norvikbanka

FINANCIAL STATEMENTS 2010

Consolidated and Separate Financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2010 and independent auditors' report

CONTENTS

REPORT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL AND THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Shareholders and Clients,

The year 2010 became a strength test for the whole Latvia's economy and society. Despite still high unemployment and growing tax burden the economy demonstrated positive signs of recovery at end 2010.

NORVIK Group kept on strengthening its market position - total assets grew 26% and achieved LVL 591.7 million by the end of year 2010.

Despite the economic situation, it was another successful year for Norvik Assets Management Company, the Bank's subsidiary providing the second tier pension fund management. Because of the high profitability of the 2nd tier pension funds, the company was able to attract new customers and at the end of the year the number of customers reached 62.6 thousands. Value of the 2nd tier pension funds under the Company's management increased by 23% and reached LVL 32.5 millions at the year end.

Norvik UCO, an Armenian subsidiary, showed good results and ended the year with profit of LVL 1.4 millions.

As before, in year 2010 intense focus was placed on customer deposit base development. The Bank put extra effort to make deposit products even more attractive and competitive. The efforts resulted in growth of the deposit amount that reached LVL 508 millions at the year end. The total number of customers increased substantially and reached the highest than ever number of 137.2 thousands. This number undoubtedly marks strong level of clients' trust and loyalty.

In 2010 the Bank continued to develop the range of products and services offered to clients. There were several new products launched, such as special service for customers who get social benefits, car leasing, mortgage loan "Mājīgs" and multifunctional trading platform MetaTrader, and developed several customers' loyalty programs. NORVIK Bank also introduced online deposit product called eDeposit.lv, which allows customers to place deposit without visiting the Bank's office.

The Bank's technology continued to be developed aiming at applying the best possible solutions to serve clients' needs. For the second time the Bank's in-house product e-Norvik was rewarded as one of the best Latvian Internet banking products. In 2010 NORVIK Bank received a JP Morgan's "Quality Recognition Award" for the outstanding quality of the outgoing payments.

The Bank continued to extend its customer service network - 9 new customer service centers were opened throughout Latvia.

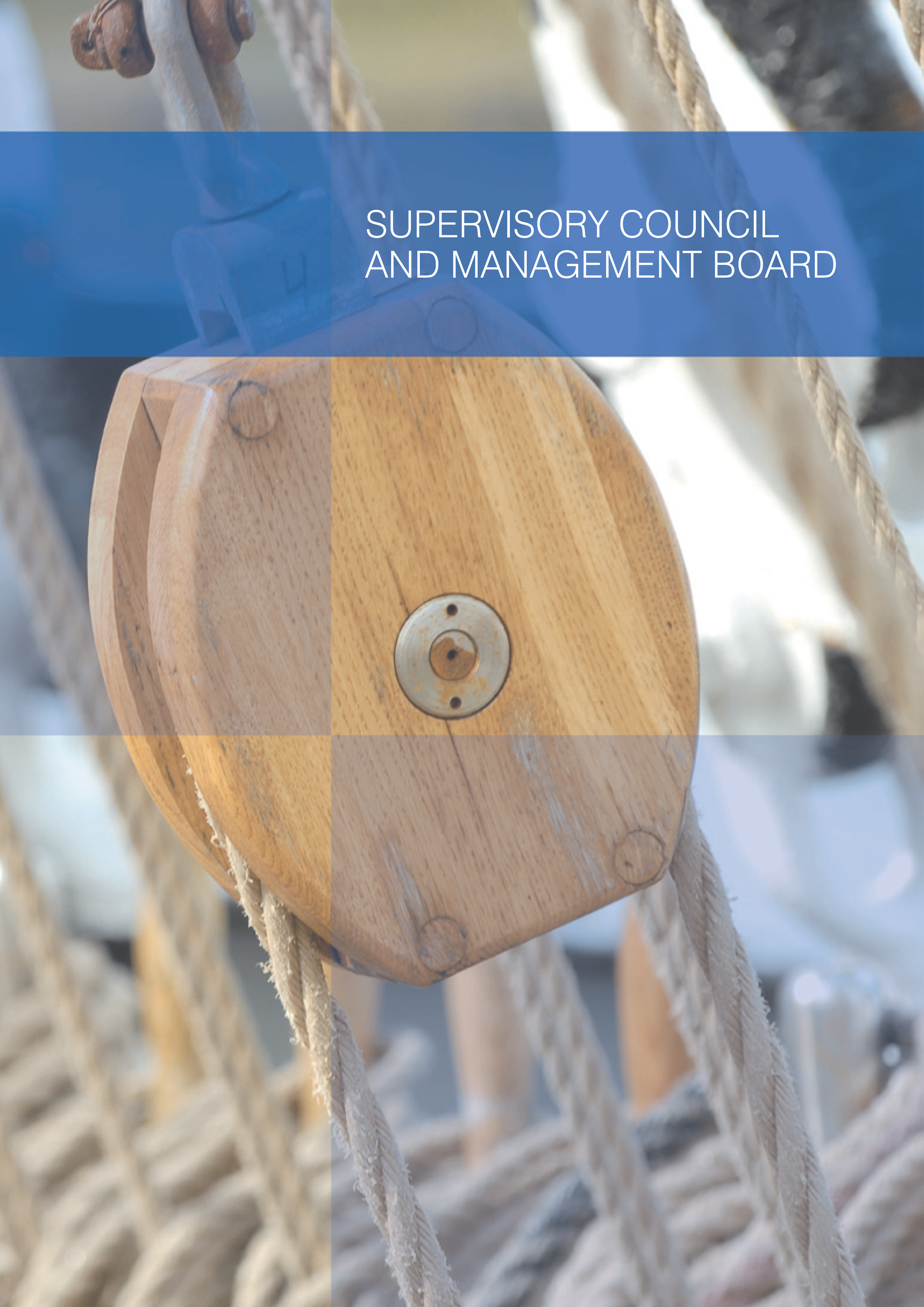
In conclusion, we would like to express our gratitude to employees and shareholders of Norvik Group for their contribution in the Bank's and subsidiaries' development and prosperity. We also thank our clients and partners for their trust and successful cooperation.

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairwoman of the Management Board
L. Saltuma

Riga, 16 March 2011

SUPERVISORY COUNCIL AND MANAGEMENT BOARD



SUPERVISORY COUNCIL

as at 31 December 2010

Name	Position	Date of initial appointment
J.H. Gudmundsson	Chairman of the Supervisory Council	17/01/2006
A. Svirčenkovs	Deputy Chairman of the Supervisory Council	01/04/2010
B. Halldorsdottir	Member of the Supervisory Council	01/11/2006
H. Baldursson	Member of the Supervisory Council	17/01/2006
V. Keiša	Member of the Supervisory Council	01/04/2006
J. Svirčenkova	Member of the Supervisory Council	01/04/2006

During the reporting period the following persons resigned their position:
- Member of the Supervisory Council B. Strupiša.

During the reporting period the following persons changed their position:
- Deputy Chairwoman of the Supervisory Council B. Halldorsdottir.

During the reporting period the following persons were appointed:
- Deputy Chairman of the Supervisory Council A. Svirčenkovs.

MANAGEMENT BOARD

as at 31 December 2010

Name	Position	Date of initial appointment
L. Saltuma	Chairwoman of the Management Board	10/12/2007
J. Šapurovs	Deputy Chairman of the Management Board	01/04/2006
A. Upenieks	Member of the Management Board	01/12/2006
M. Stepiņa	Member of the Management Board	06/11/2008

During the reporting period the following persons resigned their position:
- Chairman of the Management Board A.Svirčenkovs,
- Member of the Management Board S.Gusarovs.

During the reporting period the following persons changed their position:
- Member of the Management Board L.Saltuma.

On behalf of the Supervisory Council
and Management Board:

Chairman
of the Supervisory Council
J. H. Gudmundsson

Chairwoman
of the Management Board
L. Saltuma

Riga, 16 March 2011

STATEMENT OF MANAGEMENT`S RESPONSIBILITIES

The Management of JSC "NORVIK Bank" (the Bank) is responsible for preparing the Consolidated and Separate Financial Statements of the Bank and its subsidiaries (the Group).

The Consolidated and Separate Financial Statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2010 and the results of its operations and cash flows for the financial year ended 31 December 2010, as well as the financial position of the Bank as of 31 December 2010 and the results of its operations and cash flows for the financial year ended 31 December 2010.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the Consolidated and Separate Financial Statements for the year ended 31 December 2010 set out on pages 10 to 65. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed and that the Consolidated and the Separate Financial Statements have been prepared on a going concern basis and complies with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.

The Bank's management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, Regulations issued by the Latvian Financial and Capital Market Commission (FCMC) and other legislation of the Republic of Latvia in all material respects.

On the behalf of the Supervisory Council
and Management Board:

Chairman of the Supervisory Council J. H. Gudmundsson	Chairwoman of the Management Board L. Saltuma

Riga, 16 March 2011

CONSOLIDATED AND SEPARATE INCOME STATEMENT

	Notes	2010 Group LVL'000	2010 Bank LVL'000	2009 Group LVL'000	2009 Bank LVL'000
Interest and similar revenue		23 488	21 509	31 457	28 132
Interest and similar expense		(12 879)	(12 893)	(17 605)	(17 686)
Net interest income	4	**10 609**	**8 616**	**13 852**	**10 446**
Fee and commission revenue		9 185	8 588	8 029	7 616
Fee and commission expense		(1 563)	(1 536)	(1 549)	(1 519)
Net fee and commission income	5	**7 622**	**7 052**	**6 480**	**6 097**
Dividend revenue		2	2	35	35
Net trading income	6	6 481	6 795	7 762	7 173
Net gain or (loss) on financial assets and liabilities designated at fair value through profit or loss	7	-	-	167	167
Net gain or (loss) from sales of available-for-sale financial assets	8	880	880	1 633	1 633
Other operating income	9	1 838	1 676	5 831	5 699
Other operating expense		(1 019)	(676)	(625)	(508)
Net operating income		**26 413**	**24 345**	**35 135**	**30 742**
Administrative expenses	10	(15 997)	(14 770)	(17 316)	(15 771)
Personnel expenses		*(8 991)*	*(8 110)*	*(10 343)*	*(8 853)*
Other expenses		*(7 006)*	*(6 660)*	*(6 973)*	*(6 918)*
Changes in fair value of investment property		(1 211)	833	-	-
Depreciation and amortization		(976)	(917)	(1 101)	(1 123)
Impairments losses on financial assets	17	(9 462)	(9 470)	(11 553)	(10 151)
Operating expenses		**(27 646)**	**(24 324)**	**(29 970)**	**(27 045)**
Net operating profit before tax		**(1 233)**	**21**	**5 165**	**3 697**
Corporate income tax	11	133	243	(992)	(487)
Profit for the year		**(1 100)**	**264**	**4 173**	**3 210**
Attributable to:					
Equity holders of the parent		**(1 092)**		**4 179**	
Minority interest		(8)		(6)	
Basic and Diluted Earnings per share (LVL)	30	**(0.02)**		**0.10**	

The accompanying notes on pages 17 to 65 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 10 to 65 were approved by the Supervisory Council and the Management Board on 16 March 2011, and signed on their behalf by:

Chairman
of the Supervisory Council
J. H. Gudmundsson

Chairwoman
of the Management Board
L. Saltuma

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	2010		2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit for the period	**(1 100)**	**264**	**4 173**	**3 210**
Revaluation reserve of foreign currency	988	-	(1 061)	-
Revaluation reserve of tangible fixed assets, net of tax	2 134	2 134	-	-
Revaluation of available-for-sale financial assets, net of tax	1 074	(1 574)	648	648
Total comprehensive income	**3 096**	**824**	**3 760**	**3 858**
Total comprehensive income attributable to non-controlling interests	(8)		(6)	
Total comprehensive income attributable to equity holders of the parent	3 104		3 766	

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Chairwoman
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L. Saltuma

CONSOLIDATED AND SEPARATE BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

		31.12.2010		31.12.2009	
	Notes	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Assets					
Cash and balances with the central bank	12	81 360	81 360	39 286	39 285
Loans to and receivables from banks	13	115 560	115 500	77 320	73 698
Trading financial assets	14	24 821	24 821	12 800	12 800
Derivatives financial instruments	15	2 198	2 198	1 335	1 335
Loans to and receivables from customers	16	295 902	291 526	286 224	287 374
Available-for-sale financial assets	18	40 111	48 427	34 884	34 794
Prepaid corporate income tax		1 560	1 420	1 729	1 429
Investment property	21	15 771	5 200	6 402	4 367
Investment in subsidiaries	19	-	3 774	-	3 774
Tangible fixed assets	22	3 915	3 641	1 704	1 609
Goodwill and other intangible assets	20	510	785	798	859
Other assets	23	9 635	8 528	5 589	4 715
Total assets		**591 343**	**587 180**	**468 071**	**466 039**
Liabilities					
Due to the central bank and other banks	25	5 321	5 321	3 050	3 050
Derivatives financial instruments	15	1 777	1 777	932	932
Customer deposits	26	507 904	509 063	392 765	393 773
Subordinated debt	27	8 568	8 568	7 092	7 092
Deferred tax liabilities	11	987	439	1 069	529
Other liabilities	28	3 247	3 046	2 720	2 521
Total liabilities		**527 804**	**528 214**	**407 628**	**407 897**
Equity attributable to equity holders of the Bank					
Share capital	29	56 290	56 290	56 290	56 290
Reserves		7	7	7	7
Revaluation reserve of tangible fixed assets, net of tax		2 134	2 134	-	-
Revaluation reserve of available-for-sale financial assets, net of tax		(293)	(2 941)	(1 367)	(1 367)
Revaluation reserve of foreign currency translation		(8)	-	(996)	-
Retained earnings		6 469	3 212	2 290	2
Profit for the year		(1 092)	264	4 179	3 210
Total equity attributable to equity holders of the Bank		**63 507**	**58 966**	**60 403**	**58 142**
Minority interest		**32**	**-**	**40**	**-**
Total equity		**63 539**	**58 966**	**60 443**	**58 142**
Total liabilities and equity		**591 343**	**587 180**	**468 071**	**466 039**
Commitments and contingencies					
Contingent liabilities		4 362	4 362	5 150	5 256
Commitments		21 933	36 800	12 102	15 788
Total commitments and contingencies	32	**26 295**	**41 162**	**17 252**	**21 044**

The accompanying notes on pages 17 to 65 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 10 to 65 were approved by the Supervisory Council and the Management Board on 16 March 2011, and signed on their behalf by:

Chairman
of the Supervisory Council
J. H. Gudmundsson

Chairwoman
of the Management Board
L. Saltuma

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group	Share capital	Reserve	Revaluation reserve of tangible fixed assets, net of tax	Revaluation reserve of available-for-sale financial assets, net of tax	Revaluation reserve of foreign currency translation	Retained earnings	Total	Minority interest	Total Groups' equity
	Attributable to shareholders of the Bank								
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As at 31 December 2008	**40 500**	**7**	**-**	**(2 015)**	**65**	**18 080**	**56 637**	**25**	**56 662**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	648	-	-	**648**	-	**648**
Foreign currency translation of foreign subsidiary*	-	-	-	-	(1 061)	-	**(1 061)**	-	**(1 061)**
Total income and expenses for the year recognised directly in equity	**-**	**-**	**-**	**648**	**(1 061)**	**-**	**(413)**	**-**	**(413)**
Profit for the year	-	-	-	-	-	4 179	**4 179**	(6)	**4 173**
Total comprehensive income for the year	**-**	**-**	**-**	**648**	**(1 061)**	**4 179**	**3 766**	**(6)**	**3 760**
Dividends paid**	-	-	-	-	-	(15 790)	**(15 790)**	-	**(15 790)**
Increase of share capital	15 790	-	-	-	-	-	**15 790**	21	**15 811**
As at 31 December 2009	**56 290**	**7**	**-**	**(1 367)**	**(996)**	**6 469**	**60 403**	**40**	**60 443**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	1 074	-	-	**1 074**	-	**1 074**
Revaluation reserve of tangible fixed assets, net of tax	-	-	2 134	-	-	-	**2 134**	-	**2 134**
Foreign currency translation of foreign subsidiary*	-	-	-	-	988	-	**988**	-	**988**
Total income and expenses for the year recognised directly in equity	**-**	**-**	**2 134**	**1 074**	**988**	**-**	**4 196**	**-**	**4 196**
Profit for the year	-	-	-	-	-	(1 092)	**(1 092)**	(8)	**(1 100)**
Total comprehensive income for the year	**-**	**-**	**2 134**	**1 074**	**988**	**(1 092)**	**3 104**	**(8)**	**3 096**
As at 31 December 2010	**56 290**	**7**	**2 134**	**(293)**	**(8)**	**5 377**	**63 507**	**32**	**63 539**

* Revaluation reserve on consolidation of the subsidiary JSC "NORVIK Universal Credit Organization" (Armenia).

