AS DnB NORD BANKA CONSOLIDATED AND BANK FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY EUROPEAN UNION

AS DnB NORD Banka
Consolidated and Bank Financial Statements
for the year ended 31 December 2010

Contents

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REPORT OF THE SUPERVISORY COUNCIL AND THE MANAGEMENT BOARD

DnB NORD Banka continued to ensure stable and sustainable development in 2010, particularly taking into account ways of reducing the unfavourable effects of the country's macroeconomic situation, ways of increasing revenue and improving the bank's overall effectiveness.

Summary of the results

DnB NORD Group's operating profits before provisions and taxes in 2010 amounted to LVL 20,4 million. That was achieved on the basis of operating revenues of LVL 50,6 million on the year.

The total assets of the DnB NORD Group in Latvia at the end of 2010 amounted to LVL 1.8 billion.

The lending portfolio of the group, before provisions, amounted to LVL 1,6 million at the end of 2010 – 7% less than a year before.

In 2010, the bank issued new loans worth LVL 167,5 million, of which LVL 134 million went toward the operations and development of companies.

At the end of 2010, DnB NORD Group's deposit portfolio amounted to LVL 481 million, which was 24% more than at the beginning of the year, and it can be emphasized that DnB NORD Group in Latvia managed to increase its market share in terms of lending and deposits.

Even though it is true that the Latvian economy gradually began to recover in 2010, DnB NORD Banka, like the banking sector as a whole, continued to set aside funds for insecure loans.

During the course of 2010, the net provisions at the group reached a level of 51,8 million, and the group's losses after provisions and taxes in 2010 attained a level of LVL 31,3 million. To cover these losses, DnB NORD Banka increased its capital base by LVL 24,8 million in 2010. On December 31, the group in Latvia had equity capital – own funds for solvency purposes in amount of LVL 162,6 million.

The number of customers of DnB NORD Banka increased by 6,3% in 2010. The number of small, medium and large companies having signed up for the bank's services increased by 16%.

The number of people using the iNORD Internet banking system of the bank increased by 12% in 2010, and the number of payment cards issued by the bank over the course of the year rose by 25%.

On the road toward new brand

DnB NORD Group was established in late 2005 by Norway's leading financial group, DnB NOR, and Northern Germany's largest bank, NORD/LB. The agreement on the joint venture stated that the DnB NOR would be given a chance to buy back all shares in the DnB NORD Group.

Because of the strong belief that the Baltic States and Poland, where the DnB NORD Group is represented, have greater growth opportunities than most other countries in Europe, and wishing to expand its operations in the region, DnB NOR took over all shares in the DnB NORD Group in late 2010.

In order to ensure more intensive integration among the banks in the group, DnB NOR decided that in the late autumn of this year, the branding of the banks in the DnB NORD Group and of DnB NOR itself will be changed. Beginning at that time, the whole group will use the brand name DNB.

Terje Turnes	Andris Ozoliņš
Chairman of the Supervisory Council	CEO, Chairman of the Management Board

Riga
28 March 2011

The Supervisory Council and the Management Board of the Bank

The Supervisory Council

Name	*Institution*	*Position*	*Date of appointment*
Terje Turnes	Bank DnB NORD A/S	Chairman of the Supervisory Council	1 March 2011
Torstein Hagen	Bank DnB NORD A/S	Vice Chairman of the Supervisory Council	6 June 2007*
Margrethe Melbye Grønn	Bank DnB NORD A/S	Member of the Supervisory Council	22 February 2010
Tony Samuelsen	DnB NOR Bank ASA	Member of the Supervisory Council	26 March 2008
Jekaterina Titarenko	Bank DnB NORD A/S	Member of the Supervisory Council	22 February 2010

* From 26 March 2006 till 6 June 2007 Torstein Hagen was a member of the Supervisory Council

The following members of the Supervisory Council have left their positions during the reporting period:

Name	*Institution*	*Position*	*Date of resignation*
Cord Meyer	Norddeutsche Landesbank Girozentrale AG	Member of the Supervisory Council	23 December 2010
Christoph Dieng	Norddeutsche Landesbank Girozentrale AG	Member of the Supervisory Council	22 February 2010
Michael Kiesewetter	Norddeutsche Landesbank Girozentrale AG	Member of the Supervisory Council	22 February 2010
Jarle Mortensen	DnB NOR Bank ASA	Member of the Supervisory Council	22 February 2010

The following members of the Supervisory Council have left their positions since 1 January 2011:

Name	*Institution*	*Position*	*Date of resignation*
Thomas Buerkle	Bank DnB NORD A/S	Chairman of the Supervisory Council	1 March 2011

The Management Board

Name	*Position*	*Date of appointment*
Andris Ozolins	Chairman of the Management Board	1 January 2004*
Sigfred Andersen	Member of the Management Board	1 May 2010
Rudolf Karges	Member of the Management Board	20 July 2000
Ivars Kapitovics	Member of the Management Board	10 August 2006
Janis Teteris	Member of the Management Board	1 August 2009

* From 29 March 2001 till 1 January 2004 Andris Ozolins was the Vice Chairman of the Management Board; from 10 September 1999 till 29 March 2001 Andris Ozolins was a member of the Management Board.

The following members of the Management Board have left their positions during the reporting period:

Name	*Position*	*Date of resignation*
Björn Poetzsch	Member of the Management Board	1 May 2010

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of AS DnB NORD Banka are responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 6 to 65 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2010 and the results of their operations and cash flows for the year ended 31 December 2010.

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

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

Andris Ozolins CEO, Chairman of the Management Board	Rudolf Karges Member of the Management Board	Ivars Kapitovics Member of the Management Board	Sigfred Andersen Member of the Management Board	Janis Teteris Member of the Management Board

Riga

28 March 2011

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INDEPENDENT AUDITORS' REPORT

To the shareholder of AS DnB Nord Banka

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS DnB Nord Banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS DnB Nord Banka (hereinafter - the Bank), which are set out on pages 6 through 65 of the accompanying 2010 Annual Report, which comprise the financial position as at 31 December 2010, the statement of comprehensive income, changes in equity and 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 the 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.

Auditors' 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 about 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 give a true and fair view of the financial position of Group and Bank of 31 December 2010, and of its financial performance and its 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

Furthermore, we have read the management report for the year ended 31 December 2010 (set out on page 2 of the accompanying 2010 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board

Mārtiņš Valters
Latvian Certified Auditor
Certificate No. 185

Riga,
28 March 2011

Consolidated statement of comprehensive income for the year ended 31 December 2010

	Notes	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Interest income	5	71,483	93,671	67,095	86,570
Interest expenses	6	(32,834)	(49,896)	(30,918)	(45,588)
Net interest income		**38,649**	**43,775**	**36,177**	**40,982**
Fees and commission income	7	13,251	12,956	15,634	14,286
Fees and commission expenses	8	(8,524)	(7,837)	(8,118)	(7,253)
Net fees and commissions		**4,727**	**5,119**	**7,516**	**7,033**
Net gain/ (loss) from operations with foreign currency, trading securities and derivative financial instruments	9	4,053	6,087	4,239	6,116
Other operating income	10	3,122	5,199	597	376
Dividends		3	2	83	2
Operating income		**50,554**	**60,182**	**48,612**	**54,509**
Personnel expenses	11	(11,128)	(11,296)	(10,516)	(10,443)
Other administrative expenses	11	(10,603)	(11,916)	(9,690)	(11,194)
Depreciation	22	(4,784)	(6,145)	(2,523)	(2,469)
Other operating expenses	12	(3,621)	(958)	(3,402)	(572)
Net allowances for impairment loss	26	(51,840)	(123,934)	(50,641)	(123,934)
(Loss) before income tax		**(31,422)**	**(94,067)**	**(28,160)**	**(94,103)**
Corporate income tax	13	120	6,979	-	7,025
(Loss) for the period		**(31,302)**	**(87,088)**	**(28,160)**	**(87,078)**
Total comprehensive (loss)		**(31,302)**	**(87,088)**	**(28,160)**	**(87,078)**
(Loss) attributable to:					
Equity holders of the Bank		(31,302)	(87,088)	(28,160)	(87,078)
Total comprehensive (loss) attributable to:					
Equity holders of the Bank		(31,302)	(87,088)	(28,160)	(87,078)

The financial statements on pages 6 to 65 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes	Andris Ozolins	Rudolf Karges
Chairman of the Supervisory Council	Chairman of the Management Board	Member of the Management Board

Riga,
28 March 2011

The accompanying notes are an integral part of these financial statements

Consolidated statement of financial position at 31 December 2010

Assets	**Notes**	**2010 Group LVL'000**	**2009 Group LVL'000**	**2010 Bank LVL'000**	**2009 Bank LVL'000**
Cash and balances with central banks	15	72,736	95,876	72,736	95,876
Due from other credit institutions (demand)	16	16,493	8,833	16,164	8,311
Derivatives	20	8,512	9,767	8,512	9,767
Financial assets designated at fair value through profit or loss	18	138,767	119,673	138,767	119,673
-- *Debt securities and other fixed income securities*		*138,392*	119,306	*138,392*	119,306
-- *Investment funds*		*375*	367	*375*	367
Financial assets available-for-sale		10	10	10	10
Loans and advances		1,499,658	1,612,543	1,454,110	1,515,898
-- *Due from other credit institutions (term)*	16	*54,877*	*11,458*	*54,877*	11,458
-- *Loans to customers*	17	*1,444,781*	*1,601,085*	*1,399,233*	1,504,440
Accrued income and deferred expenses	23	680	696	580	562
Investment property	24	15,448	4,449	-	-
Property and equipment	22	29,746	29,255	6,629	6,077
Intangible assets	21	1,207	1,539	861	1,146
Investments in subsidiaries	19	-	-	5,047	1,997
Deferred corporate income tax	13	6,483	6,483	6,483	6,483
Current corporate income tax		1,283	2,234	1,283	2,234
Other assets	25	13,898	9,039	7,821	4,516
Total assets		**1,804,921**	**1,900,397**	**1,719,003**	**1,772,550**

The financial statements on pages 6 to 65 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes	Andris Ozolins	Rudolf Karges
Chairman of the Supervisory Council	Chairman of the Management Board	Member of the Management Board

Riga,
28 March 2011

The accompanying notes are an integral part of these financial statements

Consolidated statement of financial position at 31 December 2010 *(continued)*

Liabilities	Notes	**2010 Group LVL'000**	**2009 Group LVL'000**	**2010 Bank LVL'000**	**2009 Bank LVL'000**
Liabilities to credit institutions on demand	27	41,207	54,536	41,207	54,536
Derivatives	20	15,419	16,745	15,419	16,745
Financial liabilities at amortised cost:		1,568,878	1,642,561	1,456,059	1,489,886
-- Due to credit institutions (term)	27	*1,087,932*	*1,255,970*	*964,622*	*1,034,922*
-- Deposits from customers and other financial liabilities	28	*480,946*	*386,591*	*491,437*	*454,964*
Accrued expenses and deferred income	29	758	2,021	693	1,987
Deferred tax liability	13	565	686	-	-
Income tax liability		-	-	-	-
Other liabilities	31	4,905	4,558	1,478	1,408
Provisions	32	383	-	27,366	27,865
Subordinated loans	30	54,488	54,481	54,488	54,481
Total liabilities		**1,686,603**	**1,775,588**	**1,596,710**	**1,646,908**
Shareholders` equity					
Share capital	33	134,361	134,361	134,361	134,361
Share premium		48,994	48,994	48,994	48,994
Reserve capital	34	53,302	28,491	53,302	28,491
Revaluation reserve		133	133	133	133
Accumulated result		(118,472)	(87,170)	(114,497)	(86,337)
Total shareholders' equity attributable to the shareholders of the Bank		**118,318**	**124,809**	**122,293**	**125,642**
Total shareholders` equity		**118,318**	**124,809**	**122,293**	**125,642**
Total liabilities and shareholders` equity		**1,804,921**	**1,900,397**	**1,719,003**	**1,772,550**

The financial statements on pages 6 to 65 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

Terje Turnes	Andris Ozolins	Rudolf Karges
Chairman of the Supervisory Council	Chairman of the Management Board	Member of the Management Board

Riga,
28 March 2011

The accompanying notes are an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2010

Group — Attributable to equity holders

	Share capital LVL'000	Share premium LVL'000	Reserve capital LVL'000	Revaluation reserve LVL'000	Accumulated result LVL'000	Total LVL'000
At 1 January 2009	99,161	48,994	214	133	(82)	148,420
(Loss) for the year	-	-	-	-	(87,088)	(87,088)
Total comprehensive loss	-	-	-	-	(87,088)	(87,088)
Increase of share capital	35,200	-	-	-	-	35,200
Increase of reserve capital	-	-	28,277	-	-	28,277
At 31 December 2009	134,361	48,994	28,491	133	(87,170)	124,809
(Loss) for the year	-	-	-	-	(31,302)	(31,302)
Total comprehensive loss	-	-	-	-	(31,302)	(31,302)
Increase of reserve capital	-	-	24,811	-	-	24,811
At 31 December 2010	134,361	48,994	53,302	133	(118,472)	118,318

Bank	Share capital LVL'000	Share premium LVL'000	Reserve capital LVL'000	Revaluation reserve LVL'000	Accumulated result LVL'000	Total LVL'000
At 1 January 2009	99,161	48,994	214	133	741	149,243
(Loss) for the year	-	-	-	-	(87,078)	(87,078)
Total comprehensive loss	-	-	-	-	(87,078)	(87,078)
Increase of share capital	35,200	-	-	-	-	35,200
Increase of reserve capital	-	-	28,277	-	-	28,277
At 31 December 2009	134,361	48,994	28,491	133	(86,337)	125,642
(Loss) for the year	-	-	-	-	(28,160)	(28,160)
Total comprehensive loss	-	-	-	-	(28,160)	(28,160)
Increase of reserve capital	-	-	24,811	-	-	24,811
At 31 December 2010	134,361	48,994	53,302	133	(114,497)	122,293

The accompanying notes are an integral part of these financial statements

Consolidated statement of cash flows for the year ended 31 December 2010

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Cash flows from operating activities				
Loss before income tax and dividends	(31,422)	(94,067)	(28,160)	(94,104)
Depreciation and amortization of intangible assets and property and equipment	4,784	6,145	2,523	2,469
Provisions for doubtful debts and off-balance sheet liabilities	46,728	123,729	45,888	123,779
(Loss)/profit from revaluation of securities, derivatives and loans	(2,729)	(149)	(2,729)	(149)
(Profit)/loss from sale of fixed and intangible assets	(214)	(107)	(11)	(71)
Dividends received	(3)	(2)	(83)	(2)
(Profit)/loss from foreign currency revaluation	69	88	71	229
Cash flow from operating activities before changes in assets and liabilities	**17,213**	**35,637**	**17,499**	**32,151**
Decrease/(Increase) in loans and advances to customers	107,767	194,126	56,346	90,384
Decrease/(Increase) in due from credit institutions	4,504	726	4,504	726
Decrease/(Increase) in derivatives	3,760	(2,018)	3,760	(2,018)
(Increase)/Decrease in financial assets designated at fair value through profit and loss	(17,060)	437	(17,060)	437
(Increase)/Decrease in due to credit institutions	(168,028)	(278,145)	(70,290)	(242,720)
Decrease/(Increase) in accrued income and deferred expenses	17	77	(18)	97
(Increase)/Decrease in other assets and taxes	(3,912)	2,439	(2,353)	(1,706)
Increase/(Decrease) in clients deposits	94,355	(51,165)	36,473	15,135
(Decrease)/Increase in derivatives	(1,326)	2,928	(1,326)	2,928
(Decrease)/Increase in accrued expenses and deferred income	(1,263)	729	(1,295)	712
Increase/(Decrease) in other liabilities	730	(812)	(429)	355
Changes in cash and cash equivalents as a result of operating activities				
Corporate income tax paid	-	2	-	-
Increase/(decrease) in cash and cash equivalents as a result of operating activities	**36,757**	**(95,039)**	**25,811**	**(103,519)**
Cash flows from investing activities				
(Acquisition) of property and equipment and intangible assets	(9,201)	(10,822)	(2,976)	(1,687)
Sale of property and equipment and intangible assets	4,473	4,180	1,360	107
(Acquisition) of participation in share capital of subsidiary and Business Unit	-	-	(3,050)	(1,011)
(Acquisition) of investment property	(10,999)	(4,449)	-	-
Increase/(decrease) in cash and cash equivalents as a result of investment activities	**(15,727)**	**(11,091)**	**(4,666)**	**(2,591)**

