464	12,614	7,163	12,724
Increase/ (decrease) in cash and cash equivalents from investing activities		**15**	**9,134**	**(629)**	**8,275**
Cash flows to/ from financing activities					
(Repayment) of issued debt securities		(3,546)	-	(3,546)	-
Issue of shares		6,500	7,175	6,500	7,175
Share premium		3,251	3,587	3,251	3,587
Dividends paid		-	(1)	-	(1)
Proceeds from issue of subordinated debt		-	6,091	-	6,091
Net cash flows to/ from financing activities		**6,205**	**16,852**	**6,205**	**16,852**
Net increase/ (decrease) in cash and cash equivalents		**101,260**	**(115,897)**	**101,505**	**(115,890)**
Cash and cash equivalents at the beginning of the year	**37**	**123,012**	**241,694**	**122,788**	**241,356**
Foreign exchange difference		1,806	(2,785)	1,778	(2,678)
Cash and cash equivalents at the end of the year	**37**	**226,078**	**123,012**	**226,071**	**122,788**

Cash flows from interest and dividends

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Interest paid	16,373	16,104	16,522	15,819
Interest received	17,109	30,067	17,032	28,227
Dividends received	15	-	15	100

The Bank's cash flow has been in no way affected by the subordinated loan contract assigned and conveyed by Vladimirs Antonovs to SIA Warmut Latvia (LVL 6,215 thousand) and the collateral taken over from customers (LVL 16,397 thousand).

The accompanying notes on pages 9 to 76 form an integral part of these financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

AS Latvijas Krājbanka (hereinafter – the Bank) was founded in 1924 as Latvijas Pasta Krājbanka (*Latvian Post Savings Bank*). In June 1940, it was reorganised and included into the structure of the USSR Savings Bank. Until 1991, the main task of the Bank was to attract financial resources and service them within the framework of the Soviet banking system.

On 3 September 1991, the Supreme Council of the Republic of Latvia decided to re-establish AS Latvijas Krājbanka. AS Latvijas Krājbanka took over all rights of the former USSR National Savings Bank and on 15 October 1992 received a licence to perform banking operations. The Bank was registered with the Enterprise Register of the Republic of Latvia on 16 October 1992 as a state owned commercial bank. On 29 March 1994, the Bank was re-registered as a state joint-stock company Latvijas Krājbanka. In accordance with the Order of the Cabinet, dated 18 January 1996, the state joint stock company Latvijas Krājbanka was included in the list of entities to be privatised. During the first phase of the privatisation process, in 1997 the Bank was acquired by Rīgas Apvienotā Baltijas banka (Union Baltic Bank in Riga). During the subsequent public offering, the shares of the Bank were purchased by residents of Latvia using privatisation certificates. On 20 September 2005, Snoras, one of the largest commercial banks in Lithuania, purchased an 83.01% shareholding and became the major shareholder of the Bank. The Bank's financial statements are consolidated in the financial statements of the Snoras Group.

As at 31 December 2010, the Bank had its customer service centres in all regions of Latvia:

Region	*Customer service centres*
Riga	41 (43)
Latgale	22 (22)
Vidzeme, except for Riga	18 (21)
Kurzeme	19 (20)
Zemgale	9 (9)
Total	**109 (115)**

The comparatives for 2009 are disclosed in brackets.

The financial statements of the Group and the Bank for the year ended 31 December 2010 were approved by a resolution of the Bank's Board on 15 March 2011. The Group's and the Bank's shareholders have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies consistently applied (unless otherwise stated) throughout the years ended 31 December 2010 and 2009 is set out below:

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Latvian Financial and Capital Market Commission's *Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Firms and Investment Management Companies*.

b) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities which are measured at fair value: derivatives, financial assets and financial liabilities at fair value through profit or loss, land and buildings as well as investment properties.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group and the Bank.

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2009, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2010:

The Group has adopted the following new and amended IFRSs and IFRIC interpretations during the year:

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

The principal effects of these changes are as follows:

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes to IFRS 3 and IAS 27 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

The accompanying financial statements are reported in thousands of Lats (LVL 000's), unless stated otherwise.

c) *Basis of consolidation*

These consolidated financial statements comprise also separate financial statements of the Bank as at and for the years ended 31 December 2010 and 2009 in accordance with legal requirements. The Bank has consolidated its subsidiaries as disclosed in Note 23. Subsidiaries are consolidated from the date on which the control is transferred to the Bank. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal.

In preparing the consolidated financial statements, respective items have been evaluated in accordance with the uniform accounting policies and valuation principles applied by the Bank in conformity with the requirements of the Financial and Capital Market Commission and International Financial Reporting Standards as adopted by the European Union. The subsidiaries' financial statements are included in the Group's consolidated financial statements.

Non-controlling interest represents the portion of profit or loss and net assets that is not held by the Group and is presented in the statement of comprehensive income and under equity in the consolidated statement of financial position, separately from the parent's shareholders' equity.

All items in the Bank's and Group's financial statements have prior year comparatives. Should the difference between information on the Group and that on the Bank be insignificant, such information on the Group is not separately presented.

d) *Revenue and expense recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest revenue and expense are recognised in the statement of comprehensive income on an accrual basis using the effective interest rate (EIR). Interest revenue includes various fixed payments, coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted investments.

Commission and fee revenue and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee revenue and expense directly attributable to financial assets/ liabilities measured at amortised cost – for these assets/ liabilities the respective commission and fee revenue and expense form an integral part of the effective interest rate.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

e) *Foreign currency translation*

Transactions denominated in foreign currencies are translated into lats applying the official rates of exchange published by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the official rate of exchange prevailing at the year end. Any gain or loss resulting from currency rate fluctuations subsequent to the date of the transaction is included in the statement of comprehensive income as a profit or loss from revaluation of foreign currency positions.

The principal foreign exchange rates (LVL to 1 foreign currency unit) published by the Bank of Latvia and used in the preparation of the Group's and the Bank's statement of financial position were as follows:

Reporting date	USD	EUR
As of 31 December 2010	0.535000	0.702804
As of 31 December 2009	0.489000	0.702804

f) Corporate income tax

Corporate income tax at the rate of 15% (2009: 15%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred tax is provided for temporary differences between the tax base of an asset or liability and its carrying amount. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Reported deferred tax is based on the expected manner of realisation or settlement of the carrying amount of deferred assets and liabilities, using future tax rates enacted by the reporting date. Deferred income tax relating to items recognised directly in statement of comprehensive income is recognised in statement of comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

g) Earnings per share

Earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of shares in issue during the year.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders of the Group and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares (subordinated debt).

h) Asset impairment loss

Where the carrying amount of an asset is higher than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs (fair value less costs to sell), or the estimated future economic benefits arising from the use of the asset (value in use). The largest components of the Group's assets are periodically tested for impairment and impairments are provisioned through the profit and loss account "Impairment loss".

i) Impairment of financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial assets or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets (an incurred "loss event") and the loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Where possible, the Group and the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

j) Originated loans and loan impairment

The Management of the Group have considered both individual and collective (portfolio) risks in determining the allowance for credit losses (impairment). The specific allowance is determined after individually reviewing all loans for potentially uncollectible amounts and is based on the customer's financial position, value of collateral and fulfilment of loan agreement. The collective (portfolio) allowance relates to existing credit losses, as well as to the losses 'incurred, but not yet known' to the Group. This method permits to attribute each group of loans to historical loss experience for groups of assets with similar credit characteristics and observable market data reflecting current circumstances.

When a loan or advance has been classified as non-performing, an allowance for credit losses is established for that specific loan or advance for the amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the Group's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advance collectability and collateral values. Ultimate losses may vary from the current estimates.

The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance. The above estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the as Impairment losses in statement of comprehensive income in the reporting period in which they become known. The Management of the Group and the Bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available information.

When loans and advances cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

k) *Finance lease (the Group as a lessor)*

For the purposes of these financial statements, finance lease receivables are classified as *Loans and advances to customers*.

Finance lease receivables are recognised as assets on commencement of the lease term at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

l) *Operating lease (the Group as a lessor and lessee)*

Operating lease is a lease transaction other than a finance lease. The lessor bears substantially all the risks and benefits of ownership of the asset.

Operating lease is the type of lease when, in the event of a contract made for a certain period at the client's option, the client makes lease payments every month. In the case of an operating lease, the ownership of the asset is not transferred to the lessee after the end of the lease period. Operating lease revenue is recognised on a straight-line basis over the lease term.

Where the Group is the lessee, operating lease payments are recognised on a straight-line basis over the lease term.

m) *Financial instruments*

Classification

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and the ability to hold to maturity.

Financial instruments at fair value through profit or loss: the Group/ the Bank at inception has classified these financial assets or liabilities as designated at fair value through profit or loss and trading investments. The sub-category financial assets designated at fair value through profit or loss are classified based on how the management analyses these assets that is compliant with the documented risk management approach accepted by Asset and Liability Management Committee (ALMCo). Assets are classified as designated at fair value through profit or loss when the ALMCo makes a decision about financial assets and liabilities or a group of financial assets and liabilities before the transaction is initialised, and when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets or financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative unless the embedded derivative significantly modifies the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest rate method.

Available-for-sale assets are financial assets that are not classified in any of the above mentioned categories.

Financial liabilities are classified as those at fair value through profit or loss and those at amortised cost as appropriate.

Recognition

The Group recognises a financial asset or a financial liability on its statement of financial position when and only when the Group becomes a party to the contractual provisions of the instrument.

Purchases of securities are accounted for on the settlement date.

Measurement

Held-to-maturity investments are initially recognised at cost plus transaction costs and subsequently measured at amortised cost less impairment. Amortised cost is calculated using the effective interest method. Premiums or discounts, as well as initial transaction costs, are included in the carrying amount of the related financial instrument and amortised based on the effective interest rate of the instrument.

Revaluation of financial assets at fair value through profit or loss, financial assets held for trading and available-for-sale assets is based on quoted market prices. When the fair value of securities cannot be determined, the Group and the Bank applies alternative methods to define the fair value, using pricing models or discounted cash flow analysis.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Management's best estimates and the discount rate is a market rate at the reporting date for an instrument with similar terms and conditions and risk. Where pricing models are used, the information is based on the market valuation at the reporting date. There are no assets having no market price available.

Revaluation of financial assets and financial liabilities at fair value through profit or loss and financial assets held for trading is recognised directly as net result on sale of securities and foreign exchange trading and revaluation in the statement of comprehensive income.

Loans and receivables are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities accounted for at amortised cost are initially measured at fair value less any transaction costs that are directly attributable to the issue of the respective liability. Subsequently, they are measured at amortised cost using the effective interest method. The components of compound financial instruments such as convertible bonds that contain both liability and equity elements are accounted for separately. The equity component, representing the conversion feature of the bond, is measured at the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component at the date of issue. The fair value of the liability component at the date of issue is determined as the fair value of a bond with similar terms and conditions but without a conversion feature.

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group and the Bank have transferred their rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group and the Bank either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group and the Bank have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

n) Investments in privatisation certificates

Investments in privatisation certificates are stated at their market value determined in accordance with instructions of the Bank of Latvia.

Unrealized profits or losses arising as a result of stating privatisation certificates at market value are respectively credited or charged to the statement of income as profit or loss from the revaluation of securities.

o) Derivatives

In the normal course of business, the Group and the Bank is a party to contracts for forward foreign exchange rate and currency swap instruments. Financial assets and financial liabilities arising from recognising derivatives at their fair value are recognised in the statement of financial position as the assets or liabilities of these agreements. Foreign exchange instruments are valued according to the present value of the difference between the current forward rate at the reporting date for the remaining maturity of the contract, based on rates set by the Bank of Latvia, and the contractual rate. The revaluation result is disclosed as profit or loss from currency exchange trading.

p) Intangible assets

Intangible assets are recognised when it is probable that the asset will generate future economic benefits and their cost can be measured reliably. Intangible assets are amortised over their useful life on a straight-line basis. Computer software is treated as an intangible asset only when it is not an integral part of the related hardware. The amortisation rates in the range from 12.5% to 20% are applied to intangible assets.

q) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the statement of comprehensive income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

When subsidiaries are sold, the difference between the selling price and net assets plus cumulative translation differences and goodwill is recognised in the statement of comprehensive income.

r) Investments in subsidiaries in the separate financial statements of the Bank

Investments into subsidiaries in the Bank's stand-alone financial statements are carried at cost less impairment. The impairment is recognized in statement of comprehensive income.

The dividends received from those investments are included in the Bank's statement of comprehensive income.

s) Tangible assets

Tangible assets are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of tangible asset and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of tangible asset are required to be replaced at intervals, the Group and the Bank recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the tangible asset as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised as other operating expense in the statement of comprehensive income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as other operating expense in the statement of comprehensive income, in which case the increase is recognised as other operating revenue in the statement of comprehensive income. A revaluation deficit is recognised as other operating expense in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction and preparation are not depreciated. The following depreciation rates have been applied:

Type of tangible assets	Annual rate
Buildings	2%-6.667%
EDP equipment	25%
Equipment and fixtures	10%-33.33%
Vehicles	20%

Leasehold improvements and overhaul costs are capitalised and depreciated over the shorter of the useful life and the remaining lease period on a straight-line basis.

Depreciation methods, useful lives and recoverable amounts are reassessed annually.

An item of tagible asset and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included as other operating revenue or other operating expense in the statement of comprehensive income when the asset is derecognised.

t) Investment properties and investment property under construction

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included as other operating expense in the statement of comprehensive income in the period in which they rise.

Investment property under construction for future use as investment property is measured at fair value with changes in fair value being recognised in the statement of comprehensive income when fair value can be determined reliably. However, where fair value is not reliably determinable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably determinable.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised as other operating revenue or other operating expense in the statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

u) Assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

v) *Inventory (collaterals taken over for realization)*

Foreclosed properties and other properties classified as current assets are included in Collaterals taken over for realization and recorded in Other assets. They are carried at the lower of book value and net realizable value.

w) *Sale and repurchase agreements*

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's statement of financial position and are subject to the Group's usual accounting policies, with the purchase price received stated as a liability to the transferee.

Where the Group is the transferee, the assets are not recognised in the Group's statement of financial position, but the purchase price paid to the transferor is included as a receivable from the transferor. Interest revenue or expense arising from outstanding sale and repurchase agreements is recognised in the statement of comprehensive income over the term of the agreement.

x) *Cash and cash equivalents*

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with the original maturity of three months or less. Cash and cash equivalents are short-term, highly liquid assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

y) *Provisions*

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

z) *Vacation pay reserve*

The vacation pay reserve is calculated for each employee of the Group based on the total number of vacation days earned but not taken multiplied by the average daily remuneration expense for the last six months of the year plus relevant statutory social insurance contributions, which in essence represent the expected cash flows.

aa) *Other off-balance sheet financial instruments*

In the ordinary course of business, the Group is involved with commitments to extend loans and advances, set limits for credit cards accounts, issue overdrafts and financial guarantees, as well as commercial letters of credit. Such financial instruments are recorded in the financial statements as follows:

- Commitment to extend loans and advances, credit card and overdraft facilities are recognised on drawdown;
- Financial guarantees and letters of credit are recognised when the related fee received as consideration is recognised.

bb) *Assets and liabilities under management*

Assets and liabilities managed by the Group on behalf of its customers, trusts and other institutions are not regarded as assets or liabilities of the Group and, therefore, are not included in its statement of financial position. The Group assumes no control, no risk and no rights for assets and liabilities under management.

cc) *Fair value of financial assets and liabilities*

The fair value of financial assets and liabilities represent the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If the Group's Management consider that the fair value of financial assets and liabilities is different from their carrying amounts, the fair value of financial assets and liabilities is disclosed in the notes to the financial statements.

dd) *Significant accounting judgements and estimates*

In the process of applying the Group's and the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgements and estimates are as follows:

Going concern

The Group's and the Bank's management has made assessment of the Group's and the Bank's ability to continue as going concern and is satisfied that the Group and the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's and Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. The assessment of ability to continue as going concern is described in more detail in Note 49.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgements include considerations of liquidity and model inputs. The valuation of financial instruments is described in more detail in Note 38.

Impairment losses on loans and advances

The Group and the Bank review its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgement but management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group and the Bank makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In 2010, the Group and the Bank revised the conditions for individual evaluation of loans and advances, by significantly reducing the significance threshold for the Bank's loan portfolio up to LVL 200,000 to assess loans and advances individually according to the requirements of IAS 39.

The revision of the assessment procedure did not produce any material impact on the total allowance amount

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios etc), concentration of risks and economic data (real estate prices indices, average level to settle consumer obligations and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 12 and 19.

Revaluation of tangible assets, investment property and investment property under construction

The Group and the Bank carried its investment properties and investment property under construction at fair value, with changes in fair value being recognized as other operating revenue or other operating expense in the statement of comprehensive income. In addition, it measures land and buildings at revaluated amounts with changes in fair value being recognized in other comprehensive income. The Group and the Bank engaged independent valuation specialists to determine fair value as at 31 December 2010. The valuator used a valuation techniques based on comparable market data and discounted future income. More details on values of investment properties are disclosed in Note 22 and on land and buildings in 27.

Impairment losses on deposit for AP Anlage & privatbank AG share purchase

Investments are also subject to assessment. The Bank recognises impairment if there is objective evidence that an impairment loss has been incurred at the assessment date or there are objective circumstances that have an impact on the estimated future investment value that can be reliably estimated. If the impairment of an investment cannot be determined, an impairment loss is measured based on competent judgment, like valuation by a duly licensed or certified independent party or legal evidence of a loss given default. See also Note 17.

ee) *Adoption of new and revised IFRSs*

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendments to IFRS 7 *Financial instruments: Disclosures* (effective for financial years beginning on or after 1 July 2011, once adopted by the EU)
The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Group does not have these kinds of transfers.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).
IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 12 *Income Taxes* (effective for financial years beginning on or after 1 January 2012, once adopted by the EU).
The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Group has not estimated yet the impact of the implementation of these changes.

Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011).
The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

Amendment to IAS 32 *Financial Instruments: Presentation* – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010).

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

***Improvements to* IFRSs**

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial instruments: Disclosures*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IFRIC 13 *Customer Loyalty Programmes*.

Amendment to IFRIC 14 IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011).

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 July 2010).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

3. INTEREST REVENUE AND EXPENSE

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Interest revenue				
Loans and advances to customers	23,157	30,393	23,150	28,642
Incl. impaired	748	972	748	972
Securities	1,271	2,386	1,271	2,377
Incl. held-to-maturity investments	1,015	1,850	1,015	1,850
Incl. financial assets held for trading	2	11	2	2
Incl. financial assets at fair value through profit or loss	254	525	254	525
Balances due from credit institutions	798	1,450	748	1,418
Total interest revenue	**25,226**	**34,229**	**25,169**	**32,437**
Interest expense:				
Deposits from customers	(19,996)	(21,504)	(20,155)	(21,669)
Balances due to credit institutions	(6)	(914)	(6)	(515)
Debt securities issued	(6)	(107)	(6)	(107)
Contributions to the deposit guarantee fund	(1,186)	(858)	(1,186)	(858)
Subordinated debt	(1,452)	(1,021)	(1,452)	(1,021)
Total interest expense	**(22,646)**	**(24,404)**	**(22,805)**	**(24,170)**
Net interest revenue	**2,580**	**9,825**	**2,364**	**8,267**

In 2010, interest revenue from loans and advances to customers decreased against the end of 2009, which is chiefly due to the falling loan interest rates. BOR rates to which most of the loan portfolio is pegged continued dropping during 2010. Specifically, the LVL Rigibor benchmark rates plunged in the 2010 year, from 12% to approximately 2% on average. Interest rates for EUR and USD loans also remained extremely low. This tendency was observed throughout the entire banking sector.
In addition, a decrease in the loan portfolio was reported in the 2010.