**The amount of dividend paid per share is LVL 0.39 .

SEPARATE STATEMENT OF CHANGES IN EQUITY

Bank	Share capital	Reserve	Revaluation reserve of tangible fixed assets, net of tax	Revaluation reserve of available-for-sale financial assets, net of tax	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As at 31 December 2008	**40 500**	**7**	**-**	**(2 015)**	**15 792**	**54 284**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	648	-	648
Total income and expenses for the year recognised directly in equity	**-**	**-**	**-**	**648**	**-**	**648**
Profit for the year	-	-	-	-	3 210	3 210
Total comprehensive income for the year	**-**	**-**	**-**	**648**	**3 210**	**3 858**
Dividends paid*	-	-	-	-	(15 790)	(15 790)
Increase of share capital	15 790	-	-	-	-	15 790
As at 31 December 2009	**56 290**	**7**	**-**	**(1 367)**	**3 212**	**58 142**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	(1 574)	-	(1 574)
Revaluation reserve of tangible fixed assets, net of tax	-	-	2 134	-	-	2 134
Total income and expenses for the year recognised directly in equity	**-**	**-**	**2 134**	**(1 574)**	**-**	**560**
Profit for the year	-	-	-	-	264	264
Total comprehensive income for the year	**-**	**-**	**2 134**	**(1 574)**	**264**	**824**
As at 31 December 2010	**56 290**	**7**	**2 134**	**(2 941)**	**3 476**	**58 966**

* The amount of dividend paid per share is LVL 0.39

The accompanying notes on pages 17 to 65 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 10 to 65 were approved by the Supervisory Council and the Management Board on 16 March 2011, and signed on their behalf by:

Chairman
of the Supervisory Council
J. H. Gudmundsson

Chairwoman
of the Management Board
L. Saltuma

CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT

	Notes	2010 Group LVL'000	2010 Bank LVL'000	2009 Group LVL'000	2009 Bank LVL'000
Cash flow from operations					
Profit (loss) before corporate income tax		(1 233)	21	5 165	3 697
Depreciation of intangible and tangible fixed assets and write off		1 249	1 129	1 305	1 315
Increase in provisions for impairments losses on financial investments		9 779	9 713	11 923	10 521
Loss/(profit) from foreign exchange revaluation		1 561	1 781	(186)	390
Non-realised (profit)/loss from investment property		1 211	(833)	-	-
Operating cash flow before changes in operating assets and liabilities		**12 567**	**11 811**	**18 207**	**15 923**
Decrease/(increase) in loans and receivables to banks		284	-	4 909	5 193
Decrease/(increase) in trading financial assets		(11 981)	(11 981)	(3 542)	(3 542)
Decrease in financial assets at fair value through profit or loss		-	-	465	465
Decrease/(increase) in derivatives financial assets		(863)	(863)	5 577	5 577
Decrease/(increase) in loans and receivables to customers		(19 454)	(13 863)	27 243	23 001
Decrease/(increase) in other assets		(4 955)	(4 027)	(3 368)	(2 890)
Increase/(decrease) in due to banks		2 271	2 271	(74 493)	(73 317)
Increase/(decrease) in customer deposits		115 139	115 290	42 047	42 151
Increase/(decrease) in derivatives financial liabilities		845	845	(3 943)	(3 943)
Increase/(decrease) in other liabilities		373	369	(1 235)	(768)
Cash provided by (used in) operating activities		**94 226**	**99 852**	**11 867**	**7 850**
Corporate income tax (paid)		(91)	-	(1 104)	(499)
Net cash provided by (used in) operating activities		**94 135**	**99 852**	**10 763**	**7 351**
Cash flow from investing activities					
Acquisition of intangible and tangible fixed assets		(674)	(577)	(76)	(686)
Acquisition of subsidiary		-	-	-	(200)
Decrease/(increase) in available-for-sale financial assets		(4 039)	(15 093)	16 843	16 933
Other cash received/(paid) as a result of investment activity		(9 727)	-	(2 035)	-
Net cash provided by (used in) investing activities		**(14 440)**	**(15 670)**	**14 732**	**16 047**
Cash flow from financing activities					
Increase in share capital		-	-	21	-
Increase (decrease) in subordinated debt		1 476	1 476	(1 880)	(1 880)
Issue of debt securities		-	-	-	-
Mature of debt securities		-	-	(2 314)	(2 314)
Net cash provided by/(used in) financing activities		**1 476**	**1 476**	**(4 173)**	**(4 194)**
Net increase/(decrease) in cash and cash equivalents		**81 171**	**85 658**	**21 322**	**19 204**
Cash and cash equivalents at the beginning of the period		114 904	111 565	94 457	92 751
Effect of exchange changes on cash and cash equivalents		(573)	(1 781)	(875)	(390)
Cash and cash equivalents at the end of the period	31	**195 502**	**195 442**	**114 904**	**111 565**

Operating cash flows from interest and dividends

	2010		2009	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest paid	11 411	11 426	14 961	15 845
Interest received	19 402	18 296	29 575	25 449
Dividend received	2	2	35	35

The accompanying notes on pages 17 to 65 form an integral part of these consolidated and Bank Financial Statements.

The Consolidated and Separate Financial Statements on pages 10 to 65 were approved by the Supervisory Council and the Management Board on 16 March 2011, and signed on their behalf by:

Chairman
of the Supervisory Council
J. H. Gudmundsson

Chairwoman
of the Management Board
L. Saltuma

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

1. GENERAL INFORMATION

"NORVIK BANKA" ("the Bank") is a joint stock company incorporated in the Republic of Latvia, acting in accordance with Latvian legislation and License No. 30 issued by the Bank of Latvia on 27 April 1992.

The legal address of JSC "NORVIK BANKA" is E. Birznieka-Upīša Street 21, Riga LV-1011, Latvia.

The Bank has a central office, 6 branches, 67 accounting groups and one representative office in Moscow (Russia). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right and obligation to make decisions on approval of the annual financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Basis of preparation

The accompanying financial statements are presented in the national currency of Latvia in thousands of lats ("LVL'000").

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements.

The consolidated and separate financial statements have been prepared under the historical cost convention, except for available for sale securities, financial assets and financial liabilities held at fair value through profit or loss and investment property, which are measured at fair value. Other financial assets and liabilities are carried at amortised cost in accordance with the effective interest rate method.

Except for the change of accounting policy in respect of tangible fixed assets the accounting policies used in the preparation of the financial statements are consistent with those followed in the preparation of the Group`s and Bank`s annual financial statements for the year ended 31 December 2009. During the year 2010 the Group changed its accounting policy for real estate included in tangible fixed assets from cost model to revaluation model. Management takes a view that the new policy provides reliable and more relevant information to the users of financial statements as book values of real estate according to such policy are based on up-to-date values. The policy has been applied prospectively. Accordingly, the adoption of the new policy has no effect on prior years.

Standards and Interpretations effective in the current period.

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **IFRS 1 (revised)** ***"First-time Adoption of IFRS"*** adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010),
- **IFRS 3 (revised)** ***"Business Combinations"*** adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRS 2 "Share-based Payment"** - Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IAS 27 "Consolidated and Separate Financial Statements"** adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),

- **Amendments to IAS 39 *"Financial Instruments: Recognition and Measurement"*** - Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to various standards and interpretations *"Improvements to IFRSs (2009)"*** resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
- **IFRIC 12 *"Service Concession Arrangements"*** adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009),
- **IFRIC 15 *"Agreements for the Construction of Real Estate"*** adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010),
- **IFRIC 16 *"Hedges of a Net Investment in a Foreign Operation"*** adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- **IFRIC 17 *"Distributions of Non-Cash Assets to Owners"*** adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009),
- **IFRIC 18 *"Transfers of Assets from Customers"*** adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **Amendments to IAS 24 *"Related Party Disclosures"*** – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 32 *"Financial Instruments: Presentation"*** – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- **Amendments to IFRS 1 *"First-time Adoption of IFRS"*** – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IFRIC 14 *"IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction"*** – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 19 *"Extinguishing Financial Liabilities with Equity Instruments"***, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Basis of Consolidation

The consolidated financial statements include all subsidiaries, which are those companies in which the Group directly or indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over operations. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The subsidiaries are consolidated from the date on which effective control is acquired by the Group and are no longer consolidated from the date of loss of control.

The Bank, JSC "NORVIK ieguldījumu pārvaldes sabiedrība", JSC "NORVIK Universal Credit Organization", "NORVIK Tecnology" Ltd., JSC „IPS NORVIK Alternative Investments", „Legal Consulting" Ltd., "NORVIK Līzings" Ltd., "NORVIK Apdrošināšanas Brokeris" Ltd., JSC „IKSOV" and "Norvik Management OU" make up a group of entities under the control of the Bank as a parent entity ("the Group"). In accordance with IAS 27 "Consolidated and Separate Financial Statements" and the requirements of FCMC, the Bank has prepared consolidated financial statements for the Group and separate financial statements of the Bank.

In the separate financial statements the Bank has recognized investments in the subsidiaries in accordance with the cost method. The separate financial statements of the Bank and its subsidiaries are consolidated line by line by combining items of assets, liabilities, aggregation of off-balance sheets exposures, income and expenses. Intragroup balances of the Bank and its subsidiary as well as intragroup transactions, including income and expenses, are eliminated.

Goodwill

The excess of the cost of acquisition over the Bank's interest in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill.

After initial recognition, goodwill in the business combination is carried at cost less any impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the Group's cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated:

- Represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IFRS 8 Operating Segments.

Under IAS 36 "Impairment of Assets", goodwill is reviewed for impairment at each balance sheet date or more frequently when there are indications that impairment may have occurred. If such indications exist the Bank estimates the recoverable amount of goodwill. In case of the carrying amount of goodwill is greater than its estimated recoverable amount an impairment loss of goodwill is recognised in the Group's consolidated income statement. There was no impairment identified in 2010 (2009: nil).

(2) Significant accounting judgments and estimates

The presentation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the entity to make estimates and assumptions that affect the recognised amounts for assets, liabilities and disclosure of contingent assets and liabilities as of the date of balance sheet date as well as recognised income and expenses for the reporting period. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant judgments and estimates representing most probably sources of uncertainty existing in current financial and economical market are presented below:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from active markets, fair value is determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Allowances for impairment losses on loans and receivables

The Group reviews its loan portfolios at each reporting date to assess whether an allowance for impairment should be recognized in the income statement and for which amount. In particular, judgment about financial position of counterparty and realization value of underlined collateral made by management in the estimation of net present value of expected future cash flows when determining the amount of allowance required, based on best knowledge about current situation. As of reporting date real estate market was still inactive and there was significant uncertainty around the valuation of collateral and difficulties to predict timing of realization of collateral. Consequently actual future results might differ from the estimates recorded.

In addition to specific allowances for individually significant loans and receivables, the Group also creates a collective impairment allowance for exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Collective impairment allowances reflect historical data of respective markets as well as specific features of financial investment for which allowances estimations are made.

Impairment of financial instruments

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

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

Impairment of equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

Valuation of investment property

Investment property is stated at fair value, which has been determined based on valuation performed by certified valuator close to reporting date. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. As of reporting date the real estate market was still inactive, therefore, there are significant uncertainties related to determination of fair value of investment properties.

Valuation of tangible fixed assets carried at revalued amounts

Land and buildings held for own use are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. As of reporting date the real estate market was still inactive, therefore, there is significant uncertainty related to determination of fair value of land and buildings.

Current economic environment and its impact on the Bank

Positive GDP dynamics observed for three consecutive quarters signals of passed recession. Optimistic sentiments are underpinned more by another positive statistics - growing export, stabilized consumption and investment and declining unemployment. Recent Latvia's credit rating upgrade, assigned by S&P, is highly encouraging and verifies the economy recovery at much faster pace than predicted at the beginning of last year.

Although the signs of improvements are obvious, the Bank remains adherent to its greatly conservative approach towards any risks evidencing its approach by high liquidity ratio of over 65% and modest growth of new issued loans.

Enhanced focus of efficiency manifested last year is kept in place and backed by broad range of respective measures taken during last year. As a result, cost-to-income ration reached 64,44% at end 2010.

The Bank continues to strengthen it capital base by refraining of paying out dividends and full capitalization of profit gained for 2010.

(3) Foreign currency translation

Transactions and balances

Transactions denominated in foreign currencies are translated into Latvian lat (LVL) at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date.

All realised gains and losses are recorded in the income statement in the period in which they arise. Unrealised gains and losses at reporting dates are credited or charged to the income statement.

The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows (lats for one foreign currency unit):

	Bank of Latvia exchange rates as of 31 December 2010	Bank of Latvia exchange rates as of 31 December 2009
EUR	0.702804	0.702804
USD	0.535000	0.489000

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity *"Revaluation reserve of foreign currency translations".*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(4) Financial assets and liabilities

Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are those that have been acquired or have arisen, mainly for the purpose of gaining profit from short-term fluctuations in prices. These include trading debt securities and equity instruments. Trading securities are initially recorded in the balance sheet at fair value. Subsequently these securities are recorded at their fair value, based on quoted market price. Any realized and unrealized profit or loss is recorded in the income statement as net profit or loss from trading securities. Interest earned by the Group from held for trading securities is recognized as interest income. Dividends received are recorded as dividend income. The Group recognizes purchase or sale of trading securities using settlement date accounting.

Derivatives recorded at fair value through profit or loss

The Group operates with derivative financial instruments such as future currency agreements (forwards), currency exchange agreements (swaps). All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Fair value of derivative transactions is included in the balance sheet as "Derivatives financial instruments". Changes in the fair value of derivatives are included in the income statement in "Net trading income" on a daily basis.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit and loss. Available-for-sale financial assets include certain bonds and investments in funds.

Available-for-sale financial assets are initially recorded at their fair value (including expenses on purchase of the securities). The Group recognizes purchase or sale of available-for-sale financial assets using settlement date accounting. Subsequently, securities are measured at their fair value based on quoted market prices, where available. If financial assets are not quoted in an active market their fair value is measured using alternative methods (for example, prices of similar investments).

Available-for-sale assets, for which the market price is not quoted and which fair value is not possible to measure by using other previously mentioned alternative methods, are initially recorded at their fair value and subsequently measured at cost less allowance for impairment, when appropriate.

Unrealised gains or losses on available-for-sale financial assets are recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from monetary assets, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Loans and receivables to banks and to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are measured at amortised cost using the effective interest rate method. The amortised cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (through the use of an allowance account) for impairment or uncollectibility.

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognised as loans granted to clients. Received lease payments, less principal amount, are recognised as interest income based on a pattern reflecting a constant periodic return on the net investment.

Reverse repurchase agreements

Securities purchases under agreements to resell at a specified future date (“reverse repo”) are not recognized on the balance sheet. The corresponding cash paid, including accrued interest, is recognised on the balance sheet as a Loans to and receivables from customers. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

Financial liabilities

Included in balance sheets as “Due to banks”, “Customer deposits” and “Subordinated debt” are financial liabilities measured at amortised cost.