The accompanying notes are an integral part of these financial statements

Consolidated statement of cash flows for the year ended 31 December 2010 *(continued)*

	Note	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Cash flows from financing activities					
Increase of share capital		-	35,200	-	35,200
Increase of reserve capital		24,811	28,277	24,811	28,277
Subordinated liabilities attracted		7	14,056	7	14,056
Dividends received		3	-	83	-
Increase/(decrease) in cash and cash equivalents as a result of financing activities		**24,821**	**77,533**	**24,901**	**77,533**
Net increase/(decrease) in cash and cash equivalents		**45,851**	**(28,597)**	**46,046**	**(28,577)**
Cash and cash equivalents at the beginning of the year		56,244	84,929	55,722	84,528
Loss/(gain) of foreign currency revaluation on cash and cash equivalents		(69)	(88)	(71)	(229)
Cash and cash equivalents at the end of the year	15	**102,026**	**56,244**	**101,697**	**55,722**

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Cash flow from interest received	70,692	95,191	66,212	87,592
Cash flow from interest paid	33,631	57,131	31,897	52,572
Dividends received	3	2	83	2

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS DnB NORD Banka was established as Riga Commercial Bank on 26 June 1989. On 6 September 1991 it was incorporated in the Republic of Latvia as a joint stock company. The parent of the Bank is Bank DnB NORD A/S (Denmark) and the ultimate parent of the Bank is DnB NOR ASA (Norway).

The Group offers a wide range of financial services to enterprises and individuals.

These financial statements were authorised for issue by the Supervisory Council and the Management Board on 28 March 2011. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decision on approval of the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going concern

The Bank's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements.

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Reporting Currency

The accompanying financial statements are reported in thousands of lats (LVL`000), unless otherwise stated.

b) Basis of Presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss, derivative contracts and the Group's and Bank's buildings and investment properties which are measured at fair value.

The preparation of financial statements in conformity with IFRS as adopted in EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

These financial statements comprise of both, the financial statements of the parent company AS DnB NORD Banka and the consolidated statements.

c) Consolidation

Subsidiary undertakings in which the Bank, directly or indirectly, has the power to exercise control over financial and operating policies, have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal or when the control ceases. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

d) Income and Expense Recognition

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect to financial assets or liabilities not at fair value through profit or loss are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other commissions and fees are credited and/ or charged to the income statement as earned/ incurred.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at actual rates of exchange set forth by the Bank of Latvia at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.

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

Reporting date	USD	EUR
As at 31 December 2010	0.535	0.702804
As at 31 December 2009	0.489	0.702804

f) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liability is calculated using the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

g) Cash and Cash Equivalents

For purposes of the cash flow statements cash and cash equivalents comprise cash balances, balances due from the Central Banks, due from other credit institutions with original maturity less than 3 months and insignificant risk due to change in value, less balances on demand due to other credit institutions.

h) Loans and receivables and allowances for loan impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and advances are recognised in the balance sheet when cash is advanced to borrowers. For the purposes of these financial statements, finance lease receivables are included in loans and advances to non-banking customers.

A credit risk allowances for loan impairment is established if there is objective evidence that the Group or the Bank will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

The Group and the Bank first assess whether objective evidence of impairment exists individually for significant loans. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If the Group and the Bank determines that no objective evidence of impairment exists for an individually assessed loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment loans are grouped on a basis of similar credit risk characteristics.

The Group and the Bank review their loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group and the Bank make judgements as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries are credited to the income statement.

***Notes to the Financial Statements** (continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Loans and receivables and allowances for loan impairment (continued)

Allowances for loan impairment are made in the currency of the related asset and are subject to revaluation at period end at the rate set by the Bank of Latvia. Foreign exchange rate differences arising from such revaluation are recorded in the income statement as additional allowances income from the recovery of existing allowances (if any). The corresponding result of revaluing the respective asset covered by the allowances for loan impairment is recorded as profit/ loss to foreign currency transactions.

Collective impairments

Collective impairments are divided in two major parts: pool provisions and IBNR ("impaired but not reported") provisions. Pool provisions are made for four groups of products like mortgage loans, private loans (both of those groups are loans issued to private individuals secured with real estate collateral), loans to legal entities and leasing with at least 31 day principal or interest overdue. Approach is linked to overdue payments. Amount of impairments is calculated like incurred losses based on probability of default (probability that loan which is delayed, for example, 60 days will came into default till remaining maturity) and loss given default.

IBNR provisions are made for rest of portfolio dividing loans into product groups (mortgage loans, private loans, loans to legal entities and leasing) with overdue 0 to 30 days (principal or interest), into groups where customers are included in specific risky sectors and rest of loans pooled in two groups based on either customer is legal or private entity. Provisions amount is based on historical loss rate for specific group and probability of default.

Restructured loans

Where possible, the Bank seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting payment made by a borrower in a manner matching such a borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and the agreement of new loan conditions. Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. Restructured loans continue to be subject to an individual impairment assessment on a quarterly basis.

i) Leases - when the Group or the Bank is a lessor

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific assets and the arrangement conveys a right to use the asset.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. The Bank leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Assets under operating leases are recognised as property and equipment at historical cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life of property and equipment that is determined based on useful lives of similar assets of the Group and the Bank. Rentals receivable under operating leases are credited to the income statement on a straight-line basis over the lease term.

If a sale and leaseback transaction results in an operating lease and the sales price is above fair value of the asset sold, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

j) Factoring

Factoring represents banking service offered to legal entities duly incorporated in Latvia and using as the collateral the specific legal entity's chose in action against other corporate entities duly incorporated either in Latvia or abroad, subject to its cession to AS DnB NORD Banka.

Factoring comprises financing of the buyer's debt, administration and collection thereof and/or coverage of the buyers'-related credit risks. The Bank offers two types of factoring - factoring with recourse (or recourse factoring) and factoring with insurance of the buyer.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Factoring (continued)

Recourse factoring means that in case the buyer's payments are in arrears for 30 days the Bank shall turn the recourse action to the seller, and the financed amount complete with the accrued interest is due from the seller within a certain period.

Factoring with insurance of the buyers stipulates insurance of two default cases, i.e. the buyer's legal insolvency and actual (extended failure to pay) insolvency. The Bank applies recourse action to the seller in all remaining cases, where the buyer's failure to pay is caused by inappropriate quality of goods and/or services or undue delivery thereof. Factoring with insurance of the buyer is offered exclusively subject to entering into an insurance agreement on insurance of the buyer's debt between the Bank and an acceptable insurance company.

k) Financial assets at fair value through profit or loss

- Financial assets held for trading;
- Financial assets designated at fair value through profit and loss
  Financial assets designated at fair value through profit and loss are designated by management on initial recognition as a part of financial assets which are managed and their performance evaluated on a fair value basis.

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of financial assets at fair value through profit or loss is derived from the value of an instrument that is substantially the same or from discounted cash flow models. Gains and losses arising from changes in the fair value of financial assets are recognised in the income statement.

Interest earned whilst holding financial assets at fair value through profit or loss is recorded as interest income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at settlement date.

l) Subsidiaries

Investments in subsidiaries in the Bank's financial statements are accounted for under the cost method.

The Bank recognises income from investment only to the extent that the Bank receives dividends from the accumulated profit of the subsidiaries arising after the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

m) Property and Equipment

Property is valued at fair value. Equipment and other assets are recorded at cost or valuation less accumulated depreciation.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to write off the cost or revaluated amount of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

Category	*Annual Rate*
Buildings	1% - 2%
Building parts	2% - 6%
Engineering networks and equipment	4%
Office equipment	10% - 20%
Network and computer equipment	20% -25%
Vehicles	20%

Maintenance and repair costs are charged to the income statement as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Property and Equipment (continued)

Revaluation reserve

The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified values. The fair value of items of plant and equipment is their market value determined by appraisal.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

n) Investment property

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

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

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

o) Foreclosed property

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

p) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives, not exceeding five years.

q) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts and interest rate swaps are initially recognised at cost and subsequently are re-measured at their fair value. Derivatives are revaluated at least monthly. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are reported in the income statement.

Derivatives notional amounts are recognised in Bank off-balance sheet accounts.

Bank recognised income from revaluation on derivatives and interest income on interest rate swap.

r) Hedge accounting principles

In order to manage particular risks arising from changes in interest rates the Group uses derivative instruments and applies hedge accounting for transactions meeting the specified criteria.

At inception of the hedge relationship, a formal documentation is prepared of the relationship between the hedged item and the hedging instrument, including the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Further, at the inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedge relationship is expected to be highly effective. A hedge is considered to be highly effective if the changes in fair

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Hedge accounting principles(continued)

value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

In relation to hedges (fair value), which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the statement of income.

For derivatives, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value are taken directly to the statement of income for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

s) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to customers and due to banks. These are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

t) Employee benefits

The Group and the Bank pay social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

The provision for employee holiday pay is estimated for the Group's and the Bank's personnel based on the total number of holidays earned but not taken and average salary of employees including social security expense.

u) Off-balance sheet items

In the ordinary course of business, the Group and the Bank have been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

v) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices.

w) Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

x) Provisions

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required

x) Provisions (continued)

to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued and other off balance sheet items. The assessment of provisions requires the application of management's judgement and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

Notes to the Financial Statements *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Financial Guarantees

The Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at balance sheet date.

z) Trust Activities

Funds managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are not included in the balance sheet.

aa) Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances. The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(h).

- Bank has performed random back-testing of provisions for immaterial non performing mortgage secured loans to private individuals. According to results of the test the unsecured part increased resulting in increase in provisions of LVL 12,0 million.

- During 2010 provisions in amount of LVL 24,8 million were reclassified from pool provisions to specific provisions, calculation methods for immaterial exposures overdue more than 90 days remained the same.

- Deferred assets:
  Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

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

- Investment property and property:
  The Group and the Bank carried its investment properties at fair value, with changes in fair value being recognized as other operating revenue or other operating expense in the statement of comprehensive income. In addition, it measures land and buildings at revaluated amounts with changes in fair value being recognized in other comprehensive income. The Group and the Bank engaged independent valuation specialists to determine fair value as at 31 December 2010. The valuator used a valuation techniques based on comparable market data and discounted future income. More details on values of investment properties are disclosed in Note 24 and on land and buildings in 22.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

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

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

The principal effects of these changes are as follows:

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

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

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

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

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

Standards issued but not yet effective

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

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

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

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

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

Amendment to *IAS 32 Financial Instruments: Presentation* – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010).
The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

Notes to the Financial Statements *(continued)*

3 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS (continued)

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

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

Amendment to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011).
The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 July 2010).
The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

4 FINANCIAL RISK MANAGEMENT

a) Credit risk and concentration risk

The Group and the Bank bear an exposure to credit risk that is defined as the risk of losses due to failure on the part of the counterparties of the Group and the Bank to meet their payment obligations. The credit risk appetite of the Group and the Bank has been defined in the credit strategy of the Group and the Bank.

The credit strategy of the Group and the Bank provides the fixed limits of exposure ranges with regards to a single borrower, a group of interrelated borrowers, countries (regions) and industries. The Group has defined the concentration risk as any single (direct and/or indirect) exposure or group of exposures with the potential to produce losses large enough to threaten the health of the Group and the Bank or its ability to maintain its core business. Thus, regular monitoring and management of the concentration risk has been ensured as well.

According to the strategy, the Group and the Bank continuously increases risk–sensitiveness of its credit risk management system by the implementing appropriate credit risk measurement tools.

Thus, together with traditional credit risk assessment statistical scoring models and expert scorecards are used to evaluate probability of loss events. 93% of credit portfolio exposure is covered by appropriate loss probability measurement tools. For corporate and medium size enterprises sector financial indicator model is the main driver for assigning the final credit risk rating, while adjustments based on qualitative factors are limited and are closely monitored by the credit risk analysts, who do not benefit from the credit decisions. For private sector statistical application and behaviour scoring models are used to monitor development of risk profile regularly.

For credit risk management purposes an unified Master scale is used to reflect the risk of counterparts or sub-portfolios. According to DnB NORD credit risk strategy, the Master scale is organized in ten risk classes and three risk categories:

<table>
<tr><th>Risk class</th><th>Risk category: Large Corporate customers</th><th>Risk category: SME and Private customers</th></tr>
<tr><td>1</td><td rowspan="4">Low Risk</td><td rowspan="4">Low Risk</td></tr>
<tr><td>2</td></tr>
<tr><td>3</td></tr>
<tr><td>4</td></tr>
<tr><td>5</td><td rowspan="2">Medium Risk</td><td rowspan="3">Medium Risk</td></tr>
<tr><td>6</td></tr>
<tr><td>7</td><td rowspan="4">High Risk</td></tr>
<tr><td>8</td><td rowspan="3">High Risk</td></tr>
<tr><td>9</td></tr>
<tr><td>10</td></tr>
</table>

Notes to the Financial Statements *(continued)*

4 FINANCIAL RISK MANAGEMENT (continued)

The Group and the Bank monitors the development of risk profile on on-going basis. The credit risk policy is subject for annual or more frequent review. Inter alia, the changes of the credit policy can be initiated according to the stress testing results or changes in the economic environment.

b) Currency risk

Within common business conditions the Group and the Bank bears an exposure to the consequences of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Currency risk is the possibility to suffer loss from revaluation of balance sheet and off-balance sheet items denominated in foreign currencies when the exchange rate changes. For the assessment of this risk open FX positions are used.

The Group and the Bank follows the conservative currency risk management policy and prefer to keep FX open positions close to zero. The Group's and the Bank's exposure to foreign currency exchange rate risk is summarised in Note 41.

The Bank regularly runs and analyses respective stress tests, which are based on the DnB NORD Group-wide methodology, including three scenarios (standard, possible and worst).

According to the defined currency exchange rate range limits for standard scenario the maximum loses risk is LVL 0,15 million (2009: LVL 0,15 million) (impact on profit before tax).

The standard scenario assumptions are summarized in the table below:

	EUR	LTL	PLN	DKK	USD	EEK	Other currencies
Change in FX rate	0.75%	0.50%	1.25%	1.25%	1.25%	1.25%	2.50%

In case of standard scenario, the net equity would change by LVL 0,025 million (2009: LVL 0,07 million).

c) Interest rate risk in the banking book

Within common business conditions the Group and the Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is the risk that the Group and the Bank incurs losses as a consequence of unfavourable changes in interest rates. For assessment and management of this risk sensitivity to changes in interest rates is calculated and limited. Such risks are monitored on a rolling basis and are subject to annual or more frequent review.