4. INTEREST PRODUCTIVITY OF THE BANK'S STATEMENT OF FINANCIAL POSITION

		2010			2009		
	LVL '000	Average monthly balance	Interest	Effective interest rate	Average monthly balance	Interest	Effective interest rate
	Assets						
	Cash and deposits with central banks	96,707	582	0.60	35,805	356	0.99
	Due from credit institutions	94,377	166	0.18	96,604	1,062	1.10
	Financial investments	17,062	1,271	7.45	16,638	2,377	14.29
	Derivative assets	341	-	-	873	-	-
	Loans and advances to customers	366,063	23,150	6.32	354,333	28,642	8.08
	Other assets	56,064	-	-	46,692	-	-
A	**Total assets**	**630,614**	**25,169**	**3.99**	**550,945**	**32,437**	**5.89**
	Liabilities						
	Deposits from customers	536,143	21,341	3.98	450,296	22,527	5.00
	Due to credit institutions	1,612	6	0.37	17,399	515	2.96
	Derivatives liabilities	129	-	-	683	-	-
	Subordinated debt	15,426	1,452	9.41	10,920	1,021	9.35
	Debt securities issued	283	6	2.12	3,514	107	3.04
	Other liabilities	28,271	-	-	25,856	-	-
B	**Total liabilities**	**581,864**	**22,805**	**3.92**	**508,668**	**24,170**	**4.75**
	Shareholders' equity	48,748	-	-	42,277	-	-
C	**Total liabilities and shareholders' equity**	**630,612**	**22,805**	**3.62**	**550,945**	**24,170**	**4.39**

Net interest revenue		**2,364**			**8,267**	
***Investment spread* % (A-C)**			**0.37%**			**1.50%**

There is no significant difference in productivity between the Bank and the Group.

5. COMMISSION AND FEE REVENUE AND EXPENSE

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Commission and fee revenue:				
Payment cards	4,956	3,688	4,956	3,688
Money transfers	1,946	2,099	1,946	2,099
Maintenance fee	505	487	505	487
Cash services	359	378	359	378
Transactions with privatisation certificates	218	241	218	241
Trust operations	70	155	70	155
Brokerage fee	103	147	103	147
Other	971	1,052	943	671
Total commission and fee revenue	**9,128**	**8,247**	**9,100**	**7,866**
Commission and fee expense:				
Payment cards	(2,476)	(1,789)	(2,476)	(1,789)
Settlements	(155)	(148)	(155)	(148)
Other	(952)	(437)	(1,124)	(899)
Total commission and fee expense	**(3,583)**	**(2,374)**	**(3,755)**	**(2,836)**
Net commission and fee revenue, excluding financial intermediation	**5,545**	**5,873**	**5,345**	**5,030**

6. NET RESULT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING AND REVALUATION

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Net result from trading with foreign currency	972	10,247	978	10,247
Net result on sale of financial assets at fair value through profit or loss	139	302	139	302
Incl. financial assets at fair value through profit or loss	128	299	128	299
Incl. from credit institutions	-	157	-	157
Incl. from securities	(3)	-	(3)	-
Incl. from privatization certificates	131	142	131	142
Incl . financial assets held for trading	11	3	11	3
Net result from revaluation of financial assets	1,648	515	1,648	499
Incl. financial assets at fair value through profit or loss	1,658	499	1,658	499
Incl. from central government	-	114	-	114
Incl. from securities	75	(218)	75	(218)
Incl. from privatization certificates	1,500	523	1,500	523
Incl. from shares	83	80	83	80
Incl. financial assets held for trading	(10)	16	(10)	-
Net result from revaluation of foreign currency positions	1,496	(2,847)	1,468	(2,740)
Total net result on sale of securities and foreign exchange trading and revaluation	**4,255**	**8,217**	**4,233**	**8,308**

In 2010, the gain from trading with foreign currency decreased against 2009 because the market frenzy (affected by the concerns about the lat devaluation) ceased and the situation on the market stabilised. The volume of exchange transactions declined.

At the end of 2010, large transactions were made with customers, involving the purchase of privatisation certificates.

The gain from revaluation of foreign currency positions is a result of USD exchange transactions. The USD exchange rate fixed by the Bank of Latvia and the market participants was extremely volatile, which also affected the revaluation position.

7. FINANCIAL INTERMEDIATION

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Fee for financial services*	-	4,920	-	4,920
Gain on sale of shares and options**	-	700	-	-
Total other operating revenue	**-**	**5,620**	**-**	**4,920**

*At the beginning of September 2009, the Bank was approached by a customer (hereinafter – the Customer) which offered participation in a purchase of shares in a foreign company. The Bank analysed the prior positive cooperation with the Customer and the transaction and supported conceptually its potential involvement in the Customer's transaction with the aim to benefit from the significant compensation in case of Customer's success in the purchase of shares, provided that the Bank would act solely on behalf of the Customer and using the Customer's funds (trust) and any shares that would be acquired would be deemed to have been transferred into trust with the Bank.

On 29 December 2009, the Bank signed a cooperation agreement with the Customer whereby the Bank was engaged to participate in the above share purchase transaction jointly with the Customer, using the Customer's funds, and in the Customer's best interests, and signed a purchase agreement with the seller. Any shares that would be registered in the Bank's name as a result of the transaction would be deemed to have been transferred into trust with the Bank and would be acquired at Customer's expense.

The Bank's involvement was critical as the Customer alone would not be able to make the transaction because the Customer's status did not comply with the regulations approved by the seller (business activity of the participant of at least 5 years, or an annual turnover amounted to EUR 10 million in the last business year before participation in the transaction and to have generated profit in the past 3 business years, showing profit for each year separately). Owing to the trust service provided by the Bank, the Customer was able to acquire the shares for EUR 2.2 million - rather a low price in comparison to the market value of these shares as established by licensed valuators.

As a result, the fee due to the Bank for the organisation and servicing of the above trust was rather high - the Customer agreed to pay to the Bank the remuneration in the amount of EUR 7 million, where EUR 6,987 million are to be paid as the remuneration for the provided financial services attributed to the acquisition and EUR 13 thousand – for the provided trust services. The total fee amount was recorded in revenue at the date of the agreement.

Within the scope of described transaction The Bank has provided loans to the Customer in the amount of EUR 2.5 million (for the financing of share acquisition) and in the amount of EUR 7 million (for the financing of above mentioned remunerations). The collateral for above mentioned loans serves shares of purchased company, in value, as estimated by independent valuations, more than twice exceeding total Bank's exposure as of balances sheet date.

** At the end of December 2009, the Bank and its subsidiary SIA Krājinvestīcijas (hereinafter – Krājinvestīcijas) were approached by the shareholders of a company incorporated in the Republic of Latvia (hereinafter – the Company) seeking an investment into the Company's share capital by acquiring 67% of its total shares for LVL 696,130. Such kind of an investment was dissimilar to the Bank's core business; however, the Bank suggested another customer (hereinafter – the Investor) willing to acquire the shares. Additionally to the share purchase agreement former shareholders purchased a call option on the shares sold to Krājinvestīcijas. The share purchase price at which the call option can be realized is LVL 40,000,000. Due to the fact that the shares were sold to the Investor, the fulfilment obligations of the call option (actual delivery of the shares to the person asking for the fulfilment of call option) have also subsequently been transferred to the Investor and Krājinvestīcijas have been waived from any liability whatsoever in that regard. In this financial deal were not involved related persons or companies to the Bank. For the mediation the Group earned fee of LVL 700,000.

8. PENALTY INCOME

A major part of penalties received represents penalties for non-compliance with contract terms and conditions on card transactions and penalty charged for the loan transaction in the amount of LVL 2,389 thousand (for details see below).

On 1 July 2008, a customer was issued a loan of LVL 2,528 thousand having a yacht pledged as collateral for the loan. In 2009, the customer began to default on the loan payments. On 14 August 2009, an agreement was signed with the customer on additional penalties to be applied. A penalty of LVL 1,195 thousand was fixed for any delay exceeding 30 calendar days. The parties agreed that in the event of a repeated delay in loan principal/ interest payments for more than 30 calendar days, the Bank will be entitled to exercise its contractual rights to impose the penalty repeatedly. In addition, the Bank may take over the abode yacht, with the borrower compensating all expenses and costs related to the collateral takeover. The customer delayed the loan principal/ interest payments repeatedly and, therefore, the procedures stipulated by the agreement became applicable. According to the agreement, the customer was given a possibility to sell the yacht and so repay the loan balance/ accrued interest due. After the customer's failure to do this, the yacht was taken over by and registered in the Bank's name on 27 December 2009. The yacht takeover was carried out pursuant to the conditions agreed on with the customer in writing. To estimate the recoverable amount of the yacht, the valuation of the yacht was performed by international valuation company, which arrived at an estimated fair value of USD 9,500,000 (LVL 4,645 thousand). In accordance with IFRS 5 the asset should be recognised at the lower of cost and fair value where cost represents the total amount of the customer's liabilities against the Bank. The yacht has been accounted at cost, i.e. LVL 4,275 thousand. By taking over the collateral, the Bank has settled the customer's loan liabilities and interest accrued by the date of the takeover in the amount of LVL 1,845 thousand and penalty of LVL 2,389 thousand as well as the expenses related to the collateral takeover by the Bank of LVL 40 thousand.

According to the Bank's strategy, holding of such an asset is dissimilar to the Bank's core business and, therefore, the Bank is planning to sell this asset in the nearest future, see also note 25 and note 28.

9. OTHER OPERATING REVENUE

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Gain from fair value adjustment of investment property (see note 22)	8,672	599	8,319	599
Rental revenue	194	156	147	156
Lease services	251	113	-	-
Insurance premiums	545	80	-	-
Gain on sale of subsidiaries	-	762	-	-
Gain on sale of tangible assets	1	12	1	12
Other operating revenue	722	388	582	210
Total other operating revenue	**10,385**	**2,110**	**9,049**	**977**

10. PERSONNEL EXPENSE

Personnel expense includes remuneration to the Council, the Board and other employees of the Bank as well as related statutory social insurance contributions and costs of other benefits.

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Remuneration to the Council	388	495	386	491
Remuneration to the Board	510	755	341	581
Remuneration to other personnel	7,796	7,907	7,431	7,283
Statutory social insurance contributions	1,931	2,204	1,804	2,002
Total remuneration and related statutory social insurance contributions	**10,625**	**11,361**	**9,962**	**10,357**

The total number of personnel employed by the Bank and the Group is specified as follows:

	Group 2010	Group 2009	Bank 2010	Bank 2009
Board Members	25	22	5	5
Other management personnel	45	40	38	35
Other personnel	920	879	852	816
Total number of personnel employed	**990**	**941**	**895**	**856**

The Bank has entered into employment agreements with three Board Members granting the six-month average salary in case of their dismissal.

11. OTHER OPERATING EXPENSE

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Rent of premises and land	2,380	2,141	2,485	2,141
Non-refundable value added tax	1,371	1,445	1,362	1,424
Consulting and professional fees	422	1,187	384	710
Advertising and marketing	660	735	637	646
Repairs and maintenance of premises and buildings	664	690	657	645
Communications	622	601	608	592
EDP maintenance	623	551	620	549
Training and other personnel expense	18	12	15	6
Business trips	1,695	517	1,694	517
Car maintenance	372	430	351	323
Insurance	586	427	105	266
Security	374	379	455	374
Participation fees and payments to funds	151	199	141	199
Office expense	131	107	106	104
Audit fees	126	88	93	75
Property and real estate tax	66	42	59	38
Loss on disposal of tangible assets	24	29	24	29
Other operating expense	2,113	1,535	1,884	1,290
Total operating expense	**12,398**	**11,115**	**11,680**	**9,928**

In 2007, the Bank concluded an operating lease contract for the usage of real estate and land. The building at 15 Jāņa Daliņa iela is being used as an administrative office. The term of the lease contract is 20 years, ending 31 March 2027. The total expected minimum lease payment amounts to LVL 23,265 thousand. That includes payments up to one year of LVL 1,355 thousand, payments from one to five years – LVL 5,421 thousand, and LVL 16,489 thousand for payments over five years.

Since 2008, the Bank has concluded operating lease contracts with SIA SEB līzings and SIA LKB Lizings for the periods from one to seven years for the lease of 61 cars. According to those contracts, the operating lease payment per year is LVL 212 thousand. The total amount of operating lease payments throughout the remaining period is LVL 562 thousand. The payments up to one year amount to LVL 16 thousand, from one up five years – LVL 390 thousand, more than five years – LVL 156 thousand.

12. IMPAIRMENT LOSSES

The analysis of impairment losses for the Bank and the Group is presented as follows:

Group **LVL`000**	**Impairment losses for loans**	**Other impairment losses**	**Off-balance sheet provisions**	**Total**
Impairment losses as at 31 December 2008	**6,168**	**176**	**-**	**6,344**
Impairment losses	13,240	80	-	13,320
Reversal of impairment losses	(1,743)	-	-	(1,743)
Recovery of assets previously written off	(232)	-	-	(232)
Net charge to impairment losses in the statement of comprehensive income	**11,265**	**80**	**-**	**11,345**
Foreign exchange movements	(430)	-	-	(430)
Subsidiary's impairment losses upon acquisition of subsidiary (non-controlling interest)	(2,943)	-	-	(2,943)
Net write-offs and recovery of assets written down in off-balance sheet	(1,938)	(16)	-	(1,954)
Impairment losses as at 31 December 2009	**12,122**	**240**	**-**	**12,362**
Impairment losses	6,689	16	-	6,705
Reversal of impairment losses	(5,615)	(45)	-	(5,660)
Recovery of assets previously written off	(149)	-	-	(149)
Net charge to impairment losses in the statement of comprehensive income	**925**	**(29)**	**-**	**896**
Foreign exchange movements	2	-	-	2
Net write-offs and recovery of assets written down in off-balance sheet	116	(8)	-	108
Interest accrued on impaired loans and advances	(748)	-	-	(748)
Impairment losses as at 31 December 2010	**12,417**	**203**	**-**	**12,620**

Bank **LVL`000**	**Impairment losses for loans**	**Other impairment losses**	**Off-balance sheet provisions***	**Total**
Impairment losses as at 31 December 2008	**4,254**	**176**	**-**	**4,430**
Impairment losses	10,730	10	902	11,642
Reversal of impairment losses	(1,657)	-	-	(1,657)
Recovery of assets previously written off	(232)	-	-	(232)
Net charge to impairment losses in the statement of comprehensive income	**8,841**	**10**	**902**	**9,753**
Foreign exchange movements	1	-	-	1
Net write-offs and recovery of assets written down in off-balance sheet	(1,876)	(16)	-	(1,892)
Impairment losses as at 31 December 2009	**11,220**	**170**	**902**	**12,292**
Impairment losses	6,689	16	-	6,705
Reversal of impairment losses	(5,089)	(1)	(526)	(5,616)
Recovery of assets previously written off	(149)	-	-	(149)
Net charge to impairment losses in the statement of comprehensive income	**1,451**	**15**	**(526)**	**940**
Foreign exchange movements	2	-	-	2
Net write-offs and recovery of assets written down in off-balance sheet	116	(8)	-	108
Interest accrued on impaired loans and advances	(748)	-	-	(748)
Impairment losses as at 31 December 2010	**12,041**	**177**	**376**	**12,594**

*On 29 December 2009, a guarantee agreement was signed with a subsidiary LKB Līzings. According to the agreement, the Bank as the guarantor will be responsible for settling the debts of the subsidiary's customers as soon as LKB Līzings issues a written notice to the Bank stating any customer's default by more than 90 days. The related impairment loss is based on the customer default information supplied by LKB Līzings. Impairment losses for off-balance sheet commitments amount to LVL 376 thousand (2009: LVL 902 thousand). The impairment losses were calculated as collective impairment based on same principles which are applied for Bank's impairment calculation.

Reversal of impairment loss includes enhancement of credit risk in amount of LVL 3.5 million from consideration arising from additional collateral placed. The collateral has been provided by a related legal party.

13. OTHER COMPREHENSIVE INCOME

During the year the Bank transferred certain property and land totalling LVL 11,068 thousand to newly established subsidiaries by investing these assets in equity of the subsidiaries. The aforementioned property and land had been carried at fair value and revaluation reserve net of deferred tax in amount of LVL 4,580 thousand was recognised during previous years. At time of transfer of assets to subsidiaries all related revaluation reserve was reclassified to retained earnings through other comprehensive income statement with no net effect. At Group level no changes took place, except deferred tax on revaluation was released as the new carrying values of these assets equal to their carrying tax values.

14. CORPORATE INCOME TAX

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Deferred tax income	(118)	3	(622)	3
Corporate income tax	27	53	-	-
Corporate income tax for the reporting year	**(91)**	**56**	**(622)**	**3**

The reconciliation of corporate income tax at the statutory rate of 15% (2009: 15%) and the actual corporate income tax expense is as follows:

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
(Loss) / profit before corporate income tax	(3,627)	(1,879)	676	(1,975)
Tax at the applicable rate of 15% (2009: 15%)	(544)	(282)	101	(296)
Non-deductible expenses, net	453	338	(723)	299
Corporate income tax for the reporting year	**(91)**	**56**	**(622)**	**3**

Changes in the deferred tax liability during the current year can be specified as follows:

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Deferred tax liability at the beginning of the reporting year	847	930	847	930
Deferred tax charged to the statement of comprehensive income	(118)	3	(622)	3
Deferred tax charged to statement of comprehensive income	(504)	(86)	-	(86)
Deferred tax liability at the end of the reporting year	**225**	**847**	**225**	**847**

The deferred tax assets and liabilities relate to the following items:

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Deferred tax liability:				
- temporary difference on the depreciation of tangible assets for financial and taxation purposes	432	1,140	432	1,140
Deferred tax asset:				
- loan commissions	(148)	(172)	(148)	(172)
- other provisions	(59)	(121)	(59)	(121)
Deferred tax liability	**225**	**847**	**225**	**847**

According to Section 14 of the Law on Corporate Income Tax, if the adjustment of the taxpayer's profit or loss for the taxation period results in a loss, such loss may be covered in chronological sequence from the taxable income of the subsequent eight taxation periods.

Bank's tax loss carried forward may be utilised as follows:

	Tax loss	Expiry term
Tax loss for 2009	(252)	2017
Tax loss for 2010	5,669	2018

15. EARNINGS PER SHARE

Earnings per share are calculated based upon the profit after taxation and the average number of shares in issue during the year.

	Group 2010	Group 2009
Profit after taxation (LVL'000)	(3,711)	(1,935)
Average number of shares in issue (thousand)	20,909	13,519
Earnings per share	**(0.177)**	**(0.143)**

Preference shares have not been included.

Diluted earnings per share are calculated based on the agreements, which in future might impact the number of shares in issue, as well as leave an impact on the current year statement of comprehensive income. Thus the diluted earnings per share are calculated by dividing profit or loss after taxation adjusted for the interest paid on subordinated debt, by the average number of shares in issue during the year adjusted for the effects of the amount of shares, which might be issued by converting subordinated debt from Convers Group Management Company at the ratio of LVL 1.15 of subordinated debt per one share (see Note 34).

	Group 2010	Group 2009
Profit after taxation (LVL'000)	(3,711)	(1,935)
Interest for subordinated debt, net of income tax (LVL'000)*	-	-
	(3,711)	**(1,935)**
Average number of shares in issue (thousand)	20,909	13,519
Potential shares as a result of conversion of subordinated debt (thousand)*	-	-
	20,909	**13,519**
Diluted earnings per share (LVL)	**(0.177)**	**(0.143)**

*The potential shares as a result of conversion of subordinated debt were not included in the calculation of diluted earnings per share because they were anti-dilutive for the year 2010 and year 2009.

As of the reporting date until the date of preparing these financial statements there have been no any transactions made with ordinary shares or potential ordinary shares, which could require revision of earnings per share.

16. CASH AND DEMAND DEPOSITS WITH CENTRAL BANKS

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Cash	10,419	10,563	10,419	10,563
Deposits with the Bank of Latvia	125,440	33,769	125,440	33,769
Total cash and demand deposits with central banks	**135,859**	**44,332**	**135,859**	**44,332**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement. As at 31 December 2010, the compulsory reserves were LVL 26,845 thousand (2009: LVL 23,695 thousand). In the reporting year, the Bank complied with the compulsory reserve requirement.