After initial measurement, these financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount on the issue and costs that are an integral part of the effective interest rate. The amortization is included in “Interest and similar expense” in the income statement.

Derecognition of financial assets and financial liabilities

A financial asset is derecognized where:

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

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Impairment of financial assets

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all overdue loans regardless of the balance of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

For the measurement of collective impairment the Group assumes that all contractual cash flows will be received and recognises impairment loss based on historical loss experience which is adjusted on the basis of currently available data.

Allowances are assessed collectively on portfolios with similar features such as credit cards portfolio and unsecured consumer loans portfolio. The main criterion for assessment is settlement discipline and calculation of necessary allowance on portfolio is based on experience and previous period's statistics.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the income statement. If any loan and receivable can not be recovered, they are written off from the balance sheet accounts and charged against allowance for credit losses.

(5) Investment property

Group holds real estate as an investment property with the purpose to earn rental income or for value appreciation. Initially investment property is measured at cost. The fair value model of accounting is used for subsequent measurement of investment property. Fair value of investment property reflects market conditions at the balance sheet date. See Note 21 for more detailed information with respect to the Group's investment property. Gains or losses arising from changes in the fair value of investment property are included in the income statement in "Changes in fair value of investment property" in the period in which they arise.

(6) Intangible (except for goodwill) and tangible fixed assets

All fixed tangible and intangible assets, except for goodwill and real estate, are accounted at their cost less accumulated depreciation and amortisation. Depreciation and amortisation is calculated on a straight-line basis using the following depreciation and amortisation rates:

Intangible assets:	*Annual charge*
Licenses	20 %
Software	20 %
Tangible fixed assets:	
Buildings	5 %
Other	7 % - 33%

Intangible assets with finite lives are amortised over the useful life. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. The depreciation and amortization expense on tangible fixed and intangible assets with finite lives is recognized in the income statement line "Depreciation and amortisation".

On purpose to avoid significant differences between book value and fair value of its real estate the Bank decided to carry its building at revalued amounts. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Fair value is determined based on valuator reports done by independent certified valuators. The increase of building value as the result of revaluation Bank recognizes in the equity and includes in comprehensive income report. If such increase cancels previous revaluation decrease that is recognized in the statement of profit or loss, Bank recognizes the increase in statement of profit or loss. The decrease of building's fair value that appeared during revaluation is recognized in statement of profit or loss, except if such decrease cancels previous revaluation increase that is shown in the equity and included in comprehensive income report, in that case the decrease is recognized in the equity and included in other comprehensive income report. After building revaluation Bank depreciates its value in accordance with Bank's depreciation rates.

(7) Property and equipment held for sale

Foreclosed properties and equipment are included in Properties and equipment held for sale and recorded in Other assets. They are carried at the lower of book value and net realizable value.

(8) Interest and fee income and expense recognition

Interest income and expenses are recognized in the income statement on an accrual basis of accounting using the effective interest rate method. Interest income and expense include the amortization of any difference (discount, premium or other) between the initial carrying amount of the interest-bearing financial asset or liability and its maturity amount calculated on an effective interest rate foundation.

Interest income includes coupons earned on trading and available-for-sale bonds and other fixed income securities.

Accrued interest income is recognized in the income statement if the Group has no objective evidence that they will not be received in full.

Fees and commissions are generally recognized on an accrual basis either as the service is provided or on the execution of a significant act, as applicable.

Income and expenses relating to the reporting period are recognised in the income statement irrespective of the date of receipt or payment.

(9) Cash and cash equivalents

Under IAS 7 "Cash Flow Statements", cash and cash equivalents comprise cash, balances with the Bank of Latvia, correspondent accounts and deposits with original maturity of 3 months or less in other banks. Cash flow statement reflects an analysis of the cash flow from operating, investing and financing activities for the period.

Cash flows from operating activities are presented using the indirect method. Cash flows from investing and financing activities are presented based on gross receipts and payments made during the reporting period.

(10) Taxes

Corporate income tax is calculated in conformity with the tax legislation of the Republic of Latvia. Deferred taxation is provided for temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base according to taxation legislation. The deferred taxation asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. When an overall deferred tax asset arises, this is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(11) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

The Group creates provisions for guarantees issued and other off balance sheet items based on individual review of off balance sheet items. The management uses its judgement and estimates as to the probability of an outflow of economic resources and makes assessment of the value of security and collateral held and the amounts and timings of such outflows and recoveries, if any.

(12) Use of estimates

In preparing the financial statements, the management of the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. RISK MANAGEMENT

Risk is an integral part of the Group's activities, and it is managed through a process of ongoing identification, assessment and monitoring. The process of risk management is essential for the Group's continuing profitability. Each separate structural unit of the Group is responsible for the risk exposures relating to their responsibilities. The Group activity is subject to the following main types of risks: liquidity risk, credit risk and market risk, as well as operational risk. Risk monitoring function on the level of the Group and the Bank is separated from business structures. System of risk limits that is established on the level of the Group and the Bank includes all above-mentioned types of risk.

Risk management structure

The Management Board is ultimately responsible for identifying and controlling risks.

Supervisory Council

The Supervisory Council reviews and approves policies for risk management.

Management Board

The Management Board is responsible for the overall risk management approach, for the establishment of risk management principles and structure as well as for the approval of the methodologies and procedures to ensure implementation of risk management policies. The Management Board sets limits on total portfolios and restrictions on large exposures.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for the assets and liabilities management monitoring and sets limits on counterparties within the limits and restrictions set by the Board.

Risk Management Committee

The Risk Management Committee is responsible for assessing the current quality of the Group's assets and off-balance sheet items, and for making decisions on provisions for and/or writing off impaired assets.

Credit Committee

The Credit Committee responsible for the approval of the exposure within its competence and credit portfolio quality analysis.

Risk Management Department

The Risk Management is responsible for the establishment of the Risk Management system: identification and assessment of risks inherent in the Bank's activity, preparation and submission of the risk reports. This unit also ensures the development of the Capital Adequacy Assessment Process.

Treasury

Treasury is responsible for managing assets and liabilities within set norms and limits, i.e. is charged with liquidity, funding and deposits pricing, foreign risks and foreign exchange operations, interest rate risks, cash management as well as the Bank's securities portfolio and repo\reverse repo portfolio management. It is also provides brokerage operations in financial markets.

Internal Audit

Risk Management processes are audited annually by the Internal Audit function that examines both the adequacy of the policies and procedures and the compliance with the internal and external requirements. Internal Audit discusses the results of inspections with the management, and submits reports on inspection results with necessary recommendations to the Supervisory Council, Managing Board and related units. Internal Audit performs follow-up engagements to check whether recommendations are followed and implemented.

To ensure control and management over financial risks, the Managing Board and Supervisory Council of the Group has approved Credit policy, Investment policy and Financial Risks Management and Control policy with regard to such significant risks as liquidity risk, credit risk and market risk, as well as other documents, that regulate financial risk management system created by the Group.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn or paid. This may result in the failure to meet obligations to repay depositors and fulfill commitments to lend.

In order to limit this risk, the Bank as the Group liquidity manager places its assets so as to ensure settling of their creditors' legal claims at any time (liquidity), has arranged diversified funding sources in extent appropriate to current market condition in addition to its core deposit base and monitors future cash flows and liquidity on a daily basis.

To ensure liquidity the Bank evaluates and plans the term structure of their assets and liabilities on a regular basis. The Bank maintains marketable trading and available-for-sale portfolios that can be liquidated or pledged in unforeseen situations. The bank also has money market lines that it can use to meet liquidity needs. In addition, the Bank maintains an obligatory reserve deposit with the Central bank of Latvia equal to 5% of borrowings (at the end of 2010). In accordance to liquidity requirements determined by the FCMC the Bank maintains liquid assets that are sufficient for settling liabilities, however, no less than 30% of total current liabilities of the Bank (liquidity ratio). Current liabilities are demand liabilities and liabilities with a residual maturity of no more than 30 days. The liquidity ratio during the year was as follows:

	2010	2009
	%	%
31 December	65.52	51.4
Average during the period	56.83	44.3
Highest	66.48	51.7
Lowest	49.17	37.4

The Financial Risk Management and Control Policy determines liquidity risk control and management, according to that the Management Board of the Bank and the Assets and Liabilities Committee state general liquidity risk management criteria by regulating the volumes, terms and directions of the Group's activities, the Recourse division (the Treasury) manages liquidity on a daily basis and Risk Management Department measures and monitors liquidity risk and submits reports to the management.

Liquidity risk management and control is based on asset and liability term analysis, incoming and outgoing cash flows analysis, internal limit regulations regarding the net liquidity position, the effective usage of liquidity surplus and liquidity regulation for the remaining free resources, etc.

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below presents an analysis of the Group assets, liabilities and off-balance sheet liabilities analyzed according to their liquidity. According to the regulations of the Latvian Financial and Capital Market Commission, securities that the Bank is able to sell without any significant losses or use them as security assets for loan issue are classified in the group “Up to 1 month”.

As at 31 December 2010 - Group	Up to 1 month LVL’000	From 1 to 3 months LVL’000	From 3 to 6 months LVL’000	From 6 months to 1 year LVL’000	From 1 to 5 years LVL’000	5 years and over LVL’000	Other LVL’000	Total LVL’000
Assets								
Cash and balance with the central bank	81 360	-	-	-	-	-	-	**81 360**
Loans and receivables to banks	99 679	14 463	-	-	1 418	-	-	**115 560**
Trading financial assets	24 583	-	-	1	56	181	-	**24 821**
Derivative financial instruments	2 052	112	30	4	-	-	-	**2 198**
Loans and receivables to customers	27 082	16 751	15 099	40 979	137 269	21 492	37 230	**295 902**
Available-for-sale financial assets	32 366	-	-	96	623	7 026	-	**40 111**
Prepaid corporate income tax	-	-	-	-	1 560	-	-	**1 560**
Investment property	-	-	-	-	-	-	15 771	**15 771**
Tangible fixed assets	-	-	-	-	-	-	3 915	**3 915**
Goodwill and other intangible assets	-	-	-	-	-	-	510	**510**
Other assets	8 808	-	586	-	-	-	241	**9 635**
Total assets	**275 930**	**31 326**	**15 715**	**41 080**	**140 926**	**28 699**	**57 667**	**591 343**
Liabilities								
Due to the central bank and other banks	5 321	-	-	-	-	-	-	**5 321**
Derivative financial instruments	1 684	93	-	-	-	-	-	**1 777**
Customer deposits	316 803	33 275	55 142	72 945	29 159	580	-	**507 904**
Subordinated debt	-	-	-	143	8 144	281	-	**8 568**
Deferred tax	-	-	-	-	-	-	987	**987**
Other liabilities	3 049	1	195	-	2	-	-	**3 247**
Total liabilities	**326 857**	**33 369**	**55 337**	**73 088**	**37 305**	**861**	**987**	**527 804**
Off-balance sheet items	20 967	3 484	720	198	-	-	-	**25 369**
Net liquidity	**(71 894)**	**(5 527)**	**(40 342)**	**(32 206)**	**103 621**	**27 838**	**56 680**	

As at 31 December 2009 - Group	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	39 286	-	-	-	-	-	-	**39 286**
Loans and receivables to banks	68 933	7 074	-	-	1 313	-	-	**77 320**
Trading financial assets	12 799	-	-	-	1	-	-	**12 800**
Derivative financial instruments	919	398	18	-	-	-	-	**1 335**
Loans and receivables to customers	15 157	20 108	19 929	39 959	122 893	40 480	27 698	**286 224**
Available-for-sale financial assets	24 415	-	-	-	44	10 425	-	**34 884**
Prepaid corporate income tax	-	-	-	-	1 729	-	-	**1 729**
Investment property	-	-	-	-	-	-	6 402	**6 402**
Tangible fixed assets	-	-	-	-	-	-	1 704	**1 704**
Goodwill and other intangible assets	-	-	-	-	-	-	798	**798**
Other assets	4 999	6	-	1	-	-	583	**5 589**
Total assets	**166 508**	**27 586**	**19 947**	**39 960**	**125 980**	**50 905**	**37 185**	**468 071**
Liabilities								
Due to the central bank and other banks	3 050	-	-	-	-	-	-	**3 050**
Derivative financial instruments	863	43	19	7	-	-	-	**932**
Customer deposits	249 265	33 003	49 479	43 805	17 213	-	-	**392 765**
Subordinated debt	-	-	-	490	6 602	-	-	**7 092**
Deferred tax	-	-	-	-	-	-	1 069	**1 069**
Other liabilities	-	-	-	-	-	-	2 720	**2 720**
Total liabilities	**253 178**	**33 046**	**49 498**	**44 302**	**23 815**	**-**	**3 789**	**407 628**
Off-balance sheet items	14 627	452	37	-	-	-	-	**15 116**
Net liquidity	**(101 297)**	**(5 912)**	**(29 588)**	**(4 342)**	**102 165**	**50 905**	**33 396**	

As at 31 December 2010- Bank	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	81 360	-	-	-	-	-	-	**81 360**
Loans and receivables to banks	99 619	14 463	-	-	1 418	-	-	**115 500**
Trading financial assets	24 583	-	-	1	56	181	-	**24 821**
Derivative financial instruments	2 052	112	30	4	-	-	-	**2 198**
Loans and receivables to customers	26 898	16 570	14 679	47 683	131 145	20 649	33 902	**291 526**
Available-for-sale financial assets	32 366	-	-	96	535	15 430	-	**48 427**
Prepaid corporate income tax	-	-	-	-	1 420	-	-	**1 420**
Investment property	-	-	-	-	-	-	5 200	**5 200**
Investments in subsidiaries	-	-	-	-	-	-	3 774	**3 774**
Tangible fixed assets	-	-	-	-	-	-	3 641	**3 641**
Goodwill and other intangible assets	-	-	-	-	-	-	785	**785**
Other assets	8 485	-	-	-	-	-	43	**8 528**
Total assets	**275 363**	**31 145**	**14 709**	**47 784**	**134 574**	**36 260**	**47 345**	**587 180**
Liabilities								
Due to the central bank and other banks	5 321	-	-	-	-	-	-	**5 321**
Derivative financial instruments	1 684	93	-	-	-	-	-	**1 777**
Customer deposits	317 451	33 351	55 249	73 273	29 159	580	-	**509 063**
Subordinated debt	-	-	-	143	8 144	281	-	**8 568**
Deferred tax	-	-	-	-	-	-	439	**439**
Other liabilities	2 907	-	-	139	-	-	-	**3 046**
Total liabilities	**327 363**	**33 444**	**55 249**	**73 555**	**37 303**	**861**	**439**	**528 214**
Off-balance sheet items	35 834	3 484	720	198	-	-	-	**40 236**
Net liquidity	**(87 834)**	**(5 783)**	**(41 260)**	**(25 969)**	**97 271**	**35 399**	**46 906**	

As at 31 December 2009 - Bank	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	39 285	-	-	-	-	-	-	**39 285**
Loans and receivables to banks	65 312	7 073	-	-	1 313	-	-	**73 698**
Trading financial assets	12 799	-	-	-	1	-	-	**12 800**
Derivative financial instruments	920	398	17	-	-	-	-	**1 335**
Loans and receivables to customers	14 854	19 702	18 322	55 727	116 585	38 528	23 656	**287 374**
Available-for-sale financial assets	24 369	-	-	-	-	10 425	-	**34 794**
Prepaid corporate income tax	-	-	-	-	1 429	-	-	**1 429**
Investment property	-	-	-	-	-	-	4 367	**4 367**
Investments in subsidiaries	-	-	-	-	-	-	3 774	**3 774**
Tangible fixed assets	-	-	-	-	-	-	1 609	**1 609**
Goodwill and other intangible assets	-	-	-	-	-	-	859	**859**
Other assets	4 672	-	-	-	-	-	43	**4 715**
Total assets	**162 211**	**27 173**	**18 339**	**55 727**	**119 328**	**48 953**	**34 308**	**466 039**
Liabilities								
Due to the central bank and other banks	3 050	-	-	-	-	-	-	**3 050**
Derivative financial instruments	863	43	19	7	-	-	-	**932**
Customer deposits	249 761	33 081	49 621	44 080	17 230	-	-	**393 773**
Subordinated debt	-	-	-	490	6 602	-	-	**7 092**
Deferred tax	-	-	-	-	-	-	529	**529**
Other liabilities	2 339	-	-	182	-	-	-	**2 521**
Total liabilities	**256 013**	**33 124**	**49 640**	**44 759**	**23 832**	**-**	**529**	**407 897**
Off-balance sheet items	18 419	452	37	-	-	-	-	**18 908**
Net liquidity	**(112 221)**	**(6 403)**	**(31 338)**	**10 968**	**95 496**	**48 953**	**33 779**	

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below presents the maturity profile of the Bank's financial liabilities by the remaining maturities: principal payment and/or interest payments under agreements. The amounts of the liabilities disclosed in the table are the contractual undiscounted cash flows.