The Bank restricts interest rate risk using limits, set by the Board of Director of Bank DnB NORD A/S. Limits are defined for every currency book in total and for every currency book particular time bucket. At the end of 2010 the Group and the Bank complied with defined limits.

For the estimation of the impact of adverse market conditions on net equity of the Bank (stress-testing), the Bank utilizes three scenarios corresponding to standard, possible and worst case interest rates curves movements for major currencies (LVL, EUR and USD). According to the defined interest rate risk limits the maximum losses risk is LVL 1,93 million, if interest rates in major currencies change by 1%. Net equity change would amount to LVL 0,69 million (2009: LVL 1,39 million) if this scenario was applied to the Bank's actual positions.

The table below allocates the Group's net positions based on interest rate review dates (assets less liabilities) as at 31 December 2010:

	Net position (LVL) LVL'000	**Net position (USD) LVL'000**	**Net position (EUR) LVL'000**
Up to 3 months	(119,103)	(16,934)	(78,562)
3 - 6 months	32,366	9,238	100,655
6 - 12 months	(18,534)	1,084	24,484
1- 5 years	(22,452)	(2,442)	(24,013)
Over 5 years	35	16	106
Total	(127,688)	(9,038)	22,670

Notes to the Financial Statements *(continued)*

4 FINANCIAL RISK MANAGEMENT (continued)

The table below allocates the Group's positions as at 31 December 2009:

	Net position (LVL) LVL'000	Net position (USD) LVL'000	Net position (EUR) LVL'000
Up to 3 months	(154,132)	(31,772)	(223,939)
3 - 6 months	4,245	28,546	78,684
6 - 12 months	(7,942)	330	76,139
1- 5 years	(14,717)	(1,316)	16,958
Over 5 years	(18)	12	63
Total	(172,564)	(4,200)	(52,095)

The table below allocates the Bank's positions as at 31 December 2010:

	Net position (LVL) LVL'000	Net position (USD) LVL'000	Net position (EUR) LVL'000
Up to 3 months	(136,856)	(16,861)	(138,055)
3 - 6 months	32,753	9,239	103,428
6 - 12 months	(18,116)	1,086	28,475
1- 5 years	(22,355)	(2,431)	(13,467)
Over 5 years	35	16	150
Total	(144,539)	(8,951)	(19,469)

The table below allocates the Bank's positions as at 31 December 2009:

	Net position (LVL) LVL'000	Net position (USD) LVL'000	Net position (EUR) LVL'000
Up to 3 months	(153,467)	(30,290)	(108,158)
3 - 6 months	4,262	28,564	81,592
6 - 12 months	(7,902)	333	79,773
1- 5 years	(14,595)	(1,301)	28,978
Over 5 years	(18)	12	63
Total	(171,720)	(2,682)	82,248

Notes to the Financial Statements *(continued)*

4 FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk

Liquidity risk means the risk that the Bank is unable to meet its financial obligations in time or the risk to incur losses due to the sudden decrease in financial resources (eg. the financial crisis situations may result in the run on the bank and delay of incoming payments) as well as due to increase in price of the new resources designed for refinancing. The consequence of liquidity risk occurrence may be the failure to meet obligations to repay depositors and fulfil loan commitments. Liquidity risk is controlled on an overall DnB NORD Group level and restricted by liquidity ratio, set by the Financial and Capital Market Commission and the limits set by the Board of Director of Bank DnB NORD A/S.

The Bank's liquidity ratio, calculated using the methodology approved by the FCMC, is 45,12% (2009: 42,50 %). The FCMC requires that the liquidity ratio should not be less than 30%.

Liquidity risk management process in the Group is divided into the long-term (1 year) risk management and short-term (up to 1 month) risk management. The aim of short-term liquidity is to meet the daily need for funds, to ensure the compliance with the reserve requirements set by the Bank of Latvia and liquidity requirements set by the Financial and Capital Market Commission as well as the compliance with the internal liquidity limits. Short-term liquidity is maintained through daily monitoring of the liquidity status, day-to day funding. Long-term liquidity risk is managed by analysing the predicted future cash flows taking into account the deposit and loan portfolio growth as well as the possible refinancing sources.

For the purpose of the liquidity risk assessment the liquidity gap, taking into account the maturity and the funding ratio, are analysed. The liquidity risk is restricted by imposing the internal limits on liquidity gap and funding ratio. These limits are subject to daily monitoring and regular reporting to the management bodies of the Group.

Liquidity gap is calculated by looking at the Banks' net refinancing situation within one week and one month, taking into accounts the budgeted growth in loan portfolio and deposit base. Liquid assets and short term liabilities are included for liquidity gap calculation for respective terms (1 week and 1 month).

e) Market risk

Market risk – is the risk that the Group and the Bank incur losses as a consequence of changes of market variables (interest rates (see Note 4 (c), foreign exchange rates (see Note 4 (b)). Methodology and limits of market risk assessment and management are approved by the Board of Director of Bank DnB NORD A/S.

Notes to the Financial Statements *(continued)*

5 INTEREST INCOME

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Interest income:				
- interest on financial assets measured at amortised cost:	64,677	78,221	60,289	71,120
- interest on loans and receivables to customers	57,979	76,980	53,591	69,879
- interest on impaired loans	5,779	-	5,779	-
- interest on balances due from credit institutions and central banks	919	1,241	919	1,241
- interest on financial assets designated at fair value through profit or loss:	6,806	15,450	6,806	15,450
- interest on derivatives	-	10,413	-	10,413
- interest on held for trading financial assets	6,806	5,037	6,806	5,037
Total interest income	**71,483**	**93,671**	**67,095**	**86,570**

6 INTEREST EXPENSES

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Interest expense:				
- interest on deposits from customers	6,742	11,653	7,191	12,191
- interest on balances due to credit institutions and central banks	21,269	35,858	18,904	31,012
- interest on subordinated liabilities	1,384	1,652	1,384	1,652
- interest on other financial liabilities	966	733	966	733
- interest on derivatives	2,473	-	2,473	-
Total interest expense	32,834	49,896	30,918	45,588
Net interest income	**38,649**	**43,775**	**36,177**	**40,982**

7 FEES AND COMMISSION INCOME

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Credit card service	6,796	8,049	6,796	8,049
Commissions on loans monitoring and service	1,998*	651	1,837*	491
Money transfers	1,637	1,528	1,637	1,528
Client service	1,802	1,566	1,094	1,020
Guarantees	363	349	3,577	2,379
Trade finance	47	181	47	181
Cash operations	300	331	300	331
Investments products	110	57	148	63
Other	198	244	198	244
Total fees and commission income	**13,251**	**12,956**	**15,634**	**14,286**

* Commissions on loans monitoring and service include income from loan advanced repayment in amount of LVL 1,367 thousand in Group and Bank.

Notes to the Financial Statements *(continued)*

8 FEES AND COMMISSION EXPENSES

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Credit cards service	3,087	3,882	3,087	3,882
Loans monitoring expense	3,639	2,651	3,234	2,082
Commissions on loans	67	102	67	102
Cash operations	370	376	370	376
Money transfers	351	325	351	325
Guarantees	270	181	270	181
Client service	100	122	100	107
Other	640	198	639	198
Total fee and commission expenses	**8,524**	**7,837**	**8,118**	**7,253**
Net fees and commission	**4,727**	**5,119**	**7,516**	**7,033**

9 NET GAIN/(LOSS) FROM OPERATIONS WITH FOREIGN CURRENCY, TRADING SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Gain from operations with foreign currencies	2,800	3,452	2,987	3,621
(Loss)/gain from trading with financial assets at fair value through profit or loss	(1,406)	894	(1,406)	894
Gain/ (loss) from revaluation of financial assets at fair value through profit or loss*	2,033	1,680	2,033	1,680
(Loss)/gain from foreign currency revaluation	(70)	(88)	(71)	(228)
Gain/ (loss) from derivatives revaluation	696	149	696	149
	4,053	**6,087**	**4,239**	**6,116**

* The income arises from revaluation of fixed income securities

10 OTHER OPERATING INCOME

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Operating lease income	2,531	4,337	-	-
Profit from sale of property and equipment	214	71	11	71
Other operating income	377	791	586	305
	3,122	**5,199**	**597**	**376**

11 ADMINISTRATIVE EXPENSES

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Salary to Council	-	4	-	4
Salary to Board	370	391	370	391
Salary to employees	8,546	8,626	8,053	7,940
Social insurance contributions	2,212	2,275	2,093	2,108
Total salaries and related expenses	**11,128**	**11,296**	**10,516**	**10,443**
Advertising	1,489	1,820	1,419	1,749
Refurbishment and maintenance	3,787	3,065	3,618	2,908
Payments for management services to Group	696	1,934	696	1,934
Occupancy costs	2,219	2,471	1,977	2,303
Communications	771	869	717	775
Insurance	351	467	305	436
Training	93	101	91	96

Notes to the Financial Statements *(continued)*

13 CORPORATE INCOME TAX (continued)

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Deferred tax liability at the beginning of the year	(5,797)	1,158	(6,483)	542
Change in deferred tax asset during the year	(120)	(6,955)	-	(7,025)
Deferred tax at the end of the year	**(5,917)***	**(5,797)***	**(6,483)**	**(6,483)**

*Deferred tax assets LVL 6,483 thou (2009: LVL 6,483 thou)
*Deferred tax liability LVL 565 thou (2009: LVL 686 thou)

Deferred income tax assets are recognised for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised at 31 December 2010 in respect of tax losses have been based on profitability assumptions over five year horizon. The expected future taxable profits are based on business plan assumptions taking into consideration uncertainties arising from the current adverse economic environment. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of existing deferred tax assets may need to be adjusted.

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Gross deferred income tax liability:				
Temporary difference on property and equipment depreciation	1,433	1,188	633	624
Gross deferred income tax asset:				
Temporary difference on accruals for unused annual leave and bonuses	(101)	(110)	(91)	(106)
Other temporary differences	(181)	-	(181)	-
Change in unrecognised deferred tax asset	11,217	6,501	11,086	7,049
Tax loss carried forward	(18,285)	(14,076)	(17,930)	(14,050)
Net deferred tax liability	**(5,917)**	**(6,497)**	**(6,483)**	**(6,483)**

As at 31 December 2010 tax losses of the Group constituted LVL 121,899 thousand. In accordance with the law "On Corporate Income Tax" tax losses can be carried forward and set off against taxable income during the subsequent eight years.

	Group Tax losses LVL'000	Expiry term
Tax losses of 2008	73	2016
Tax losses of 2009	93,672	2017
Tax losses of 2010	28,154	2018
	121,899	

Notes to the Financial Statements *(continued)*

14 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The average quantity of shares is 134,360,900.

	2010 Group LVL'000	2009 Group LVL'000
Profit attributable to equity holders of the Bank	(31,302)	(87,088)
Weighted average number of ordinary shares in issue	134,360,900	117,095,235
Basic earnings per share (expressed in LVL per share)	**(0,23)**	**(0,74)**
Diluted earnings per share (expressed in LVL per share)	**(0,23)**	**(0,74)**

15 CASH AND CASH EQUIVALENTS

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Cash	12,064	11,225	12,064	11,225
Balances on demand with the Central Banks	60,672	84,651	60,672	84,651
Total cash and balances on demand with Central Banks	72,736	95,876	72,736	95,876
Balances due from other credit institutions with the original maturity less than 3 months	70,497	14,913	70,168	14,391
Balances on demand due to other credit institutions	(41,207)	(54,545)	(41,207)	(54,545)
Total cash and cash equivalents	**102,026**	**56,244**	**101,697**	**55,722**

The correspondent account with the Bank of Latvia reflects the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

The Bank is required to comply with minimum reserve requirements set by the Bank of Latvia . This requires the Bank's monthly average LVL balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

The Bank was in compliance with the reserve requirement during the reporting period.

16 DUE FROM OTHER CREDIT INSTITUTIONS

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Demand deposits				
Republic of Latvia credit institutions	331	561	1	39
OECD credit institutions	15,863	7,925	15,864	7,925
Non-OECD credit institutions	299	347	299	347
Total demand deposits	**16,493**	**8,833**	**16,164**	**8,311**
Term deposits				
Republic of Latvia credit institutions	6,183	6,067	6,183	6,067
OECD credit institutions	48,394	457	48,394	457
Non-OECD credit institutions	300	4,934	300	4,934
Total term deposits	**54,877**	**11,458**	**54,877**	**11,458**
Total	**71,370**	**20,291**	**71,041**	**19,769**

The effective interest rate on balances due from other credit institutions as at 31 December 2010 was 1,39% (2009: 4,02 %).

***Notes to the Financial Statements** (continued)*

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by original maturity

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Less than a year	150,253	186,199	137,370	156,253
More than a year	1,448,379	1,539,703	1,396,962	1,459,837
Accrued income	8,599	7,493	8,547	7,348
	1,607,231	**1,733,395**	**1,542,879**	**1,623,438**
Less: provisions for loan impairment losses	(160,880)	(129,375)	(142,076)	(116,063)
Less: provisions for unpaid interest	(1,570)	(2,935)	(1,570)	(2,935)
Total	**1,444,781**	**1,601,085**	**1,399,233**	**1,504,440**

Loan portfolio includes loans secured by the Republic of Latvia Government guarantees of LVL 1,591 thousand.
The effective interest rate on loans as at 31 December 2010 was 3,75% (2009: 3,73%).