17. DUE FROM CREDIT INSTITUTIONS

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Demand deposits	68,928	92,994	68,921	92,860
Term deposits	35,699	9,470	34,514	9,379
Total balances due from credit institutions	**104,627**	**102,464**	**103,435**	**102,239**

Balances due from credit institutions by geographical profile:

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Placements with Latvian commercial banks	2,104	40,533	912	40,308
Placements with OECD banks	60,939	24,926	60,939	24,926
Placements with other banks	41,584	37,005	41,584	37,005
Total balances due from credit institutions	**104,627**	**102,464**	**103,435**	**102,239**

On 24 April 2008, AS Latvijas Krājbanka signed an agreement with AS Parex banka on the acquisition of the shares in AP Anlage & privatbank AG. Considering that the circumstances giving rise to the Bank's duty to carry out the actions to close the transaction had not become effective until the date of the transaction, on 23 October 2009 the Bank filed to AS Parex banka a notice of dispute demanding repayment of the amount of EUR 5,000,000 paid. Based on the above notice, AS Parex banka has repaid part of the advance payment so made in the amount of EUR 3,000,000 plus interest accrued thereon. AS Parex banka has not repaid the balance of EUR 2,000,000 and sent the Bank a notice announcing its unilateral withdrawal from the agreement. The parties have failed to reach an agreement on the repayment of the above balance and the Bank has filed to the London Court of International Arbitration an arbitration application to consider the dispute between the Bank and AS Parex banka regarding the repayment of EUR 2,000,000 and the payment of interest charged pursuant to the escrow account agreement in the amount of EUR 139,761. The above amounts have not been impaired on 31 December 2010.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Financial assets at fair value through profit or loss				
Government bonds	1,580	2,518	1,580	2,402
Credit and other financial institutions bonds	4,760	2,273	4,760	1,893
Corporate bonds	4,043	-	4,043	-
Municipal bonds	-	198	-	134
Shares	585	172	585	520
Privatisation certificates	182	10	182	10
Financial assets at fair value through profit or loss, excluding derivatives	**11,150**	**5,171**	**11,150**	**4,959**
Derivatives (Note 20)	**22**	**550**	**22**	**550**
Total financial assets at fair value through profit or loss	**11,172**	**5,721**	**11,172**	**5,509**

19. LOANS AND ADVANCES TO CUSTOMERS

The analysis of loan loss impairment per categories for the Bank and the Group is as follows:

LVL'000	Group 2010	Group 2009	Bank 2010	Bank 2009
Business loans	188,486	198,126	187,409	200,405
Accumulated loan loss impairment at the beginning of the reporting year	(3,696)	(734)	(3,696)	(734)
Charge for the year	(2,043)	(3,380)	(2,043)	(3,380)
Recoveries	1,878	418	1,878	418
Accumulated loan loss impairment at the end of the reporting year	(3,861)	(3,696)	(3,861)	(3,696)
Utilised credit lines	26,305	32,392	43,507	56,586
Accumulated loan loss impairment at the beginning of the reporting year	(561)	(220)	(561)	(220)
Charge for the year	(1,126)	(341)	(1,126)	(341)
Recoveries	440	-	440	-
Accumulated loan loss impairment at the end of the reporting year	(1,247)	(561)	(1,247)	(561)
Mortgage loans	57,327	61,398	57,327	61,398
Accumulated loan loss impairment at the beginning of the reporting year	(1,811)	(858)	(1,811)	(858)
Charge for the year	(1,180)	(1,178)	(1,180)	(1,178)
Recoveries	862	225	862	225
Accumulated loan loss impairment at the end of the reporting year	(2,129)	(1,811)	(2,129)	(1,811)
Consumer loans	12,863	17,254	12,863	17,254
Accumulated loan loss impairment at the beginning of the reporting year	(1,903)	(2,987)	(1,903)	(1,159)
Charge for the year	(518)	(1,460)	(518)	(1,460)
Recoveries	849	2,544	849	716
Accumulated loan loss impairment at the end of the reporting year	(1,572)	(1,903)	(1,572)	(1,903)
Debit balance of settlement cards and overdrafts	4,487	5,460	4,487	5,460
Accumulated loan loss impairment at the beginning of the reporting year	(1,351)	(602)	(1,351)	(602)
Charge for the year	(327)	(879)	(327)	(879)
Recoveries	330	130	330	130
Accumulated loan loss impairment at the end of the reporting year	(1,348)	(1,351)	(1,348)	(1,351)
Other loans	38,600	38,685	38,600	38,685
Accumulated loan loss impairment at the beginning of the reporting year	(1,898)	(681)	(1,898)	(681)
Charge for the year	(1,235)	(1,437)	(1,235)	(1,437)
Recoveries	1,249	220	1,249	220
Accumulated loan loss impairment at the end of the reporting year	(1,884)	(1,898)	(1,884)	(1,898)
Finance lease	16,077	19,993	-	-
Accumulated loan loss impairment at the beginning of the reporting year	(902)	(86)	-	-
Charge for the year	-	(902)	-	-
Recoveries	526	86	-	-
Accumulated loan loss impairment at the end of the reporting year	(376)	(902)	-	-
Net loans	**331,728**	**361,186**	**332,152**	**368,568**

The analysis of loan loss impairment in breakdown by impairment categories for the Bank and the Group is as follows:

LVL'000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Individual impairment	5,274	6,956	5,274	6,054
Impairment of homogeneous loan pools	4,252	3,982	3,876	3,982
Outstanding interest	2,891	1,184	2,891	1,184
Accumulated loan loss impairment at the end of the reporting year	**12,417**	**12,122**	**12,041**	**11,220**

Loans and advances to customers before impairment losses by industry:

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Private individuals	117,308	127,637	113,468	123,066
Real estate management	52,830	62,157	52,277	61,539
Transport, warehousing and communications	35,432	42,080	33,994	40,661
Manufacturing	29,590	27,674	27,079	26,340
Financial intermediaries	32,543	25,824	49,807	45,810
Construction	10,237	16,096	8,181	13,045
Hotels and restaurants	10,103	16,375	9,833	15,976
Retail and wholesale	12,459	14,591	9,700	10,857
Debt collection	13,147	12,941	13,147	12,941
Other service industries	8,414	9,047	7,037	6,257
Sports and leisure activities	8,006	7,798	8,006	7,798
Agriculture and forestry	5,523	6,433	3,901	4,788
Investment companies	2,305	1,861	1,735	8,144
State administration and healthcare	1,100	1,239	1,046	1,216
Electricity, gas and water utilities	4,695	1,058	4,529	853
Computer services	453	497	453	497
Total loans and advances to customers, gross	**344,145**	**373,308**	**344,193**	**379,788**

Loans issued to corporate customers specifically for the purpose of constructing buildings or other constructions have been classified in the above industry profile as loans and advances to the construction industry.

As at 31 December 2010 and 2009, the interest accrued on individually impaired loans was LVL 1,774 thousand and LVL 1,425 thousand respectively.

The Bank does not have any significant concentrations of credit risk.

During the reporting year, the Bank took over several immovable properties, land plots and vehicles. As at 31 December 2010, the total value of these items was LVL 28,790 thousand. The items have been classified based on the purpose of use. The items amounting to LVL 23,600 thousand have been stated at fair value and classified as investment properties (see also Note 21), while the items of LVL 5,190 thousand have been recognised at cost and classified as other assets.

Finance lease

The present value of minimum lease payments by maturity:

LVL '000	2009			2010			Future payments			
Maturity	Issued	Repaid	31/12	Issued	Repaid	31/12	Within one year	Between 1 - 5 years	More than 5 years	Total
Within one year	23	89	17	101	81	37	37	-	-	37
Between 1 and 5 years	3,774	4,315	3,569	6,136	1,223	8,482	3,155	5,327	-	8,482
More than 5 years	869	3,708	14,382	154	6,971	7,565	1,362	3,048	3,155	7,565
Total finance lease portfolio (A)	**4,666**	**8,112**	**17,968**	**6,391**	**8,275**	**16,084**	**4,554**	**8,375**	**3,155**	**16,084**

Future interest revenue by maturity:

LVL '000	2009			2010			Future payments			
Maturity	Calculated	Received	31/12	Calculated	Received	31/12	Within one year	Between 1 - 5 years	More than 5 years	Total
Within one year	1	1	13	1	1	14	1	-	-	1
Between 1 and 5 years	536	527	792	434	424	1,226	408	426	-	834
More than 5 years	381	375	1,513	217	213	1,730	204	372	73	649
Total future interest revenue (B)	**918**	**903**	**2,318**	**652**	**638**	**2,970**	**613**	**798**	**73**	**1,484**

Minimum finance lease payments by maturity:

LVL '000	2009			2010			Future payments			
Maturity	Calculated	Received	31/12	Calculated	Received	31/12	Within one year	Between 1 - 5 years	More than 5 years	Total
Within one year	24	6,169	30	102	82	50	38	-	-	38
Between 1 and 5 years	4,310	16,280	4,361	6,570	1,647	9,708	3,563	5,753	-	9,316
More than 5 years	18,143	4,107	15,895	371	7,184	9,295	1,566	3,420	3,228	8,214
Total investment, gross (A+B)	**22,477**	**26,556**	**20,286**	**7,043**	**8,913**	**19,053**	**5,167**	**9,173**	**3,228**	**17,568**

The lease maturities do not exceed five years.

20. DERIVATIVES (GROUP AND BANK)

	Notional amount		Fair value			
			Assets		Liabilities	
LVL`000	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Currency derivatives	5,741	101,053	22	550	64	172
Total derivatives	**5,741**	**101,053**	**22**	**550**	**64**	**172**

21. HELD-TO-MATURITY INVESTMENTS

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Government bonds	9,232	6,167	9,215	5,849
Credit and other financial institutions bonds	-	3,671	-	3,671
Municipal bonds	250	243	250	243
Corporate bonds	194	1,345	194	1,345
Total held-to-maturity investments	**9,676**	**11,426**	**9,659**	**11,108**

22. INVESTMENT PROPERTIES

Investment properties represent properties that are held to earn rentals or for capital appreciation. The investment properties comprise properties taken over by the Bank. The Bank, having assessed a possibility of gaining profits from capital appreciation and rentals from the collateral, classified these properties as investment properties. In 2010, agreements were signed with real estate management companies that were engaged to carry out management of the aforementioned Bank's properties.

LVL '000	2010 Group			2009 Group		
	Completed investment property	**Investment property under construction**	**Total**	**Completed investment property**	**Investment property under construction**	**Total**
Balance at 1 January	1,153	-	1,153	-	-	-
Acquisition of properties	1,214	-	1,214	-	-	-
Transfers from other assets	2,722	-	2,722	554	-	554
Customer collateral taken over	1,678	11,236	12,914	-	-	-
Adjustment to fair value	2,630	6,042	8,672	599	-	599
Closing balance as at December 31	**9,397**	**17,278**	**26,675**	**1,153**	**-**	**1,153**

LVL '000	2010 Bank			2009 Bank		
	Completed investment property	**Investment property under construction**	**Total**	**Completed investment property**	**Investment property under construction**	**Total**
Balance at 1 January	1,153	-	1,153	-	-	-
Acquisition of properties	1,214	-	1,214	-	-	-
Transfers from other assets	-	-	-	554	-	554
Customer collateral taken over	1,678	11,236	12,914	-	-	-
Adjustment to fair value	2,277	6,042	8,319	599	-	599
Closing balance as at December 31	**6,322**	**17,278**	**23,600**	**1,153**	**-**	**1,153**

Investment properties are stated at fair value determined based on the valuation performed by certified valuators in 2010. The valuators have extensive experience in valuing real estate of the relevant location and category and hold relevant certificates of professional qualification. The valuation has been performed based on the cost, comparable transaction, and income approaches. As regards the discounted cash flow method, major assumptions relate to the discount rate, income, occupancy and rental rate growth. Depending on the location of an investment property, the average range of major assumptions is as follows: 10-14 % for the discount rate, 10-20 % for income, and 3-5 % for the annual growth of occupancy and rental rates.

Investment properties consist of land having the value of LVL 803 thousand (to be invested in a subsidiary), properties handed over for management amounting to LVL 20,061 thousand, and leased properties of LVL 44 thousand. A newly constructed building of LVL 2,692 thousand taken over by the Bank will be handed over for management.

In 2010, income from investment properties amounting to LVL 170 was charged to profit or loss. Expense related to investment properties chiefly represents real estate tax paid into the state budget to register the property and public utilities. Expense of LVL 5,325 was charged to profit or loss in 2010.

In 2010, the real estate pledged by a customer, i.e., a building and land in St. Petersburg, was taken over through an auction. The property was initially recognised at the auction price. After the takeover, an international valuation company has been engaged to define the fair value of the real estate. The asset is classified as investment property under construction and valued based on residual method for estimating fair value of the property. The valuation is complex and judgmental as this is very early stage of development. This method deducts costs of construction, finance and anticipated profit (a percentage of cost) from an exit value i.e., the gross development value of the completed project. The valuation contained following main assumptions: discount rate 10.3%-14.5% and income increase 27%, the development project is planned to be completed until 2013. The assumptions made by appraisers can have a decisive impact on the value of the property.

The table below presents the sensitivity of estimated negative impact to gain (loss) before tax due to adverse change in assumptions:

% of change	2010	2009
Investment property under construction (at fair value)		
Increase of 25 bp in yield	1.5%	-
Increase of 5% in total construction costs	6.1%	-
Decrease of 5% in estimated rental income	10.3%	-
Decrease of 1% in estimated development profit	1.2%	-

The difference between the auction price and the fair value has been recognised in the statement of comprehensive income as income from the investment property revaluation amounting to LVL 6,045 thousand (see Note 9).
Moreover, before the date of issuance of financial statements the Bank has received an official offer to purchase this investment property, which is currently under consideration.

23. INVESTMENT IN SUBSIDIARIES

LVL '000	Business profile	Historical cost 31/12/2010	Share (%)	Historical cost 31/12/2009	Share (%)
AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi	Investment fund management	-	-	361	100
AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management	Investment fund management	-	-	120	100
SIA LKB līzings	Lease company	120	100	120	100
AS Pirmais atklātais pensiju fonds	Investment fund management	-	-	253	100
SIA Krājinvestīcijas	Real estate management	8,063	100	532	100
SIA Baltic Property project	Real estate management	2	100	2	100
SIA LKB Drošība	Security services	10	100	10	100
AAS LKB LIFE (till 14/11/2008 - AAS Baltikums dzīvība)	Insurance services	2,714	99.86	2,714	99.79
AS IBS Renesource Capital	Investment brokerage company	-	-	200	100
SIA LKB M & A (till 24/11/2010 SIA LKB Collect)	Real estate management	10	100	10	100
SIA LKB property	Real estate management	4,587	100	-	-
SIA LKB Rīgas īpašumi	Real estate management	2,379	100	-	-
SIA Jēkaba 2	Real estate management	2,645	100	-	-
SIA Brīvības 38	Real estate management	1,508	100	-	-
Total investments in subsidiaries		**22,038**	**-**	**4,322**	**-**

The Board of AS Latvijas Krājbanka resolved to establish the following subsidiaries: SIA LKB Rīgas īpašumi, SIA LKB Property, SIA Jēkaba 2, and SIA Brīvības 38. The companies will carry out management and administration of the real estate owned by AS Latvijas Krājbanka. These companies were established in order to optimise the activities of Krājbanka by segregating the assets that are not related to the Bank's core business operations. See also note 13.

In November 2010, the share capital of the subsidiary SIA Krājinvestīcijas was increased by LVL 5,931,000 (EUR 8,439,053, based on the official exchange rate fixed by the Bank of Latvia at the date of the respective decision) by capitalising a loan and making a monetary contribution. The resulting share capital of SIA Krājinvestīcijas amounts to LVL 8,063,100. The decision was aimed at promoting the subsidiary's business related to long-term investment management.

In August 2010, the Board of the Bank resolved to increase the share capital of the subsidiary SIA LKB property to LVL 4,587 thousand (EUR 6,526,713, based on the official exchange rate fixed by the Bank of Latvia at the date of the respective announcement). The increase was carried out by making a monetary contribution.

In December 2010, AS Latvijas Krājbanka increased the share capital of AS IBS Renesource Capital by LVL 50 thousand.. In April 2010, an agreement was signed on the sale of AS IBS Renesource Capital and, therefore, the investment in this company amounting to LVL 200 thousand has been classified as at 31 December 2010 as discontinued operations. See also Note 25.

While implementing the strategy designed by the Snoras Group owning both AS Latvijas Krājbanka and AB Finasta Holding (hereinafter – Finasta Holding), in April 2010 AS Latvijas Krājbanka signed agreements with Finasta Holding on the sale of the shares owned by AS Latvijas Krājbanka in AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi, AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management, and AS Pirmais atklātais pensiju fonds. See also Note 26.

SIA Baltic Property project has not commenced its operations yet, and its liquidation is under discussion.

The shares of the subsidiaries are not listed. All the subsidiaries are residents of Latvia.

24. BUSINESS ACQUISITION

Acquisitions in 2009
On 13 July 2009 the Bank purchased 200,000 shares for LVL 200 thousand of **AS IBS Renesource Capital**, reg. No. 40003415571 and become an owner of 18.14% of total shares. On 22 September 2009 one of other shareholders took out his shares and the total share capital was decreased, therefore the Banks part in the company became 36.15%. On 6 October the Bank purchased remaining shares of the company for LVL 2 and become the owner of 553,216 shares (100% shareholding) in the investment brokerage company AS IBS Renesource Capital. As the dates within step acquisitions were close the net asset value between these transactions was not significantly different.

The fair value of the assets, liabilities and memorandum items of AS IBS Renesource Capital at the acquisition date was as follows:

	Fair value at the acquisition date	Carrying value at the acquisition date
Due from credit institutions	172	172
Intangible assets (customer portfolio)	57	-
Tangible assets	14	14
Total assets	**243**	**186**
Other liabilities	(43)	(43)
Net assets	**200**	**143**
Net assets acquired	**200**	**143**
Goodwill	-	
Cash paid	**200**	

Cash flow on acquisition	
Net cash acquired with the subsidiary	172
Cash paid	(200)
Net cash outflow	**(28)**

An intangible asset (customer portfolio) was recognised on acquisition. The customer portfolio will be amortised over 20 years.

From the acquisition date, AS IBS Renesource Capital has contributed LVL 26 thousand to the Group's loss for the year from continuing operations. If the combination had taken place at the beginning of the year, the Group's loss for the year from continuing operations would have been LVL 109 thousand and revenue from continuing operations would have been LVL 27 thousand.

25. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Assets held for sale (yacht)*	-	4,275	-	4,275
Discontinued operations	66	-	193	-
Total non-current assets held for sale and discontinued operations	66	4,275	193	4,275

* In the financial statements for the year ended 31 December 2009, the collateral taken over from a customer – a yacht (see also Note 8) – having the value of USD 9,500 thousand (LVL 4,645 thousand) was classified as an asset held for sale based on IFRS 5 requiring that, for this to be the case, the sale of an asset must be highly probable. However, as at 31 December 2010, the yacht was not yet sold and therefore the criteria of 12 month sale was not met. Given current circumstances the management has resolved to reclassify this asset to collateral taken over for realisation under other assets in the financial position at 31 December 2010, see note 28.

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Impairment loss on discontinued operations	(57)	-	(57)	-
Profit from sales of subsidiary	(118)	-	310	-
Total (loss)/ profit for the year from discontinued operations	**(175)**	**-**	**253**	**-**

Profit/ (loss) from the sale of subsidiaries

While implementing the strategy designed by the Snoras Group owning both AS Latvijas Krājbanka and AB Finasta Holding (hereinafter – Finasta Holding), in April 2010 AS Latvijas Krājbanka signed agreements with Finasta Holding on the sale of the shares owned by AS Latvijas Krājbanka in AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi, AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management, and AS Pirmais atklātais pensiju fonds.