Financial liabilities	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**5 years and over**	**Kopā**
As at 31 December 2010	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Due to the central bank and other banks	5 235	-	-	-	-	-	**5 235**
Derivatives financial instruments	(396)	(29)	(40)	(12)	-	-	**(477)**
- Contractual amounts payable	*830 994*	*5 369*	*4 380*	*232*	-	-	***840 975***
- Contractual amounts receivable	*(831 390)*	*(5 398)*	*(4 420)*	*(244)*	-	-	***(841 452)***
Customer deposits	318 450	33 730	58 284	84 082	25 897	922	**521 365**
Subordinated debt	-	-	-	169	11 476	360	**12 005**
Total undiscounted financial liabilities	**323 289**	**33 701**	**58 244**	**84 239**	**37 373**	**1 282**	**538 128**
Contingent liabilities	3 807	-	-	-	-	-	**3 807**
Commitments	32 027	3 484	720	198	-	-	**36 429**
Total	**35 834**	**3 484**	**720**	**198**	**-**	**-**	**40 236**
As at 31 December 2009							
Due to the central bank and other banks	3 008	-	-	-	-	-	**3 008**
Derivatives financial instruments	(59)	(358)	1	-	-	-	**(416)**
- Contractual amounts payable	*609 468*	*3 274*	*1 067*	*242*	-	-	***614 051***
- Contractual amounts receivable	*(609 527)*	*(3 632)*	*(1 066)*	*(242)*	-	-	***(614 467)***
Customer deposits	251 862	34 400	54 845	49 435	15 587	-	**406 129**
Subordinated debt	-	-	-	539	9 593	-	**10 132**
Total undiscounted financial liabilities	**254 811**	**34 042**	**54 846**	**49 974**	**25 180**	**-**	**418 853**
Contingent liabilities	5 256	-	-	-	-	-	**5 256**
Commitments	15 299	452	37	-	-	-	**15 788**
Total	**20 555**	**452**	**37**	**-**	**-**	**-**	**21 044**

The maturity profile of the Group's financial liabilities is not presented, as the only items the Bank's subsidiaries have is due to the Bank.

CREDIT RISK

Credit risk is the potential risk, which may cause losses for the Bank or the Group, if borrower or counterparty fails or refuses to meet its contractual obligations.

Both the Group and the Bank manage the overall credit risk, including country risk in accordance with the Financial Risk Management and Control Policy, Policy for the Country Risk Management and Credit Policy.

When managing credit risk Bank ensures its measurement assessment and supervision.

Credit risk monitoring system established by the Bank is based on the following key elements:

- 1st element – Availability of risk measurement method. The Bank has developed and consistently applies methods for assessing creditworthiness of the Borrowers.
- 2nd element - Decision making procedure for granting a credit. Decisions on granting a credit are made jointly and the limits of authority are distributed across various levels in accordance with respective competence levels.
- 3rd element – Diversification of the Credit Portfolio, i.e. establishment of limits and restrictions. Setting limits and restrictions is regarded as a tool for minimization of credit risk and elimination of potential losses.
- 4th element. Monitoring of compliance to established limits and restrictions,
- 5th element. Creation of adequate loan loss provisions to cover losses that might appear in the course of credit transactions. Created provisions are regarded an instrument that would allow the Bank to cover future expected losses resulting from credit transaction risks; thus protecting the Bank financial stability from any negative impact.

The credit risk management practice includes the approved methods of the credit risk measurement of the borrowers, counter-parties or issuers as well as the regular assessment of the off-balance liabilities.

The Group and the Bank identify and control the credit risk by establishing the acceptable exposure limits for:

- individual borrowers and groups of interrelated counterparties;
- economic sectors;
- different types of exposures;
- types of collateral.

The exposure limits are established in the Credit Policy and the Policy of Control over Large Exposures, both approved by the Council. Those limits are being regularly supervised and are revised annually, at least by the decision of the Management Board.

The credit risk is managed by the Management Board and the Credit Committee.

The Management Board approves the internal bank's regulations for implementation of Bank's Credit Policy, considers and accepts new credit exposures, approves the measures for mitigating the risk related to the credit portfolio, performs control over the Credit Committee.

The Credit Committee approves the exposure within its competence, analyses the quality of the credit portfolio or individual loan and in case of deterioration accepts the measures for mitigating the credit risk. The Board approves the Credit Committee's decisions when the exposure exceeds 5% of the 1st and 2nd tier capital.

The main assessment criterion for the possible lending is the creditworthiness of the customer. Prior to decision on any new credit exposure, the Bank and Group must obtain sufficient and reliable information to enable assessment of the risk profile of the borrower or counterparty.

The Credit Supervision Department is managing the credit risk on a daily basis. The Credit Supervision Department is responsible for Credit Policy implementation and supervision over its fulfillment.

The Credit Supervision Department also is in charge for exposure concentration analysis, for control over the set limits, for monitoring the loans portfolio, preparing the surveys on loan portfolio and their submission to the Management Board. All breaches revealed by the Credit Supervision Department are reported to the Management Board.

MAXIMUM EXPOSURE TO CREDIT RISK

The amount of the Group's maximum exposure to credit risk without taking into account of any collateral is represented by the carrying amount of each category of financial assets in the balance sheet and off-balance sheet items.

	31.12.2010		31.12.2009	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Credit risk exposure relating to on-balance sheet assets	**489 057**	**491 907**	**419 083**	**415 779**
Loans and receivables to banks	115 560	115 500	77 320	73 698
Trading financial assets	24 821	24 821	12 800	12 800
Derivatives assets	2 198	2 198	1 335	1 335
Loans and receivables to customers	295 902	291 526	286 224	287 374
Available-for-sale financial assets	40 111	48 427	34 884	34 794
Prepaid corporate income tax	1 560	1 420	1 729	1 429
Other assets	8 905	8 015	4 791	4 349
Credit risk exposure relating to off-balance sheet items	**26 295**	**41 162**	**17 252**	**21 044**
Contingent liabilities	4 362	4 362	5 150	5 256
Commitments	21 933	36 800	12 102	15 788
Maximum exposure	**515 352**	**533 069**	**436 335**	**436 823**

Risk concentrations of the maximum exposure to credit risk

Concentration risk is managed by establishing the limits to the borrower or group of interrelated borrowers. During 2010 the maximum exposure concentration to the borrower or group of interrelated borrowers was limited internally up to 24% of Capital Tier1 and Tier 2.

In accordance with the Credit Policy the following limits and restrictions for the Group and the Bank were established:

- the maximum amount of the loan portfolio should not be more than 70% of the total assets and should not exceed the size of Capital Tier1 and Tier 2 more than 8 times.
- the portion of non-resident credits should not exceed 50% of the total Credit Portfolio.
- the maximum amount of credits into one economic segment is limited up to 33% of the total loan portfolio.

The Group's and Bank's financial assets are deposited in the following geographical regions:

At 31 December 2010 –Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**208 431**	**122 589**	**158 037**	**489 057**
Loans and receivables to banks	59	99 675	15 826	**115 560**
Trading financial assets	-	2 155	22 666	**24 821**
Derivatives assets	78	697	1 423	**2 198**
Loans and receivables to customers	169 069	19 471	107 362	**295 902**
Available-for-sale financial assets	30 916	184	9 011	**40 111**
Prepaid corporate income tax	1 420	-	140	**1 560**
Other assets	6 889	407	1 609	**8 905**
Credit risk exposure relating to off-balance sheet items	**13 507**	**225**	**12 563**	**26 295**
Total	**221 938**	**122 814**	**170 600**	**515 352**

At 31 December 2009 –Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**209 274**	**52 625**	**157 184**	**419 083**
Loans and receivables to banks	12 629	38 031	26 660	**77 320**
Trading financial assets	-	1 866	10 934	**12 800**
Derivatives assets	56	760	519	**1 335**
Loans and receivables to customers	171 110	11 521	103 593	**286 224**
Available-for-sale financial assets	19 957	160	14 767	**34 884**
Prepaid corporate income tax	1 429	-	300	**1 729**
Other assets	4 093	287	411	**4 791**
Credit risk exposure relating to off-balance sheet items	**12 946**	**214**	**4 092**	**17 252**
Total	**222 220**	**52 839**	**161 276**	**436 335**

At 31 December 2010 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**218 075**	**122 485**	**151 347**	**491 907**
Loans and receivables to banks	59	99 666	15 775	**115 500**
Trading financial assets	-	2 155	22 666	**24 821**
Derivatives assets	78	697	1 423	**2 198**
Loans and receivables to customers	170 404	19 471	101 651	**291 526**
Available-for-sale financial assets	39 320	96	9 011	**48 427**
Prepaid corporate income tax	1 420	-	-	**1 420**
Other assets	6 794	400	821	**8 015**
Credit risk exposure relating to off-balance sheet items	**14 731**	**225**	**26 206**	**41 162**
Total	**232 806**	**122 710**	**177 553**	**533 069**

At 31 December 2009 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**210 435**	**52 535**	**152 809**	**415 779**
Loans and receivables to banks	12 629	38 031	23 038	**73 698**
Trading financial assets	-	1 866	10 934	**12 800**
Derivatives assets	56	760	519	**1 335**
Loans and receivables to customers	172 586	11 521	103 267	**287 374**
Available-for-sale financial assets	19 957	70	14 767	**34 794**
Prepaid corporate income tax	1 429	-	-	**1 429**
Other assets	3 778	287	284	**4 349**
Credit risk exposure relating to off-balance sheet items	**13 340**	**214**	**7 490**	**21 044**
Total	**223 775**	**52 749**	**160 299**	**436 823**

An industry sector analysis of the Group's and Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as following:

	31.12.2010		31.12.2009	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Credit risk exposure relating to on-balance sheet assets	**489 057**	**491 907**	**419 083**	**415 779**
Banks	135 972	135 913	88 332	84 709
Private individuals	40 922	36 908	52 959	46 865
Transport	98 334	97 895	89 001	88 322
Trade	29 382	25 802	29 533	27 486
Financial services	23 448	41 866	21 409	36 826
Processing industry	35 136	34 768	31 444	30 806
Building	5 932	620	13 028	5 302
Governments	33 093	33 005	21 862	21 772
Other	86 838	85 130	71 515	73 691
Credit risk exposure relating to off-balance sheet items	**26 295**	**41 162**	**17 252**	**21 044**
Total	**515 352**	**533 069**	**436 335**	**436 823**

Renegotiated loans

In accordance with the Credit Policy a "renegotiated credit" is a credit when the concession is granted to the borrower for economic or legal reasons related to the borrower's financial difficulties, that would result in delinquency or recognition of loan impairment and that is not granted in any other case.

Concession may exist in the form of:

– altering the original credit provisions, e.g. extension of the maturity, postponement of credit repayment, decrease of the original interest rate;

– the foreclosure of the pledge or other assets for partial credit repayment;

– substitution of the initial borrower or involvement of additional obligor;

– interest capitalisation – by adding the accrued interest to the principal amount of the credit or repayment of interest from the newly issued credit.

A loan extended or renewed at unchanged or a stated interest rate or the rate equal to the current (market) interest rate for new Bank's loans with similar risk at the moment of agreement reconsideration is not a restructured troubled loan unless this is not caused by the financial difficulties of the borrower.

In terms of the above mentioned the renegotiated loan is deemed to be a new loan substituting the previous one with interest capitalization (to the overdrafts to the credit cards at the moment when the terms and conditions are being reconsidered) and:

– the borrower's creditworthiness has become substantially worse (according to credit rating it has been rated with two lowest categories. i.e. the highest risk) if compared to the initial evaluation;

– new loan term is substantially longer than the standard term for the similar Bank loans.

The decision on the loan restructuring is made by the authorized bodies of the Bank.

The amount of renegotiated loans as at December 31, 2010 is LVL'000 10 258 (2009: 29 217).

Collateral and other credit enhancements

The Bank considers the collateral as an element mitigating the credit risk. The acceptable types of collateral and the methods of evaluation are established in the Credit Policy and the Procedure for the Supervision over the Loans.

The main acceptable types of collateral are: the real estate mortgage, ship mortgage, commercial pledge of the assets of the companies, incl. fixed assets, inventory and accounts receivable.

The management controls the market value of the collateral, paying special attention to the real estate property and adjusting it accordance to the recent market prices.

The assessment of the real estate property is performed by the independent certified valuators. The Bank adjusts the market value made by the evaluators if considers that any substantial risk factors were omitted. Such adjusted market value is used in calculations of adequacy of collateral.

According the requirements of the Credit Policy the maximum portion of the credits with the similar type of collateral should be limited up to 45% of the loan portfolio (credits without collateral are not taken into consideration).

The portion of unsecured exposures should be limited up to 15% of the Credit Portfolio. The Bank considers the unsecured exposures (they mainly are the consumer loans, including cards), as a group of loans with the same purpose and similar credit risk, that has been analyzed, assessed and accepted while implementing the respective credit instrument.

Quality of credits and receivables

The Group and the Bank are constantly monitoring the creditworthiness of the borrowers, adequacy of the collateral and measurement of its fair value.

The Bank classifies the loans on the quarterly basis or every time when it receives the information about the substantial deterioration of the quality of any credit. The classification is made with the aim to assess the quality and risk grade of the issued credits and indemnities measurement of potential losses and creation of sufficient provisions as well.

The credit assessment is made by the Credit Committee and the Risk management Committee. Both committees in its assessments and estimations observe the principles of conservatism and discretion, i.e. not to decrease the amount of assets and earnings or not to increase the amount of liabilities and costs so that the financial report remains reliable.

The Credit Committee decides on non-recognition or derecognition of interest income from individually assessed loan; and non-recognition or derecognition of interest income from renegotiated loans.

The Risk Management Committee decides on making the provisions for impairment.

The special provisions in the financial reports are reflected as a result of the deterioration of the loan quality and /or impairment. The amount of losses caused by the impairment is reflected in the Income Statement for the reported period.

The assessment of the loan quality is made by assessing of each credit, i.e. individually, or collectively by pooling the loans with similar credit risk characteristics.

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loans and receivables to customers				
Neither past due nor impaired	221 590	221 104	211 375	218 065
Past due but not impaired	57 981	54 649	50 721	46 506
Impaired	38 755	36 749	40 195	37 507
Gross amount	**318 326**	**312 502**	**302 291**	**302 078**
(Provisions)	(22 424)	(20 976)	(16 067)	(14 704)
Total net loans and receivables to customers	**295 902**	**291 526**	**286 224**	**287 374**

As at 31 December 2010 and 31 December 2009 other financial assets: loans and receivables to banks, available-for-sale financial assets, contingent liabilities and commitments have been classified as neither past due nor impaired.

Ageing analysis of past due but not impaired loans and receivables to customers

In order to detect possible impairment of overdue loans, the Bank applied its internal methodology. No loans from the category of "past due, but not impaired" (including the age interval over 180 days) demonstrated impairment when were examined in accordance with the internal methodology.