(b) Analysis of loans by client type

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Individuals	922,445	954,955	898,883	926,280
Private companies	653,985	746,954	612,846	665,289
Management/employees	12,575	13,647	11,943	12,750
Local government	9,308	10,321	9,158	10,321
Public companies	319	25	21	25
Finance institutions	-	-	1,481	1,425
Accrued income	8,599	7,493	8,547	7,348
	1,607,231	**1,733,395**	**1,542,879**	**1,623,438**
Less: provisions for loan impairment losses	(160,880)	(129,375)	(142,076)	(116,063)
Less: provisions for unpaid interest	(1,570)	(2,935)	(1,570)	(2,935)
Total	**1,444,781**	**1,601,085**	**1,399,233**	**1,504,440**

(c) Analysis of loans by products

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Commercial loans	591,085	663,826	625,489	676,717
Mortgage loans	761,559	775,111	761,559	775,111
Private loans	125,965	135,474	125,965	135,474
Consumer loans	5,941	10,521	5,941	10,521
Leasing	99,022	123,235	318	532
Card loans	7,805	8,303	7,805	8,303
Other	7,255	9,432	7,255	9,432
Accrued income	8,599	7,493	8,547	7,348
	1,607,231	**1,733,395**	**1,542,879**	**1,623,438**
Less: provisions for loan impairment losses	(160,880)	(129,375)	(142,076)	(116,063)
Less: provisions for unpaid interest	(1,570)	(2,935)	(1,570)	(2,935)
Total	**1,444,781**	**1,601,085**	**1,399,233**	**1,504,440**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Analysis of loans by industry

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Individuals	922,494	950,508	894,395	920,639
Management of real estate	212,420	236,451	249,775	252,404
Manufacturing	105,560	135,902	86,960	110,084
Trade	108,560	121,446	92,443	104,151
Other	108,521	91,996	96,863	75,860
Transport	74,943	87,178	59,072	68,213
Construction	18,593	30,899	11,669	19,036
Agriculture	10,407	23,559	6,564	18,648
Management/employees	12,486	13,647	11,943	12,750
Non-profit and religious organizations	1,822	1,253	1,822	1,242
Total loans to residents	**1,575,806**	**1,692,839**	**1,511,506**	**1,583,027**
Loans issued to non-residents	22,826	33,063	22,826	33,063
Accrued income	8,599	7,493	8,547	7,348
	1,607,231	**1,733,395**	**1,542,879**	**1,623,438**
Less: provisions for loan impairment losses	(160,880)	(129,375)	(142,076)	(116,063)
Less: provisions for unpaid interest	(1,570)	(2,935)	(1,570)	(2,935)
Total	**1,444,781**	**1,601,085**	**1,399,233**	**1,504,440**

(e) Analysis of loans by countries

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Latvia	1,575,774	1,692,839	1,511,474	1,583,027
Other countries	22,858	33,063	22,858	33,063
Accrued interest	8,599	7,493	8,547	7,348
Total	**1,607,231**	**1,733,395**	**1,542,879**	**1,623,438**
Less: allowance for loan impairment losses	(160,880)	(129,375)	(142,076)	(116,063)
Less: allowance for unpaid interest	(1,570)	(2,935)	(1,570)	(2,935)
Total	**1,444,781**	**1,601,085**	**1,399,233**	**1,504,440**

(f) Gross investment in finance lease

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Not later than 1 year	34,544	45,721	3	5
1 - 5 years	55,365	83,655	-	-
More than 5 years	327	2,336	-	-
Total gross finance lease receivables	**90,236**	**131,712**	**3**	**5**

Unearned future interest income from investments in finance lease

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Not later than 1 year	2,826	4,179	-	1
1 - 5 years	2,793	4,787	-	-
More than 5 years	6	39	-	-
Total unearned future interest income	**5,625**	**9,005**	**-**	**1**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

Net investment in finance lease

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Not later than 1 year	31,718	41,542	3	4
1 - 5 years	52,572	78,868	-	-
More than 5 years	321	2,297	-	-
Total investment in finance lease	**84,611**	**122,707**	**3**	**4**
Less allowances for loan impairment	(13,452)	(5,078)	-	-
Less allowances for homogenous groups of loans	(1,637)	(4,513)	-	-
Total net investment in finance lease	**69,522**	**113,116**	**3**	**4**

(g) The following table provides the division of loans and advances to customers by quality:

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Neither past due nor impaired	1,051,244	1,200,593	1,028,348	1,114,559
Past due but not impaired	154,138	202,733	133,883	187,753
Impaired	393,250	322,576	372,101	313,778
Accrued interest	8,599	7,493	8,547	7,348
Total gross loans and advances to customers	**1,607,231**	**1,733,395**	**1,542,879**	**1,623,438**
Less allowances for loan impairment	(147,169)	(89,178)	(130,002)*	(80,379)*
Less allowances for homogenous groups of loans	(13,711)	(40,197)	(12,074)*	(35,684)*
Less unpaid interest	(1,570)	(2,935)	(1,570)	(2,935)
Total net loans and advances to customers	**1,444,781**	**1,601,085**	**1,399,233**	**1,504,440**

* Reclassification from provisions for homogenous groups of loans to specific provisions, see note 2(aa).

(h) The following table provides the division of loans and advances to customers neither past due nor impaired:

Grades	Risk classes	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Large Corporate	**Low**	-	-	-	-
(turnover more than 20MEUR)	**Medium**	64,817	47,356	66,298	47,356
	High	43,705	67,853	43,705	67,853
	Not rated	-	-	-	-
SME	**Low**	165	49,230	39,091	53,121
(turnover less than 20MEUR)	**Medium**	176,096	150,971	128,304	106,297
	High	94,212	150,600	94,212	129,190
	Not rated	-	1,772	-	1,772
Private individuals	**Low**	315,577	426,054	315,577	426,054
	Medium	273,882	208,955	273,882	208,955
	High	67,279	70,650	67,279	70,650
	Not rated	15,511	27,152	-	3,311
	Total	**1,051,244**	**1,200,593**	**1,028,348**	**1,114,559**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Commercial	335,083	392,689	373,991	405,580
Mortgage loans	573,038	611,257	573,038	611,257
Private loans	68,600	79,295	68,600	79,295
Consumer loans	5,076	8,153	5,076	8,153
Leasing	61,858	99,163	54	238
Card loans	4,253	4,342	4,253	4,342
Other	3,336	5,694	3,336	5,694
Total	**1,051,244**	**1,200,593**	**1,028,348**	**1,114,559**

(i) The following table provides the division of loans and advances to customers past due but not impaired of Group and Bank:

		2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Commercial loans					
Past due up to 30 days		24,242	31,134	24,078	31,134
Past due 31-60 days		1,491	17,064	1,491	17,064
Past due 61-90 days		819	1,041	819	1,041
Past due over 90 days		4,429	35,905	4,429	35,905
	Total	**30,981**	**85,144**	**30,818**	**85,144**
Mortgage loans (issued to private individuals secured with real estate collateral)					
Past due up to 30 days		54,368	51,284	54,368	51,284
Past due 31-60 days		18,917	18,282	18,917	18,282
Past due 61-90 days		6,587	5,689	6,587	5,689
Past due over 90 days		1,164	2,366	1,164	2,366
	Total	**81,036**	**77,621**	**81,036**	**77,621**
Private loans					
Past due up to 30 days		9,798	11,345	9,798	11,345
Past due 31-60 days		4,270	5,173	4,270	5,173
Past due 61-90 days		1,325	1,990	1,325	1,990
Past due over 90 days		2,311	1,780	2,311	1,780
	Total	**17,704**	**20,288**	**17,704**	**20,288**
Consumer loans					
Past due up to 30 days		280	535	280	535
Past due 31-60 days		-	1	-	1
Past due 61-90 days		-	-	-	-
Past due over 90 days		-	-	-	-
	Total	**280**	**536**	**280**	**536**
Leasing					
Past due up to 30 days		13,173	1,405	11	30
Past due 31-60 days		2,729	581	3	18
Past due 61-90 days		4,210	962	7	6
Past due over 90 days		-	12,086	-	-
	Total	**20,112**	**15,034**	**21**	**54**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Card loans				
Past due up to 30 days	2,727	2,794	2,727	2,794
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due over 90 days	-	-	-	-
Total	**2,727**	**2,794**	**2,727**	**2,794**
Other loans				
Past due up to 30 days	630	596	630	596
Past due 31-60 days	206	173	206	173
Past due 61-90 days	242	60	242	60
Past due over 90 days	220	487	220	487
Total	**1,298**	**1,316**	**1,298**	**1,316**
Past due up to 30 days	105,218	99,093	91,892	97,718
Past due 31-60 days	27,613	41,274	24,887	40,711
Past due 61-90 days	13,183	9,742	8,980	8,786
Past due over 90 days	8,124	52,624	8,124	40,538
Total	**154,138**	**202,733**	**133,883**	**187,753**
Total gross loans and advances to customers past due but not impaired	**154,138**	**202,733**	**133,883**	**187,753**
Fair value of collateral	**156,851**	**334,203**	**156,851**	**334,203**

The following table provides the division of impaired loans and advances to customers of Group and Bank

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Commercial	225,020	189,713	220,680	185,993
Mortgage loans	107,484	86,235	107,484	86,235
Private loans	39,661	35,891	39,661	35,891
Consumer loans	586	1,832	586	1,832
Leasing	17,052	5,317	243	239
Card loans	825	1,166	825	1,166
Other	2,622	2,422	2,622	2,422
Total	**393,250**	**322,576**	**372,101**	**313,778**

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(j) The following table provides the division of Group's loans and advances to customers individually impaired:

	Commercial loans LVL'000	Mortgage loans LVL'000	Private loans LVL'000	Consumer loans LVL'000	Leasing LVL'000	Card loans LVL'000	Other loans LVL'000	Total LVL'000
31 December 2010								
Impaired loans	225,020	107,484	39,661	586	17,053	825	2,621	393,250
Fair value of collateral	139,230	75,198	25,401	169	106	-	1,655	241,759
31 December 2009								
Impaired loans	189,713	86,235	35,891	1,832	5,317	1,166	2,422	322,576
Fair value of collateral	120,005	63,616	24,413	466	105	-	1,432	210,037

The following table provides the division of Bank's loans and advances to customers individually impaired:

	Commercial loans LVL'000	Mortgage loans LVL'000	Private loans LVL'000	Consumer loans LVL'000	Leasing LVL'000	Card Loans LVL'000	Other loans LVL'000	Total LVL'000
31 December 2010								
Impaired loans	220,680	107,484	39,661	586	243	825	2,622	372,101
Fair value of collateral	139,230	75,198	25,401	169	106	-	1,655	241,759
31 December 2009								
Impaired loans	185,993	86,235	35,891	1,832	239	1,166	2,422	313,778
Fair value of collateral	120,005	63,616	24,413	466	105	-	1,432	210,037

Status past due defined based on maximum number of delay days (principal or interest).
If the borrower delays repayment of both interest and principal amount of the loan (or share thereof), the longest of the both delay periods is specified.

Notes to the Financial Statements *(continued)*

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(k) The following table provides the division of Group's restructured loans and advances to customers

Information regarding all kinds of restructured loans included (impaired, past due but not impaired and neither past due nor impaired)

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Commercial	195,493	86,579	195,493	86,579
Mortgage loans	134,053	76,331	134,053	76,331
Private loans	29,060	17,242	29,060	17,242
Consumer loans	572	476	572	476
Leasing	23	27	23	27
Card loans	-	-	-	-
Other	1,452	1,227	1,452	1,227
Total	**360,653**	**181,882**	**360,653**	**181,882**

Loan is considered as restructured if at least one of following action has been performed:

-There are postponed or cancelled principal payment for the Loan for period that is longer than 90 calendar days or repeatedly postponed or cancelled principal payments and total period in last year exceeds 90 calendar days;
-There are postponed, cancelled or capitalized interest payments for the Loan for period that is longer than 90 calendar days or repeatedly postponed, cancelled or capitalized interest payments and total period in last year exceeds 90 calendar days;
-Change of Loan principal repayment schedule that result in decrease of monthly payments by more than 30%;
-There is repossessed collateral or other assets for full or partial loan repayment;
-Substitution of initial borrower or attraction of additional borrower if in case attraction of additional borrower would not be performed that would result in overdue of payments more than 90 days;
-Decrease of loan interest rate due to financial difficulties of the customer.

***Notes to the Financial Statements** (continued)*

18 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss	**2010 Group LVL'000**	**2009 Group LVL'000**	**2010 Bank LVL'000**	**2009 Bank LVL'000**
Debt securities				
Latvian government securities	110,248	56,815	110,248	56,815
Latvian mortgage bonds	-	1,421	-	1,421
OECD financial institutions bonds	28,144	61,070	28,144	61,070
Total debt securities	**138,392**	**119,306**	**138,392**	**119,306**
Investment funds				
DNB NORD Mērķa fonds	375	367	375	367
Total investment funds	**375**	**367**	**375**	**367**
Total	**138,767**	**119,673**	**138,767**	**119,673**

	Moody's equivalent grades	**2010 LVL'000**	**%**	**2009 LVL'000**	**%**
High grade					
Risk rating class 1	**Aaa**	-	0%	10,701	9%
Risk rating class 2	**Aa1-A3**	28,144	20%	46,862	39%
Risk rating class 3	**Baa1-Baa2**	-	0%	1,421	1%
Risk rating class 4	**Baa3**	21,774	16%	10,575	9%
Not rated		88,849*	64%	50,114	42%
Total		**138,767**	**100%**	**119,673**	**100%**

* Latvian Government T-bills 2010 - 78,963 (2009: 43,177)

The effective interest rate on securities at fair value through profit or loss as at 31 December 2010 was 3,36% (2009: 5,66%).

***Notes to the Financial Statements** (continued)*

19 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The Bank's investments in subsidiaries are specified as follows:

	Share capital	Bank's share	Investment value 2010	Investment value 2009
	LVL'000	(%)	LVL'000	LVL'000
SIA DnB NORD Līzings	2700	100	2700	300
IPAS DnB NORD Fondi	420	100	667	667
SIA Skanstes 12	830	100	830	180
SIA SALVUS*	810	100	810	810
SIA SALVUS 2*	20	100	20	20
SIA SALVUS 3*	20	100	20	20
	4,800	**100**	**5,047**	**1,997**

* Subsidiaries of AS DnB NORD Banka established with an aim to ensure sales and/or management of real estate foreclosed in the course of compulsory and/or voluntary collection proceedings.

20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group and the Bank utilises the following derivative instruments:
Currency forwards represent commitments to purchase foreign and domestic currency.
Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.
Interest rate options are instruments that give the holder the rights but not the obligations to exchange periodically one set of interest rate cash flows for another.

The Group's and the Bank's credit risk represents the potential cost to replace the forward or swap contracts if counterparties fail to perform their obligation. To control the level of credit risk taken, the Group and the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on off balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Group's and the Bank's exposure to credit risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The notional amounts and fair values of derivative instruments held are set out in the following table:

	2010			2009		
	Contract / notional amount	Fair value Assets	Fair value Liabilities	Contract / notional amount	Fair value Assets	Fair value Liabilities
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Derivatives held for trading:						
- currency swaps	212,338	4,215	1,357	195,323	4,950	4
- interest rate swaps	295,895	2,263	5,566	418,809	3,285	6,992
- forwards	3,711	3	15	2,634	8	6
- options	184,294	2,031	2,178	154,766	1,524	1,734
Derivatives designated as fair value hedges						
- interest rate swaps	97,198	-	6,303	113,925	-	8,009
Total		**8,512**	**15,419**		**9,767**	**16,745**

***Notes to the Financial Statements** (continued)*

21 INTANGIBLE ASSETS

Movement table of intangible assets of the Group and the Bank for 2010 is as follows:

	Licences and software Group LVL'000	Goodwill Group LVL'000	Total intangible assets Group LVL'000	Licences and software Bank LVL'000	Total intangible assets Bank LVL'000
Historical cost					
31 December 2009	**3,245**	**247**	**3,492**	**2,892**	**2,892**
Additions	189	-	189	175	175
Disposals and write-offs	(51)	-	(51)	(24)	(24)
31 December 2010	**3,383**	**247**	**3,630**	**3,043**	**3,043**
Amortisation					
31 December 2009	**1,953**	-	**1,953**	**1,746**	**1,746**
Amortisation for the period	517	-	517	460	460
disposals and write-offs	(47)	-	(47)	(24)	(24)
31 December 2010	**2,423**	-	**2,423**	**2,182**	**2,182**
Net book value					
31 December 2009	**1,292**	**247**	**1,539**	**1,146**	**1,146**
31 December 2010	**960**	**247**	**1,207**	**861**	**861**

Intangible assets include advance payments for acquired intangible assets as of 31 December 2010 in amount of LVL 2,7 thousand (2009: LVL 77,6 thousand).