In June 2010, AS Latvijas Krājbanka sold all its 250 000 shares (forming 100% of the share capital) in AS Pirmais atklātais pensiju fonds to AB Bankas Finasta belonging to AB Finasta Holding and thus ceased being the shareholder of this subsidiary.

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Consideration received	156	-	156	-
Net assets sold	(151)	-	(253)	-
Total profit/ (loss) from sale	5	-	(97)	-
Including profit/ (loss) for the period	5	-	(97)	-
Sold cash balance	148	-	148	-

In July 2010, AS Latvijas Krājbanka sold all its 240 000 shares (forming 100% of the share capital) in AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi to AB Bankas Finasta belonging to AB Finasta Holding and thus ceased being the shareholder of this subsidiary.

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Consideration received	763	-	763	-
Net assets sold	(810)	-	(360)	-
Total profit/ (loss) from sale	(47)	-	403	-
Including profit/ (loss) for the period	(47)	-	403	-
Sold cash balance	685	-	685	-

In July 2010, AS Latvijas Krājbanka sold all its 120 000 shares (forming 100% of the share capital) in LKB Asset Management to AB Bankas Finasta belonging to AB Finasta Holding and thus ceased being the shareholder of this subsidiary.

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Consideration received	124	-	124	-
Net assets sold	(131)	-	(120)	-
Total profit/ (loss) from sale	(7)	-	4	-
Including profit/ (loss) for the period	(7)	-	4	-
Sold cash balance	133	-	133	-

Financial result of the subsidiaries held for sale

In April 2010, Krājbanka signed an agreement with AB Finasta Holding on the sale of the shares held by the Bank in AS IBS Renesource Capital. The agreement was in line with the strategy designed by the Snoras Group whereby AB Finasta Holding should provide management of all the investments of the Snoras Group (owning also Krājbanka), thereby optimising the development of investment services on the Latvian and Lithuanian market. This transaction had not been finalised by 31 December 2010, because the strategy has been revised and another solution is being discussed with cooperation partners.
As at 31 December 2010, the capital adequacy ratio of AS IBS Renesource Capital was below the statutory ratio. The company's share capital was increased on 20 December 2010 by LVL 50,000, which, however, was registered with the Enterprise Register only in January 2011.

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Interest income	19	-	-	-
Interest expense	(10)	-	-	-
Commission and fee income	233	455	-	□
Commission and fee expense	(44)	(3)	-	-
Profit from securities and foreign exchange transactions	(7)	-	-	-
Other income	-	6		
Administrative and other expense	(253)	(209)	-	-
Depreciation	(7)	(2)	-	-
Profit from sale of subsidiary	(49)		310	
Impairment loss recognised on the remeasurement to fair value less costs to sell	(57)	-	(57)	-
Total profit/ (loss) for the year from discontinued operations	**(175)**	**202**	**253**	**-**

Balance sheet data of the subsidiaries held for sale

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Assets				
Due from credit institutions	29	-	-	-
Investments in discontinued operations	-	-	193	-
Tangible assets	4	-	-	-
Intangible assets	27	-	-	-
Prepayments and accrued income	6	-	-	-
Corporate income tax receivable	-	-	-	-
Other assets	-	-	-	-
Total assets held for sale	**66**	**-**	**-**	**-**
Liabilities				
Deferred income and accrued expense	11	-	-	-
Subordinated debt	14	-	-	-
Other liabilities	96	-	94	-
Total liabilities held for sale	**121**	**-**	**94**	**-**

The net cash flows incurred by Renesource capital are as follows:

LVL '000	2010	2009
Operating	(55)	(81)
Investing	(13)	(25)
Financing	64	(178)
Net cash (outflow) / inflow	(4)	(284)

26. INTANGIBLE ASSETS

Group

LVL '000	Licences, software, etc.	Other intangible assets	Advance payments	Intangible assets, total
Historical cost				
As at 31 December 2008	**4,170**	**355**	**23**	**4,548**
Additions	215	57	5	**277**
Transfer	(4)	-	-	**(4)**
Disposals	(40)	-	-	**(40)**
As at 31 December 2009	**4,341**	**412**	**28**	**4,781**
Additions	133	-	9	**142**
Transfer	41	-	(28)	**13**
Disposals	(35)	(240)	-	**(275)**
As at 31 December 2010	**4,480**	**172**	**9**	**4,661**
Accumulated amortisation				
As at 31 December 2008	**2,867**	**-**	**-**	**2,867**
Charge	251	31	-	**282**
Exchange difference	(1)	-	-	**(1)**
Disposals	(24)	-	-	**(24)**
As at 31 December 2009	**3,093**	**31**	**-**	**3,124**
Charge	228	-	-	**228**
Transfer	31	(31)	-	**-**
Disposals	(12)	-	-	**(12)**
As at 31 December 2010	**3,340**	**-**	**-**	**3,340**
Impairment losses				
As at 31 December 2008	-	120	-	**120**
As at 31 December 2009	-	120	-	**120**
As at 31 December 2010	-	57	-	**57**
Net book value				
As at 31 December 2008	**1,303**	**235**	**23**	**1,561**
As at 31 December 2009	**1,248**	**261**	**28**	**1,537**
As at 31 December 2010	**1,140**	**115**	**9**	**1,264**

Bank

LVL '000	Licences, software, etc.	Advance payments	Intangible assets, total
Historical cost			
As at 31 December 2008	**4,093**	**23**	**4,116**
Additions	188	5	**193**
Disposals	(14)	-	**(14)**
As at 31 December 2009	**4,267**	**28**	**4,295**
Additions	129	-	**129**
Transferred from advance payments	41	(28)	**13**
Disposals	(7)	-	**(7)**
As at 31 December 2010	**4,430**	**-**	**4,430**
Accumulated amortisation			
As at 31 December 2008	**2,856**	**-**	**2,856**
Charge	262	-	**262**
Disposals	(14)	-	**(14)**
As at 31 December 2009	**3,104**	**-**	**3,104**
Charge	218	-	**218**
Disposals	(7)	-	**(7)**
As at 31 December 2010	**3,315**	**-**	**3,315**
Net book value			
As at 31 December 2008	**1,237**	**23**	**1,260**
As at 31 December 2009	**1,163**	**28**	**1,191**
As at 31 December 2010	**1,115**	**-**	**1,115**

The book value of fully amortized intangible assets on 31 December 2010 is LVL 180 565 (2009: LVL 226 025).

27. TANGIBLE ASSETS

Group

LVL '000	Land and buildings	Leasehold improvements	Vehicles	Office equipment	Advance payments	Total tangible assets
Historical cost/ Revalued amount						
As at 31 December 2008	**13,876**	**3,516**	**633**	**14,252**	**680**	**32,957**
Additions	121	3	38	257	24	**443**
Revaluation	(1,115)	-	-	-	-	**(1,115)**
Transfer	-	-	1	156	(157)	**-**
Exchange difference	-	(1)	(1)	(38)	-	**(40)**
Disposals	-	(45)	(119)	(1,408)	-	**(1,572)**
As at 31 December 2009	**12,882**	**3,473**	**552**	**13,219**	**547**	**30,673**
Additions	159	299	13	227	24	**722**
Revaluation	(676)	-	-	-	-	**(676)**
Transfer	(139)	142	-	119	(135)	**(13)**
Disposals	(571)	(473)	(106)	(389)	(11)	**(1,550)**
As at 31 December 2010	**11,655**	**3,441**	**459**	**13,176**	**425**	**29,156**
Accumulated depreciation						
As at 31 December 2008	**253**	**779**	**262**	**9,289**	**-**	**10,583**
Charge	260	358	108	1,213	-	**1,939**
Exchange difference	-	-	-	(16)	-	**(16)**
Disposals	-	(39)	(74)	(1,257)	-	**(1,370)**
As at 31 December 2009	**513**	**1,098**	**296**	**9,229**	**-**	**11,136**
Charge	248	290	83	1,003	-	**1,624**
Disposals	(571)	(463)	(50)	(362)	-	**(1,446)**
As at 31 December 2010	**190**	**925**	**329**	**9,870**	**-**	**11,314**
Net book value						
As at 31 December 2008	**13,623**	**2,737**	**371**	**4,963**	**680**	**22,374**
As at 31 December 2009	**12,369**	**2,375**	**256**	**3,990**	**547**	**19,537**
As at 31 December 2010	**11,465**	**2,516**	**130**	**3,306**	**425**	**17,842**

The revalued amount of the tangible assets revalued in 2010 (2009) approximates to LVL 0 (4,357) thousand.

Bank

LVL '000	Land and buildings	Leasehold improvements	Vehicles	Office equipment	Advance payments	Total tangible assets
Historical cost/ Revalued amount						
As at 31 December 2008	**13,876**	**3,510**	**288**	**13,936**	**694**	**32,304**
Additions	121	15	8	238	-	**382**
Revaluation	(1,115)	-	-	-	-	**(1,115)**
Transfer	-	-	-	157	(157)	**-**
Disposals	-	(40)	(83)	(1,154)	-	**(1,277)**
As at 31 December 2009	**12,882**	**3,485**	**213**	**13,177**	**537**	**30,294**
Additions	160	299	-	216	23	**698**
Revaluation	(676)	-	-	-	-	**(676)**
Transfer	(139)	142	-	119	(135)	**(13)**
Investments in subsidiaries	(11,682)	-	-	-	-	**(11,682)**
Disposals	-	(473)	(25)	(374)	-	**(872)**
As at 31 December 2010	**545**	**3,453**	**188**	**13,138**	**425**	**17,749**
Accumulated depreciation						
As at 31 December 2008	**253**	**779**	**170**	**9,225**	**-**	**10,427**
Charge	260	358	48	1,129	-	**1,795**
Disposals	-	(39)	(61)	(1,141)	-	**(1,241)**
As at 31 December 2009	**513**	**1,098**	**157**	**9,213**	**-**	**10,981**
Charge	119	290	33	993	-	**1,435**
Investments in subsidiaries	(571)	-	-	-	-	**(571)**
Disposals	-	(463)	(25)	(359)	-	**(847)**
As at 31 December 2010	**61**	**925**	**165**	**9,847**	**-**	**10,998**
Net book value						
As at 31 December 2008	**13,623**	**2,731**	**118**	**4,711**	**694**	**21,877**
As at 31 December 2009	**12,369**	**2,387**	**56**	**3,964**	**537**	**19,313**
As at 31 December 2010	**484**	**2,528**	**23**	**3,291**	**425**	**6,751**

Movement of the revaluation reserve:

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
Revaluation reserve at the beginning of the year	**4,767**	**5,364**	**4,767**	**5,364**
Impairment of the previously revalued building	(39)	(684)	(39)	(684)
Disposal of previously revalued buildings and land	-	-	(5,045)	-
Change in the revaluation reserve due to changes in tangible asset value	**(39)**	**(684)**	**(5,084)**	**(684)**
Deferred tax due to the asset revaluation	6	76	6	76
Deferred tax due to the asset disposals	487	-	487	-
Change in deferred tax	11	11	11	11
Revaluation reserve at the end of the year	**5,232**	**4,767**	**187**	**4,767**
Decrease of the revaluation reserve charged to other operating expense in the statement of comprehensive income	(637)	(431)	(637)	(431)
Total changes of the revaluation reserve for tangible assets	**(676)**	**(1,115)**	**(676)**	**(1,115)**

The land and buildings are measured applying the revaluation method, unified for the whole category.

In May 2010, AS Latvijas Krājbanka established the following subsidiaries: SIA LKB Rīgas īpašumi, SIA LKB Property, SIA Jēkaba 2, and SIA Brīvības 38. The companies will carry out real estate management and administration. These companies were established in order to optimise the activities of Krājbanka by segregating the assets that are not related to the Bank's core business operations. In the reporting period, the Board of AS Latvijas Krājbanka resolved to increase the share capital of the subsidiaries SIA Brīvības 38, SIA Jēkaba 2, SIA LKB Property, and SIA LKB Rīgas īpašumi. The increase was carried out by investing the properties owned by AS Latvijas Krājbanka totalling LVL 11,1 million.

The properties were appraised by certified valuator before being invested in the share capital of the subsidiaries. The total increase in the real estate value as a result of the revaluation was LVL 96,406, while the resulting impairment was LVL 776,986.

In 2010, the investment properties were revalued. The revaluation was performed by certified valuators. The following three methods were employed in the revaluation: cost, comparable transaction, and discounted cash flow methods. The revaluation was carried out to invest real estate in the subsidiaries and update the market value of the properties taken over by the Bank.

If no revaluation have been performed, in 2010 the carrying amount of these assets would have approximated to LVL 0,544 thousand (2009: LVL 7,451 thousand).

28. OTHER ASSETS

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Receivable from remuneration for the provided financial services (see also note 7)	-	2,460	-	2,460
Unrealised gains from SPOT transactions	1,390	1,721	1,390	1,721
Receivable from sale of subsidiary	481	962	481	962
Settlements with Western Union	209	162	209	162
Input value added tax	2	99	2	99
Other	12,411	8,567	7,551	1,271
Incl. collateral taken over by SIA Krājinvestīcijas *for realisation*	6,796	5,090	-	-
Incl. customer collateral taken over for realisation	915	350	915	350
Incl. customer collateral taken over for realisation - vessel (see also note 25)	4,275	-	4,275	-
Total other assets, gross	**14,493**	**13,971**	**9,633**	**6,675**
Impairment losses (see Note 12)	**(203)**	**(240)**	**(177)**	**(170)**
Total other assets	**14,290**	**13,731**	**9,456**	**6,505**

In 2010, the Bank continued the activities related to the loan collateral realisation. Given the overall current economic situation and the stagnant real estate market, the Bank commenced and will continue exercising a flexible approach to the loan collateral realisation.

Specific activities are related to the collateral development and realisation by assessing the necessity to perform additional works which would add value to the respective real estate and enhance its competitiveness on the real estate market, as well as the inclusion of the collateral in the business and the realisation of the respective collateral as an operating business. The Bank assessed a possibility of gaining profits from capital appreciation and rentals from the real estate taken over and reclassified such properties as investment properties.

29. DUE TO CREDIT INSTITUTIONS

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Correspondent accounts and demand deposits	2,004	16,017	2,004	16,017
Term deposits	54	414	54	414
Total balances due to credit institutions	**2,058**	**16,431**	**2,058**	**16,431**

Balances due to credit institutions by geographical profile:

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Placements from Latvian commercial banks	59	12,426	59	12,426
Placements from other non-OECD banks	1,999	4,005	1,999	4,005
Total balances due from credit institutions	**2,058**	**16,431**	**2,058**	**16,431**

As at 31 December 2010, the Bank had not attracted any additional long-term financing from credit institutions.

30. DEPOSITS FROM CUSTOMERS

Deposits by customer type:

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Private individuals	339,778	310,779	339,778	310,779
State owned enterprises	71,500	64,209	71,500	64,209
Privately held companies	155,649	95,634	157,899	99,897
Non-governmental and religious institutions	2,776	1,867	2,776	1,867
Municipal authorities	5,799	3,666	5,799	3,666
Total deposits from customers	**575,502**	**476,155**	**577,752**	**480,418**

Deposits by customer residence:

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Residents	478,629	406,716	480,879	410,979
Non-residents	96,873	69,439	96,873	69,439
Total deposits from customers	**575,502**	**476,155**	**577,752**	**480,418**

31. DEBT SECURITIES ISSUED

On 29 January 2010, in accordance with the terms set out in the CA Series Mortgage Bonds Prospectus of AS Latvijas Krājbanka, CA series mortgage bonds were extinguished for the total amount of EUR 5 million.

The interest revenue per one CA series mortgage bond issued by AS Latvijas Krājbanka for the period from 31 July 2009 to 31 January 2010 (excluding) is EUR 1,078125 (one euro and 7,8125 eurocents). The interest was paid out in accordance with the terms set out in the CA series mortgage bonds prospectus of AS Latvijas Krājbanka on 29 January 2010.

32. DEFERRED INCOME AND ACCRUED EXPENSE

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Other accrued expense	1,157	667	1,111	661
Vacation pay reserve	397	368	397	368
Accrued remuneration and social insurance contributions	812	327	812	297
Deferred income	27	60	21	50
Total deferred income and accrued expense	**2,393**	**1,422**	**2,341**	**1,376**

33. OTHER LIABILITIES

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Unrealized losses from SPOT transactions	761	844	761	844
Assignment agreements	315	-	315	-
Technical reserve of Life insurance reserves	769	456	-	-
Payables to pension plans and investment funds	-	175	-	-
Payments due for the purchase of LKB Krājfondi	-	50	-	50
Other non-bank received loans	-	760	-	-
Other liabilities	527	1,211	295	221
Total other liabilities	**2,372**	**3,496**	**1,371**	**1,115**

34. SUBORDINATED DEBT

LVL '000	Bank/ Group 31/12/2010	Bank/ Group 31/12/2009
Vladimirs Antonovs	-	6,215
SIA Warmut Latvia	6,046	-
Akademgrupp	5,579	5,100
Convers Group Management Company	3,866	3,866
Total subordinated debt	**15,491**	**15,181**

On 8 November 2005, the Bank signed a subordinated loan contract with Convers Group Management Company whereby the Bank was granted a loan of EUR 5.5 million. The loan bore interest at 7% per annum and was to mature in seven years. On 16 October 2008, the parties agreed to extend the loan maturity to 10 years and changed the interest rate to 10% per annum starting from 17 October 2008. On 30 November 2010, the subordinated loan maturity was extended to 15 years based on the additional agreement between the parties. The lender has a right to demand conversion of the subordinated capital into ordinary shares in accordance with the procedure specified in the contract and the applicable laws. Should the subordinated capital be converted into ordinary shares, the purchase price of the ordinary shares under the contract will be LVL 1.15 per one share.

On 27 December 2006, the Bank signed a subordinated loan contract with Akademgrupp for the amount of USD 7.1 million. The loan was to mature in seven years and bore interest at 8.6% per annum. On 16 October 2008, the parties agreed to extend the loan maturity to nine years.

On 23 August 2007, the Bank signed a subordinated loan contract with Akademgrupp for the amount of USD 3.3 million. The loan was to mature in six years and bore interest at 9.3% per annum. On 16 October 2008, the parties agreed to extend the loan maturity to nine years.

On 14 July 2009, the Bank signed a subordinated loan contract with Vladimirs Antonovs for the amount of EUR 8.6 million. The loan matures in 2019 and bears interest at 9.5% per annum. In December 2009, the parties agreed on interest payment upon the loan maturity.

On 22 July 2010, the Bank and SIA Warmut Latvia which was assigned the subordinated loan contract signed with Vladimirs Antonovs agreed that interest would be paid on a quarterly basis.

According to the provisions of the above-mentioned contracts, the lender has a the right to demand early repayment of the loan only upon liquidation of the Bank, and the lender's claim will be settled after the claims of all other creditors but before the claims of the Bank's shareholders.

35. SHAREHOLDERS' EQUITY AND RESERVES

As at 31 December 2010, the Bank's registered and paid-in share capital was LVL 25,824 thousand (2009: LVL 19,324 thousand). The share capital consists of 25,824,248 shares, including 25,821,414 ordinary bearer shares and 2,834 "A" category preference bearer shares. The par value of each share is LVL 1 (one).

On 30 September 2010, a public offering of ordinary bearer shares was completed. The shareholders and investors were invited to acquire 6,500,000 shares of the new issue, each share having the selling price of LVL 1.50. Under the public offering, all the new shares have been fully paid for. As a result of the new share issue, the Bank's share capital has grown to LVL 25,824,248.

All the 25,824,248 shares of AS Latvijas Krājbanka are listed on the Baltic Second List of the NASDAQ QMX Riga Stock Exchange. There are no limitations as to the disposal of the Bank's shares. At the extraordinary shareholders' meeting of 29 December 2010, it was resolved that the shares of AS Latvijas Krājbanka should be delisted.

The Bank's principal shareholders as at 31 December 2010 and 2009 were as follows:

	31/12/2010		31/12/2009	
LVL '000	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
AB Bankas Snoras	22,959	88.91	10,284	53.22
Vladimir Antonov	-	-	6,175	31.96
Ratto Holdings Limited	1,213	4.70	1,213	6.28
AS West Investment	-	-	868	4.49
Other*	1,652	6.39	784	4.05
Total	**25,824**	**100.00**	**19,324**	**100.00**

* The total number of the shares held by each shareholder is less than 5% of the total number of the Bank's voting shares.