The table below represents the Group's and the Bank's analysis of past due but not impaired loans as at 31 December 2010:

Group	**Past due but not impaired**					
At 31 December 2010	**up to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Mortgage loans	353	260	1 042	1 467	13 019	**16 141**
Industrial loans	5 213	3 519	2 700	-	10 309	**21 741**
Commercial loans	9 140	107	802	1 469	4 223	**15 741**
Consumer loans	1 313	437	46	127	158	**2 081**
Credit card	385	-	-	-	-	**385**
Finance leases	264	83	27	128	109	**611**
Other	115	-	-	-	1 166	**1 281**
Total	**16 783**	**4 406**	**4 617**	**3 191**	**28 984**	**57 981**

Bank	**Past due but not impaired**					
At 31 December 2010	**up to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Mortgage loans	291	232	1 042	1 467	12 705	**15 737**
Industrial loans	5 213	3 519	2 700	-	10 309	**21 741**
Commercial loans	9 093	107	802	1 469	1 979	**13 450**
Consumer loans	1 305	424	30	124	138	**2 021**
Credit card	385	-	-	-	-	**385**
Finance leases	-	-	9	25	-	**34**
Other	115	-	-	-	1 166	**1 281**
Total	**16 402**	**4 282**	**4 583**	**3 085**	**26 297**	**54 649**

The table below represents the Group's and the Bank's analysis of past due but not impaired loans as at 31 December 2009:

Group	**Past due but not impaired**					
At 31 December 2009	**up to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Mortgage loans	1 634	2 328	811	6 137	8 041	**18 951**
Industrial loans	8 104	1 923	3 170	797	6 332	**20 326**
Commercial loans	1 375	64	74	536	2 856	**4 905**
Consumer loans	2 454	692	191	608	483	**4 428**
Credit card	724	-	-	-	-	**724**
Finance leases	763	409	86	43	19	**1 320**
Other	42	25	-	-	-	**67**
Total	**15 096**	**5 441**	**4 332**	**8 121**	**17 731**	**50 721**

Bank	**Past due but not impaired**					
At 31 December 2009	**up to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Mortgage loans	1 625	2 237	811	5 766	7 703	**18 142**
Industrial loans	8 104	1 923	3 170	797	6 332	**20 326**
Commercial loans	1 247	48	74	122	1 246	**2 737**
Consumer loans	2 430	690	189	601	464	**4 374**
Credit card	724	-	-	-	-	**724**
Finance leases	64	33	-	20	19	**136**
Other	42	25	-	-	-	**67**
Total	**14 236**	**4 956**	**4 244**	**7 306**	**15 764**	**46 506**

The detailed information on the provisions made against bad debts is in Note 17 "Impairment losses on financial assets".

MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will adversely fluctuate due to changes in market variables such as interest rates, exchange rates and equity prices.

The Bank classifies exposures to market risk into either trading or non-trading portfolios. Other Bank's subsidiaries do not have trading portfolio. Trading portfolio include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market and are managed by the Bank's Resource division (the Treasury) according to the Investment Policy and the Internal Financial Risk Management and Control Policy within the set by the Management Board limits and restrictions.

Market risks mainly arise from open positions (both trading and non-trading) in interest rate and foreign currency exchange rates. Interest rate risk and foreign exchange risk are managed and monitored by applying sensitivity analyses. The Group has no significant market risk concentration.

The Managing Board and the Assets and Liabilities Committee state the basic interest rate for deposits and loans for each currency group and period analyzing the maturity and interest rates of assets and liabilities, the net interest margin and liquidity in connection with currencies and directions of operations.

Interest rate risk

The following table demonstrates sensitivity of the Group's income statement and equity to possible change in interest rates, on the condition that all other variables are constant.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income (with equal effect on pre-tax profit) for one year, based on financial assets and financial liabilities (variable loan commitments are not included) categorised by the earlier of contractual re-pricing or maturity dates.

The sensitivity of equity is calculated by revaluating fixed rate available-for-sale financial assets held at

31 December 2010 and is based on the assumption that there are parallel shifts in the yield curve discounting future cash flows by amended interest rate. There is the same effect on sensitivity of equity of the Group as only the Bank has available-for-sale assets revaluing them through the equity.

At 31 December 2010		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase/ decrease in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**0 to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
		LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
LVL	+200	387	397	(64)	(106)	(251)	(421)
USD	+150	(314)	(296)	(6)	(1)	(35)	(42)
EUR	+150	235	210	-	-	-	-

At 31 December 2009		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase/ decrease in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**0 to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
		LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
LVL	(600)	(1 113)	(1 134)	-	-	46	46
USD	+150	(94)	(185)	-	-	(80)	(80)
EUR	+150	787	728	(10)	-	-	(10)

Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Policy of Control over Large Exposures and the Financial Risk Management and Control Policy govern foreign exchange risk control and management. These policies are based on meeting the restrictions of the net open position of each foreign currency and the total open position of foreign currencies, in compliance with the limits and stop losses set by the Management Board and with the requirements of the Latvian Financial and Capital Market Commission. In order to avoid losses arising from adverse changes in exchange rates, the Treasury continuously manages open positions and supervises compliance with the restrictions on foreign currency positions.

The sensitivity analysis for the Group's foreign exchange risk is presented in following tables:

As at 31 December 2010 - Group	LVL	USD	EUR	Other currencies	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Assets					
Cash and due from the central bank	74 564	1 606	3 307	1 883	**81 360**
Loans and receivables to banks	-	81 111	18 620	15 829	**115 560**
Trading financial assets	-	19 402	5 419	-	**24 821**
Derivative financial instruments	2 198	-	-	-	**2 198**
Loans to customers and receivables	18 294	77 523	198 413	1 672	**295 902**
Available-for-sale financial assets	30 915	2 082	7 114	-	**40 111**
Prepaid corporate income tax	1 420	-	-	140	**1 560**
Investment property	13 404	-	-	2 367	**15 771**
Tangible fixed assets	3 620	-	-	295	**3 915**
Goodwill and other intangible assets	504	-	-	6	**510**
Other assets	7 678	336	377	1 244	**9 635**
Total assets	**152 597**	**182 060**	**233 250**	**23 436**	**591 343**
Liabilities and equity					
Due to the central bank and other banks	2 523	1 778	792	228	**5 321**
Derivative financial instruments	1 777	-	-	-	**1 777**
Customer deposits	99 451	196 259	190 647	21 547	**507 904**
Subordinated debt	-	214	8 354	-	**8 568**
Deferred tax liabilities	439	-	-	548	**987**
Other liabilities	2 206	351	576	114	**3 247**
Total liabilities	**106 396**	**198 602**	**200 369**	**22 437**	**527 804**
Share capital and reserves	56 577	-	-	6 930	**63 507**
Minority interest	32	-	-	-	**32**
Total liabilities and equity	**163 005**	**198 602**	**200 369**	**29 367**	**591 343**
Net balance sheet long/(short) position	**(10 408)**	**(16 542)**	**32 881**	**(5 931)**	
Spot foreign-exchange contracts long/(short) position	(639)	12 023	(5 450)	(5 934)	
Swap foreign-exchange contracts long/(short) position	9 447	9 618	(23 833)	4 768	
Forward foreign-exchange contracts long/(short) position	(44)	1496	(4249)	2797	
Net open long/(short) currency position	**(1 644)**	**6 595**	**(651)**	**(4 300)**	
Currency open position in % from capital as of 31/12/2010		**11.59**	**1.14**		
As at 31 December 2009 - Group					
Net open long/(short) currency position	**1 773**	**3 059**	**(3 946)**	**(886)**	
Currency open position in % from capital as of 31/12/2009		**5.09**	**6.56**		

The table below indicates the currencies to which the Group had significant exposure at 31 December 2010 and at 31 December 2009 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate against the Lat, with all other variables held constant, on the income statement

	31.12.2010		31.12.2009	
Currency	**Change in currency rate**	**Effect on income statement**	**Change in currency rate**	**Effect on income statement**
	%	**LVL`000**	**%**	**LVL`000**
USD	+5	330	+5	153
	(5)	-330	(4)	(122)
EUR	+1	-7	+0.2	(8)
	(1)	7	(2)	(79)

The sensitivity analysis for the Bank's foreign exchange risk is presented in following tables:

As at 31 December 2010 - Bank	LVL	USD	EUR	Citas valūtas	Kopā
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Assets					
Cash and due from the central bank	74 564	1 606	3 307	1 883	**81 360**
Loans and receivables to banks	-	81 083	18 609	15 808	**115 500**
Trading financial assets	-	19 402	5 419	-	**24 821**
Derivative financial instruments	2 198	-	-	-	**2 198**
Loans to customers and receivables	18 294	72 058	199 722	1 452	**291 526**
Available-for-sale financial assets	39 320	2 082	7 025	-	**48 427**
Prepaid corporate income tax	1 420	-	-	-	**1 420**
Investment property	5 200	-	-	-	**5 200**
Investment in subsidiaries	3 774	-	-	-	**3 774**
Tangible fixed assets	3 641	-	-	-	**3 641**
Goodwill and other intangible assets	785	-	-	-	**785**
Other assets	7 524	329	272	403	**8 528**
Total assets	**156 720**	**176 560**	**234 354**	**19 546**	**587 180**
Liabilities and equity					
Due to the central bank and other banks	2 523	1 778	792	228	**5 321**
Derivative financial instruments	1 777	-	-	-	**1 777**
Customer deposits	100 060	196 274	191 182	21 547	**509 063**
Subordinated debt	-	214	8 354	-	**8 568**
Deferred tax liabilities	439	-	-	-	**439**
Other liabilities	2 133	344	541	28	**3 046**
Total liabilities	**106 932**	**198 610**	**200 869**	**21 803**	**528 214**
Share capital and reserves	58 966	-	-	-	**58 966**
Total liabilities and equity	**165 898**	**198 610**	**200 869**	**21 803**	**587 180**
Net balance sheet long/(short) position	**(9 178)**	**(22 050)**	**33 485**	**(2 257)**	
Spot foreign-exchange contracts long/(short) position	(639)	12 023	(5 450)	(5 934)	
Swap foreign-exchange contracts long/(short) position	9 447	9 618	(23 833)	4 768	
Forward foreign-exchange contracts long/(short) position	(44)	1 496	(4 249)	2 797	
Net open long/(short) currency position	**(414)**	**1 087**	**(47)**	**(626)**	
Currency open position in % from capital as of 31/12/2010		**2.17**	**0.09**		
As at 31 December 2009 - Bank					
Net open long/(short) currency position	**2 766**	**361**	**(3 382)**	**255**	
Currency open position in % from capital as of 31/12/2009		**0.62**	**5.85**		

As at 31 December 2010, the Bank's open position was 5.28% of the tier 1 and tier 2 of the capital

(2009: 4.4 %).

According to the Law on Credit Institutions of the Republic of Latvia the total open position should not exceed 20% of the capital amount, and the open position for every currency should not exceed 10 %; the internal limits set by the Board during the 2010 were stronger (17 % and 8% (except EUR) accordingly).

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2010 and at 31 December 2009 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis snows the effect of a reasonable possible movement of the currency rate against the Lat, with all other variables held constant, on the income statement.

Currency	31.12.2010 Change in currency rate %	Effect on income statement LVL`000	31.12.2009 Change in currency rate %	Effect on income statement LVL`000
USD	+5	54	+5	18
	(5)	(54)	(4)	(14)
EUR	+1	-	+0.2	(7)
	(1)	-	(2)	68

Operational risk

Operational risk is the risk of loss arising from the impact of inadequate or unsuccessful internal processes: personnel errors, systems failure, or external events. The Management Board and appropriate organizational units of the Group exercise supervision and control over the operational risk on the basis of the approved Operational Risk Management Policy. The operational risk is monitored and managed by the following methods: effective segregation of duties and accesses, authorisation and reconciliation; operational risk is daily monitored by the Back-Office and operational risk cases are registered in on-line database for the further analysis; direct reporting on operational risk cases to the Management Board, respective heads of department and product managers; regular internal control process reviews; regular inspections by Internal Audit, including regular IT systems inspections by IT system internal auditor.

4. NET INTEREST INCOME

	2010 Group LVL'000	2010 Bank LVL'000	2009 Group LVL'000	2009 Bank LVL'000
Interest income	**23 488**	**21 509**	**31 457**	**28 132**
Loans and receivables to customers	17 456	15 497	25 512	21 396
Loans and receivables to banks	1 533	1 517	2 058	2 906
Available-for-sale securities	2 887	2 886	1 515	1 515
Held-to-maturity financial investments	-	-	1 231	1 231
Trading securities	1 509	1 509	910	910
Other	103	100	231	174
Interest expense	**12 879**	**12 893**	**17 605**	**17 686**
Customer deposits	11 239	11 239	14 288	14 288
Deposits from banks	53	68	1 885	1 966
Subordinated debt	643	642	708	708
Payments in the Deposit Guarantee Fund	944	944	670	670
Debt securities in issue	-	-	54	54
Net interest income	**10 609**	**8 616**	**13 852**	**10 446**

As at 31 December 2010, interest income accrued on impaired loans to customers amounted to LVL'000 1 262 (2009: LVL'000 1 183).

5. NET FEE AND COMMISSION INCOME

	2010		2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fee and commission income	**9 185**	**8 588**	**8 029**	**7 616**
Account services and money transfer fees	4 847	4 914	3 984	3 986
Commission for public utility payments	1 242	1 242	1 380	1 380
Payment cards	1 196	1 197	1 042	1 042
Brokerage services on securities	573	550	495	468
Cash withdrawal	405	405	444	444
Asset management fees	736	94	437	87
Commission on letters of credit and collection	48	48	40	40
Other	138	138	207	169
Fee and commission expense	**1 563**	**1 536**	**1 549**	**1 519**
Payment cards	803	803	788	788
Services of correspondent banks	581	578	479	471
Securities purchase and brokerage services	154	154	180	180
Other	25	1	102	80
Net fee and commission income	**7 622**	**7 052**	**6 480**	**6 097**

6. NET TRADING INCOME

	2010		2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from trading financial assets, net	**475**	**475**	**2 872**	**2 872**
Bonds and other fixed income securities	***392***	***392***	***2 685***	***2 685***
Net trading profit/(loss)	(53)	(53)	477	477
Fair value adjustment	445	445	2 208	2 208
Shares and other non- fixed income securities	***83***	***83***	***187***	***187***
Net trading profit/(loss)	-	-	(47)	(47)
Fair value adjustment	83	83	234	234
Profit/(loss) from derivative instruments and foreign exchanges trading, net	**4 445**	**4 539**	**4 704**	**4 691**
Net trading profit/(loss)	4 428	4 522	6 338	6 325
Fair value adjustment	17	17	(1 634)	(1 634)
Profit/(loss) from revaluation of open position, net	**1 561**	**1 781**	**186**	**(390)**
Net trading income	**6 481**	**6 795**	**7 762**	**7 173**

7. NET GAIN OR LOSS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010		2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from financial assets designated at fair value through profit or loss, net	**-**	**-**	**167**	**167**
Net realised profit/(loss)	-	-	(70)	(70)
Fair value adjustment	-	-	237	237
Total	**-**	**-**	**167**	**167**

8. NET GAIN OR LOSS FROM SALES OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010		2010	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	880	880	1 633	1 633
Total	**880**	**880**	**1 633**	**1 633**

These are the amounts transferred from equity to the income statement on the derecognition of available-for-sale financial instruments.