Movement table of intangible assets of the Group and the Bank for 2009 is as follows:

	Licences and software Group LVL'000	Goodwill Group LVL'000	Total intangible assets Group LVL'000	Licences and software Bank LVL'000	Total intangible assets Bank LVL'000
Historical cost					
31 December 2008	**2,408**	**247**	**2,655**	**2,115**	**2,115**
Additions	837	-	837	777	777
Disposals and write-offs	-	-	-	-	-
31 December 2009	**3,245**	**247**	**3,492**	**2,892**	**2,892**
Amortisation					
31 December 2008	**1,441**	-	**1,441**	**1,306**	**1,306**
Amortisation for the period	512	-	512	440	440
Disposals and write-offs	-	-	-	-	-
31 December 2009	**1,953**	-	**1,953**	**1,746**	**1,746**
Net book value					
31 December 2008	**967**	**247**	**1,214**	**809**	**809**
31 December 2009	**1,292**	**247**	**1,539**	**1,146**	**1,146**

***Notes to the Financial Statements** (continued)*

22 PROPERTY AND EQUIPMENT

Movement table of property and equipment of the Group for 2010 is as follows:

	Land and buildings LVL'000	Construc-tion LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improve-ments LVL'000	Opera-ting lease LVL'000	Total LVL'000
Historical cost or valuation							
31 December 2009	**3,533**	**11,132**	**9,706**	**333**	**2,519**	**18,252**	**45,475**
Additions	13	5,089	2,918	13	224	-	8,257
Disposals and write-offs	-	-	(1,232)	-	(319)	(9,737)	(11,288)
Reclassification	16,977	(16,221)	-	-	-	-	756
31 December 2010	**20,523***	**-**	**11,392**	**346**	**2,424**	**8,515**	**43,200**
Depreciation							
31 December 2009	**108**	**-**	**6,120**	**233**	**1,001**	**8,758**	**16,220**
Depreciation for the year	169	-	1,786	40	291	1,981	4,267
Disposals and write-offs	-	-	(1,047)	-	(210)	(5,776)	(7,033)
31 December 2010	**277**	**-**	**6,859**	**273**	**1,082**	**4,963**	**13,454**
Net book value							
31 December 2009	**3,425**	**11,132**	**3,586**	**100**	**1,518**	**9,494**	**29,255**
31 December 2010	**20,246**	**-**	**4,533**	**73**	**1,342**	**3,552**	**29,746**

Movement table of property and equipment of the Bank for 2010 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
Historical cost or valuation					
31 December 2009	**1,076**	**9,554**	**333**	**2,478**	**13,441**
Additions	13	2,768	13	7	2,801
Disposals and write-offs	-	(1,030)	-	(318)	(1,348)
31 December 2010	**1,089**	**11,292**	**346**	**2,167**	**14,894**
Depreciation					
31 December 2009	**108**	**6,030**	**233**	**993**	**7,364**
Depreciation for the year	10	1,759	40	254	2,063
Disposals and write-offs	-	(952)	-	(210)	(1,162)
31 December 2010	**118**	**6,837**	**273**	**1,037**	**8,265**
Net book value					
31 December 2009	**968**	**3,524**	**100**	**1,485**	**6,077**
31 December 2010	**971**	**4,455**	**73**	**1,130**	**6,629**

Property and equipment include advance payments and stock as of 31 December 2010 in amount of LVL 174,7 thousand (2009: LVL 1,8 thousand).

* Substantial part of the amount related to commissioning of the new building in the middle of 2010. Value of the building is disclosed as fair value.

Notes to the Financial Statements *(continued)*

22 PROPERTY AND EQUIPMENT (continued)

Movement table of property and equipment of the Group for 2009 is as follows:

	Land and buildings LVL'000	Construction LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Operating lease LVL'000	Total LVL'000
Historical cost or valuation							
31 December 2008	**3,507**	**2,128**	**9,175**	**339**	**2,620**	**25,516**	**43,285**
Additions	26	9,004	870	21	45	-	9,966
Disposals and write-offs	-	-	(339)	(27)	(146)	(7,264)	(7,776)
31 December 2009	**3,533**	**11,132**	**9,706**	**333**	**2,519**	**18,252**	**45,475**
Depreciation							
31 December 2008	**98**	**-**	**4,750**	**210**	**815**	**8,416**	**14,289**
Depreciation for the year	10	-	1,702	50	303	3,568	5,633
Disposals and write-offs	-		(332)	(27)	(117)	(3,226)	(3,702)
31 December 2009	**108**	**-**	**6,120**	**233**	**1,001**	**8,758**	**16,220**
Net book value							
31 December 2008	**3,409**	**2,128**	**4,425**	**129**	**1,805**	**17,100**	**28,996**
31 December 2009	**3,425**	**11,132**	**3,586**	**100**	**1,518**	**9,494**	**29,255**

Movement table of property and equipment of the Bank for 2009 is as follows:

	Land and buildings LVL'000	Office equipment LVL'000	Vehicles LVL'000	Leasehold improvements LVL'000	Total LVL'000
Historical cost or valuation					
31 December 2008	**1,050**	**9,012**	**339**	**2,620**	**13,021**
Additions	26	858	21	4	909
Disposals and write-offs	-	(316)	(27)	(146)	(489)
31 December 2009	**1,076**	**9,554**	**333**	**2,478**	**13,441**
Depreciation					
31 December 2008	**98**	**4,665**	**210**	**815**	**5,788**
Depreciation for the year	10	1,674	50	295	2,029
Disposals and write-offs	-	(309)	(27)	(117)	(453)
31 December 2009	**108**	**6,030**	**223**	**993**	**7,364**
Net book value					
31 December 2008	**952**	**4,347**	**129**	**1,805**	**7,233**
31 December 2009	**968**	**3,524**	**100**	**1,485**	**6,077**

If buildings would be recorded at cost their value would be as follows:

	2010 Bank LVL'000	2009 Bank LVL'000
Cost	957	944
Accumulated deprecation	(103)	(94)
Net book value	**854**	**850**

Notes to the Financial Statements *(continued)*

22 PROPERTY AND EQUIPMENT (continued)

Minimum lease payments receivable under operating leases	**2010 Group LVL'000**	**2009 Group LVL'000**
Not later than 1 year	2,171	2,254
Later than 1 year and not later than 5 years	1,378	1,702
Later than 5 years	-	-
Total	**3,549**	**3,956**

23 DEFERRED EXPENSES AND ACCRUED INCOME

	2010 Group LVL'000	**2009 Group LVL'000**	**2010 Bank LVL'000**	**2009 Bank LVL'000**
Accrued income	187	241	114	183
Deferred expenses	493	455	466	379
	680	**696**	**580**	**562**

24 INVESTMENT PROPERTY

SPV (Special Purpose Vehicle/Entity) chooses the fair value model as measurement of real estate property. All of its investment property measure at fair value. FV is determined based on evaluation of external experts and market prices close to year end. Evaluation is made for each real estate property. Assumptions for future NPV calculations: discount rate – in range of 8-14%, estimated benchmark for market grown – in range 3-5% yearly.

The structure of investment property by type is following:

- 40% of investment property are apartments, parking places;
- 19% - buildings, private houses;
- 41% - land plots.

The structure of investment property by geographic location:

- 28% of investment property are located in Riga;
- 60% - in Riga region (incl. Jurmala);
- 2% - other regions.

25 OTHER ASSETS

	2010 Group LVL'000	**2009 Group LVL'000**	**2010 Bank LVL'000**	**2009 Bank LVL'000**
Foreclosed properties*	3,253	850	3,253	850
Guarantee deposits for auctions**	4,445	-	1,184	-
Prepayments and overpaid taxes	2,096	518	275	-
Credit card claims and other payment services	999	1,209	999	1,209
Short term debts	737	1,118	737	464
Other	2,368	5,344	1,373	1,993
Total	**13,898**	**9,039**	**7,821**	**4,516**

* Foreclosed property provided for sale in short time.
** Guarantee deposits paid by Bank and subsidiaries to enforcement officers for collateral auction.

***Notes to the Financial Statements** (continued)*

26 PROVISIONS FOR CREDIT LOSSES

Group provisions for impairment losses and other assets	**Loans Total**	Comm-ercial	Mort-gage loans	Consu-mer loans	Leasing	Card loans	Private and other	IBNR	**Other assets**	**Total**
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**	**LVL'000**
31 December 2008	**27,691**	**13,640**	**5,600**	**1,878**	**2,543**	**447**	**3,583**	**-**	**-**	**27,691**
Fully provided for and written off	**(4,571)**	(1,314)	-	(2,142)	(632)	(389)	(94)	-	**-**	**(4,571)**
Charge to income statement :	**119,342**	65,789	27,374	1,746	7,917	809	11,988	3,719	**14,555**	**133,897**
- individual loans and assets	**83,430**	62,986	6,253	1,746	3,944	809	7,692	-	**14,555**	**97,985**
- homogenous groups of loans	**35,912**	2,803	21,121	-	3,973	-	4,296	3,719	**-**	**35,912**
Released during the year	**(9,879)**	(5,941)	(2,295)	(222)	(231)	(165)	(1,025)	-	**-**	**(9,879)**
Exchange rate difference	**(273)**	(270)	(1)	(3)	-	(1)	2	-	**(1)**	**(274)**
31 December 2009	**132,310**	**71,904**	**30,678**	**1,257**	**9,597**	**701**	**14,454**	**3,719**	**14,554**	**146,864**
Fully provided for and written off	**(22,123)**	(19,173)	-	(1,654)	-	(754)	(542)	-	**-**	**(22,123)**
Charge to income statement:	**67,970**	50,292	10,213	908	1,046	688	4,823	-	**849**	**68,819**
- individual loans and assets	**67,970**	50,292	10,213	908	1,046	688	4,823	-	**849**	**68,819**
- homogenous groups of loans	**-**	-	-	-	-	-	-	-	**-**	**-**
Released during the period	**(16,900)**	(13,310)	(118)	(80)	(1,578)	(149)	(880)	(785)	**-**	**(16,900)**
Interest income due to shortening of discounting period	**(5,191)**	(4,250)	(407)	-	-	-	(534)	-	**-**	**(5,191)**
Provisions internal movement	**6,024**	-	-	-	6,024	-	-	-	**(6,024)**	**-**
Exchange rate difference	**359**	352	-	-	-	-	7	-	**75**	**434**
31 December 2010	**162,449**	**85,815**	**40,366**	**431**	**15,089**	**486**	**17,328**	**2,934**	**9,454**	**171,903**

***Notes to the Financial Statements** (continued)*

26 PROVISIONS FOR CREDIT LOSSES (continued)

Bank provisions for impairment losses and other assets	**Loans Total**	Comm-ercial	Mortgage loans	Consumer loans	Leasing	Card loans	Private and other	IBNR	**Off-balance sheet liabilities**	**Total**
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**	**LVL'000**
31 December 2008	**25,919**	**13,640**	**5,600**	**1,878**	**771**	**447**	**3,583**	**-**	**1,139**	**27,058**
Fully provided for and written off	**(3,939)**	(1,314)	-	(2,142)	-	(389)	(94)	-	**-**	**(3,939)**
Charge to income statement:	**107,171**	62,075	27,374	1,746	(540)	809	11,988	3,719	**26,727**	**133,898**
- individual loans and assets	**75,772**	59,272	6,253	1,746	-	809	7,692	-	**22,214**	**97,986**
- homogenous groups of loans	**31,399**	2,803	21,121	-	(540)	-	4,296	3,719	**4,513**	**35,912**
Released during the year	**(9,880)**	(5,942)	(2,295)	(222)	(231)	(165)	(1,025)	-	**-**	**(9,880)**
Exchange rate difference	**(273)**	(270)	(1)	(3)	-	(1)	2	-	**-**	**(273)**
31 December 2009	**118,998**	**68,189**	**30,678**	**1,257**	**-**	**701**	**14,454**	**3,719**	**27,866**	**146,864**
Fully provided for and written off	**(22,123)**	(19,173)	-	(1,654)	-	(754)	(542)	-	**-**	**(22,123)**
Charge to income statement:	**66,924**	50,292	10,213	908	-	688	4,823	-	**696**	**67,620**
- individual loans and assets	**66,924**	50,292	10,213	908	-	688	4,823	-	**696**	**67,620**
- homogenous groups of loans	**-**	-	-	-	-	-	-	-	**-**	**-**
Released during the period	**(15,322)**	(13,310)	(118)	(80)	-	(149)	(880)	(785)	**(1,578)**	**(16,900)**
Interest income due to shortening of discounting period	**(5,191)**	(4,250)	(407)	-	-	-	(534)	-	**-**	**(5,191)**
Exchange rate difference	**359**	352	-	-	-	-	7	-	**-**	359
31 December 2010	**143,645**	**82,100**	**40,366**	**431**	**-**	**486**	**17,328**	**2,934**	**26,984**	**170,629**

Income statement item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of LVL 79 thousand (2009: LVL 84 thousand).

* Provisions made for lease objects in hold are included in this position.

***Notes to the Financial Statements** (continued)*

27 DUE TO OTHER CREDIT INSTITUTIONS

Demand deposits	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Republic of Latvia credit institutions	9,536	51,787	9,536	51,787
OECD credit institutions	31,307	412	31,307	412
Non-OECD credit institutions	364	2,337	364	2,337
Total demand deposits	**41,207**	**54,536**	**41,207**	**54,536**
Term deposits				
Republic of Latvia credit institutions	25,622	21,428	25,622	21,428
OECD credit institutions	1,055,066	1,215,038	932,075	994,147
Non-OECD credit institutions	3,283	14,891	3,283	14,891
	1,083,971	**1,251,357**	**960,980**	**1,030,466**
Accrued interest	3,961	4,613	3,642	4,456
Total term deposits	**1,087,932**	**1,255,970**	**964,622**	**1,034,922**
Total deposits	**1,129,139**	**1,310,506**	**1,005,829**	**1,089,458**

28 DUE TO CUSTOMERS

Analysis of deposits by maturity and client type

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Demand deposits				
Private companies	98,503	77,501	108,182	145,349
Individuals	71,308	65,125	71,308	65,125
State institutions	3,569	2,289	3,569	2,289
Funds in transit	6,265	4,596	6,265	4,596
Non-residents non-OECD	4,846	2,727	4,846	2,727
Non-residents OECD	4,804	3,101	4,804	3,101
Total demand deposits	**189,295**	**155,339**	**198,974**	**223,187**
Term deposit accounts				
Individuals	86,580	113,026	86,580	113,026
Private companies	182,294	97,265	183,099	97,772
State institutions	48	5,570	48	5,570
Non-residents non-OECD	19,587	10,368	19,587	10,368
Non-residents OECD	1,872	3,310	1,872	3,310
Accrued interest	1,270	1,713	1,277	1,731
Total term deposits	**291,651**	**231,252**	**292,463**	**231,777**
Total deposits and transit funds	**480,946**	**386,591**	**491,437**	**454,964**

29 DEFERRED INCOME AND ACCRUED EXPENSES

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Accrued expenses	758	508	693	474
Other deferred income	-	1,513	-	1,513
	758	**2,021**	**693**	**1,987**

***Notes to the Financial Statements** (continued)*

30 SUBORDINATED LOANS

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Loan providers				
Norddeutsche Landesbank Girozentrale	-	19,106	-	19,106
Bank DnB NORD A/S	35,386	35,375	35,386	35,375
DnB NOR Bank ASA	19,102	-	19,102	-
	54,488	**54,481**	**54,488**	**54,481**

All subordinated loans are denominated in Euro (EUR).
Subordinated loans received in the years 2004-2010:
In the year 2010 the Bank did not receive new subordinated loans.