The Board Members and Council Members did not own any Bank's shares at the end of the reporting year.

During the reporting year, the Bank did not issue any employee shares. There are no shareholders with special control rights. The Bank has no information about any agreements that may prevent the shareholders from transferring their shares or voting rights to other persons.

Any decisions about changes in the Bank's Articles of Association are adopted at the shareholders' meeting by a ¾ majority vote of the shareholders having voting rights and represented at the meeting.

The Bank has not concluded any contracts, which would come into force, be terminated or altered in the case of a change of the control type.

Any shareholder's voting rights can be restricted in the instances listed in the laws of the Republic of Latvia. The Bank's Articles of Association do not envisage any shareholders' rights to the profit share other than related to their proportionate shareholdings.

Bank's reserves:

- The reserve was based on the legislation that existed from 1993 to 2001 and mainly refers to privatization, treatment of capital increases, and profit distribution. The last movement relates to the share capital increase on 21 November 2000. As at the 31 December 2010, the Bank's reserve amounted LVL 626 thousand (2009: LVL 626 thousand).
- The revaluation reserve is a reserve from revaluation of tangible assets. Based on the provisions of IAS 16, revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. In 2010, the revaluation reserve amounted to LVL 187 thousand (see also Note 27).
- The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. As at the 31 December 2010, the Group's reserve amounted to LVL 0 (2009: LVL 0 thousand).

Share premium relates to the share capital increase.

On 14 July 2009, a public offering of ordinary bearer shares was completed. During the offering, 1,000,002 shares were fully paid for. The share premium was set at LVL 0.50 per share, so totalling LVL 500 thousand.

On 3 November 2009, a public offering of ordinary bearer shares was completed. During the offering, 6,175,000 shares were fully paid for. The share premium was set at LVL 0.50 per share, so totalling LVL 3,087,500 thousand.

On 30 September 2010, a public offering of ordinary bearer shares was completed. During the offering, 6,500,000 shares were fully paid for. The share premium was set at LVL 0.50 per share, so totalling LVL 3,250 thousand.

36. ASSETS HELD IN CUSTODY

As at 31 December 2010, the total value of the asset transactions made on the basis of customers' authorisation reached LVL 56,399 thousand (2009: LVL 65,995 thousand). . This includes investments in non-resident and resident financial instruments in the amount of LVL 8,910 thousand and LVL 47,489 thousand (2009: LVL 14,531 thousand and LVL 51,464 thousand) respectively.
Based on the specific requests of fund owners, the Bank issues loans to non-banking customers classified as funds under trust management. Based on the trust management agreements with customers, the fund owners bear all the risks associated with these loans, and the Bank acts only as an intermediary for loan issuance.

37. CASH AND CASH EQUIVALENTS

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Cash and demand deposits with the Bank of Latvia	135,859	44,332	135,859	44,332
Balances due from credit institutions	92,277	94,710	92,270	94,486
Balances due to credit institutions	(2,058)	(16,030)	(2,058)	(16,030)
Total cash and cash equivalents	**226,078**	**123,012**	**226,071**	**122,788**

38. FINANCIAL INSTRUMENTS AT FAIR VALUE

The table represents a breakdown of differences between the carrying amount and the fair value of the Bank's financial instruments by asset groups. The table does not include fair value revaluation of non-financial items.

As at 31 December 2010 LVL '000	Carrying amount	Fair value	Difference
Financial assets			
Cash and demand deposits with central banks	135,859	135,859	-
Due from credit institutions	103,435	103,435	-
Loans and advances to customers	332,152	332,557	405
Financial assets at fair value through profit or loss	11,172	11,172	-
Held-to-maturity investments	9,659	9,809	150
Financial liabilities			
Due to credit institutions	2,058	2,058	-
Deposits from customers	577,752	577,850	(98)
Derivatives	64	64	-
Subordinated debt	15,491	15,976	(485)
Net position of accounting and fair value			**(28)**

As at 31 December 2009 LVL '000	Carrying amount	Fair value	Difference
Financial assets			
Cash and demand deposits with central banks	44,332	44,332	-
Due from credit institutions	102,239	102,239	-
Loans and advances to customers	368,568	367,947	(621)
Financial assets at fair value through profit or loss	5,509	5,509	-
Held-to-maturity investments	11,108	10,966	(142)
Financial liabilities			
Due to credit institutions	16,431	16,431	-
Deposits from customers	480,418	480,307	111
Derivatives	172	172	-
Debt securities issued	3,546	3,546	-
Subordinated debt	15,181	15,244	(63)
Net position of accounting and fair value			**(715)**

Financial assets/ liabilities whose fair value approximates to their carrying amount

For financial assets/ liabilities that are liquid or with a short-term maturity of less than one year it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits, saving accounts and financial instruments at a variable interest rate.
For loan where base interest rates are pegged to floating market interest rates, the Group and the Bank have considered difference between average interest margin of issued loans and average interest margin for newly issued loans. As for part of the loan portfolio this margin has been changed (increased) since issuance, the Group and the Bank have estimated that for such loans the carrying value is considered approximate to fair value.

Fixed rate financial instruments

The fair value of the following classes of financial instruments - loans and advances to customers, deposits from customers and subordinated debt - with the maturity of more than one year is determined comparing their effective yield with the market rates and discounting the future cash flows.

The table below represents the Bank's financial assets and financial liabilities recorded at fair value according to different methods of valuation.

As at 31 December 2010 LVL '000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivatives	-	6	16	22
Financial assets at fair value through profit or loss	3,834	7,273	43	11,150
Total financial assets	**3,834**	**7,279**	**59**	**11,172**
Financial liabilities				
Derivatives	-	64	-	64
Total financial liabilities	**-**	**64**	**-**	**64**

As at 31 December 2009 LVL '000	Level1	Level 2	Level 3	Total
Financial assets				
Derivatives	-	550	-	550
Financial assets at fair value through profit or loss	841	4,109	9	4,959
Total financial assets	**841**	**4,659**	**9**	**5,509**
Financial liabilities				
Derivatives	-	172	-	172
Total financial liabilities	**-**	**172**	**-**	**172**

The Group and the Bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1:	Quoted prices in active markets;
Level 2:	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable.
Level 3:	Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The valuation based on market observable inputs was made for non-traded currency derivatives by comparing the contractual rate with the official exchange rate fixed by the Bank of Latvia and using the money market rates for cash flow discounting.

In 2010, there were no any changes in the valuation methods applied for each category of financial instruments as well as movements among the categories of revalued financial assets and financial liabilities.

39. CONCENTRATION OF ASSETS AND MEMORANDUM ITEMS BY GEOGRAPHICAL PROFILE

LVL '000 Group	Latvia	OECD countries	Other	Total as at 31/12/2010	Latvia	OECD countries	Other	Total as at 31/12/2009
Financial assets								
Cash and demand deposits with central banks	133,542	1,392	925	**135,859**	41,280	3,004	48	**44,332**
Due from credit institutions	2,104	42,904	59,619	**104,627**	40,533	24,926	37,005	**102,464**
Loans and advances to customers	285,584	13,861	32,283	**331,728**	289,175	20,230	51,781	**361,186**
Financial assets at fair value through profit or loss	2,300	8	8,864	**11,172**	3,354	1,283	1,084	**5,721**
Held-to-maturity investments	9,232	-	444	**9,676**	6,167	963	4,296	**11,426**
Other assets	60,881	-	261	**61,142**	41,095	465	79	**41,639**
Total	**493,643**	**58,165**	**102,396**	**654,204**	**421,604**	**50,871**	**94,293**	**566,768**
Financial liabilities								
Due to credit institutions	59	-	1,999	**2,058**	12,426	-	4,005	**16,431**
Deposits from customers	478,629	9,649	87,224	**575,502**	406,716	33,844	35,595	**476,155**
Derivatives	64	-	-	**64**	172	-	-	**172**
Debt securities issued	-	-	-	**-**	3,546	-	-	**3,546**
Subordinated debt	6,046	-	9,445	**15,491**	-	-	15,181	**15,181**
Other liabilities and equity	36,461	1,298	23,330	**61,089**	37,080	208	17,995	**55,283**
Total	**521,259**	**10,947**	**121,998**	**654,204**	**459,940**	**34,052**	**72,776**	**566,768**

LVL '000 Bank	Latvia	OECD countries	Other	Total as at 31/12/2010	Latvia	OECD countries	Other	Total as at 31/12/2009
Financial assets								
Cash and demand deposits with central banks	133,542	1,392	925	**135,859**	41,280	3,004	48	**44,332**
Due from credit institutions	912	42,904	59,619	**103,435**	40,308	24,926	37,005	**102,239**
Loans and advances to customers	286,008	13,861	32,283	**332,152**	296,557	20,230	51,781	**368,568**
Financial assets at fair value through profit or loss	2,300	8	8,864	**11,172**	3,778	1,039	692	**5,509**
Held-to-maturity investments	9,215	-	444	**9,659**	5,849	963	4,296	**11,108**
Other assets	63,874	-	261	**64,135**	37,908	163	79	**38,150**
Total	**495,851**	**58,165**	**102,396**	**656,412**	**425,680**	**50,325**	**93,901**	**569,906**
Financial liabilities								
Due to credit institutions	59	-	1,999	**2,058**	12,426	-	4,005	**16,431**
Deposits from customers	480,879	9,649	87,224	**577,752**	410,979	33,844	35,595	**480,418**
Derivatives	64	-	-	**64**	172	-	-	**172**
Debt securities issued	-	-	-	**-**	3,546	-	-	**3,546**
Subordinated debt	6,046	-	9,445	**15,491**	-	-	15,181	**15,181**
Other liabilities and equity	36,419	1,298	23,330	**61,047**	35,955	208	17,995	**54,158**
Total	**523,467**	**10,947**	**121,998**	**656,412**	**463,078**	**34,052**	**72,776**	**569,906**

40. CAPITAL ADEQUACY

Capital adequacy reflects capital resources necessary to cover credit, market and operational risks associated with the Bank's assets and memorandum exposures.

As at 31 December 2010, the Bank's capital adequacy ratio calculated in accordance with the Basel II guidelines was 14.33% (2009: 12.70%), exceeding the minimum ratio of 8% recommended by the Basel Committee and exceeding the minimum ratio of 8% imposed on the Latvian banks by the Law on Credit Institutions.

The Financial Capital and Market Commission requires credit institutions to calculate market risk capital requirements for the trading book positions. The Bank's management believes that the Bank's trading activities are insignificant; therefore, the calculation of capital requirements for market risk will not have a material impact on the Bank's capital adequacy ratio. As at 31 December 2010, the capital requirements for market risk had been calculated only for foreign exchange risks.

The Financial Capital and Market Commission's capital adequacy regulations are in conformance with the guidelines developed by the Basel Committee.

The Group's capital adequacy ratio as at 31 December 2010 was 13.92% (31 December 2009: 12.66%).

Based on the provisions of the Financial Conglomerates Law, AS Latvijas Krājbanka and AAS LKB LIFE do not constitute a financial conglomerate and are not subject to additional supervision by a coordinator within the meaning of the Financial Conglomerates Law. Accordingly, the capital adequacy ratio of the Group is calculated without considering the financial data of AAS LKB LIFE and the Bank's investment in AAS LKB LIFE represents a decrease in the Bank's equity, i.e., deduction is effected 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital.

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Tier 1				
Paid-in share capital	25,824	19,324	25,824	19,324
Share premium	19,138	15,888	19,138	15,888
Reserve capital	626	626	626	626
Audited retained earnings	8,892	10,782	13,894	11,293
Audited (loss) / profit for the year	(3,347)	(1,890)	(3,029)	(1,978)
Less				
Intangible assets	(1,264)	(1,537)	(1,115)	(1,191)
Participation in insurance companies in which the Bank, directly or indirectly, owns 20 and more per cent of the share capital or voting shares	(1,357)	(1,357)	(1,357)	(1,357)
Specific reduction of Tier 1 and Tier 2 prescribed by laws (-)	(151)	(1,012)	(151)	(1,012)
Total Tier 1	**48,361**	**40,824**	**53,830**	**41,593**
Tier 2				
Subordinated debt	15,473	14,995	15,473	14,995
Revaluation reserve	3,662	3,337	131	3,337
Less				
Participation in insurance companies in which the Bank, directly or indirectly, owns 20 and more per cent of the share capital or voting shares	(1,357)	(1,357)	(1,357)	(1,357)
Specific reduction of Tier 1 and Tier 2 prescribed by laws (-)	(151)	(1,012)	(151)	(1,012)
Total Tier 2	17,627	15,963	14,096	15,963
Equity to be utilised for the capital adequacy calculation according to the Basel II guidelines	**65,988**	**56,787**	**67,926**	**57,556**

The shareholders' meeting is empowered to make decisions on profit distribution, including payment of dividends.

Risk assets and memorandum items

LVL '000	Risk weighted assets and memorandum items		Risk weighted assets and memorandum items	
	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Total risk weighted assets and memorandum items	417,303	396,835	422,975	404,626
Capital requirements for credit and counterparty credit risks	33,384	31,747	33,838	32,370
Capital requirements for foreign exchange risks	171	122	-	-
Capital requirements for operational risks	4,358	4,007	4,081	3,896
Capital adequacy ratio	**13.92%**	**12.66%**	**14.33%**	**12.70%**

41. CURRENCY ANALYSIS

As at 31 December 2010 (Bank) LVL`000	LVL	USD	EUR	Other currencies	Total
Assets					
Cash and demand deposits with central banks	133,468	479	1,466	446	135,859
Due from credit institutions	2	55,628	42,297	5,508	103,435
Loans and advances to customers	50,341	25,677	256,134	-	332,152
Securities and investments	55,821	5,912	3,422	1,314	66,469
Fixed and intangible assets	7,866	-	-	-	7,866
Other assets	10,099	340	147	45	10,631
Total assets	257,597	88,036	303,466	7,313	656,412
Liabilities and shareholders' equity					
Due to credit institutions	1,583	236	239	-	2,058
Deposits from customers	252,712	87,731	230,130	7,179	577,752
Derivatives	64	-	-	-	64
Other liabilities	4,262	121	15	9	4,407
Subordinated debt	-	5,579	9,912	-	15,491
Shareholders' equity	56,640	-	-	-	56,640
Total liabilities and shareholders' equity	315,261	93,667	240,296	7,188	656,412
Net long/ (short) position	(57,664)	(5,631)	63,170	125	-
Memorandum items from foreign exchange*					
Unsettled spot foreign exchange transactions	59,572	5,849	(64,849)	-	572
Forward foreign exchange transactions	-	20	(21)	-	(1)
Net long/(short) position on foreign exchange	59,572	5,869	(64,870)	-	571
Net long/(short) position	1,908	238	(1,700)	125	571
Net long/(short) position, % of equity	2,81%	0,35%	(2,50%)	0,18%	
Financial commitments and contingencies					
Contingent liabilities	516	174	3,461	-	4,151
Financial commitments	4,936	4,007	15,252	-	24,195
Total financial commitments and contingencies	5,452	4,181	18,713	-	28,346

* These items are considered memorandum items for the purpose of this disclosure as required by local legislation.

As at 31 December 2009 (Bank) LVL`000	LVL	USD	EUR	Other currencies	Total
Assets					
Cash and demand deposits with central banks	41,392	558	2,006	376	44,332
Due from credit institutions	16,669	47,369	37,183	1,018	102,239
Loans and advances to customers	56,775	36,584	275,209	-	368,568
Securities and investments	21,000	2,522	2,508	337	26,367
Fixed and intangible assets	20,504	-	-	-	20,504
Other assets	4,961	141	2,745	49	7,896
Total assets	161,301	87,174	319,651	1,780	569,906
Liabilities and shareholders' equity					
Due to credit institutions	12,077	2,146	2,207	1	16,431
Deposits from customers	211,944	37,420	227,242	3,812	480,418
Derivatives	172	-	-	-	172
Debt securities issued	-	-	3,546	-	3,546
Other liabilities	4,070	121	17	32	4,240
Subordinated debt	-	5,100	10,081	-	15,181
Shareholders' equity	49,918	-	-	-	49,918
Total liabilities and shareholders' equity	278,181	44,787	243,093	3,845	569,906
Net long/ (short) position	(116,880)	42,387	76,558	(2,065)	-
Memorandum items from foreign exchange*					
Unsettled spot foreign exchange transactions	96,248	(73)	(95,297)	-	878
Forward foreign exchange transactions	22,985	(41,872)	17,158	2,253	524
Net long/(short) position on foreign exchange	119,233	(41,945)	(78,139)	2,253	1,402
Net long/(short) position	2,353	442	(1,581)	188	1,402
Net long/(short) position, % of equity	4.09%	0.77%	(2.75%)	0.33%	2.44%
Financial commitments and contingencies					
Contingent liabilities	342	139	2,161	-	2,642
Financial commitments	4,832	388	8,222	-	13,442
Total financial commitments and contingencies	5,174	527	10,383	-	16,084

* These items are considered memorandum items for the purpose of this disclosure as required by local legislation.

LVL is used as the functional currency by all Group entities, there is no significant difference between currency profiles of the Bank and the Group.

Consolidated companies use LVL as the functional currency; therefore, the Group's currency position does not materially differ from the Bank's currency position.

The banking laws of the Republic of Latvia prescribe that an open position in each foreign currency may not exceed 10% of the equity, but the total net open position may not exceed 20% of the equity.

As at 31 December 2010 and 2009, the Bank complied with the requirements as to the net open currency position.

42. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE

Group **(Discounted table)**

As at 31 December 2010 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and demand deposits with central banks	135,859	-	-	-	-	-	-	135,859
Due from credit institutions	90,889	5,439	207	798	32	5,770	1,492	104,627
Loans and advances to customers	43,279	31,414	25,832	39,584	133,277	58,266	76	331,728
Securities and investments	18,763	222	273	258	1,332	-	26,675	47,523
Fixed and intangible assets	-	-	-	-	-	-	19,106	19,106
Other assets	7,650	-	-	861	-	-	6,850	15,361
Total assets	296,440	37,075	26,312	41,501	134,641	64,036	54,199	654,204
Liabilities and shareholders' equity								
Due to credit institutions	2,058	-	-	-	-	-	-	2,058
Deposits from customers	303,266	75,848	72,545	113,454	5,227	5,162	-	575,502
Debt securities issued	-	-	-	-	-	-	-	-
Derivatives	57	7	-	-	-	-	-	64
Deferred tax liability	-	-	-	-	-	-	225	225
Other liabilities	4,886	-	-	-	-	-	-	4,886
Subordinated debt	-	17	-	-		15,474	-	15,491
Shareholders' equity	-	-	-	-	-	-	55,978	55,978
Total liabilities and shareholders' equity	310,267	75,872	72,545	113,454	5,227	20,636	56,203	654,204
Net liquidity gap	(13,827)*	(38,797)	(46,233)	(71,953)	129,414	43,400	(2,004)	-
Financial commitments and contingencies								
Contingent liabilities	2,745	-	-	-	-	-	-	2,745
Financial commitments	22,410	-	-	-	-	-	-	19,665
Total financial commitments and contingencies	25,155	-	-	-	-	-	-	22,410

* Net liquidity gap – on demand

Group **(Discounted table)**

As at 31 December 2009 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and demand deposits with central banks	44,332	-	-	-	-	-	-	44,332
Due from credit institutions	91,655	4,712	-	-	-	4,605	1,492	102,464
Loans and advances to customers	44,368	33,154	13,389	53,634	146,457	70,184	-	361,186
Securities and investments	15,110	461	402	301	149	85	6,067	22,575
Fixed and intangible assets	-	-	-	-	-	-	21,074	21,074
Other assets	3,727	-	-	345	315	5,979	4,771	15,137
Total assets	199,192	38,327	13,791	54,280	146,921	80,853	33,404	566,768
Liabilities and shareholders' equity								
Due to credit institutions	16,431	-	-	-	-	-	-	16,431
Deposits from customers	232,414	72,598	69,440	94,577	6,169	957	-	476,155
Debt securities issued	-	3,546	-	-	-	-	-	3,546
Derivatives	73	23	76	-	-	-	-	172
Deferred tax liability	-	45	-	-	-	-	847	892
Other liabilities	4,918	-	-	-	-	-	-	4,918
Subordinated debt	-	15	-	-	-	15,166	-	15,181
Shareholders' equity	-	-	-	-	-	-	49,473	49,473
Total liabilities and shareholders' equity	253,836	76,227	69,516	94,577	6,169	16,123	50,320	566,768
Net liquidity gap	(54,644)*	(37,900)	(55,725)	(40,297)	140,752	64,730	(16,916)	-
Financial commitments and contingencies								
Contingent liabilities	2,139	-	-	-	-	-	-	2,139
Financial commitments	12,147	-	-	-	-	-	-	12,147
Total financial commitments and contingencies	14,286	-	-	-	-	-	-	14,286

* Net liquidity gap – on demand

Bank **(Discounted table)**

As at 31 December 2010 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and demand deposits with central banks	135,859	-	-	-	-	-	-	135,859
Due from credit institutions	90,778	5,395	-	-	-	5,770	1,492	103,435
Loans and advances to customers	43,279	14,720	25,832	56,798	133,181	58,266	76	332,152
Securities and investments	18,746	222	273	258	1,332	-	45,638	66,469
Fixed and intangible assets	-	-	-	-	-	-	7,866	7,866
Other assets	2,727	-	-	861	-	-	7,043	10,631
Total assets	291,389	20,337	26,105	57,917	134,513	64,036	62,115	656,412
Liabilities and shareholders' equity								
Due to credit institutions	2,058	-	-	-	-	-	-	2,058
Deposits from customers	303,883	77,465	72,561	113,454	5,227	5,162	-	577,752
Derivatives	57	7	-	-	-	-	-	64
Deferred tax liability	-	-	-	-	-	-	225	225
Other liabilities	4,182	-	-	-	-	-	-	4,182
Subordinated debt		17	-	-	-	15,474	-	15,491
Shareholders' equity	-	-	-	-	-	-	56,640	56,640
Total liabilities and shareholders' equity	310,180	77,489	72,561	113,454	5,227	20,636	56,865	656,412
Net liquidity gap	(18,791)*	(57,152)	(46,456)	(55,537)	129,286	43,400	5,250	-
Financial commitments and contingencies								
Contingent liabilities	4,151	-	-	-	-	-	-	4,151
Financial commitments	24,195	-	-	-	-	-	-	24,195
Total financial commitments and contingencies	28,346	-	-	-	-	-	-	28,346

*Net liquidity gap – on demand

Bank (Discounted table)

As at 31 December 2009 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and demand deposits with central banks	44,332	-	-	-	-	-	-	44,332
Due from credit institutions	91,521	4,621	-	-	-	4,605	1,492	102,239
Loans and advances to customers	42,976	32,616	36,537	51,637	136,385	68,417	-	368,568
Securities and investments	14,628	406	236	197	-	-	10,900	26,367
Fixed and intangible assets	-	-	-	-	-	-	20,504	20,504
Other assets	2,780	-	-	345	-	-	4,771	7,896
Total assets	196,237	37,643	36,773	52,179	136,385	73,022	37,667	569,906
Liabilities and shareholders' equity								
Due to credit institutions	16,431	-	-	-	-	-	-	16,431
Deposits from customers	233,972	72,706	71,773	94,841	6,169	957	-	480,418
Debt securities issued	-	3,546	-	-	-	-	-	3,546
Derivatives	73	23	76	-	-	-	-	172
Deferred tax liability	-	-	-	-	-	-	847	847
Other liabilities	3,393	-	-	-	-	-	-	3,393
Subordinated debt	-	15	-	-	-	15,166	-	15,181
Shareholders' equity	-	-	-	-	-	-	49,918	49,918
Total liabilities and shareholders' equity	253,869	76,290	71,849	94,841	6,169	16,123	50,765	569,906
Net liquidity gap	(57,632)*	(38,647)	(35,076)	(42,662)	130,216	56,899	(13,098)	-
Financial commitments and contingencies								
Contingent liabilities	2,642	-	-	-	-	-	-	2,642
Financial commitments	13,442	-	-	-	-	-	-	13,442
Total financial commitments and contingencies	16,084	-	-	-	-	-	-	16,084

*Net liquidity gap – on demand

43. REPRICING MATURITY OF ASSETS AND LIABILITIES BASED ON INTEREST RATE CHANGES

Group

As at 31 December 2010 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	124,166	-	-	-	-	-	11,693	135,859
Due from credit institutions	96,659	5,439	207	798	32	-	1,492	104,627
Loans and advances to customers	83,922	166,437	9,344	10,104	22,128	7,991	31,802	331,728
Securities and investments	449	542	2,221	3,235	12,008	1,089	27,979	47,523
Fixed and intangible assets	-	-	-	-	-	-	19,106	19,106
Other assets							15,361	15,361
Total assets	305,196	172,418	11,772	14,137	34,168	9,080	107,433	654,204
Liabilities and shareholders' equity								
Due to credit institutions	2,058	-	-	-	-	-	-	2,058
Deposits from customers	308,428	75,848	72,545	113,454	5,227	-	-	575,502
Debt securities issued	-	-	-	-	-	-	-	-
Other liabilities	57	7	-	-	-	-	5,111	5,175
Subordinated debt	-	-	-	-	13	15,461	17	15,491
Shareholders' equity	-	-	-	-	-	-	55,978	55,978
Total liabilities and shareholders' equity	310,543	75,855	72,545	113,454	5,240	15,461	61,106	654,204
Total interest sensitivity gap	(5,347)	96,563	(60,773)	(99,317)	28,928	(6,381)	46,327	

As at 31 December 2009 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	33,769	-	-	-	-	-	10,563	44,332
Due from credit institutions	96,260	4,712	-	-	-	-	1,492	102,464
Loans and advances to customers	104,973	179,548	15,293	12,794	22,648	5,417	20,513	361,186
Securities and investments	2,590	3,372	742	3,967	4,930	455	6,519	22,575
Fixed and intangible assets	-	-	-	-	-	-	21,074	21,074
Other assets	-	-	-	-	-	-	15,137	15,137
Total assets	237,592	187,632	16,035	16,761	27,578	5,872	75,298	566,768
Liabilities and shareholders' equity								
Due to credit institutions	16,431	-	-	-	-	-	-	16,431
Deposits from customers	232,371	70,299	71,748	95,568	6,169	-	-	476,155
Debt securities issued	-	3,546	-	-	-	-	-	3,546
Other liabilities	73	23	76	-	-	-	5,810	5,982
Subordinated debt	-	-	-	-	-	15,181	-	15,181
Shareholders' equity	-	-	-	-	-	-	49,473	49,473
Total liabilities and shareholders' equity	248,875	73,868	71,824	95,568	6,169	15,181	55,283	566,768
Total interest sensitivity gap	(11,283)	113,764	(55,789)	(78,807)	21,409	(9,309)	20,015	-

Bank

As at 31 December 2010 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	124,166	-	-	-	-	-	11,693	135,859
Due from credit institutions	96,548	5,395					1,492	103,435
Loans and advances to customers	101,105	149,704	9,358	10,128	22,141	7,991	31,725	332,152
Securities and investments	449	542	2,221	3,235	11,991	1,089	46,942	66,469
Fixed and intangible assets	-	-	-	-	-	-	7,866	7,866
Other assets	-	-	-	-	-	-	10,631	10,631
Total assets	322,268	155,641	11,579	13,363	34,132	9,080	110,349	656,412
Liabilities and shareholders' equity								
Due to credit institutions	2,058	-	-	-	-	-	-	2,058
Deposits from customers	309,045	77,465	72,561	113,454	5,227	-	-	577,752
Debt securities issued	-	-	-	-	-	-	-	-
Other liabilities	57	7	-	-	-	-	4,407	4,471
Subordinated debt	-	-	-	-	-	15,474	17	15,491
Shareholders' equity	-	-	-	-	-	-	56,640	56,640
Total liabilities and shareholders' equity	311,160	77,472	72,561	113,454	5,227	15,474	61,064	656,412
Total interest sensitivity gap	11,108	78,169	(60,982)	(100,091)	28,905	(6,394)	49,285	

As at 31 December 2009 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	33,769	-	-	-	-	-	10,563	44,332
Due from credit institutions	96,126	4,621	-	-	-	-	1,492	102,239
Loans and advances to customers	127,169	161,428	19,405	12,794	22,764	5,417	19,591	368,568
Securities and investments	2,572	3,317	593	3,863	4,781	370	10,871	26,367
Fixed and intangible assets	-	-	-	-	-	-	20,504	20,504
Other assets	-	-	-	-	-	-	7,896	7,896
Total assets	259,636	169,366	19,998	16,657	27,545	5,787	70,917	569,906
Liabilities and shareholders' equity								
Due to credit institutions	16,431	-	-	-	-	-	-	16,431
Deposits from customers	234,102	72,706	71,773	95,668	6,169	-	-	480,418
Debt securities issued	-	3,546	-	-	-	-	-	3,546
Other liabilities	73	23	76	-	-	-	4,240	4,412
Subordinated debt	-	-	-	-	-	15,181	-	15,181
Shareholders' equity	-	-	-	-	-	-	49,918	49,918
Total liabilities and shareholders' equity	250,606	76,275	71,849	95,668	6,169	15,181	54,158	569,906
Total interest sensitivity gap	9,030	93,091	(51,851)	(79,011)	21,376	(9,394)	16,759	-

44. RELATED PARTIES

Related parties are defined as shareholders that have the ability to control the Bank, members of the Council and the Board, key management personnel, their close members of the families, and companies in which they have controlling interest as well as subsidiaries and associated companies.

LVL '000	Group 2010	Group 2009	Bank 2010	Bank 2009
***Amounts receivable*:**				
Loans and advances to related parties:				
- Management	1,190	140	1,172	79
- Parent company	40	753	40	745
- Subsidiaries	-	-	23,201	26,478
- Other related legal entities	12,979	36,225	12,979	36,185
- Other related private individuals	-	64	-	64
Financial assets at fair value through profit or loss - currency derivative fair value:				
- Parent company	-	358	-	358
Total amounts receivable:	**14,209**	**37,540**	**37,392**	**63,909**
***Amounts payable*:**				
Deposits and funds received:				
- Management	301	353	218	195
- Parent company	1,153	3,923	1,153	3,923
- Subsidiaries	-	-	2,252	3,622
- Other related legal entities	1,539	67	1,536	67
- Other related private individuals	218	6,276	218	6,276
Derivative liabilities - currency derivative fair value:				
- Parent company	-	69	-	69
Total amounts payable:	**3,211**	**10,688**	**5,377**	**14,152**
Credit commitments and contingencies to related parties				
- Management	1,128	281	1,124	30
- Parent company	-	-	-	-
- Subsidiaries	-	-	5,560	1,295
- Other related legal entities	-	-	-	-
- Other related private individuals	132	909	132	909
Total commitments and contingencies to related parties:	**1,260**	**1,190**	**6,816**	**2,234**
Profit and loss items				
Interest revenue	307	434	1,115	1,753
Inc. interest revenue from parent company	3	432	3	432
Interest expense	(38)	(122)	(181)	(388)
Inc. interest expense from parent company	(1)	(104)	(1)	(104)
Commission and fee revenue	78	-	345	166
Commission expense	(18)	-	(194)	(462)
Other revenue/ expense	(62)	(99)	(267)	(44)
Total profit or loss	**267**	**213**	**818**	**1,025**

All transactions with related parties are made in at terms equivalent to those that prevail in arm's length transactions. The Group has not recorded any impairment of receivables relating to amounts owned by related parties (2009: LVL 0). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

During the reporting period Bank has entered into an arrangement with its parent Snoras Bank with notional value of LVL 41 million of maximum possible credit enhancement. The fair value of the aforementioned agreement as estimated by the Bank was null as a result no payments have been made by neither party at inception of this agreement and the loans it covers show no indicators of impairment. Due to the fact that applicable credit institution law already provides for an obligation of majority shareholder of the bank (the holder of substantial stake) to increase the capital of the Bank in case if that is needed, the obligations undertaken by Snoras with mentioned agreement do not increase Snoras liability to support Bank's capital in case it is reasonably necessary.

The Bank has issued a EUR 770,000 guarantee in favour of AS Swedbank to assist a related party with real estate acquisition. The standard fee has been charged. The guarantee expires on 8 June 2011. The guarantee has been secured by collateral with a value that exceeds the guarantee amount several times. The Bank also has issued a EUR 225,000 and USD 75,000 guarantee in favour of American Express Services Europe Ltd. to secure credit card transactions of related parties.

Other related party transactions are also disclosed in note 12.

There is no accrued impairment loss in relation to the loans issued to related parties.

45. COMMITMENTS AND CONTINGENCIES

Memorandum items include the following contingent liabilities and financial commitments, as well as customer security account balances outstanding at the end of the year:

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Contingent liabilities				
Outstanding guarantees	2,745	2,139	4,151	3,545
Total contingent liabilities	**2,745**	**2,139**	**4,151**	**3,545**
Financial commitments				
Credit commitments	17,985	10,496	22,515	11,791
Other commitments	1,680	1,651	1,680	1,651
Total financial commitments	**19,665**	**12,147**	**24,195**	**13,442**
Total contingent liabilities and financial commitments	**22,410**	**14,286**	**28,346**	**16,987**

On 29 December 2009, a guarantee agreement was signed with LKB Līzings. According to the agreement, the Bank as the guarantor will be responsible for the debts of legal entities and private individuals, which meet certain requirements, in the amount of EUR 2,000,000 (two million euros).

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2010 amounted to LVL 3,188 thousand (2009: LVL 3,239 thousand).

On 4 March 2009, the Competition Council initiated Case No. P/09/05/4 for the failure to comply with Section 11, Paragraph one, Clause 1 of the Competition Law by several banks operating in Latvia, including AS Latvijas Krājbanka. The Case deals with the commission fees fixed for payment cards. No final decision has been adopted yet in 2010. The Bank has not accepted the breaches listed in Case No. P/09/05/4, which has been communicated to the Competition Council accordingly. The Bank believes that no material loss will be incurred due to this issue.

46. RISK MANAGEMENT

Introduction

The Bank has developed a system for identification, supervision and management of the main financial risks to which the Bank and the Group entities are exposed. Risk management within the Group is governed by the Risk Management Policy and by the Group's regulations of the internal control system.

The main aim of the risk management is to prevent occurrences of significant losses that may affect the Group's shareholders' equity.

Timely identification of the risk factors, effective risk management, proper evaluation and continuous monitoring are the main risk management system principles.

Bank activities are closely related to the development of new market segments. Internal processes and technologies that support customer services are continuously improved. The effective management of these risks is ensured by the timely and full-fledged automation and process documentation. The tools for risk control and management are regularly improved to meet the requirements of effective risk management. Technological stability and safety of operations are the core principles that are stated in the Bank's Information Safety Policy.

In the course of the daily operations, the principle of independence is used to ensure balanced analysis of risk and business factors to secure optimal revenues.

Risk Management Structure

The Bank and the Group's Risk Management Policy is approved by the Council of the Bank. Principles of the Bank's Risk Management Policy are in conformance with the risk management principles set by the Snoras Bank.

The Board is responsible for implementation of the general principles of the Risk Management Policy. The Board also is responsible for implementation of the risk control to assure that the Bank assets are ensured against losses, unauthorised management and unauthorised use, the Bank's operating risks are continuously identified and managed, the Bank's capital in terms of its size, components and their relative weights is sufficient to cover identified and possible risks, transactions are executed in accordance with the internal regulations.
The Board had authorized the Assets and Liabilities Management Committee to manage asset allocation and funding risks, and to manage capital base to ensure its adequacy and development.

The main tasks of the Assets and Liabilities Management Committee are:

- Implementation of binding policy in risk elements arising from the Bank's operations, ensuring complete monitoring and management of the totality of these risks;
- Management of the Bank's capital resources to evenly distribute them between separate business lines to ensure adequate capitalisation of risk;
- Assessment and approval of adequate and valid risk position limits and methodology of limit calculation.

The Assets and Memorandum Item Assessment Committee is a permanent body mainly responsible for evaluation of all types of loans, other assets and memorandum items, which are subject to credit and market risks.

The Money Laundering Prevention Committee is a permanent body established to ensure and control the Bank's operations in accordance with the Republic of Latvia legislation, the Bank's policies and internal regulations, to prevent legalisation of illegally acquired funds and to prevent financing of terrorism. The Committee also ensures the process of customer and transaction monitoring and cooperates with the authorized state institutions.

Management of money laundering risks during daily activities is performed by the Customer Transaction Control Unit.

Management of other risks is performed by the Risk Management Department. The Risk Management Department is responsible for the implementation of risk management principles, evaluation of risk identification tools, oversight of risk assessment and management (including IT risk), planning of the Bank's further operations and disclosure of the relevant information. Each business function has its own responsible managers, which are independent and separated from business units.

Credit risk

Credit risk relates to potential losses arising for the Latvijas Krājbanka Group if a borrower is unable to meet its contractual obligations. The Bank is subject to credit risk mainly from lending operations. The amount of credit risk is significant, and it is reflected in the asset values.

The Bank is exposed to credit risk also from other products, including derivatives and investments in debt securities.

The Bank is subject to off-balance sheet credit risk that occurs from commitments to grant additional loans and from outstanding guarantees.

The Bank is exposed to credit risk in trading, lending and investing activities and also while acting as an intermediary on the customers' behalf or issuing guarantees to third parties.

Credit risk that arises from investing and trading activities is managed in accordance with the Bank's trading risk management procedures.

Credit risk arising from potential default on the part of the Bank's counterparties in transactions with derivatives or other financial instruments is managed on a daily basis.

To prevent occurrence of credit risk of derivatives, the Bank cooperates only with well-rated counterparties which has high ratings set by rating agencies.

The Group's main principles for credit risk management are included in the Loan Policy and are defined as follows:

- Risk should be undertaken only in well-known business lines;
- The main source of loan repayment funds are cash flow from core business, salary and other revenue;
- The price of the loan product should be adequate to the customer credit risk – risk should be evaluated based on future returns;
- The customer must be able to provide adequate contribution to the project financing;
- Each collateral must be liquid and sufficient;
- The loan should be issued only for a definite purpose, the term structure of the loan should be consistent with the aim;
- There are standardised criteria and procedures for handling lending transactions;
- Risk control should be ensured through segregation of the employee functions and necessary authorisations.

The core principle of credit risk management is adequate estimation of the customer's creditworthiness, as customer related risk increases, its creditworthiness is analysed more carefully. The daily credit risk management is ensured by the Credit Department, which is responsible for the implementation of the Credit Risk Management Policy principles and control of the Policy implementation.
The Bank continuously monitors the customer's creditworthiness, collateral sufficiency and fair value adequacy. The Assets and Memorandum Item Assessment Committee evaluates a loan to determine its fair value on a monthly basis. The Risk Management Department, an independent unit of the Bank, is responsible for the development of the credit risk evaluation methods and their application.

The Bank carries out sensitivity analysis each year to test the possible impact of different possible events on capital adequacy of the Bank and the Group.

Maximum exposure to credit risk

The table represents the maximum exposure of different categories of financial instruments to credit risk before accounting for the effects of credit risk mitigation instruments:

LVL '000	Notes	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Demand deposits with central banks	16	125,440	33,769	125,440	33,769
Due from credit institutions	17	104,627	102,464	103,435	102,239
Loans and advances to customers	19	331,728	361,186	332,152	368,568
Financial assets at fair value through profit or loss	18	11,172	5,721	11,172	5,509
Held-to-maturity investments	21	9,676	11,426	9,659	11,108
Total		**582,643**	**514,566**	**581,858**	**521,193**
Contingent liabilities	45	2,745	2,139	4,151	2,642
Financial commitments	45	17,985	10,496	22,515	11,791
Total	45	**20,730**	**12,635**	**26,666**	**14,433**
Total maximum credit risk exposure		**603,373**	**527,201**	**608,524**	**535,626**
Credit risk concentration to single customer		125,440	36,190	125,440	36,190

The Board has approved a regulation that the loan amount to a single customer or a group of related customers should not exceed the maximum credit limit of 25% of the Group's equity.