9. OTHER OPERATING INCOME

	2010		2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Penalties	1 158	1 041	3 009	2 907
Rent of investment property	344	344	436	436
Rent of premises	87	87	102	102
Other	249	204	2 284	2 254
Total	**1 838**	**1 676**	**5 831**	**5 699**

10. ADMINISTRATIVE EXPENSES

	2010		2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Personnel expense	**8 991**	**8 110**	**10 343**	**8 853**
Personnel remuneration	6 650	5 951	7 684	6 578
Supervisory Council and Management Board remuneration	662	590	671	561
Social security contributions	1 679	1 569	1 988	1 714
Other expense	**7 006**	**6 660**	**6 973**	**6 918**
Rent	1 441	1 335	1 514	1 405
Professional services	1 531	1 500	1 413	1 633
Computer repair and communications	980	1 072	1 292	1 273
VAT	514	510	634	596
Advertising	670	517	519	476
Public utilities and maintenance	598	604	342	361
Business trip	236	230	214	206
Security	181	177	203	198
Donations	43	43	94	94
Real estate tax	70	67	69	69
Write-off of leasehold improvement	11	11	42	42
Stationery and miscellaneous	52	48	33	29
Other administrative expenses	679	546	604	536
Total	**15 997**	**14 770**	**17 316**	**15 771**

During the 2010 the average number of employees by the Group and the Bank was 697, 21 Supervisory Council and 20 Management Board members and 632 employees, 6 Supervisory Council and 4 Management Board members, respectively.

The average number of employees by the Group and the Bank in 2009 was 751, 10 Supervisory Council and 17 Management Board members and 679 employees, 6 Supervisory Council and 6 Management Board members, respectively.

11. CORPORATE INCOME TAX

a) Components of corporate income tax

	2010		2009	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Corporate income tax expense for the year	174	-	211	202
Corporate income tax paid abroad	248	248	415	415
Recalculation for previous year	(202)	(202)	76	76
Change in deferred tax liability	(353)	(289)	290	(206)
Total	**(133)**	**(243)**	**992**	**487**

The Bank has moved the corporate income tax paid abroad from Income statement position "Other operating expenses" to position "Corporate income tax". The purpose is full information disclosure for Bank's financial statements users.

b) Reconciliation of accounting profit to tax charge

	2010		2009	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Profit before taxation	**(1 233)**	**21**	**5 165**	**3 697**
Expected corporate income tax	*(185)*	*3*	*775*	*555*
Tax effect of:				
(Untaxed income)/non-deductible expense	(72)	(292)	(306)	(204)
Effect of different tax rates on income tax paid abroad/ lost allowance for tax paid abroad	248	248	198	198
Effect of different tax rates of subsidiaries operating in other jurisdictions	78	-	387	-
Overtaken losses	-	-	(61)	(61)
Donation	-	-	(77)	(77)
Recalculation for previous year	(202)	(202)	76	76
Total	**(133)**	**(243)**	**992**	**487**

Expected corporate income tax has been calculated in accordance to Latvian income tax rate in 2010.

Effect of different tax rates of subsidiaries operating in other jurisdictions appeared due to 20% income tax rate in Armenia.

c) Reconciliation of prior year deferred tax balance with that of current period is as follows:

	2010		2009	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Deferred tax liability at the beginning of year	891	351	653	557
Deferred tax liability increase (decrease) for the year	(353)	(289)	290	(206)
Foreign exchange	72	-	(52)	-
Deferred tax liability at the year end	**610**	**62**	**891**	**351**
Deferred tax, recognised directly in equity at the beginning of year	178	178	-	-
Deferred tax increase (decrease) for the year	199	199	178	178
Deferred tax, recognised directly in equity at the year end	**377**	**377**	**178**	**178**
Total	**987**	**439**	**1 069**	**529**

d) The deferred tax included in the balance sheet and changes recorded in the income statement are as follows:

Group	2010 Deferred tax asset LVL'000	2010 Deferred tax liability LVL'000	2009 Deferred tax asset LVL'000	2009 Deferred tax liability LVL'000
Loans to customers	-	(534)	-	(603)
Accruals for vacations	21	-	28	-
Depreciation and amortisation	-	(93)	-	(136)
Change in fair value of investment property	-	(377)	-	(253)
Other assets	-	(6)	-	(4)
Tax loss carry-forwards	378	-	77	-
Other liabilities	4	(3)	4	(4)
Total mutual off setting of asset/(liability)	**403**	**(1,013)**	**109**	**(1 000)**
Total non-mutual off setting of asset/(liability)	-	-	-	-
Net deferred tax asset/(liability)	**-**	**(610)**	**-**	**(891)**
Deferred tax, recognised directly in equity		(377)	-	(178)
Total	**-**	**(987)**	**-**	**(1 069)**

Bank	2010 Deferred tax asset LVL'000	2010 Deferred tax liability LVL'000	2009 Deferred tax asset LVL'000	2009 Deferred tax liability LVL'000
Accruals for vacations	21	-	27	-
Depreciation and amortisation	-	(84)	-	(125)
Change in fair value of investment property	-	(377)	-	(253)
Tax loss carry-forwards	378	-	-	-
Other liabilities	-	-	-	-
Total mutual off setting of asset/(liability)	**399**	**(461)**	**27**	**(378)**
Net deferred tax asset/(liability)	**-**	**(62)**	**-**	**(351)**
Deferred tax, recognised directly in equity	-	(377)	-	(178)
Total	**-**	**(439)**	**-**	**(529)**

12. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2010 Group LVL'000	31.12.2010 Bank LVL'000	31.12.2009 Group LVL'000	31.12.2009 Bank LVL'000
Cash	6 985	6 985	6 711	6 710
Due from the central bank	74 375	74 375	32 575	32 575
Total	**81 360**	**81 360**	**39 286**	**39 285**

Balances with the Bank of Latvia represent funds held in the Bank's clearing account. In accordance with the regulations set by the Bank of Latvia, the Bank's average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base, as at the end of each month. As at 31 December 2010 and 2009 the amount of the statutory reserve of the Bank was LVL'000 23 895 and LVL'000 18 121, respectively.

13. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand placements with:	**93 726**	**93 717**	**64 667**	**64 383**
Banks of the Republic of Latvia	59	59	7 128	7 128
Banks of the OECD countries	82 383	82 374	37 926	37 926
Banks of other countries	11 284	11 284	19 613	19 329
Loans to and receivables from:	**21 834**	**21 783**	**12 653**	**9 315**
Banks of the Republic of Latvia	-	-	5 501	5 501
Banks of the OECD countries	17 292	17 292	105	105
Banks of other countries	4 542	4 491	7 047	3 709
Total	**115 560**	**115 500**	**77 320**	**73 698**

In 2010 Bank has LVL'000 7 528 pledged for Forex deals, in 2009: LVL'000 6 685.

In 2010 Bank's average interest rates are: LVL 3.72%, USD 0.28%, EUR 1.75%; in 2009: LVL 9.29%, USD 0.44%, EUR 1.21%.

14. TRADING FINANCIAL ASSETS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Trading bonds and other fixed income securities	**24 087**	**24 087**	**12 717**	**12 717**
OECD country bonds	2 155	2 155	1 866	1 866
Other country bonds	21 932	21 932	10 851	10 851
Trading shares and other non- fixed income securities	**734**	**734**	**83**	**83**
Other country shares	734	734	83	83
Total	**24 821**	**24 821**	**12 800**	**12 800**

15. DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents the fair value of the Group's and Bank's derivatives held for trading. Derivatives financial instruments are accounted as assets or liabilities, together with their notional amounts. The notional amounts are the gross amount of a derivative's underlying assets and are calculated based on FCMC regulation on calculation of capital adequacy. The notional amounts indicate the volume of transactions outstanding at the year end.

	31.12.2010			31.12.2009		
	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000
Foreign exchange contracts						
Swaps	2 132	1 755	467 353	1 300	878	405 796
Forwards	66	22	10 533	35	54	4 920
	2 198	**1 777**	**477 886**	**1 335**	**932**	**410 716**

16. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net loans to:	**284 413**	**280 037**	**279 105**	**280 255**
Private companies	257 603	255 887	233 066	239 084
Individuals	49 234	45 126	62 106	55 875
Allowance for impairment losses (Note 17)	(22 424)	(20 976)	(16 067)	(14 704)
Receivables from:	**11 489**	**11 489**	**7 119**	**7 119**
Finance companies	8 623	8 623	7 119	7 119
Private companies	2 866	2 866	-	-
Total loans to and receivables from customers, net	**295 902**	**291 526**	**286 224**	**287 374**

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Geographical segmentation of loans and receivables				
Net loans to:	**284 413**	**280 037**	**279 105**	**280 255**
Residents of Latvia	190 694	190 711	186 453	186 825
Residents of OECD countries	9 776	9 776	4 972	4 972
Residents of the other countries	106 367	100 526	103 747	103 162
Allowance for impairment losses (Note 17)	(22 424)	(20 976)	(16 067)	(14 704)
Receivables from:	**11 489**	**11 489**	**7 119**	**7 119**
Residents of Latvia	10	10	10	10
Residents of OECD countries	9 782	9 782	6 631	6 631
Residents of the other countries	1 697	1 697	478	478
Total loans to and receivables from customers	**295 902**	**291 526**	**286 224**	**287 374**

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Analysis of loans by type				
Mortgage loans	70 824	67 540	86 274	81 889
Industrial loans	107 503	107 503	90 605	90 605
Commercial loans	74 773	75 942	57 386	66 985
Consumer loans	13 432	13 182	22 604	21 620
Credit card balances	7 285	7 285	8 686	8 686
Reverse Repo transactions	3 140	3 140	6 609	6 609
Finance leases	2 309	298	3 652	572
Other	5 147	5 147	3 215	3 215
Factoring loans	-	-	74	74
Net loans to customers	**284 413**	**280 037**	**279 105**	**280 255**

The Group has received securities at fair value LVL'000 5 108 (at 31 December 2009: LVL'000 10 555) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2010 they have not been sold or repledged (at 31 December 2009: LVL'000 nil).

Bank's average interest rates are: LVL 27.68%, USD 5.55%, EUR 4.73%; in 2009: LVL 24.66%, USD 6.69%, EUR 6.55%.

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Finance leases				
Gross investments	**2 495**	**327**	**3 973**	**646**
Within 1 year	1 043	200	1 612	374
From 1 year to 5 years	1 440	127	2 341	272
More than 5 years	12	-	20	-
Unearned income	**186**	**29**	**321**	**74**
Within 1 year	84	16	116	57
From 1 year to 5 years	102	13	203	17
More than 5 years	-	-	2	-
Present value of minimum lease payments	**2 309**	**298**	**3 652**	**572**
Within 1 year	959	184	1 496	317
From 1 year to 5 years	1 338	114	2 138	255
More than 5 years	12	-	18	-

17. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

The following table presents an analysis of the change in allowance account for impairment. The Group attributes the allowance for impairment losses completely to the financial assets.

Group	At 31 December 2009 LVL`000	Increase in allowance LVL`000	Written off LVL`000	Released from allowance LVL`000	Foreign exchange LVL`000	At 31 December 2010 LVL`000
Industrial loans	824	2 525	(2 161)	(451)	28	765
Commercial loans	342	76	(120)	(177)	19	140
Consumer loans	7 167	4 380	(98)	(774)	10	10 685
Credit cards	1 595	770	(141)	(257)	2	1 969
Finance leasing	1 147	244	(6)	(9)	-	1 376
Factoring	32	73	(105)	-	-	-
Mortgage loans	4 941	4 006	(854)	(688)	7	7 412
Other loans	19	65	-	(7)	-	77
Other provisions	121	3	(126)	-	13	11
Total	**16 188**	**12 142**	**(3 611)**	**(2 363)**	**79**	**22 435**

Group At 31 December, 2010	Individual impairment LVL`000	Collective impairment LVL`000	Total LVL`000	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL`000
Industrial loans	750	15	**765**	**2 625**
Commercial loans	35	105	**140**	**42**
Consumer loans	10 438	247	**10 685**	**15 565**
Credit cards	1 930	39	**1 969**	**4 041**
Finance leasing	1 346	30	**1 376**	**2 014**
Mortgage loans	3 038	4 374	**7 412**	**11 996**
Other loans	77	-	**77**	**347**
Other provisions	11	-	**11**	**11**
Total	**17 625**	**4 810**	**22 435**	**36 641**

Group	At 31 December 2008 LVL`000	Increase in allowance LVL`000	Written off LVL`000	Released from allowance LVL`000	Foreign exchange LVL`000	At 31 December 2009 LVL`000
Industrial loans	2 063	1 353	(1 081)	(1 511)	-	**824**
Commercial loans	272	940	(804)	(54)	(12)	**342**
Consumer loans	3 938	4 324	(239)	(827)	(29)	**7 167**
Credit cards	1 005	1 022	(52)	(380)	-	**1 595**
Finance leasing	14	1 154	(21)	-	-	**1 147**
Factoring	-	156	(124)	-	-	**32**
Mortgage loans	1 851	7 269	(3 420)	(755)	(4)	**4 941**
Reverse repo	879	367	(810)	(442)	6	**-**
Other loans	-	84	(65)	-	-	**19**
Held-to-maturity financial investments	885	-	-	(891)	6	**-**
Other provisions	8	114	-	-	(1)	**121**
Total	**10 915**	**16 783**	**(6 616)**	**(4 860)**	**(34)**	**16 188**

Group At 31 December, 2009	Individual impairment LVL`000	Collective impairment LVL`000	Total LVL`000	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL`000
Industrial loans	824	-	**824**	**3 977**
Commercial loans	192	150	**342**	**93**
Consumer loans	6 685	482	**7 167**	**11 759**
Credit cards	1 480	115	**1 595**	**3 345**
Finance leasing	1 147	-	**1 147**	**2 144**
Factoring	32	-	**32**	**105**
Mortgage loans	2 878	2 063	**4 941**	**13 894**
Other loans	19	-	**19**	**60**
Other provisions	120	1	**121**	**12 920**
Total	**13 377**	**2 811**	**16 188**	**48 297**

Group	2010 LVL'000	2009 LVL'000
Result from allowance for impairment losses	**(9 462)**	**(11 553)**
Increase in allowance	(12 142)	(16 783)
Released from allowance (loans)	2 363	4 860
Released from allowance (other)	44	79
Recovery of previously written-off assets	273	291

The following table presents an analysis of the change in allowance account for impairment. The Bank's attributes the allowance for impairment losses completely to the financial investments.