- In January 2004, the Bank received EUR 14 million (LVL 9,839 million) subordinated loan from Norddeutsche Landesbank Girozentrale repayable in full on 15 January 2014. The interest rate on the loan is equal to 6-month EURIBOR + 0.61%p.a. On 23 December 2010, in accordance to the Novation Agreement, Norddeutsche Landesbank Girozentrale transferred its rights under this subordinated loan agreement to DnB NOR Bank ASA.
- In September 2005, the Bank received EUR 13 million (LVL 9,137million) subordinated loan from Norddeutsche Landesbank Girozentrale repayable in full on 15 September 2015. The interest rate on the loan is equal to 6-month EURIBOR + 0.60% p.a. On 23 December 2010, in accordance to the Novation Agreement, Norddeutsche Landesbank Girozentrale transferred its rights under this subordinated loan agreement to DnB NOR Bank ASA.
- In the year 2006, the Bank received two subordinated loans from Bank DnB NORD A/S: in August 2006, the Bank received EUR 16million (LVL 11,244 million) subordinated loan and in November 2006, the Bank got EUR 7 million (LVL 4,920 million) subordinated loan. Both loans shall be repaid in full in 2016. The interest rate applicable to these loans is equal to 6-month EURIBOR + 0.60% p.a.
- In February 2007, the Bank received EUR 7 million (LVL 4,920 million) subordinated loan from Bank DnB NORD A/S repayable in full on 27 February 2017. The interest rate on the loan is equal to 6-month EURIBOR + 0.60% p.a.
- In the year 2009, the Bank received EUR 20 million (LVL 14,056 million) subordinated loan from Bank DnB NORD A/S repayable in full on 30 April 2015. The interest rate on the loan is equal to 6-month EURIBOR + 4.00% p.a.

31 OTHER LIABILITIES

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Accrued liabilities	1,271	1,197	1,015	900
Accounts payable	1,394	633	-	-
Other short-term liabilities	2,240	2,728	463	508
	4,905	**4,558**	**1,478**	**1,408**

32 PROVISIONS

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Provisions for off-balance sheet liabilities	-	-	26,983	27,865
Other provisions	383	-	383	-
	383	**-**	**27,366**	**27,865**

Provisions were made for off-balance sheet liabilities – guarantee, issued by the Bank for the financing of the subsidiary DnB NORD Līzings SIA.
Calculations of the write downs were made based on the quality of the assets of the DnB NORD Līzings SIA using the same approach as in the Bank.

Notes to the Financial Statements *(continued)*

33 SHARE CAPITAL

As of December 31, 2010 registered and fully paid-in AS DnB NORD Banka equity capital amounted to LVL 134,360,900.00 and consisted of 134,360,900 shares (par value per share being then and now LVL 1,00). All AS DnB NORD Banka shares had equal rights to receiving the dividend, liquidation quota and voting rights at the shareholders' meeting. All AS DnB NORD Banka shares were nominal shares.

As of December 31, 2010 100% of AS DnB NORD Banka shares were owned by Bank DnB NORD A/S, whereas 100% of Bank DnB NORD A/S capital as of December 31, 2010 was owned by DnB NOR Bank ASA.

34 RESERVE CAPITAL

In order to increase the Tier I Capital by way of increasing the reserve capital of the Bank, DnB NORD Bank A/S in 2010 made three payments totalling to EUR 35 million (LVL 24,81 million): EUR 10 million (LVL 7,09 million) in February, EUR 10 million (LVL 7,09 million) in June and EUR 15 million (LVL 10,63 million) in September into the reserve capital of the Bank.

35 OFF-BALANCE SHEET ITEMS

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Memorandum items				
Contingent liabilities				
guarantees	23,960	22,192	146,951	243,083
Commitments				
Loan issuing commitments	69,387	49,329	97,934	78,369
other liabilities	2,504	3,902	2,504	3,902
letters of credit	349	1,618	349	1,618

The Bank guarantees include the AS DnB NORD Banka guarantee for DnB NORD Līzings SIA in amount of LVL 122,991 thousand as at 31 December 2010.

36 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Balances due from banks	71,370	20,291	71,041	19,769
Loans and advances to customers	1,439,799	1,594,201	1,394,251	1,497,556
Securities designated at fair value through profit and loss	138,767	119,673	138,767	119,673
Derivative financial instruments	8,512	9,767	8,512	9,767
Other assets	8,550	7,071	4,216	7,071
Credit risk exposures relating to off-balance sheet items are as follows:				
Contingent liabilities	23,960	22,192	146,951	243,083
Financial commitments	349	1,618	349	1,618

37 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

Notes to the Financial Statements *(continued)*

37 RELATED PARTY TRANSACTIONS (continued)

Due from related parties	**2010 Group LVL'000**	**2009 Group LVL'000**	**2010 Bank LVL'000**	**2009 Bank LVL'000**
Due from parent companies:				
DnB NOR Bank ASA	43,332	1,573	43,332	1,573
Bank DnB NORD A/S	50	680	50	680
NORD/LB Group*	-	29,299	-	29,299
Due from subsidiaries:				
DnB NORD Līzings SIA	-	-	1,482	1,428
SIA Skanstes 12	-	-	20,892	14,355
SIA Salvus	-	-	17,929	3,483
SIA Salvus 3	-	-	139	-
Due from other related parties:				
AB DnB NORD Bankas	314	7	314	7
DnB NORD Polska	6	23	6	23
Bank DnB NORD A/S Eesti filiaal	183	4,933	183	4,933
DnB NORD IT A/S	-	286	-	286
Balances due from related parties	**43,885**	**36,801**	**84,327**	**56,067**

Due to related parties

	2010 Group LVL'000	**2009 Group LVL'000**	**2010 Bank LVL'000**	**2009 Bank LVL'000**
Due to parent companies:				
DnB NOR Bank ASA	629,636	494,370	629,636	494,370
Bank DnB NORD A/S	35,454	35,413	35,454	35,413
NORD/LB Group*	-	709,325	-	489,200
Due to subsidiaries:				
DnB NORD Līzings SIA	-	522	9,242	67,617
IPAS DnB NORD Fondi	-	-	840	526
SIA Skanstes 12	-	-	6	42
SIA Salvus	-	-	375	149
SIA Salvus 2	-	-	14	20
SIA Salvus 3	-	-	13	20
Due to other related parties:	-			
AB DnB NORD Bankas	3,701	13,123	3,701	13,123
DnB NORD Polska	-	-	-	-
Bank DnB NORD A/S Eesti filiaal	387	4,994	387	4,994
Balances due to related parties	**669,178**	**1,257,747**	**679,668**	**1,105,474**

During the reporting period Bank sold foreclosed property to SIA Salvus in amount of LVL 828 thousand and to SIA Salvus 3 in amount of LVL 140 thousand, as a result Bank recognise losses amounted to LVL 103 thousand.

***Notes to the Financial Statements** (continued)*

37 RELATED PARTY TRANSACTIONS (continued)

The Group`s and Bank`s income/expenses from transactions with related parties are analysed as follows:

	2010 Group LVL'000	2009 Group LVL'000	2010 Bank LVL'000	2009 Bank LVL'000
Interest received for money market deposits/ loans	**2,604**	**5,110**	**1,041**	**1,540**
Parent companies	21	34	21	34
Subsidiaries	2,365	4,846	802	1,276
Other Related parties	218	230	218	230
Income received from derivatives	**-**	**10,932**	**-**	**10,932**
Parent companies	-	10,933	-	10,933
Subsidiaries	-	-	-	-
Other Related parties	-	(1)	-	(1)
Derivative revaluation result	**2,186**	**-**	**2,186**	**-**
Parent companies	2,030	-	2,030	-
Subsidiaries	-	-	-	-
Other Related parties	156	-	156	-
Commission received	**74**	**999**	**3,523**	**3,114**
Parent companies	-	18	-	18
Subsidiaries	-	-	3,449	2,115
Other Related parties	74	981	74	981
Dividends	**-**	**-**	**80**	**-**
Parent companies	-	-	-	-
Subsidiaries	-	-	80	-
Other Related parties	-	-	-	-
Other income	**7**	**92**	**243**	**96**
Parent companies	-	86	-	86
Subsidiaries	-	-	236	4
Other Related parties	7	6	7	6
Interest paid on money market deposits/loans	**(16,213)**	**(27,684)**	**(16,662)**	**(28,222)**
Parent companies	(15,803)	(27,134)	(15,803)	(27,134)
Subsidiaries	-	-	(449)	(538)
Other Related parties	(410)	(550)	(410)	(550)
Expenses from derivatives	**(6,266)**	**-**	**(6,266)**	**-**
Parent companies	(6,268)	-	(6,268)	-
Subsidiaries	-	-	-	-
Other Related parties	2	-	2	-
Derivative revaluation result	**-**	**(3,230)**	**-**	**(3,230)**
Parent companies	-	(3,098)	-	(3,098)
Subsidiaries	-	-	-	-
Other Related parties	-	(132)	-	(132)
Interest paid on subordinated loan	**(1,384)**	**(1,652)**	**(1,384)**	**(1,652)**
Parent companies	(1,384)	(1,652)	(1,384)	(1,652)
Subsidiaries	-	-	-	-
Other Related parties	-	-	-	-
Commission paid	**(82)**	**(87)**	**(82)**	**(87)**
Parent companies	(79)	(86)	(79)	(86)
Subsidiaries	-	-	-	-
Other Related parties	(3)	(1)	(3)	(1)
Other expenses	**(3,240)**	**(1,100)**	**(3,691)**	**(1,162)**
Parent companies	(558)	(1,921)	(558)	(1,921)
Subsidiaries	-	-	(451)	(62)
Other Related parties	(2,682)**	821	(2,682)**	821
	(22,314)	**(16,620)**	**(21,012)**	**(18,671)**

* NORD/LB is not related party since 23 December 2010.
** Other expenses include penalty fee for IT development project cancellation in amount of LVL 2,328 thousand.

As at 31 December 2010 loans issued to key management personnel amounted to LVL 1,401 thousand (2009: LVL 1,244 thousand).

***Notes to the Financial Statements** (continued)*

38 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, the are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Group	**2010**		**2009**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Assets				
Cash and balances with central banks	72,736	72,736	95,876	95,876
Due from other credit institutions (demand)	16,493	16,493	8,833	8,833
Derivatives	8,512	8,512	9,767	9,767
Financial assets designated at fair value through profit or loss	138,767	138,767	119,673	119,673
Financial assets available-for-sale	10	10	10	10
Due from other credit institutions (term)	54,877	54,877	11,458	11,458
Loans to customers	1,444,781	1,366,037	1,601,085	1,470,511
Other assets	8,550	8,550	7,590	7,590
Total financial assets	**1,744,726**	**1,665,982**	**1,854,292**	**1,723,718**
Liabilities				
Due to credit institutions	1,129,139	1,129,139	1,310,506	1,310,506
Derivatives	15,419	15,419	16,745	16,745
Deposits and other financial liabilities	480,946	480,343	386,591	379,652
Subordinated loan	54,488	54,488	54,481	54,481
Other liabilities	5,186	5,186	4,558	4,558
Total financial liabilities	**1,685,178**	**1,684,575**	**1,772,881**	**1,765,942**

Notes to the Financial Statements (continued)

38 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Bank

	2010		2009	
	Carrying value LVL'000	**Fair value LVL'000**	**Carrying value LVL'000**	**Fair value LVL'000**
Assets				
Cash and balances with central banks	72,736	72,736	95,876	95,876
Due from other credit institutions (demand)	16,164	16,164	8,311	8,311
Derivatives	8,512	8,512	9,767	9,767
Financial assets designated at fair value through profit or loss	138,767	138,767	119,673	119,673
Financial assets available-for-sale	10	10	10	10
Due from other credit institutions (term)	54,877	54,877	11,458	11,458
Loans to customers	1,399,233	1,272,283	1,504,440	1,404,844
Other assets	4,216	4,216	5,064	5,064
Total financial assets	**1,694,515**	**1,567,565**	**1,754,599**	**1,655,003**
Liabilities				
Due to credit institutions	1,005,829	1,005,829	1,089,458	1,089,458
Derivatives	15,419	15,419	16,745	16,745
Deposits and other financial liabilities	491,437	490,832	454,964	447,952
Subordinated loan	54,488	54,488	54,481	54,481
Other liabilities	1,759	1,759	1,407	1,407
Total financial liabilities	**1,568,932**	**1568,327**	**1,617,055**	**1,610,043**

Group

	2010				
	Level 1 LVL'000	**Level 2 LVL'000**	**Level 3 LVL'000**	**Total LVL'000**	**Balance sheet LVL'000**
Assets					
Derivatives	-	8,512	-	**8,512**	**8,512**
Financial assets designated at fair value through profit or loss	36,794	101,598	375	**138,767**	**138,767**
Financial assets available-for-sale	-	10	-	**10**	**10**
Total	**36,794**	**110,120**	**375**	**147,289**	**147,289**
Liabilities					
Derivatives	-	15,419	-	**15,419**	**15,419**
Total	**-**	**15,419**	**-**	**15,419**	**15,419**

Bank

	2010				
	Level 1 LVL'000	**Level 2 LVL'000**	**Level 3 LVL'000**	**Total LVL'000**	**Balance sheet LVL'000**
Assets					
Derivatives	-	8,512	-	**8,512**	**8,512**
Financial assets designated at fair value through profit or loss	36,794	101,598	375	**138,767**	**138,767**
Financial assets available-for-sale	-	10	-	**10**	**10**
Total	**36,794**	**110,120**	**375**	**147,298**	**147,289**
Liabilities					
Derivatives	-	15,419	-	**15,419**	**15,419**
Total	**-**	**15,419**	**-**	**15,419**	**15,419**

***Notes to the Financial Statements** (continued)*

38 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Group and Bank			2009		
	Level 1 LVL'000	Level 2 LVL'000	Level 3 LVL'000	Total LVL'000	Balance sheet LVL'000
Assets					
Derivatives	-	9,767	-	**9,767**	**9,767**
Financial assets designated at fair value through profit or loss	65,981	53,692	-	**119,673**	**119,673**
Financial assets available-for-sale	-	10	-	**10**	**10**
Total	**65,981**	**63,469**	**-**	**125,335**	**125,335**
Liabilities					
Derivatives	-	16,745	-	**16,745**	**16,745**
Total	**-**	**16,745**	**-**	**16,745**	**16,745**

39 CAPITAL ADEQUACY

The capital of DnB NORD Group is calculated and allocated for the risk coverage following the AS DnB NORD Banka Group Procedure on Minimum Capital Requirements Calculation and AS DnB NORD Banka Group Policy for the Assessment of Internal Capital Adequacy (ICAAP). The Group's objectives when managing capital are:

1) to comply with the capital requirements set by the Financial and Capital Market Commission as well as the higher target capital requirements set by major shareholder,
2) to safeguard the Bank's and the Group's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders,
3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy report is submitted to the supervising authority monthly in accordance with the Financial and Capital Market Commission requirements.

The Group's regulatory capital is divided into two tiers:
1) Tier 1 capital consists of the ordinary shares, share premium, mandatory reserve, retained earnings of the previous financial year, the audited profit of current financial year, negative revaluation reserve of financial assets and less the intangible assets and part of investments to financial institutions,
2) Tier 2 capital consists of subordinated loans, other reserves.

The risk-weighted assets are measured by means of risk weights classified according to the nature of each assets and counterparty. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

In 2010 the Group's capital adequacy ratio is 11,40% and the Bank's – 11,58% (2009: 10,78%; 10,79%).

Legislation determines minimum capital as at least 8% of the sum of the risk-weighted exposure.

According to the Financial and Capital Market Commission Regulations for Calculating the Minimum Capital Requirements, bank shall provide own funds which shall at all times exceed or equal the sum of the capital requirements for:

- credit risk;
- market risk;
- operational risk.

In compliance with these regulations the Bank and the Group calculate credit risk minimum capital requirement by using standardised approach, the Bank and the Group do not apply any VaR or other internal models for the calculation of market risk capital requirement and apply Basic Indicators Approach for calculating of operational risk capital requirement.

The risk-weighted assets are measured by means of risk weights classified according to the nature of each assets and counterparty. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.
For credit risk capital requirement calculation the Bank uses the rating agency Moody's ratings for counterparty risk assessment.