As at 31 December 2010, the largest exposure to a single customer amounted to LVL 22,574 thousand (three loans to a Bank's subsidiary LKB Līzings). The Bank was granted permission by the Financial and Capital Market Commission not to limit the exposure to this customer.

As at 31 December 2010, the Bank's largest exposure to one customer, which was not related to the Bank, was a loan to a legal entity in the amount of LVL 13,824 thousand (2009: LVL 10,524 thousand).
The Bank has defined risk concentration limits for industries. The maximum amount (33%) is set for to real estate operations (2009: 33.0%).

The Bank has defined maximum possible risk concentration limits by the loan type. The largest limit is for mortgage loans issued to residents - 40%.

The Bank has also set limits for country risk – the maximum limit of 600% of the equity applies to investments in countries having the highest ratings, with their financial environments assessed as stable (Fitch AAA, Moody's Aaa).

Maximum exposure to credit risk by industry

The table represents the Bank's (and the Group's) maximum exposure to credit risk by industry before accounting for the effect of the credit risk mitigation instruments:

LVL'000	Gross maximum exposure 31/12/2010	Gross maximum exposure 31/12/2009
Financial intermediaries	288,906	189,672
Private individuals	111,866	121,608
Real estate management	53,297	62,257
Transport, warehousing and communications	36,915	41,254
Manufacturing	30,076	27,821
Retail and wholesale	14,667	9,817
Construction	8,446	13,069
Government	11,045	8,494
Hotels and restaurants	9,857	15,874
Sports and leisure activities	8,017	8,093
Investment companies	-	8,144
Agriculture and forestry	4,132	4,755
Postal services	-	-
Debt collection	-	12,941
State administration and healthcare	1,192	1,191
Electricity, gas and water utilities	7,307	1,082
IT services	135	442
Other	22,666	9,112
Total	**608,524**	**535,626**

Maximum exposure to credit risk by countries

The table represents the Bank' s (and the Group's) maximum exposure to credit risk by countries and regions before taking into account any collaterals held or other credit enhancements:

LVL'000	31/12/2010	31/12/2009
Latvia	440,101	393,274
Other EU Member States	68,983	51,874
Other European countries	10,487	5,927
North America	12,524	2,905
CIS states	63,604	81,601
Other	12,825	45
Total	**608,524**	**535,626**

Credit quality of financial assets

The table describes the quality of the Bank's (and the Group's) financial assets according to the rating agency data. The Bank uses Fitch, Moody's, Standard&Poor's ratings to classify balances due from credit institutions and fixed income securities.

Financial assets are grouped according to the Basel II requirements. The Bank's (and Group's) loan portfolio does not contain loans to customers having international credit ratings.

As at 31 December 2010 LVL'000	Neither past due nor impaired				Past due but not impaired	Individually impaired	Total
	High grade	Standard grade	Sub-standard grade	Individually evaluated without grade			
Demand deposits with central banks	-	125,440	-	-	-	-	125,440
Due from credit institutions	60,156	248	1,493	41,538	-	-	103,435
Loans and advances to customers	-	-	-	238,282	59,288	34,582	332,152
Financial assets at fair value through profit or loss	3,834	5,819	490	1,007	-	-	11,150
Held-to-maturity investments	-	9,659	-	-	-	-	9,659
Derivatives	-	-	-	22	-	-	22
Total	**63,990**	**141,166**	**1,983**	**280,849**	**59,288**	**34,582**	**581,858**

As at 31 December 2009 LVL'000	Neither past due nor impaired				Past due but not impaired	Individually impaired	Total
	High grade	Standard grade	Sub-standard grade	Individually evaluated without grade			
Demand deposits with central banks	-	33,769	-	-	-	-	33,769
Due from credit institutions	25,311	799	-	76,129	-	-	102,239
Loans and advances to customers	-	-	-	292,455	57,418	18,695	368,568
Financial assets at fair value through profit or loss	3,432	471	253	803	-	-	4,959
Held-to-maturity investments	8,586	1,563	959	-	-	-	11,108
Derivatives	92	358	-	100	-	-	550
Total	**37,421**	**36,960**	**1,212**	**369,487**	**57,418**	**18,695**	**521,193**

As at 31 December 2010, the most significant concentration of credit risk with regard to the balances due from credit institutions was as follows: high grade – an overnight deposit with a Luxembourg credit institution amounting to LVL 21,084 thousand (2009: correspondent account balances of LVL 12,450 thousand with a German credit institution), without grade – correspondent account balances with a Russian credit institution amounting to LVL 35,139 thousand (2009: correspondent account balances of LVL 36,190 thousand with a Russian credit institution).

The ratings are grouped according to the following rules (the example below uses ratings assigned by Moody's).

Rating value	Moody's rating
High grade	Aaa Aa1-A3 Baa1-Baa2 Baa3
Standard grade	Ba1 Ba2-Ba3 B1-B2
Sub-standard grade	B3- Caa-C
Individually evaluated	D or without rating

The Bank (and the Group) does not use any internal credit rating system to manage the quality of loans and advances to customers.

	Standard	**Past due or individually impaired**	**Total**	**Standard**	**Past due or individually impaired**	**Total**
LVL'000	**31/12/2010**	**31/12/2010**	**31/12/2010**	**31/12/2009**	**31/12/2009**	**31/12/2009**
Demand deposits with central banks	125,440	-	125,440	33,769	-	33,769
Due from credit institutions	103,435	-	103,435	102,239	-	102,239
Loans and advances to customers	238,282	93,870	332,152	292,455	76,113	368,568
Financial assets at fair value through profit or loss	11,150	-	11,150	4,959	-	4,959
Held-to-maturity investments	9,659	-	9,659	11,108	-	11,108
Derivatives	22	-	22	550	-	550
Total	**487,988**	**93,870**	**581,858**	**445,080**	**76,113**	**521,193**

Aging analysis of past due but not impaired financial assets (the Bank and the Group)

As at 31 December 2010	**Past due but not impaired loans**				
LVL'000	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Business loans	841	2,353	3,953	11,369	**18,516**
Utilised credit lines	13	5	370	1,447	**1,835**
Mortgage loans	2,523	1,443	1,831	10,220	**16,017**
Consumer loans	849	366	208	2,787	**4,210**
Debit balances on settlement cards and overdrafts	-	-	-	240	**240**
Other loans	2,381	489	307	15,293	**18,470**
Total	**6,607**	**4,656**	**6,669**	**41,356**	**59,288**

As at 31 December 2010, the fair value of the collateral for the loans that are past due but not impaired was LVL 86,685 thousand (2009: 88,412) and the fair value of the collateral that the bank holds relating to loans individually determined to be impaired amounts to LVL 40,541 thousand (2009: 43,102). The collateral consists of cash, securities, letters of guarantee and properties.

As at 31 December 2009	Past due but not impaired loans				
LVL'000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Business loans	2,485	729	10,390	10,822	24,426
Utilised credit lines	204	150	2	1,060	1,416
Mortgage loans	3,356	1,282	1,583	10,941	17,162
Consumer loans	1,324	648	476	1,870	4,318
Debit balances on settlement cards and overdrafts	-	-	-	-	-
Other loans	1,721	1,610	190	6,575	10,096
Total	**9,090**	**4,419**	**12,641**	**31,268**	**57,418**

Gross loans and advances to customers by type of collateral (the Bank and the Group)

As at 31 December 2010 LVL'000	Real estate	Term deposits	Securities	Movable property	Commercial collateral	Guarantees	Other collateral and without collateral	Total
Business loans	117,691	4,253	3,436	7,677	49,542	2,301	2,332	**187,232**
Utilised credit lines	10,816	-	-	44	28,431	119	4,111	**43,521**
Mortgage loans	55,477	524	-	-	-	391	858	**57,250**
Consumer loans	3	-	-	-	-	50	12,997	**13,050**
Debit balances on settlement cards and overdrafts	2	33	-	-	-	206	4,307	**4,548**
Other loans	36,749	207	167	162	353	292	662	**38,592**
Total	**220,738**	**5,017**	**3,603**	**7,883**	**78,326**	**3,359**	**25,267**	**344,193**
Charged allowance for impairment	**5,523**	**-**	**-**	**92**	**2,767**	**818**	**2,841**	**12,041**

As at 31 December 2009 LVL'000	Real estate	Term deposits	Securities	Movable property	Commercial collateral	Guarantees	Other collateral and without collateral	Total
Business loans	130,481	2,819	-	15,303	39,591	9,798	2,413	**200,405**
Utilised credit lines	8,633	-	-	35	38,391	9,338	189	**56,586**
Mortgage loans	61,368	-	-	-	-	-	30	**61,398**
Consumer loans	3	-	-	-	-	455	16,796	**17,254**
Debit balances on settlement cards and overdrafts	5	10	-	-	-	266	5,179	**5,460**
Other loans	37,362	331	155	185	4	43	605	**38,685**
Total	**237,852**	**3,160**	**155**	**15,523**	**77,986**	**19,900**	**25,212**	**379,788**
Charged allowance for impairment	**6,245**	**-**	**-**	**67**	**1,252**	**137**	**3,518**	**11,219**

Renegotiated loans (the Bank and the Group)

The table shows amounts of restructured loans within reporting period.

LVL'000	2010	2009
Business loans	24,188	30,845
Utilised credit lines	391	565
Mortgage loans	5,413	6,582
Consumer loans	3,003	1,384
Debit balances on settlement cards and overdrafts	-	-
Other loans	5,418	12,262
Total	**38,413**	**51,638**

The table does not include past due loans where renegotiation of terms is not caused by the Client's inability to repay the loan.
The renegotiated terms of the credits and overdrafts of payment cards are disclosed under the loan types used for renegotiation purposes. See Note 19 for more detailed information.

Impairment assessment

The Assets and Memorandum Item Assessment Committee is a Bank's institution responsible for the assessment and classification of financial assets carried at amortised cost, considering the credit risk inherent in such assets. The assessment process is documented according to the statutory requirements – the Bank has formulated the Loan Quality Assessment and Impairment Methodology to ensure the process of assessing and classifying financial assets carried at amortised cost in the event of a borrower's default, which, according to IAS, is recognised in the financial statements as an impairment loss.

Financial assets stated at amortised cost, i.e. loans and advances to customers and held-to-maturity investments, are subject to impairment assessment.

Loans may be assessed for impairment both individually and collectively.

A loan or a group of loans is impaired and impairment losses are incurred if there is objective evidence of impairment, which has an impact on future cash flows and can be reliably estimated. An impairment loss on financial assets at amortised cost is the difference between the carrying amount of the asset and the estimated present value of future cash flows from that asset.

Impairment allowances are established on the basis of discounted cash flows that are applied to the recovery period.

Future cash flows are discounted applying the effective interest rate.

For impairment assessment purposes, the net loan value is used to calculate interest revenue. Cash flows from the collateral realisation at the market value at the assessment date are included in the cash flow forecasts.

Collective assessment is performed for loans that are not assessed on an individual basis as well as individually significant loans that are not impaired individually.

Loans are grouped on the basis of similar credit risk characteristics.

To determine which loans are individually significant, the Bank considers the relation between the relative value (outstanding balance) of the loan and the Bank's loan portfolio. Other circumstances which expose/ may expose the Bank to an elevated credit risk (industry, country, transactions between related customers, etc.) may also be considered during the classification.

The Bank and the Group have introduced a unified procedure for assessment of assets carried at amortised cost.

Since the collateral value is vital for the assessment, the Bank carries out stress testing of its loan portfolio to measure the risk exposure, by applying the collateral-based scenario, i.e., reducing the collateral's market value by 10%. As at 31 December 2010, the potential increase of the allowances defined as a result of the aforementioned stress testing would be LVL 2,281 thousand.

Market risk

Market risk is the probability of incurring losses due to the revaluation of balance sheet and memorandum items, caused by fluctuations in market prices of financial instruments, commodities and commodity derivatives, due to changes in interest rates, foreign exchange rates and other factors.

The Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk is determined to the extent of the effect that changes in the market rates have on the Bank's profit and net interest revenue, as well as equity. Net interest revenue will increase or decrease as a result of fluctuations in interest rates to the extent of the difference in the term structures of interest bearing assets and liabilities.

Interest rate risk indicates the impact of changes in market rates on the financial situation of the Group and the Bank.

To determine the possible interest rate risk impact on the Bank's future income or net equity, the Bank mainly uses GAP analysis.

GAP analysis – analysis of term structure mismatch for interest rate sensitive assets and liabilities subject to repricing.

Using GAP analysis, the Bank determines the value describing the amount of interest rate risk – sensitivity to interest rate change, by changing interest rates by 100 basis points and evaluating the risk effect on the Bank's profit and loss.

To calculate the amount of interest rate risk, the Bank uses cumulative weighted GAP with the remaining term of one year. The acceptable amount of possible impact on the Bank's income or equity market value should not exceed 5% of equity.

The Treasury Department performs interest rate control and supervision on a daily basis.

The Assets and Liabilities Management Committee evaluates the interest rate risk value on a monthly basis.

The Risk Management Department reports to the Board.

The Bank does not use VaR method to determine the risk impact amount, because the value of assets classified as the trading portfolio is insignificant and the Bank's Investment Policy does not stipulate active involvement into speculative deals.

The following table shows the split of interest bearing assets and liabilities at their nominal value as at 31 December 2010 (the Bank and the Group):

LVL '000	Fixed rate	Floating rate	Total
Cash and demand deposits with central banks	124,166	-	**124,166**
Due from credit institutions	97,664	5,771	**103,435**
Securities	19,388	133	**19,521**
Loans and advances to customers	43,483	239,691	**283,174**
Total interest bearing assets	**284,701**	**245,595**	**530,296**
Due to credit institutions	2,058	-	**2,058**
Deposits from customers	542,428	29,144	**571,572**
Subordinated debt	15,474	-	**15,474**
Total interest bearing liabilities	**559,960**	**29,144**	**589,104**

The following table shows the split of interest bearing assets and liabilities at their nominal value as at 31 December 2009 (the Bank and the Group):

LVL '000	Fixed rate	Floating rate	Total
Cash and demand deposits with central banks	33,769	-	**33,769**
Due from credit institutions	96,034	4,605	**100,639**
Securities	13,368	1,733	**15,101**
Loans and advances to customers	62,428	274,966	**337,394**
Total interest bearing assets	**205,599**	**281,304**	**486,903**
Due to credit institutions	16,431	-	**16,431**
Deposits from customers	455,578	25,369	**480,947**
Debt securities issued	-	3,546	**3,546**
Subordinated debt	15,181	-	**15,181**
Total interest bearing liabilities	**487,190**	**28,915**	**516,105**

Interest rate sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant of the Bank's and the Group's profit and loss and equity for the currencies to which the Bank and the Group had significant exposure.

The sensitivity of the Bank's and Group's profit and loss is the effect on the net interest revenue for one year, based on the repricing maturity analysis of the Bank's and Group's financial assets and financial liabilities in respective currencies under the assumption of respective change in interest rates for all maturities. The additional effect on the Bank's and Group's profit and loss is calculated by revaluing financial instruments at fair value for the effects of the assumed changes in interest rates as at the reporting date.

Currency	Interest rate increase/ decrease in base points 2010	Effect on profit before taxes 2010	Effect on equity before taxes 2010	Interest rate increase/ decrease in base points 2009	Effect on profit before taxes 2009	Effect on equity before taxes 2009
LVL	+200	+1,218	+16	+200	+1,299	+632
EUR	+50	+210	+251	+50	+225	+342
USD	+50	36	+96	+50	(15)	+30
LVL	-200	(1,218)	(16)	-200	(1,299)	(632)
EUR	-50	(210)	(251)	-50	(225)	(342)
USD	-50	(36)	(96)	-50	+15	(30)

Currency risk

The Bank manages foreign currency risk by establishing and regulating the principles related to foreign exchange risk control and governance to minimise the impact of exchange rate volatility on the Bank's financial results.

The open currency position can arise:

- From the Bank's core business operations – customer driven currency buying/selling transactions, foreign exchange transactions in the interbank market, crediting and deposits taking;
- By engaging in speculative foreign exchange transactions;
- As a result from internal foreign exchange transactions;
- Through expenses in foreign currency.

The maximum admissible foreign currency open position is regulated by the legislative acts of the Republic of Latvia.

The Bank's Council has approved the following limits. The foreign currency position limit for individual currencies is defined as 10% of equity. The foreign currency position limit in aggregate is defined as 20% of equity.

To restrict foreign currency risk, the Bank chooses the most favourable hedging method that is appropriate for hedging the particular risk. Hedging tools are chosen depending on the currency, term, amount and associated expenses. The Bank employs the following financial instruments to hedge foreign currency risk:

- Spot and forward forex deals;
- Currency swaps.

The Investment Department implements the Foreign Currency Risk Management Policy. The Risk Management Department controls compliance with the limits stated in the policy and reports to the Bank's Board.

Foreign currency risk sensitivity analysis

The table represents the Bank's and the Group's sensitivity analysis of EUR. The Bank and the Group have a significant open position in this currency so there is a possible future impact on the Bank's and the Group's profit and loss and the Bank's and the Group's equity.

Currency	Change in currency rate %, 2010	Effect on P/L before taxes 2010	Effect on equity before taxes 2010	Change in currency rate % 2009	Effect on P/L before taxes 2009	Effect on equity before taxes 2009
USD	+5.0	+11	-	+5.0	+22	-
USD	-5.0	(11)	-	-5.0	(22)	-
EUR	-	-	-	-	-	-
EUR	-2.0	+24	-	-2.0	+24	-

The expected changes in the EUR/LVL exchange rate are based on the EUR/LVL exchange rate effective at the end of the year and the fluctuation corridor of the EUR/LVL exchange rate of -1%/+1% stated by the Bank of Latvia.

Management of liquidity risk and investments

The liquidity risk is the risk which is incurred in case the Bank is unable to repay deposits with past due dates in a timely fashion and/or meet other obligations.

The Council of the Bank has approved the Liquidity Risk Management Policy.

The Policy determines and regulates the permitted differences between the Bank's assets and liabilities, evaluating them according to the remaining maturity, managing, overseeing and planning changes in the Bank's demand deposits, cash and also investing certain part of assets into liquid financial instruments and short-term assets.

Liquidity is managed to meet the following aims:

- The Bank's assets should be allocated to meet the legally sound claims of the Bank's creditors at any time (liquidity);
- To ensure the Bank's operations are in accordance with the Liquidity maintenance ratio requirements;
- To ensure compliance with the internal liquidity risk limits.

Liquidity risk may occur if:

- The Bank is not able to meet its obligations and to ensure performance of the transactions by the Bank and customers due to internal factors;
- The Bank's solvency is limited due to external factors.

The Bank's current liability base consists of:

- Demand deposits by customers (private individuals (also banks) and legal entities);
- Term deposits by customers;
- Other financial resources, which the Bank has attracted as payment for services etc. (money in transit, other current liabilities);
- The Bank issued debt securities;
- Off-balance sheet liabilities, if there are reasons to believe that the counterparty may require their settlement.

Liquid assets are the following unencumbered Bank assets:

- Cash;
- Demand deposits with central banks and other solvent credit institutions;
- Balances due from central banks and other solvent credit institutions, if their remaining maturity does not exceed 30 days, and other assets, if the transaction terms permit early withdrawal of the funds (less the contractual fee for early withdrawal);
- Investments in financial instruments, if there is a continuous unrestricted market for these instruments, i.e. it is possible to sell them at short notice without incurring significant losses or use as collateral to receive loans.

Loans and advances to customers are not classified as liquid assets.

To assess the difference between assets and liabilities during each period as well as the possibility of covering it from demand deposits and deposits with a one-month withdrawal notice, the Bank uses statistical information on "sticky" deposits.