Bank	At 31 December 2009 LVL`000	Increase in allowance LVL`000	Written off LVL`000	Released from allowance LVL`000	Foreign exchange LVL`000	At 31 December 2010 LVL`000
Industrial loans	824	2 525	(2 161)	(451)	28	**765**
Commercial loans	192	76	(120)	(103)	5	**50**
Consumer loans	7 122	4 380	(89)	(735)	-	**10 678**
Credit cards	1 595	770	(141)	(257)	2	**1 969**
Finance leasing	42	30	(6)	(9)	-	**57**
Factoring	32	73	(105)	-	-	**-**
Mortgage loans	4 878	4 006	(854)	(652)	2	**7 380**
Other loans	19	65	-	(7)	-	**77**
Other provisions	120	2	(126)	-	13	**9**
Total	**14 824**	**11 927**	**(3 602)**	**(2 214)**	**50**	**20 985**

Bank At 31 December, 2010	Individual impairment LVL`000	Collective impairment LVL`000	Total LVL`000	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL`000
Industrial loans	750	15	**765**	**2 625**
Commercial loans	35	15	**50**	**42**
Consumer loans	10 438	240	**10 678**	**15 565**
Credit cards	1 930	39	**1 969**	**4 041**
Finance leasing	27	30	**57**	**54**
Mortgage loans	3 038	4 342	**7 380**	**11 996**
Other loans	77	-	**77**	**347**
Other provisions	9	-	**9**	**9**
Total	**16 304**	**4 681**	**20 985**	**34 679**

Bank	At 31 December 2008 LVL`000	Increase in allowance LVL`000	Written off LVL`000	Released from allowance LVL`000	Foreign exchange LVL`000	At 31 December 2009 LVL`000
Industrial loans	2 063	1 353	(1 081)	(1 511)	-	**824**
Commercial loans	272	782	(804)	(54)	(4)	**192**
Consumer loans	3 785	4 219	(76)	(806)	-	**7 122**
Credit cards	1 005	1 022	(52)	(380)	-	**1 595**
Finance leasing	1	62	(21)	-	-	**42**
Factoring	-	156	(124)	-	-	**32**
Mortgage loans	1 851	7 202	(3 420)	(755)	-	**4 878**
Reverse repo	879	367	(810)	(442)	6	**-**
Other loans	-	84	(65)	-	-	**19**
Provisions for held-to-maturity financial investments	885	-	-	(891)	6	**-**
Other provisions	8	113	-	-	(1)	**120**
Total	**10 749**	**15 360**	**(6 453)**	**(4 839)**	**7**	**14 824**

Bank At 31 December, 2009	Individual impairment LVL`000	Collective impairment LVL`000	Total LVL`000	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL`000
Industrial loans	824	-	**824**	**3 977**
Commercial loans	192	-	**192**	**93**
Consumer loans	6 685	437	**7 122**	**11 759**
Credit cards	1 480	115	**1 595**	**3 345**
Finance leasing	42	-	**42**	**80**
Factoring	32	-	**32**	**105**
Mortgage loans	2 878	2 000	**4 878**	**13 894**
Other loans	19	-	**19**	**60**
Other provisions	120	-	**120**	**12 920**
Total	**12 272**	**2 552**	**14 824**	**46 233**

Bank	2010 LVL'000	2009 LVL'000
Result from allowance for impairment losses	**(9 470)**	**(10 151)**
Increase in allowance	(11 927)	(15 360)
Released from allowance (loans)	2 214	4 839
Released from allowance (other)	44	79
Recovery of previously written-off assets	199	291

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	**33 085**	**32 997**	**24 459**	**24 369**
Latvian bonds	30 916	30 916	19 957	19 957
OECD country bonds	184	96	160	70
Other country bonds	1 985	1 985	4 342	4 342
Shares and other non-fixed income securities	**7 026**	**15 430**	**10 425**	**10 425**
LR country funds	-	8 404	-	-
EU country funds	7 026	7 026	10 425	10 425
Total	**40 111**	**48 427**	**34 884**	**34 794**

19. INVESTMENT IN SUBSIDIARIES

As at 31 December 2010 and 2009 the Bank had the following investment in the subsidiaries:

Company	Country and address of registration	Business profile	Cost as at 31 December 2010	Cost as at 31 December 2009	Share capital as at 31 December 2010	Bank's share capital as at 31 December 2010
			LVL'000	LVL'000	LVL'000	%
JSC "NORVIK "Ieguldījumu pārvaldes sabiedrība"	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	878	878	755	100
JSC "NORVIK" Universal Credit Organization"	Armenia, Yerevan, Khanjyan str. 41	Finance	1 944	1 944	1 958	100
"NORVIK Līzings" Ltd.	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	700	700	700	100
"NORVIK TECHNOLOGY" Ltd.	Latvia, Riga, E.Birznieka-Upīša str. 21	IT technologies	100	100	100	100
JSC "NORVIK Alternative Investments"	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	150	150	150	75
"Legal Consulting" Ltd.	Latvia, Riga, E.Birznieka-Upīša str. 21	Legal services	2	2	2	100
Total			**3 774**	**3 774**		

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	31.12.2010		31.12.2009	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Goodwill	286	-	286	-
Other intangible assets	224	785	480	827
Prepayments for intangible assets	-	-	32	32
Net book value of other intangible assets	**510**	**785**	**798**	**859**

The following table shows the changes in the Group's and Bank's intangible assets for the year ended 31 December 2010 and 31 December 2009:

Group **LVL `000**	**Goodwill**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost				
At 31 December 2009	**286**	**1 679**	**32**	**1 997**
Additions	-	137	61	198
Disposals	-	(393)	(93)	(486)
Foreign exchange	-	2	-	2
At 31 December 2010	**286**	**1 425**	**-**	**1 711**
Amortisation				
At 31 December 2009	**-**	**1 199**	**-**	**1 199**
Charge	-	355	-	355
Disposals	-	(354)	-	(354)
Foreign exchange	-	1	-	1
At 31 December 2010	**-**	**1 201**	**-**	**1 201**
Net book value				
At 31 December 2009	**286**	**480**	**32**	**798**
At 31 December 2010	**286**	**224**	**-**	**510**

Group LVL `000	Goodwill	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost				
At 31 December 2008	**266**	**1 582**	**34**	**1 882**
Additions	20	103	64	187
Disposals	-	(4)	(66)	(70)
Foreign exchange	-	(2)	-	(2)
At 31 December 2009	**286**	**1 679**	**32**	**1 997**
Amortisation				
At 31 December 2008	**-**	**871**	**-**	**871**
Charge	-	332	-	332
Disposals	-	(3)	-	(3)
Foreign exchange	-	(1)	-	(1)
At 31 December 2009	**-**	**1 199**	**-**	**1 199**
Net book value				
At 31 December 2008	**266**	**711**	**34**	**1 011**
At 31 December 2009	**286**	**480**	**32**	**798**

Goodwill acquired through business combination with indefinite lives has been allocated for impairment testing to one individual cash-generating unit – Investment Funds Management.

Bank LVL `000	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost			
At 31 December 2009	**2 052**	**32**	**2 084**
Additions	296	61	357
Disposals	(322)	(93)	(415)
At 31 December 2010	**2 026**	**-**	**2 026**
Amortisation			
At 31 December 2009	**1 225**	**-**	**1 225**
Charge	338	-	338
Disposals	(322)	-	(322)
At 31 December 2010	**1 241**	**-**	**1 241**
Net book value			
At 31 December 2009	**827**	**32**	**859**
At 31 December 2010	**785**	**-**	**785**

Bank LVL `000	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost			
At 31 December 2008	**1 616**	**30**	**1 646**
Additions	440	64	504
Disposals	(4)	(62)	(66)
At 31 December 2009	**2 052**	**32**	**2 084**
Amortisation			
At 31 December 2008	**838**	**-**	**838**
Charge	390	-	390
Disposals	(3)	-	(3)
At 31 December 2009	**1 225**	**-**	**1 225**
Net book value			
At 31 December 2008	**778**	**30**	**808**
At 31 December 2009	**827**	**32**	**859**

21. INVESTMENT PROPERTY

The following table shows the movement in the Group's and Bank's investment property for the period ended 31 December 2010:

	Group LVL`000 Commercial spaces in business center, land	Bank LVL`000 Commercial spaces in business center
As at 31 December 2008	**4 367**	**4 367**
Additions	2 035	-
As at 31 December 2009	**6 402**	**4 367**
Reclassification	523	-
Additions	9 727	-
Net change in fair value	(1 211)	833
Foreign exchange	330	-
As at 31 December 2010	**15 771**	**5 200**

Group's investment property is stated at fair value. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Bank has investment property in Moscow, Russia – office premises. The last valuation of mentioned property performed for 31 December 2010 by certified appraiser of the licensed company of Russian Federation. As at 31 December 2010 net positive change in fair value was recognised in the Income Statement in the amount of LVL'000 833. Mentioned property generated rental income during the 2010. The property rental income earned by the Bank from mentioned property all of which is leased out to a related company under an operating lease agreement amounted to LVL'000 344 (31.12.2009: LVL'000 436) at the same time the related property maintenance expense and real estate tax burned by the Bank as the owner of the property was LVL'000 121 (31.12.2009: LVL'000 111).

The investment property of Norvik Universal Credit Organization is office premises in Yerevan, Armenia. The last valuation of mentioned property performed for 31 December 2010 by certified appraiser of the licensed company of the Republic of Armenia. Investment property is held to earn rentals or to gain from value appreciation. During 2010 no rental income was generated by the mentioned investment property.

In the 2010 subsidiary of the Bank JSC "NORVIK Ieguldījumu pārvaldes sabiedrība" established "NORVIK IPS AS SIF NEKUSTAMO ĪPAŠUMU UZŅĒMUMU FONDS" (Real Estate Entities Fund). The company acquired the shares in several companies – owners of land plots in Latvia. Real estate (land plots) recognized as investment property in Group balance at fair value LVL'000 8 204. Mentioned property is held to gain from value appreciation or earn rentals. During 2010 no rental income was generated by the mentioned investment property.

22. TANGIBLE FIXED ASSETS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Lands and buildings	2 900	2 900	520	520
Vehicles	192	166	248	200
Office equipment and other fixed assets	584	559	901	854
Prepayments for tangible fixed assets	9	9	17	17
Leasehold improvements	230	7	18	18
Net book value of tangible fixed assets	**3 915**	**3 641**	**1 704**	**1 609**

The following table shows the changes in the Bank's tangible fixed assets for the year ended 31 December 2010:

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improve-ments	Total
Historical cost						
At 31 December 2009	**2 980**	**388**	**3 938**	**17**	**18**	**7 341**
Additions	10	14	130	66	-	**220**
Revaluation	2 510	-	-	-	-	**2 510**
Disposals	-	-	(230)	(74)	(11)	**(315)**
At 31 December 2010	**5 500**	**402**	**3 838**	**9**	**7**	**9 756**
Depreciation						
At 31 December 2009	**2 460**	**188**	**3 084**	**-**	**-**	**5 732**
Charge	140	48	391	-	-	**579**
Disposals	-	-	(196)	-	-	**(196)**
At 31 December 2010	**2 600**	**236**	**3 279**	**-**	**-**	**6 115**
Net book value						
At 31 December 2009	**520**	**200**	**854**	**17**	**18**	**1 609**
At 31 December 2010	**2 900**	**166**	**559**	**9**	**7**	**3 641**

At the end of 2010 Bank's owned building's book value due to depreciation reached amount that is much lower than its fair value. Since Bank continues using the building as tangible fixed asset, there was made a decision to revaluate the building in fair value and continue to depreciate it. The valuation of mentioned property performed for 20 December 2010 by certified valuator of real estate. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation. Method of comparable deals and income method were used in estimating the buildings fair value. The carrying amount that would be recognized had the building been carried under the cost model was LVL'000 389. Revaluation surplus net of tax in the amount of LVL'000 2 134 is recognized in fixed asset revaluation reserve.

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improve-ments	Total
Historical cost						
At 31 December 2008	**2 980**	**377**	**3 952**	**32**	**70**	**7 411**
Additions	-	14	143	25	-	**182**
Disposals		(3)	(157)	(40)	(52)	**(252)**
At 31 December 2009	**2 980**	**388**	**3 938**	**17**	**18**	**7 341**
Depreciation						
At 31 December 2008	**2 320**	**147**	**2 655**	**-**	**-**	**5 122**
Charge	140	44	549	-	-	**733**
Disposals	-	(3)	(120)	-	-	**(123)**
At 31 December 2009	**2 460**	**188**	**3 084**	**-**	**-**	**5 732**
Net book value						
At 31 December 2008	**660**	**230**	**1 297**	**32**	**70**	**2 289**
At 31 December 2009	**520**	**200**	**854**	**17**	**18**	**1 609**

23. OTHER ASSETS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Property and equipment held for sale	586	-	2 218	2 218
VAT	1 122	903	922	613
Spot deals	1 033	1 033	343	343
Deferred expenses	245	237	237	235
Accrued income	242	194	222	188
Cards transactions	239	239	50	50
Other receivables	6 168	5 922	1 597	1 068
Total	**9 635**	**8 528**	**5 589**	**4 715**

24. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Managed trust assets	**6 213**	**6 213**	**20 560**	**20 560**
Loans	5 598	5 598	9 904	9 904
Debt securities	-	-	8 077	8 077
Due from credit institutions	615	615	562	562
Shares and other securities with non-fixed income	-	-	32	32
Other	-	-	1 985	1 985
Managed trust liabilities	**6 213**	**6 213**	**20 560**	**20 560**
Private companies	4 076	4 076	20 125	20 125
Credit institutions	1 605	1 605	-	-
Individuals	532	532	435	435

The financial statements disclose assets and liabilities held by the Bank on behalf of clients and registered in the name of the Bank. The Group does not carry credit, interest rate or any other risk associated with these managed assets. The Bank receives commission fee for rendering of trust services to clients.

25. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits	**2 821**	**2 821**	**2 628**	**2 628**
Banks registered in Latvia	291	291	400	400
Banks registered in OECD countries	-	-	-	-
Banks registered in other countries	2 530	2 530	2 228	2 228
Term deposits	**2 500**	**2 500**	**422**	**422**
Banks registered in Latvia	2 500	2 500	-	-
Banks registered in OECD countries	-	-	-	-
Banks registered in other countries	-	-	422	422
Total	**5 321**	**5 321**	**3 050**	**3 050**

Bank's average interest rate for LVL 0.90%, USD 1.15%, EUR 0.46%, in 2009: LVL 12.15%, USD 1.83%, EUR 6.52%.

26. CUSTOMER DEPOSITS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Current accounts	**238 388**	**238 931**	**169 203**	**169 297**
Private companies	198 557	199 100	144 901	144 995
Individuals	39 170	39 170	23 741	23 741
Public organizations	242	242	188	188
Government companies	402	402	342	342
Local government	17	17	31	31
Fixed-term deposits	**269 516**	**270 132**	**223 562**	**224 476**
Private companies	142 239	142 855	119 407	120 321
Individuals	107 859	107 859	102 157	102 157
Government companies	18 375	18 375	1 917	1 917
Public organizations	42	42	81	81
Local government	1 001	1 001	-	-
Total	**507 904**	**509 063**	**392 765**	**393 773**
Geographical segmentation of customer deposits				
Current accounts	**238 338**	**238 931**	**169 203**	**169 297**
Residents of Latvia	52 866	53 308	37 902	37 994
Residents of OECD countries	39 305	39 305	24 438	24 438
Residents of the other countries	146 217	146 318	106 863	106 865
Fixed-term deposits	**269 516**	**270 132**	**223 562**	**224 476**
Residents of Latvia	135 905	136 521	112 342	113 151
Residents of OECD countries	21 613	21 613	9 652	9 652
Residents of the other countries	111 998	111 998	101 568	101 673
Total	**507 904**	**509 063**	**392 765**	**393 773**

Bank's average interest rates are: LVL 4.81%, USD 1.11%, EUR is 3.00%; in 2009: LVL 8.58%, USD 1.72%, EUR is 4.05%.

27. SUBORDINATED DEBT

As at 31 December 2010 and 2009 the Bank's depositors with more than 10% of the subordinated debt amount were as follows:

	Maturity	Interest rate (%)	Currency	31.12.2010 LVL'000	31.12.2009 LVL'000
"Raiffeisen Zentralbank Oesterreich AG" (Austria)	2013	9	EUR	5 170	5 170
"Ice-Balt Invest Ehf." (Iceland)	2013	9	EUR	949	949
Other persons	2011-2016	5.25-8.8	EUR, USD	2 449	973
Total				**8 568**	**7 092**

28. OTHER LIABILITIES

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Accrued expenses	851	851	682	678
Spot deals	993	993	347	347
Payments collected on behalf of public utilities services providers	244	244	281	281
Cards transactions	7	8	275	275
Accruals for vacations	139	139	220	182
Suspense amounts	176	176	78	78
Deferred income	25	25	39	39
Other	812	610	798	641
Total	**3 247**	**3 046**	**2 720**	**2 521**

Suspense amounts represent payments received by the Bank where the beneficiary is not clearly identified and are cleared after year-end. Based on cooperation agreements Payments collected on behalf of public utilities services providers are transferred to providers after year end.