***Notes to the Financial Statements** (continued)*

39 CAPITAL ADEQUACY (continued)

	2010 Group LVL'000	2010 Bank LVL'000
Total own funds for solvency purposes	**162,613**	**166,935**
Original own funds	116,979	121,300
Eligible Capital	183,355	183,355
Of which: Non-innovative instruments subject to limit	183,355	183,335
--Paid up capital	134,361	134,361
--Share premium	48,994	48,994
Eligible Reserves	(65,169)	(61,195)
-Reserves	(33,868)	(33,035)
Reserves (including valuation differences)	(33,868)	(33,035)
Loss from current year	(31,302)	(28,160)
Other deductions from Original Own Funds	(1,207)	(861)
-- Intangible assets	(1,207)	(861)
Additional own funds	45,635	46,635
Core Additional Own Funds	93	93
--Revaluation reserves	93	93
Supplementary Additional Own Funds	45,542	45,542
--Subordinated loan capital	45,542	45,542
Memorandum item: Own Funds relevant for limits to large exposures when additional capital to cover market risks is not used AND for limits to qualifying participating interests	162,613	166,935
Total original own funds for general solvency purposes	116,979	121,300
Total additional own funds for general solvency purposes	45,634	45,635
Total own funds relevant for the limits of large exposures when additional capital to cover market risks is used	162,613	166,935

Notes to the Financial Statements *(continued)*

39 CAPITAL ADEQUACY (continued)

	2010 Group LVL'000	2010 Bank LVL'000
Capital requirements	**114,151**	**115,351**
Total capital requirements for credit, counterparty credit and dilution risks and free deaneries	105,852	107,612
Standardised approach (SA)	105,852	107,612
SA exposure classes excluding securitization positions	105,852	107,612
--Central governments or central banks	-	-
--Regional governments or local authorities	140	138
--Administrative bodies and non-commercial undertakings	236	227
--Institutions	1,754	1,748
--Corporate	31,258	42,020
--Retail	47,086	43,151
--Secured by real estate property	3,776	3,776
--Past due items	14,600	13,309
--Covered bonds	-	-
--Short-term claims on institutions and corporate	-	-
--Other items	7,002	3,243
Total capital requirements for position foreign Exchange and commodity risks	447	62
Position, foreign exchange and commodity risks under standardised approaches (SA)	447	62
-Foreign Exchange	447	62
Total capital requirements for operational risks (OpR)	7,853	7,677
OpR Basic indicator approach (BIA)	7,853	7,677
Memorandum items:		
Surplus / Deficit of own funds, before other and transitional capital requirements	48,462	51,583
Solvency ratio (%), before other and transitional capital requirements	11,40%	11,58%
Surplus/ Deficit of own funds	48,462	51,583
Solvency ratio (%)	11,40%	11,58%
Internal assessment Surplus / Deficit of capital	21,410	23,774
Internal assessment of capital	162,613	166,935
Internal assessment of capital needs	141,203	143,160

The Bank review and improve the risk identification and management policies and procedures according to the changes in the Groups and the Banks activities and financial situation at least once a year. Amendments and updates mostly are done during annual internal capital adequacy assessment process when significant risks are to be reassessed or identified and assessed.

The Group and the Bank use „Pillar 1 +" approach for capital adequacy assessment, at first minimum regulatory capital requirements are analyzed and after then internal capital add-ons are calculated without taking into account any diversification effects between particular risks.

During internal capital adequacy assessment process, the Group and the Bank usually performs actions as follows:

- analyzes available amount of own funds and its historical volatility, including in the breakdown of certain capital elements;
- analyzes amount of minimum and internal capital requirements and its historical volatility in the breakdown of the risk types;
- analyzes significant risks for whom capital need to be maintained;
- analyzes asset and off-balance sheet items, including analysis of loan portfolio volume, structure, quality, amount of provisions made as well as estimates appropriate forecasts for following periods;
- calculates minimum and internal capital requirements by taking into account planned changes in the Groups and the Banks activities and financial situation;
- performs stress testing and estimates capital buffer;
- prepare forecast of available own funds by taking into account planned incomes and expenses, including provision amount to be made, planned capital injections and other significant factors;
- prepare regulatory and internal capital adequacy forecast, including setting appropriate strategic goals.

Regular monitoring and control of capital adequacy has been carried out in the Group and the Bank. During capital adequacy assessment and planning in 2010 several improvements have been done, including carrying out in-depth analysis of the loan portfolio since loan portfolio is the main risk source in the Group and the Bank. Improvement of internal capital adequacy assessment process will continue in the coming years by taking into account changes in internal and external factors.

***Notes to the Financial Statements** (continued)*

39 CAPITAL ADEQUACY (continued)

There were several risks that have been assessed as significant for 2010 and for whom adequate internal capital has been kept in addition to the set of minimum regulatory capital requirements.

Concentration risk
Concentration risk is the risk arising from unequal diversification within the Bank's credit portfolio, e.g., from having in the portfolio a number of obligors whose fortunes are affected by a common factors (sector, country, particular macroeconomic variables etc.).
Internal capital requirements for individual and inter-connected party's concentration, industries concentration, collateral concentration and concentration of currencies are calculated. Group applies its internal methodology based on standardized Herfindahl-Hirshmann Index to calculate add-ons to the regulatory capital for specific concentration dimensions.

Operational risk
The add-on is estimated by taking into account the result of actual and potential loss registered in the Banks operational risk data base and by comparing the result with the one calculated by using basic indicator approach. The most conservative off the two values is included in the internal capital adequacy assessment.

Business risk and Strategic risk
Business risk is the risk of loss due to changes in the competitive environment that damage the franchise or operating economics of a business or due to an adverse effect of top-level decisions. Strategic risk represents the risk of negative trends in income on account of previous or future fundamental business-policy decisions, produced by investment decisions in various business lines or regions (such as internal/external growth or investments).
The basis for the decision on a capital add-on is given by self assessment. The most relevant internal and external factors are identified for each entity and evaluated by estimating the likelihood and the consequence. However, in 2010 the Group and the Bank prescribed that starting from 2011 the capital kept to cover these risks should not be estimated less than 5% of the sum of minimum capital requirements.

Interest rate risk
The interest rate risk is a risk arising from exposing current and future financial results of the Bank's net interest income due to an adverse impact of changes in interest rates. For daily interest rate risk management the Group and the Bank uses gap analysis method and stress testing, which covers the most significant interest rate risk sources and allows to assess influence to income and economic value, if interest rates change. It should be stressed that the Group and the Bank has set low risk level of acceptable interest rate risk, so the capital needed to cover the risk was estimated by using the simplified approach prescribed by the Financial and Capital Market Commission. In addition, assessment is performed to estimate whether capital maintained for interest rate risk is adequate in comparison with the result originated from methods used during daily risk management.

Notes to the Financial Statements *(continued)*

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of discounted assets and liabilities as at 31 December 2010 was as follows:

	Up to 1 month LVL'000	1 – 3 months LVL'000	3 – 12 months LVL'000	Over 12 months LVL'000	Total LVL'000
Assets					
Cash and balances with the Central banks	72,736	-	-	-	72,736
Due from other credit institutions (demand)	16,493	-	-	-	16,493
Derivatives	7,830	394	288	-	8,512
Financial assets at fair value through profit or loss	10,188	28,121	47,153	53,305	138,767
Financial assets available-for-sale				10	10
Loans and advances	163,794	82,618	151,583	1,101,663	1,499,658
-- Due from other credit institutions (term)	54,004			873	54,877
-- Loans to customers	109,790	82,618	151,583	1,100,790	1,444,781
Accrued income and deferred expenses	105	223	345	7	680
Property and equipment	214	315	4,029	40,636	45,194
Intangible assets	-	-	-	1,207	1,207
Investments in the share capital of related companies	-	-	-	-	-
Other assets	1,076	1,162	3,849	15,577	21,664
Total assets	**272,436**	**112,833**	**207,247**	**1,212,405**	**1,804,921**
Liabilities					
Liabilities to credit institutions (demand)	41,207	-	-	-	41,207
Derivatives	13,191	1,125	750	353	15,419
Financial liabilities at amortised cost:	510,789	723,355	99,977	234,757	1,568,878
-- Due to credit institutions (term)	175,805	658,852	26,669	226,606	1,087,932
-- Deposits from customers	328,721	64,503	73,308	8,151	474,683
-- Other financial liabilities	6,263	-	-	-	6,263
Accrued expenses and deferred income	758	-	-	-	758
Income tax liabilities	-	-	-	-	-
Other liabilities	102	1,394	2,703	1,654	5,853
Subordinated loan	79	152	141	54,116	54,488
Total liabilities	**566,126**	**726,026**	**103,571**	**290,880**	**1,686,603**
Shareholders` equity	-	-	-	118,318	118,318
Total liabilities and shareholders` equity	566,126	726,026	103,571	409,198	1,804,921
Contingent liabilities	2,208	2,341	3,069	16,342	23,960
Commitments	11,868	30,272	27,876	2,224	72,240
Liquidity risk	**(307,765)**	**(645,806)**	**72,731**	**784,642**	**-**

Notes to the Financial Statements *(continued)*

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2009 was as follows:

	Up to 1 month LVL'000	1 – 3 months LVL'000	3 – 12 months LVL'000	Over 12 months LVL'000	Total LVL'000
Assets					
Cash and balances with the Central banks	95,876	-	-	-	95,876
Due from other credit institutions (demand)	8,833	-	-	-	8,833
Derivatives	8,882	11	145	729	9,767
Financial assets at fair value through profit or loss	5,733	8,464	53,620	51,856	119,673
Financial assets available-for-sale	-	-	-	10	10
Loans and advances	39,745	130,562	180,053	1,262,184	1,612,543
-- *Due from other credit institutions (term)*	1	6,067	1	5,390	11,458
-- *Loans to customers*	39,744	124,495	180,052	1,256,794	1,601,085
Accrued income and deferred expenses	183	513	-	-	696
Property and equipment	425	980	4,029	23,821	29,255
Intangible assets	-	-	-	1,539	1,539
Investments in the share capital of related companies	-	-	-	-	-
Other assets	678	932	2,638	17,957	22,205
Total assets	**160,355**	**141,462**	**240,485**	**1,358,095**	**1,900,397**
Liabilities					
Liabilities to credit institutions (demand)	54,536	-	-	-	54,536
Derivatives	13,988	2	130	2,625	16,745
Financial liabilities at amortised cost:	350,506	282,622	713,074	296,359	1,642,561
-- *Due to credit institutions (term)*	91,188	217,037	656,496	291,249	1,255,970
-- *Deposits from customers*	254,722	65,585	56,578	5,110	381,995
-- *Other financial liabilities*	4,596	-	-	-	4,596
Accrued expenses and deferred income	525	1,496	-	-	2,021
Income tax liabilities	-	-	-	686	686
Other liabilities	768	663	1,931	1,196	4,558
Subordinated loan	-	-	-	54,481	54,481
Total liabilities	420,323	284,783	715,135	355,347	1,775,588
Shareholders` equity	-	-	-	124,809	124,809
Total liabilities and shareholders` equity	**420,323**	**284,783**	**715,135**	**480,156**	**1,900,397**
Contingent liabilities	752	1,486	15,201	4,753	22,192
Commitments	31,339	41,105	7,432	4,013	83,889
Liquidity risk	**(296,174)**	**(185,912)**	**(497,283)**	**873,289**	**-**

Notes to the Financial Statements *(continued)*

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2010 was as follows:

	Up to 1 month LVL'000	1 – 3 months LVL'000	3 – 12 months LVL'000	Over 12 months LVL'000	Total LVL'000
Assets					
Cash and balances with the Central banks	72,736	-	-	-	72,736
Due from other credit institutions (demand)	16,164	-	-	-	16,164
Derivatives	7,830	394	288	-	8,512
Financial assets at fair value through profit or loss	10,188	28,121	47,153	53,305	138,767
Financial assets available-for-sale				10	10
Loans and advances	211,245	73,909	124,419	1,044,537	1,454,110
-- *Due from other credit institutions (term)*	54,004			873	54,877
-- *Loans to customers*	157,241	73,909	124,419	1,043,664	1,399,233
Accrued income and deferred expenses	105	123	345	7	580
Property and equipment	-	-	-	6,629	6,629
Intangible assets	-	-	-	861	861
Investments in the share capital of related companies	-	-	-	5,047	5,047
Other assets	3,776	771	22	11,018	15,587
Total assets	**322,044**	**103,318**	**172,227**	**1,121,414**	**1,719,003**
Liabilities					
Liabilities to credit institutions (demand)	41,207	-	-	-	41,207
Derivatives	13,191	1,125	750	353	15,419
Financial liabilities at amortised cost:	520,470	600,090	100,742	234,757	1,456,059
-- *Due to credit institutions (term)*	175,805	535,542	26,669	226,606	964,622
-- *Deposits from customers*	338,402	64,548	74,073	8,151	485,174
-- *Other financial liabilities*	6,263	-	-	-	6,263
Accrued expenses and deferred income	693	-	-	-	693
Income tax liabilities	-	-	-	-	-
Other liabilities	102	-	361	28,381	28,844
Subordinated loan	79	152	141	54,116	54,488
Total liabilities	575,742	601,367	101,994	317,607	1,596,710
Shareholders` equity	-	-	-	122,293	122,293
Total liabilities and shareholders` equity	**575,742**	**601,367**	**101,994**	**439,900**	**1,719,003**
Contingent liabilities	2,208	2,342	3,069	139,333	146,951
Commitments	40,415	30,272	27,876	2,224	100,787
Liquidity risk	**(298,807)**	**(528,175)**	**39,289**	**539,956**	**-**

***Notes to the Financial Statements** (continued)*

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2009 was as follows:

	Up to 1 month LVL'000	1 – 3 months LVL'000	3 – 12 months LVL'000	Over 12 months LVL'000	Total LVL'000
Assets					
Cash and balances with the Central banks	95,876	-	-	-	95,876
Due from other credit institutions (demand)	8,311	-	-	-	8,311
Derivatives	8,882	11	145	729	9,767
Financial assets at fair value through profit or loss	5,733	8,464	53,620	51,856	119,673
Financial assets available-for-sale	-	-	-	10	10
Loans and advances	40,492	123,125	171,318	1,180,964	1,515,898
-- Due from other credit institutions (term)	1	6,067	1	5,390	11,458
-- Loans to customers	40,491	117,058	171,317	1,175,574	1,504,440
Accrued income and deferred expenses	183	379	-	-	562
Property and equipment	-	-	-	6,077	6,077
Intangible assets	-	-	-	1,146	1,146
Investments in the share capital of related companies	-	-	-	1,997	1,997
Other assets	1,424	466	4,860	6,483	13,233
Total assets	**160,901**	**132,445**	**229,943**	**1,249,262**	**1,772,550**
Liabilities					
Liabilities to credit institutions (demand)	54,536	-	-	-	54,536
Derivatives	13,988	2	130	2,625	16,745
Financial liabilities at amortised cost:	418,740	282,604	492,183	296,359	1,489,886
-- Due to credit institutions (term)	91,049	217,019	435,605	291,249	1,034,922
-- Deposits from customers	323,095	65,585	56,578	5,110	450,368
-- Other financial liabilities	4,596	-	-	-	4,596
Accrued expenses and deferred income	491	1,496	-	-	1,987
Income tax liabilities		-	-	-	-
Other liabilities	9,307	12,573	6,493	900	29,273
Subordinated loan	-	-	-	54,481	54,481
Total liabilities	497,062	296,675	498,806	354,365	1,646,908
Shareholders` equity	-	-	-	125,642	125,642
Total liabilities and shareholders` equity	**497,062**	**296,675**	**498,806**	**480,007**	**1,772,550**
Contingent liabilities	752	1,486	225,201	15,644	243,083
Commitments	31,339	41,105	7,432	4,013	83,889
Liquidity risk	**(368,252)**	**(206,821)**	**(501,496)**	**749,598**	**-**

Notes to the Financial Statements *(continued)*

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the remaining cash flows of financial liabilities.