The Bank has set a limit for deposits that can be accepted from one person or a group of related persons.

While managing liquidity, the Bank assesses its assets and liabilities according to the remaining maturities:

- The remaining maturities for the assets are set according to the maturities specified by effective contracts or accepted notices about early withdrawal;
- Assets that are invested with an option of receive them on demand can be classified as demand assets;
- The maturities of financial instruments held for trading and available for sale that can be sold at short notice without significant losses and also other financial instruments that can be used as collateral to receive a loan can be classified based on the conditions of the deal;
- Assets that do not have any definite maturities are open-ended assets;
- Assets or any part thereof that are more than 14 days past due can be classified as past due assets.

The Bank maintains the liquidity ratio at least equal to 30% of total current liabilities.

The Treasury Department plans the asset and liability term structure and necessary liquid asset amounts on a daily basis.

The Risk Management Department regularly examines the liquidity ratio and reports to the Board.

The principles of managing large risk exposures (exposure to a single customer or a group of related customers in excess of 10% of the Bank's equity) are defined in the Liquidity Management Policy.

The Risk Management Department is responsible for the control of compliance of large risk exposures with limits set by the Parent company for the Group companies.

The Bank has developed Payment and Liquidity Crisis Battling Rules, stipulating crisis criteria and signs, and granting certain authorisations for action in crisis situations.

The Investment Policy regulates investment of available resources in financial instruments as part of the investment portfolio.

This policy states all aims, requirements, allowed financial instruments and describes the principles of portfolio management and supervision as well as sets the rules for value assessment.

The Assets and Liabilities Management Committee also defines the investment portfolio management strategy and structure by approving limits for investment and financial instrument groups.

The Treasury Department, and the Risk Management Department ensure compliance of the investments with the Bank's development targets.

The table shows changes in the liquidity ratio during the reporting period:

	2010 %	2009 %
Average during the period	66.58	46.03
Highest	81.15	55.55
Lowest	56.10	40.64

The table represents the analysis of the term structure of the financial liabilities and off-balance liabilities after non-discounted contractual cash flows (the Bank and the Group):

As at 31 December 2010 LVL`000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to credit institutions	2,058	-	-	-	-	-	2,058
Deposits from customers	303,993	78,225	73,696	116,829	10,850	3,609	587,202
Derivatives	57	7	-	-	-	-	64
Subordinated debt	59	303	363	726	5,806	26,032	33,289
Total financial liabilities	306,167	78,535	74,059	117,555	16,656	29,641	622,613
Total contingent liabilities and financial commitments	28,346	-	-	-	-	-	28,346
Total financial liabilities, contingent liabilities and financial commitments	334,513	78,535	74,059	117,555	16,656	29,641	650,959

As at 31 December 2009 LVL`000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to credit institutions	16,433	-	-	-	-	-	16,433
Deposits from customers	233,421	74,133	74,355	100,713	6,861	1,085	490,568
Debt securities issued	-	3,552	-	-	-	-	3,552
Derivatives	73	23	76	-	-	-	172
Subordinated debt	57	152	209	418	3,341	21,951	26,128
Total financial liabilities	249,984	77,860	74,640	101,131	10,202	23,036	536,853
Total contingent liabilities and financial commitments	16,084	-	-	-	-	-	16,084
Total financial liabilities, contingent liabilities and financial commitments	266,068	77,860	74,640	101,131	10,202	23,036	552,937

Operational risk management

Operational risk is a possibility to incur loss due to the inadequate or incomplete internal process, human or system operation, or due to the impact of external conditions, including legal risk, but excluding strategic and reputation risk.

Bank has developed the Operational Risk Management Policy.

The main aim of operational risk management is to ensure identification of the Bank's processes exposed to operational risk, to analyse and mitigate the causes and potential loss.

The Bank employs a system for identification of operational risk factors. The system ensures gathering of operational risk events related information.

The Bank facilitates development of operational risk management environment and takes measures to reduce the possibility of operational risk occurrences by:

- Developing already existing internal regulations and procedures and creating new procedures before the Bank starts offering new products;
- Introducing changes to the Bank's structure and management model;
- Ensuring participation of structural unit managers and responsible employees in the operational risk management process;
- Ensuring involvement of internal control bodies and increasing efficiency of their operations;
- Improving the system for defining transaction limits and signature rights;
- Facilitating segregation of functions in the Bank's operations;
- Expanding the use of the "four eyes" principle in authorization of all major deals;
- Ensuring mutual authorisation of significant deals;
- Updating the Bank's contingency plan;
- Creating the strategy for response to emergencies;
- Implementing recommendations by internal and external auditors;
- Ensuring training of the employees;
- By ensuring continuity of the operational risk management process.

The Bank continuously takes measures to prevent or decrease occurrence of operational risk:

- Information about development, approval and implementation of the Bank's key products, operations, assets, processes and systems is being analysed;
- Possible threats to major positions are being identified;
- Factors affecting risk occurrence are being identified;
- Types of risks, likely consequences and possible control measures are being analysed;
- Several other risk mitigation measures are being implemented (avoidance, prevention, mitigation, insurance).

The Bank's structural units supporting the Bank's operations and customer service are responsible for direct identification, mitigation and prevention of operational risk:

- The head of each unit has designated a person responsible for identification and reporting of the structural unit's operational risk;
- The responsible employees also prepare reports about operational risk occurrences within the structural unit which include information about internal data, external events and market conditions that may materially affect the Bank's operations as well as about results of the operational risk monitoring and the problems identified.

The Risk Management Department is responsible for coordination of the operational risk managing process and analysis and systematisation of operational risk occurrences. The Risk Management Department initiates measures to restrict and mitigate risks and prepares a monthly report about the operational risk level for the Board and unit managers.

The recipients of the report ensure analysis of the information in order to improve the Bank's operational risk management practices and further develop management policy and procedures.

47. CAPITAL

The Bank maintains its capital resources at a level sufficient to sustain financial operations appropriate to its activities, volumes and risks. The Law on Credit Institutions stipulates the minimum requirement with respect to the ratio of the Bank's capital resources to risk weighted assets and memorandum items at 8%.

The Financial and Capital Market Commission has developed rules regulating the calculation of the capital requirements. In 2010, the Bank fully complied with the regulatory capital adequacy requirements.

Capital management

The Bank's Capital Management Policy has been developed in order to:

- Ensure the monitoring of the Bank's operations;
- Regulate capital planning, ensuring capital adequacy evaluation process (evaluation of the risk exposure impact on the capital adequacy);

- Plan the Bank's capital position appropriateness to the development strategy;
- Foster the development of the Bank's Risk Exposure Management Strategy for Meeting Capital Requirements, delineating the Bank's risk profile;
- Determine methods and basic principles for calculation of the required capital;
- Calculate the required capital and determine its adequacy;
- Determine the roles of the structural units involved in the capital management process and their responsibilities in the capital adequacy evaluation process;
- Ensure the evaluation of the efficiency of the equity;
- Determine actions to maintain the acceptable risk level.

In managing the capital and grouping assets according to their risk level, the Bank strives to achieve optimal balance between risk and return with the aim of:

- Optimising the balance sheet risk profile;
- Optimise the tiers of the Bank's equity;
- Integrating risk, return and capital in a unified system;
- Ensuring operational risk management;
- Ensuring risk tolerance level and its appropriateness to the risk profile;
- Evaluating the complexity of exposures.

The Policy defines types and structure of the capital, sets requirements with respect to the process of the capital adequacy evaluation to ensure the necessary capital to cover identified and possible risks of the Bank's operations.

The Bank has identified the following risks as significant in its operations – risks with regulated minimum capital requirements (credit risk, operational risk) and risks that are not fully included in the regulatory minimum capital requirements (interest rate risk in the non-trading portfolio, business risk). Unidentified risks are accepted as unavoidable.

The Bank determines the required capital resources by assessing the capital required to cover the risks associated with its current and prospective activities, plans the measures to maintain the capital, and ensures that the available capital is at all times larger than or equal to the required capital resources.

The Bank ensures that its capital is at all times larger than or equal to the total of the following requirements:

- Capital requirement for credit risk and dilution risk;
- Capital requirement for foreign currency risk;
- Settlement risk and counterparty risk for trading book transactions;
- Capital requirement for operational risk.

The Bank carefully monitors the Bank's capitalisation level by analysing the possible changes in legislation, regulations and standards and forecasting possible impact of economic and political factors on the results of the activities by the Bank and customers.

To ensure the adequacy of the capital structure to the capital management strategy (capitalisation increase), in 2010 the Bank increased its capital. The Tier 1 capital was increased by the new share issue. As a result of the share issue, the Bank's share capital grew to LVL 25,824,248 (EUR 36,744,595). As at 31 December 2010, the subordinated debt was LVL 15,473,536 (EUR 22,016,859). All the agreements by their remaining maturity are eligible for Tier 2.

The Bank includes the tangible assets revaluation reserve in the Tier 2 capital if material changes have occurred to the value of its assets. The revaluation value is the lowest of the real estate value estimates provided by two certified real estate valuation experts. External funds for capital are planned if the amount of the capital generated by the Bank's activities is insufficient to support the Bank's future development.

	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Total risk weighted assets and memorandum items	473,910	448,448	473,983	453,325
Required regulatory capital	37,913	35,876	37,919	36,266
Tier 1	48,361*	40,824*	53,830*	41,593*
Tier 2	17,627	15,963	14,096	15,963
Capital adequacy ratio	13.92	12.66%	14.33%	12.70%
Tier 1 capital adequacy ratio	10.20%	9.10%	11.36%	9.18%
Tier 2 capital adequacy ratio	3.72%	3.56%	2.97%	3.52%

*The 50% decrease of Tier 1 capital and the 50% decrease of Tier 2 capital comprise investments in insurance, reinsurance and insurance management companies and subordinated capital, in which the Bank, directly or indirectly, owns 20 and more per cent of the share capital or voting shares (the investment in AAS LKB Life) as well as the specific reduction of Tier 1 and Tier 2 prescribed by laws.

The Bank applies the standardised approach to calculate the risk weighted value of the exposures.

In calculating the capital requirement for operational risk, the Bank applies the basic Indicator approach.

48. SEGMENT ANALYSIS

The Group determined that there is one operating segments used by the management of the Group, as the management of the Group are not using disaggregated information.

As the major part of the Group's clients during the reporting year were Latvian residents, no geographical analysis of revenues is disclosed. The majority of the Group's non-current assets other than financial instruments are located in Latvia, so no geographical analysis of non-current assets is disclosed.

The following analysis of segments is based on the Group's and Bank's internal reports.

(1) Statement of financial position

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Assets				
Cash and demand deposits with central banks	134,725	43,563	134,725	43,563
Due from credit institutions	103,344	98,405	99,958	98,272
Loans and advances to customers	355,551	368,738	338,327	375,218
Fixed income securities	19,539	15,722	19,521	15,101
Derivatives	23	550	22	550
Shares and other investments	767	531	22,805	4,852
Fixed assets and intangible assets	7,995	21,073	7,865	20,504
Other assets	69,240	35,518	50,297	28,228
Total assets	**691,184**	**584,100**	**673,520**	**586,288**
Liabilities				
Due to credit institutions	19,323	16,426	2,058	16,426
Deposits from customers	571,518	467,635	571,572	471,898
Debt securities issued	-	3,514	-	3,514
Derivatives	64	172	64	172
Other liabilities	15,583	17,562	14,548	15,136
Impairment and accrued liabilities	13,244	14,323	13,165	14,229
Subordinated debt	15,474	14,995	15,473	14,995
Equity	55,978	49,473	56,640	49,918
Total shareholders' equity and liabilities	**691,184**	**584,100**	**673,520**	**586,288**
Total assets per internal reporting	**691,184**	**584,100**	**673,520**	**586,288**
Reconciling items:				
Impairment [1]	(12,621)	(12,291)	(12,217)	(11,389)
Other reconciling items [2]	(24,359)	(5,041)	(4,891)	(4,993)
Total assets per IFRS statements	**654,204**	**566,768**	**656,412**	**569,906**
Latvia	**493,643**	**421,604**	**495,851**	**425,680**
Other countries	**160,561**	**145,164**	**160,561**	**144,226**
Total liabilities per internal reporting	**691,184**	**584,100**	**673,520**	**536,370**
Reconciling items:				
Impairment *	(12,621)	(12,291)	(12,217)	(11,389)
Other reconciling items **	(24,359)	(5,041)	(4,891)	(4,993)
Total liabilities per IFRS statements	**654,204**	**566,768**	**656,412**	**519,988**
Latvia	**521,259**	**478,027**	**523,467**	**431,247**
Other countries	**132,945**	**88,741**	**132,945**	**88,741**

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

** Other reconciling items mostly represent classification required by IFRS.

(2) Statement of comprehensive income

LVL '000	Group 31/12/2010	Group 31/12/2009	Bank 31/12/2010	Bank 31/12/2009
Interest revenue	22,245	30,626	22,188	28,834
Commission and fee revenue	10,000	10,070	9,971	9,690
Dividend revenue	16	-	16	100
Trading/ revaluation result	4,255	8,216	4,234	8,308
Impairment [1]	5,809	1,887	5,765	1,887
Other revenue	12,869	12,823	16,074	10,990
Total revenue	**55,194**	**63,622**	**58,248**	**59,809**
Interest expense	(22,630)	(24,672)	(22,790)	(24,437)
Commission and fee expense	(3,670)	(2,471)	(3,842)	(2,933)
Administrative expense	(21,312)	(20,752)	(20,669)	(19,429)
Depreciation and amortisation expense	(1,877)	(2,229)	(1,677)	(2,065)
Tax expense	(446)	(60)	84	(7)
Impairment	(5,957)	(13,231)	(5,956)	(11,640)
Other expense	(2,236)	(1,711)	(1,070)	(845)
Revaluation of non-current assets	(777)	(431)	(777)	(431)
Total expense	**(58,905)**	**(65,557)**	**(56,697)**	**(61,787)**
Profit/(loss)	**(3,711)**	**(1,935)**	**1,551**	**(1,978)**

Total revenue per internal reporting	55,194	61,372	58,248	57,557
Impairment *	(5,809)	-	(5,765)	-
Other reconciling items **	(375)	-	(83)	-
Total revenue per IFRS statements	**49,010**	**61,372**	**52,400**	**57,557**

Total expense per internal reporting	(58,905)	(63,307)	(56,697)	(59,535)
Impairment *	5,809	-	5,765	-
Other reconciling items **	375	-	83	-
Total expense per IFRS statements	**(52,721)**	**(63,307)**	**(50,849)**	**(59,535)**

* For internal reporting purposes impairment is shown as a loss and not netted with related profit.

** Other reconciling items mostly represent classification required by IFRS.

The Group and Bank do not analyse income and expense based on geographical areas.

49. GOING CONCERN

Unbalanced economic development was the major factor affecting also the entire banking business and further development and stability of AS Latvijas Krājbanka individually.

Ensuring steady and predictable cash flows is the key target set for the year 2011 to maintain continuous operations of the Bank.

Household deposits are the main source of financing for AS Latvijas Krājbanka. Households and enterprises account for more than 90% of all attracted resources. In 2010, the deposit amount remained unchanged. The policy pursued by the Bank in the customer attraction and servicing makes it possible to maintain the steady growth of deposits also in 2011 and shows the Bank's ability to attract free cash of households on the local market.

The Bank has assessed the cash flow scenarios for the year 2011 and defined the efforts aimed at maintenance of its strong liquidity. The Bank will continue diversifying its risks associated with financing by attraction of deposits from customers representing various industries and geographical regions and from state entities. Depending on the market circumstances, the Bank has plans to increase the share of external financing in the format of non-resident deposits. Such activities would significantly decrease the Bank's dependence on the local financing market as well as on a possible increase of such financing costs.

The Bank's capital ensures the most optimum relationship between risk and return. In 2010, the Bank's capital adequacy ratio exceeded the minimum statutory 8% limit considerably, reaching as much as 11.2% -13.2%. As at 31 December 2010, the CAD ratio stood at 14.3%. The Bank intends to increase the total Tier 1 by LVL 8.5 million, so confirming its willingness to promote its further development, ensuring sufficient capitalisation to cover the risks assumed, carry on and develop its business as well as to maintain its status as a reliable cooperation partner. The projected capital adequacy ratio following the planned attraction of capital is 15.9%.

Following the market situation, the Bank will continue offering favourable deposit rates, which would allow attracting non-bank deposits, as well as pursue the prudent lending policy. In view of the tendencies observed on the local lending market, the Bank will offer competitive lending conditions to boost the lending volume and enhance net interest revenue. The Bank will proceed with active efforts to improve the services of the electronic payment system and design and introduce new payment card products, which would facilitate the growth of commission and fee revenue, thereby increasing the proportion of commission and fee revenue in the total revenue.

Based on the above, the management has made reasonable judgements and estimates aimed at sustaining the Group and the Bank as going concern entities in 2011 and beyond. Having assessed the recent developments in Latvia and across the world, the Group's and Bank's management is confident that AS Latvijas Krājbanka is in a strong position to be able to continue in operational existence and fully meet its obligations in the foreseeable future according to its prudent financial plans. Therefore, these consolidated and separate financial statements for the year ended 31 December 2010 are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union.

50. SUBSEQUENT EVENTS

On 24 January 2011, the Financial and Capital Market Commission resolved to authorise the mandatory buyout offer for the shares of AS Latvijas Krājbanka by AB Bankas SNORAS (registered on 17 March 1992 with the Republic of Lithuania State Enterprise Centre of Registers, code 112025973, registered office: 7 A. Vivulskio Str., LT-03221, Vilnius, Republic of Lithuania).

On 28 January 2011, an announcement on the buyout offer was published in the official gazette Latvijas Vēstnesis by AB Bankas SNORAS. The period of the offer is from 28 January 2011 to 28 February 2011 (inclusive). The share price under the mandatory share buyout offer is defined according to the requirements of Section 74 of the Law on the Financial Instrument Market as follows:
- For an ordinary share (ISIN code: LV0000100683) – LVL 2,56 (two lats and 56 santims);
- For an "A" category preference share (ISIN code: LV0000200012) – LVL 8,01 (eight lats and 1 santim).

Based on Section 77 of the Law on the Financial Instrument Market, the Board of AS Latvijas Krājbanka has analysed the Prospectus submitted, the announcement published by AB Bankas SNORAS on making the offer and other related documents and concluded that the offer meets the requirements of the Law on the Financial Instrument Market. Having assessed the intentions of AB Bankas SNORAS stated in the Prospectus with regard to the further business of AS Latvijas Krājbanka, the Board considers that the implementation of this offer will not affect the interests of AS Latvijas Krājbanka, including its employment policy. The Board also believes that after the offer is implemented, the plans of AB Bankas SNORAS in respect of AS Latvijas Krājbanka will not change and the Bank will continue operating based on its approved strategy and the lines of business listed in the Articles of Association. According to the Prospectus, AB Bankas SNORAS has no intention to make any changes of the Council or the Board of AS Latvijas Krājbanka, revise the employment policy, or change the Bank's registered office.

On 17 February 2011, the Board of AS Latvijas Krājbanka resolved to establish a subsidiary SIA SILVA Invest by making an investment of LVL 50 000. The subsidiary will carry out management and administration of the real estate belonging to the Bank. The purpose of establishing the subsidiary is business optimisation, i.e. segregation of non-operating assets.

REGISTERED OFFICES

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Fax: (371) 6 7092 000
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SIA Krājinvestīcijas
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Fax: (371) 6 7221 971
Registration number: 40003687374

SIA LKB līzings
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Telephone: (371) 6 7068 013
Fax: (371) 6 7359 206
Registration number: 40003887450

SIA LKB Drošība
Jekaba 2
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Telephone: (371) 67092994
Fax: (371) 67228600
Registration number: 40103179152

AAS LKB LIFE
J.Dalina 15
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Telephone: (371) 6 7092757
Fax: (371) 6 7362383
Registration number: 40003053851

AS IBS Renesource Capital
J.Dalina 15
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SIA LKB M&A
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REGISTERED OFFICES

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