29. SHARE CAPITAL

	31.12.2010		31.12.2009	
	Quantity'000	LVL'000	Quantity'000	LVL'000
Registered and paid – in share capital	**56 290**	**56 290**	**56 290**	**56 290**

As at 31 December 2010, all issued shares are fully paid and the Bank's paid-in capital amounts to LVL`000 56 290 (as at 31 December 2009: LVL`000 56 290):

	31.12.2010			31.12.2009		
	Number of shares	% of total shares	Paid up share capital	Number of shares	% of total shares	Paid up share capital
"Straumborg Ehf."(Iceland)	28 778 560	51.13	28 778	28 778 560	51.13	**28 778**
J. Šapurovs	11 129 726	19.77	11 130	11 129 726	19.77	**11 130**
A. Svirčenkovs	11 129 698	19.77	11 130	11 129 698	19.77	**11 130**
Other (individually less than 10%)	5 252 297	9.33	5 252	5 252 297	9.33	**5 252**
Total	**56 290 281**	**100.00**	**56 290**	**56 290 281**	**100.00**	**56 290**

30. EARNINGS PER SHARE

Earnings per share are based on net profit attributable to ordinary equity holders of the parent divided by the weighted average number of issued shares. As of 31 December 2010 and 2009 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2010	Group 31.12.2009
Net profit (LVL'000)	(1 092)	4 179
Weighted average number of ordinary shares	56 290	40 500
Earnings per share (LVL)	**(0.02)**	**0.10**

31. CASH AND CASH EQUIVALENTS

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash and balances due on demand from the Bank of Latvia	81 360	81 360	39 286	39 285
Balances due from other banks with original maturity of 3 months or less	114 142	114 082	75 618	72 280
Total	**195 502**	**195 442**	**114 904**	**111 565**

32. COMMITMENTS AND CONTINGENCIES

	31.12.2010		31.12.2009	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Contingent liabilities	**4 362**	**4 362**	**5 150**	**5 256**
Guarantees	4 309	4 309	5 101	5 207
Other	53	53	49	49
Commitments	**21 933**	**36 800**	**12 102**	**15 788**
Unused credit lines	21 933	36 800	12 102	15 788
Total off-balance sheet items, gross	**26 295**	**41 162**	**17 252**	**21 044**

In the ordinary course of business, the Group gives loans commitments, guarantees and letters of credit. The main purpose of these instruments is to ensure the availability of necessary funds for the clients. Guarantees and letters of credit, that include irrevocable liabilities - the ones that the Bank will have to pay in the event of failure by the clients to meet their obligations to third parties - are assigned the same risk as for loans. Letters of credit, in accordance with which the Bank has the right, on behalf of the client, to accept invoices from third parties, are secured with goods being transported.

Unused part of credit lines is viewed as an obligation arising from credit lines. As regards the credit risk, the Bank is potentially exposed to losses arising also from obligations under unused credit lines.

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows a comparison by class of the Group's and Bank's carrying values and fair values of the financial instruments that are carried in the financial statements.

	31.12.2010			31.12.2009		
Group	Carrying value LVL'000	Fair value LVL'000	Difference LVL'000	Carrying value LVL'000	Fair value LVL'000	Difference LVL'000
Financial assets						
Cash and balances with the central bank	81 360	81 360	-	39 286	39 286	-
Loans and receivables to banks	115 560	115 549	(11)	77 320	77 705	385
Trading financial assets	24 821	24 821	-	12 800	12 800	-
Derivative financial instruments	2 198	2 198	-	1 335	1 335	-
Loans to customer and receivables	295 902	300 479	4 577	286 224	284 724	(1 500)
Available-for-sale financial assets	40 111	40 111	-	34 884	34 884	-
Financial liabilities						
Due to the central bank and other banks	5 321	5 321	-	3 050	3 050	-
Derivative financial instruments	1 777	1 777	-	932	932	-
Customer deposits	507 904	509 008	(1 104)	392 765	395 287	(2 522)
Subordinated debt	8 568	8 568	-	7 092	7 092	-
Total difference			**3 462**			**(3 637)**

	31.12.2010			31.12.2009		
Bank	**Carrying value LVL'000**	**Fair value LVL'000**	**Difference LVL'000**	**Carrying value LVL'000**	**Fair value LVL'000**	**Difference LVL'000**
Financial assets						
Cash and balances with the central bank	81 360	81 360	-	39 285	39 285	-
Loans and receivables to banks	115 500	115 489	(11)	73 698	74 083	385
Trading financial assets	24 821	24 821	-	12 800	12 800	-
Derivative financial instruments	2 198	2 198	-	1 335	1 335	-
Loans to customer and receivables	291 526	296 103	4 577	287 374	285 874	(1 500)
Available-for-sale financial assets	48 427	48 427	-	34 794	34 794	-
Financial liabilities						
Due to the central bank and other banks	5 321	5 321	-	3 050	3 050	-
Derivative financial instruments	1 777	1 777	-	932	932	-
Customer deposits	509 063	510 167	(1 104)	393 773	396 295	(2 522)
Subordinated debt	8 568	8 568	-	7 092	7 092	-
Total difference			**3 462**			**(3 637)**

The following describes the methodologies and assumptions used to determine fair value for those financial instruments which are not recorded at fair value in the financial statements:

– For financial assets and liabilities that have a short term maturity (such as overdrafts, money market deals with maturity less than 3 months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, current accounts without a specific maturity and subordinated debts with special conditions which permit for such debts to be eligible as tier 2 capital.

– The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated as the present value of future cash flows, by discounting contractual cash flows using current rates at which similar loans (or attracted deposits) would be transacted by the Group with borrowers with similar credit ratings and/or collateral and for the same remaining maturities.

– No future loan losses, adjustments related to future probable loan renegotiating, early repayment considered. The fair values included in the tables above were calculated for disclosure purposes only. The valuation techniques and assumptions described above provide a measurement of fair value of the Bank's and Group's financial instruments accounted for at amortized cost. However, because other institutions may use different methods and assumptions for their fair value estimation, such fair value disclosures cannot necessarily be compared from one financial institution to another.

34. FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following table shows an analysis of the Group's and Bank's financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

As at 31 December 2010 - Group	**Quoted market LVL'000**	**Valuation techniques – market observable inputs LVL'000**	**Valuation techniques – non-market observable inputs LVL'000**	**Total LVL'000**
Financial assets	**57 371**	**2 733**	**7 026**	**67 130**
Trading financial assets	24 821	-	-	24 821
Derivative financial instruments	-	2 198	-	2 198
Available-for-sale financial assets	32 550	535	7 026	40 111
Financial liabilities	**-**	**1 777**	**-**	**1 777**
Derivatives financial instruments	-	1 777	-	1 777

As at 31 December 2010 - Bank	Quoted market	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
	LVL'000	LVL'000	LVL'000	LVL'000
Financial assets	**57 283**	**2 733**	**15 430**	**75 446**
Trading financial assets	24 821	-	-	24 821
Derivative financial instruments	-	2 198	-	2 198
Available-for-sale financial assets	32 462	535	15 430	48 427
Financial liabilities	**-**	**1 777**	**-**	**1 777**
Derivatives financial instruments	-	1 777	-	1 777

As at 31 December 2009 - Group	Quoted market	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
	LVL'000	LVL'000	LVL'000	LVL'000
Financial assets	**36 771**	**1 823**	**10 425**	**49 019**
Trading financial assets	12 800	-	-	12 800
Derivative financial instruments	-	1 335	-	1 335
Available-for-sale financial assets	23 971	488	10 425	34 884
Financial liabilities	**-**	**932**	**-**	**932**
Derivatives financial instruments	-	932	-	932

The following table shows changes of non-market observable inputs during 2010 and 2009:

LVL'000	Group Non-market observable inputs	Bank Non-market observable inputs
At 31 December 2008	**10 919**	**10 919**
Acquisition	4 147	4 147
Selling	(8 324)	(8 324)
Net gain or loss from sales	2 228	2 228
Fair value adjustment	1 455	1 455
At 31 December 2009	**10 425**	**10 425**
Acquisition	-	11 052
Selling	(4 719)	(4 719)
Net gain or loss from sales	1 778	1 778
Fair value adjustment	(458)	(3 106)
At 31 December 2010	**7 026**	**15 430**

Changes in fair value are recognised in comprehensive income and equity in position "Revaluation reserve of available-for-sale financial assets, net of tax". Net gain or loss from sales is recognised in Income Statement position "Net gain or loss from sales of available-for –sale financial assets".

35. CAPITAL ADEQUACY CALCULATION

The Group's and Bank's capital adequacy ratio as of 31 December 2010 has been calculated as follows:

ASSETS	Notional risk level %	Group Exposure LVL'000	Group Risk weighted assets LVL'000	Bank Exposure LVL'000	Bank Risk weighted assets LVL'000
Central governments or central banks	0%	105 314	-	105 226	-
Financial institutions	0%	535	-	535	-
	20%	114 426	22 885	114 366	22 873
	50%	915	458	915	458
	100%	2 049	2 049	2 049	2 049
Private companies and individuals	0%	10 692	-	10 692	-
	100%	209 543	209 543	211 998	211 998
	150%	21 204	31 805	21 204	31 805
Pool of retail exposure claims (MRD)	0%	9	-	9	-
	75%	9 799	7 349	9 799	7 349
Past due exposures	0%	9	-	9	-
	100%	4 345	4 345	4 311	4 311
	150%	40 433	60 650	37 411	56 116
Collective investment undertakings (CIU)	100%	7 026	7 026	15 430	15 430
Other items	0%	7 315	-	7 314	-
	100%	29 518	29 518	17 426	17 426
Total assets and risk weighted assets		**563 132**	**375 628**	**558 694**	**369 815**

OFF-BALANCE SHEET ITEMS	Notional risk level %	Exposure LVL'000	Risk weighted assets LVL'000	Exposure LVL'000	Risk weighted assets LVL'000
Items with 50% adjustment	75%	2 236	838	2 236	838
Items with 0% adjustment	100%	1 684	-	16 550	-
Items with 20% adjustment	100%	50	10	50	10
Items with 50% adjustment	100%	18 341	9 170	18 342	9 171
Items with 100% adjustment	100%	1 107	1 107	1 107	1 107
Items with 0% adjustment	150%	-	-	-	-
Items with 20% adjustment	150%	-	-	-	-
Items with 50% adjustment	150%	1 934	1 451	1 934	1 451
Secured items	0%	943	-	943	-
Total off-balance sheet items		**26 295**	**12 576**	**41 162**	**12 577**
Total assets and off-balance sheet items		**589 427**	**388 204**	**599 856**	**382 392**

	Group LVL'000	Bank LVL'000
Tier 1		
Paid in share capital	56 290	56 290
Reserve capital	7	7
Retained earnings for previous years	6 469	3 212
Minority interest	32	-
Revaluation reserve of available-for-sale financial assets	(293)	(2 941)
Revaluation reserve of foreign currency	(8)	-
Expected loss from loans	(4 212)	(4 212)
Retained earnings	(1 092)	264
Goodwill	(286)	-
Other intangible assets	(224)	(785)
Investment property revaluation (earnings)	(485)	(2 530)
Total tier 1	**56 198**	**49 305**
Tier 2		
Expected loss from loans	(4 212)	(4 212)
Subordinated capital	4 219	4 219
45% from investment property revaluation earnings	699	699
Total tier 2	**706**	**706**
Total capital	**56 904**	**50 011**
Summary		
Credit risk capital	31 056	30 591
Market risks capital requirement	3 008	2 583
Operational risk	4 494	4 494
Capital requirement covered by capital (total capital)	**18 346**	**12 343**
Capital adequacy rate as of 31.12.2010	**11.81%**	**10.62%**
Capital adequacy rate as of 31.12.2009	**13.89%**	**13.57%**
Minimal capital adequacy ratio (%) 2010 and 2009	**8.00%**	**8.00%**

36. RELATED PARTIES

Related parties are shareholders, which have control or significant influence over the management policy of the Group, members of the Supervisory Council and the Management Board, senior level executives, their immediate family members, and undertakings over which they have a controlling interest as well as associated companies of the Group. Assets and liabilities in relation to related parties are as follows:

Group	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2010 Total LVL'000	31.12.2009 Total LVL'000
Assets		**14 973**	**119**	**15 092**	**11 808**
Loans and receivables, net		**14 973**	**119**	**15 092**	**11 808**
Related undertakings and Individuals	1.00	14 679	72	**14 751**	**11 421**
Supervisory Council and Management Board	2.40	177	43	**220**	**265**
Other senior executives	2.15	117	4	**121**	**122**
Liabilities		**8 940**	**-**	**8 940**	**5 883**
Deposits		**8 157**	**-**	**8 157**	**4 882**
Related undertakings and Individuals	6.66	4 577	-	**4 577**	**3 298**
Supervisory Council and Management Board	1.71	3 577	-	**3 577**	**1 571**
Other senior executives	0.00	3	-	**3**	**13**
Subordinated debt		**783**	**-**	**783**	**1 001**
Related undertakings and Individuals	-	-	-	**-**	**258**
Supervisory Council and Management Board	7.40	783	-	**783**	**743**

Bank	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2010 Total LVL'000	31.12.2009 Total LVL'000
Assets		**24 919**	**16 568**	**41 487**	**36 819**
Loans and receivables, net		**24 919**	**16 568**	**41 487**	**36 819**
Related undertakings and Individuals	1.00	14 679	72	**14 751**	**11 421**
Subsidiaries	2.02	10 060	16 449	**26 509**	**25 127**
Supervisory Council and Management Board	2.40	177	43	**220**	**262**
Other senior executives	15.08	3	4	**7**	**9**
Liabilities		**9 705**	**-**	**9 705**	**6 891**
Deposits		**8 922**	**-**	**8 922**	**5 890**
Related undertakings and Individuals	6.66	4 577	-	**4 577**	**3 298**
Subsidiaries	2.63	764	-	**764**	**1 008**
Supervisory Council and Management Board	1.71	3 577	-	**3 577**	**1 571**
Other senior executives	0.00	4	-	**4**	**13**
Subordinated debt		**783**	**-**	**783**	**1 001**
Related undertakings and Individuals	-	-	-	**-**	**258**
Supervisory Council and Management Board	7.40	783	-	**783**	**743**

As at 31 December 2010, the amount of the Bank's exposure transactions with related parties is LVL`000 1 614 or 3.21% of the sum tier 1 and tier 2 capital. According to the Law on Credit Institutions of the Republic of Latvia the total amount of exposure transactions with persons that are associated with the bank may not exceed 15 % of the sum tier 1 and tier 2 capital of the Bank.

Transactions between related parties are based on standard interest rates offered by the Bank. The following table present income and expense resulting from above-mentioned related parties transactions:

	31.12.2010		31.12.2009	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Interest income	133	535	1 699	2 588
Interest expense	(177)	(205)	(403)	(483)
Net interest income	**(44)**	**330**	**1 296**	**2 105**

37. CONTINGENT LIABILITIES

The Competition Council of Republic of Latvia is currently discussing with Latvian commercial banks whether multilateral interchange fees (MIF) in Payment Cards Market are violating competition laws. Although similar cases have been discussed in many other EU countries European Commission has previously stated that MIFs should not be prohibited as such and every scheme and every MIF must be examined on its own merits. At the date of issuing these financial statements the final outcome and outflow of economic resources, if any, can not be estimated reliably. JSC Norvik Banka and other banks have initiated a transition to bilateral agreements on card interchange fees.

38. SUBSEQUENT EVENTS

After reporting date shareholders' meeting of Bank's subsidiary Norvik UCO has decided on retained earnings distribution. Considering, that Bank's, as only shareholder, right on dividends' received was established, dividend income in total amount of LVL`000 3 324 recognised. Also, in accordance to Group development strategy, Bank plans to expand business in Armenia and has made additional investment in it's subsidiary in form of share capital increase.

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of JSC "Norvik Banka":

Report on the financial statements

We have audited the accompanying financial statements (pages 6 to 64) of JSC "Norvik Banka" (further "the Bank") and the consolidated financial statements of JSC "Norvik Banka" and its subsidiaries (further "the Group"), which comprise the Bank's and the Group's balance sheet as at 31 December 2010, and the income statement, statement of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Bank and the Group as of 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Our responsibility is to read the information contained in the management report (page 3) for the year ended 31 December 2010 and to verify its correspondence with the information presented in the financial statements. Management is responsible for the preparation of the management report. Our work regarding the management report was limited and we have not reviewed any other information except the information included in the financial statements. In our opinion, this information in the management report is consistent with the historical financial information presented in the financial statements for the year ended 31 December 2010.

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Hendrik Kramer
Authorised representative

Inguna Stasa
Sworn Auditor
Certificate No. 145

Riga, Latvia
16 March 2011

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