The table below allocates the Group's financial liabilities undiscounted cash flows as at 31 December 2010:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	Total LVL'000
Short term funding	(244,270)	(220,503)	(14,076)	-	-	**(478,849)**
Long term funding	(163,119)	(249,109)	(17,962)	(223,664)	(10,639)	**(664,493)**
Subordinated loans	(124)	(236)	(1,100)	(37,992)	(21,392)	**(60,844)**
Demand deposits	(189,295)	-	-	-	-	**(189,295)**
Term deposits	(82,451)	(25,243)	(123,432)	(67,948)	(364)	**(299,438)**
Derivatives:						
Derivatives settled on a gross basis						
Currency SWAPs						
inflow	82,431	43,726	30,813	63,630	-	**220,600**
outflow	80,913	46,864	26,716	61,311		**215,804**
Foreign exchange derivatives						
inflow	234	2,158	1,330	-	-	**3,722**
outflow	237	2,143	1,341	-	-	**3,721**
Derivatives settled on a net basis	(227)	(1,359)	(4,025)	(6,546)	(913)	**(13,070)**
Total	**(515,671)**	**(401,559)**	**(100,395)**	**(211,209)**	**(33,308)**	**(1,262,142)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2010:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	Total LVL'000
Short term funding	(244,270)	(220,503)	(14,076)	-	-	**(478,849)**
Long term funding	(162,928)	(126,063)	(17,962)	(223,664)	(10,639)	**(541,256)**
Subordinated loans	(124)	(236)	(1,100)	(37,992)	(21,392)	**(60,844)**
Demand deposits	(198,974)	-	-	-	-	**(198,974)**
Term deposits	(82,478)	(25,288)	(124,201)	(67,948)	(364)	**(300,279)**
Derivatives:						
Derivatives settled on a gross basis						
Currency SWAPs						
inflow	82,431	43,726	30,813	63,630	-	**220,600**
outflow	80,913	46,864	26,716	61,311		**215,804**
Foreign exchange derivatives						
inflow	234	2,158	1,330	-	-	**3,722**
outflow	237	2,143	1,341	-	-	**3,721**
Derivatives settled on a net basis	(227)	(1,359)	(4,025)	(6,546)	(913)	**(13,070)**
Total	**(525,186)**	**(278,558)**	**(101,164)**	**(211,209)**	**(33,308)**	**(1,149,425)**

Notes to the Financial Statements *(continued)*

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's financial liabilities cash flows as at 31 December 2009:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	Total LVL'000
Short term funding	(132,873)	(158,264)	(115,038)	-	-	**(406,175)**
Long term funding	(13,634)	(64,036)	(574,678)	(254,794)	(21,525)	**(928,667)**
Subordinated loans	(120)	(228)	(1,062)	(15,304)	(45,268)	**(61,982)**
Demand deposits	(155,339)	-	-	-	-	**(155,339)**
Term deposits	(105,563)	(65,140)	(56,865)	(4,814)	(247)	**(232,629)**
Derivatives:						
Derivatives settled on a gross basis						
Currency SWAPs						
inflow	102,670	37,504	24,500	-	-	**164,674**
outflow	(100,795)	(36,249)	(23,119)	-	-	**(160,163)**
Foreign exchange derivatives						
inflow	1,581	943	109	-	-	**2,633**
outflow	(1,592)	(940)	(107)	-	-	**(2,639)**
Derivatives settled on a net basis	161	(938)	(4,247)	(11,164)	(1,169)	**(17,357)**
Total	**(405,504)**	**(287,348)**	**(750,507)**	**(286,076)**	**(68,209)**	**(1,797,644)**

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2009:

	Up to 1 month LVL'000	1-3 months LVL'000	3-12 months LVL'000	1-5 years LVL'000	>5 years LVL'000	Total LVL'000
Short term funding	(132,873)	(158,264)	(115,038)	-	-	**(406,175)**
Long term funding	(13,378)	(63,550)	(353,406)	(254,794)	(21,525)	**(706,653)**
Subordinated loans	(120)	(228)	(1,062)	(15,304)	(45,268)	**(61,982)**
Demand deposits	(223,187)	-	-	-	-	**(223,187)**
Term deposits	(105,639)	(65,140)	(57,314)	(4,814)	(247)	**(233,154)**
Derivatives:						
Derivatives settled on a gross basis						
Currency SWAPs						
inflow	102,670	37,504	24,500	-	-	**164,674**
outflow	(100,795)	(36,249)	(23,119)	-	-	**(160,163)**
Foreign exchange derivatives						
inflow	1,581	943	109	-	-	**2,633**
outflow	(1,592)	(940)	(107)	-	-	**(2,639)**
Derivatives settled on a net basis	161	(938)	(4,247)	(11,164)	(1,169)	**(17,357)**
Total	**(473,172)**	**(286,862)**	**(529,684)**	**(286,076)**	**(68,209)**	**(1,644,003)**

***Notes to the Financial Statements** (continued)*

41 CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2010 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the Central banks	68,412	873	3,092	359	72,736
Due from other credit institutions (demand)	57	6,291	7,060	3,085	16,493
Derivatives	6,524	1,009	975	4	8,512
Financial assets at fair value through profit or loss	102,821	-	35,946	-	138,767
Financial assets available-for-sale	-	-	10	-	10
Loans and advances	23,753	37,448	1,437,726	731	1,499,658
-- Due from other credit institutions (term)	6,483	5,852	42,542	-	54,877
-- Loans to customers	17,270	31,596	1,395,184	731	1,444,781
Accrued income and deferred expenses	569	70	41	-	680
Property and equipment	28,128	-	17,066	-	45,194
Intangible assets	1,207	-	-	-	1,207
Other assets	17,465	887	3,309	3	21,664
Total assets	**248,936**	**46,578**	**1,505,225**	**4,182**	**1,804,921**
Liabilities					
Liabilities to credit institutions (demand)	774	324	40,061	48	41,207
Derivatives	11,503	871	3,039	6	15,419
Financial liabilities at amortised cost:	216,550	51,435	1,296,042	4,851	1,568,878
-- Due to credit institutions (term)	12,961	10,309	1,064,352	310	1,087,932
-- Deposits from customers	201,341	38,744	230,104	4,494	474,683
-- Other financial liabilities	2,248	2,382	1,586	47	6,263
Accrued expenses and deferred income	520	65	173	-	758
Other liabilities	2,841	2	3,010	-	5,853
Subordinated loan	-	-	54,488	-	54,488
Total liabilities	232,188	52,697	1,396,813	4,905	1,686,603
Shareholders` equity	118,318	-	-	-	118,318
Total liabilities and shareholders` equity	**350,506**	**52,697**	**1,396,813**	**4,905**	**1,804,921**
Net long/ (short) position on balance sheet	(101,570)	(6,119)	108,412	(723)	-
Off-balance sheet claims arising from foreign exchange					
Net long/ (short) position on foreign exchange	111,830	6,308	(116,309)	717	2,546
Net long/ (short) position	**10,260**	**189**	**(7,897)**	**(6)**	

Notes to the Financial Statements *(continued)*

41 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2009 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the Central banks	92,870	608	2,067	331	95,876
Due from other credit institutions (demand)	11	2,351	4,203	2,268	8,833
Derivatives	8,357	2	1,408	-	9,767
Financial assets at fair value through profit or loss	52,806	-	66,867	-	119,673
Financial assets available-for-sale	-	-	10	-	10
Loans and advances	19,800	46,640	1,545,469	634	1,612,543
-- Due from other credit institutions (term)	6,067	457	4,934	-	11,458
-- Loans to customers	13,733	46,183	1,540,535	634	1,601,085
Accrued income and deferred expenses	464	6	226	-	696
Property and equipment	19,899	-	9,356	-	29,255
Intangible assets	1,539	-	-	-	1,539
Other assets	10,493	745	10,934	33	22,205
Total assets	**206,239**	**50,352**	**1,640,540**	**3,266**	**1,900,397**
Liabilities					
Liabilities to credit institutions (demand)	2,611	6,106	45,743	76	54,536
Derivatives	13,979	3	2,763	-	16,745
Financial liabilities at amortised cost:	176,189	46,362	1,417,077	2,933	1,642,561
-- Due to credit institutions (term)	26,654	14,841	1,214,277	198	1,255,970
-- Deposits from customers	146,799	31,029	201,562	2,605	381,995
-- Other financial liabilities	2,736	492	1,238	130	4,596
Accrued expenses and deferred income	1,820	86	115	-	2,021
Income tax liabilities	686	-	-	-	686
Other liabilities	3,626	-	932	-	4,558
Subordinated loan	-	-	54,481	-	54,481
Total liabilities	198,911	52,557	1,521,111	3,009	1,775,588
Shareholders` equity	124,809	-	-	-	124,809
Total liabilities and shareholders` equity	**323,720**	**52,557**	**1,521,111**	**3,009**	**1,900,397**
Net long/ (short) position on balance sheet	(117,481)	(2,205)	119,429	257	-
Off-balance sheet claims arising from foreign exchange					
Net long/ (short) position on foreign exchange	126,101	2,161	(123,684)	(248)	4,330
Net long/ (short) position	**8,621**	**(44)**	**(4,255)**	**9**	**-**

Notes to the Financial Statements *(continued)*

41 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2010 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the Central banks	68,412	873	3,092	359	72,736
Due from other credit institutions (demand)	25	6,289	6,765	3,085	16,164
Derivatives	6,524	1,009	975	4	8,512
Financial assets at fair value through profit or loss	102,821	-	35,946	-	138,767
Financial assets available-for-sale			10	-	10
Loans and advances	45,333	37,363	1,370,683	731	1,454,110
-- *Due from other credit institutions (term)*	6,483	5,852	42,542	-	54,877
-- *Loans to customers*	38,850	31,511	1,328,141	731	1,399,233
Accrued income and deferred expenses	483	70	27	-	580
Property and equipment	6,629	-	-	-	6,629
Intangible assets	861	-	-	-	861
Investments in the share capital of related companies	5,047	-	-	-	5,047
Other assets	13,626	884	1,074	3	15,587
Total assets	**249,761**	**46,488**	**1,418,572**	**4,182**	**1,719,003**
Liabilities					
Liabilities to credit institutions (demand)	774	324	40,061	48	41,207
Derivatives	11,503	871	3,039	6	15,419
Financial liabilities at amortised cost:	218,207	51,436	1,181,565	4,851	1,456,059
-- *Due to credit institutions (term)*	12,961	10,309	941,042	310	964,622
-- *Deposits from customers*	202,998	38,745	238,937	4,494	485,174
-- *Other financial liabilities*	2,248	2,382	1,586	47	6,263
Accrued expenses and deferred income	456	65	172	-	693
Other liabilities	5,785	7	23,052	-	28,844
Subordinated loan	-	-	54,488	-	54,488
Total liabilities	236,725	52,703	1,302,377	4,905	1,596,710
Shareholders` equity	122,293	-	-	-	122,293
Total liabilities and shareholders` equity	**359,018**	**52,703**	**1,302,377**	**4,905**	**1,719,003**
Net long/ (short) position on balance sheet	(109,257)	(6,215)	116,195	(723)	-
Off-balance sheet claims arising from foreign exchange					
Net long/ (short) position on foreign exchange	111,830	6,308	(116,309)	717	2,546
Net long/ (short) position	**2,573**	**93**	**(114)**	**(6)**	

***Notes to the Financial Statements** (continued)*

41 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2009 was as follows:

	LVL	USD	EUR	Other currencies	Total LVL'000
Assets					
Cash and balances with the Central banks	92,870	608	2,067	331	95,876
Due from other credit institutions (demand)	-	2,349	3,694	2,268	8,311
Derivatives	8,357	2	1,408	-	9,767
Financial assets at fair value through profit or loss	52,806	-	66,867	-	119,673
Financial assets available-for-sale	-	-	10	-	10
Loans and advances	38,770	46,470	1,430,025	633	1,515,898
-- Due from other credit institutions (term)	6,067	457	4,934	-	11,458
-- Loans to customers	32,703	46,013	1,425,091	633	1,504,440
Accrued income and deferred expenses	354	6	202	-	562
Property and equipment	6,077	-	-	-	6,077
Intangible assets	1,146	-	-	-	1,146
Investments in the share capital of related companies	1,997	-	-	-	1,997
Other assets	7,589	745	4,866	33	13,233
Total assets	**209,966**	**50,180**	**1,509,139**	**3,265**	**1,772,550**
Liabilities					
Liabilities to credit institutions (demand)	2,611	6,106	45,743	76	54,536
Derivatives	13,979	3	2,763	-	16,745
Financial liabilities at amortised cost:	176,944	46,363	1,263,647	2,932	1,489,886
-- Due to credit institutions (term)	26,654	14,841	993,229	198	1,034,922
-- Deposits from customers	147,554	31,030	269,180	2,604	450,368
-- Other financial liabilities	2,736	492	1,238	130	4,596
Accrued expenses and deferred income	1,786	86	115	-	1,987
Other liabilities	6,362	12	22,899	-	29,273
Subordinated loan	-	-	54,481	-	54,481
Total liabilities	201,682	52,570	1,389,648	3,008	1,646,908
Shareholders` equity	125,642	-	-	-	125,642
Total liabilities and shareholders` equity	**327,324**	**52,570**	**1,389,648**	**3,008**	**1,772,550**
Net long/ (short) position on balance sheet	(117,358)	(2,390)	119,491	257	-
Off-balance sheet claims arising from foreign exchange					
Net long/ (short) position on foreign exchange	126,101	2,161	(123,684)	(248)	4,330
Net long/ (short) position	**8,744**	**(229)**	**(4,193)**	**9**	**-**

***Notes to the Financial Statements** (continued)*

42 HEDGE ACCOUNTING

As at part of risk management process, management identifies the financial risk to which the bank is exposed. A common strategy in risk management is reduction or elimination of the risks that the bank faces by entering into transaction that gives an offsetting risk profile.

The bank for interest rate risk hedge accounting uses fair value accounting model.
Fair value hedge is a hedge of the exposure to changes in the fair value of a recognised asset or liability, or an identified portion of such an asset or liability that is attributable to a particular risk and that will affect reported net income.
The Bank entered and designated the receive-variable, pay-fixes IRS as the derivative hedging instruments. The Bank identified and aggregated the portfolio/group of fixed interest rate loans (mortgage and private) as the hedged item.

For the year ended 31 December 2010, the Bank recognised a net gain LVL 948 thousand on the hedging instruments. The total net loss on the hedged items attributable to the hedged risks amounted to LVL 1,809 thousand.

LVL'000	**Notional amount**	**Notional amount**	**Gains/(losses) on the hedged item attributable to the hedge risk**		**Gains/(losses) on the hedging instrument**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Hedged item						
Loans portfolio	97,198	106,896	(1,809)*	1,993	948*	(1,996)

* Two hedge constructions were terminated and notional amount of hedged items was decreased.

43 LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals. The Management of the Bank believes that any legal proceedings pending as at 31 December 2010 will not result in material losses for the Bank and/ or Group.

44 EVENTS AFTER BALANCE SHEET DATE

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto.