



TRASTA KOMERCBANKA

**JSC "TRASTA KOMERCBANKA"
INTERIM CONDENSED FINANCIAL STATEMENTS
AND CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 SEPTEMBER 2010
UNAUDITED**

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MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

In the third quarter of 2010 the Bank continued to develop the service, to support actively its customers in Latvia and abroad. The Bank's Group expanded its geographical presence in the world, this time – in the South Caucasus region: on 07 September 2010, the Ministry of Taxation of Azerbaijan issued permission for opening a representative office of the Bank's subsidiary *TKB Līzings, Ltd.* The representative office in Baku, the capital city of Azerbaijan, will start its work in the coming months, representing interests of the Group in the respective region, maintaining relationships with customers of the Group and providing them with all necessary information.

On 30 September 2010, the Bank's assets amounted to LVL 245.4 million. At the end of the reporting period the amount of attracted deposits reached LVL 193.6 million, and the Bank's loan portfolio amounted to LVL 94.9 million. Thanks to the operating results of the third quarter, the Bank managed to reduce its losses of previous quarters by LVL 1.61 million - to LVL 1.04 million.

The Bank's capital and reserves on 30 September 2010 amounted to LVL 32.3 million. The Bank's liquidity as at the end of the reporting period was 70.82%, capital adequacy - 14.95%. In order to facilitate further development of the Bank, in December 2009, shareholders of the Bank decided to increase the share capital. As at the end of the reporting period, the shareholders had subscribed for LVL 2.8 million. Until 30 September 2010, the shares were paid in the amount of LVL 703 thousand.

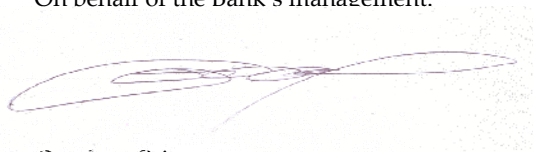
Bank's consolidation group consists of two subsidiary companies: "*TKB Nekustamie īpašumi*" and "*TKB Līzings*". At the end of 2009 the Bank acquired 100% of the Cyprus company "*Heckbert C7 Holdings*" shares. The amount of Group's assets as at the end of the reporting period was LVL 244.1 million. Due to making of provisions for bad debts the Group closed the first nine months of the year with a loss of LVL 1.2 million, but in the third quarter of 2010 it gained the profit of LVL 1.61 million. In 2010, the Group intends to continue its development in line with its activities plans and strategy, giving a special focus on assets quality and work with bad debts.

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 5 to 24 for the period from 1 January 2010 to 30 September 2010 have been prepared consistently applying relevant accounting methods and the management's judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared on a going concern concept basis. The purpose of the statement is to present comprehensive information regarding financial standing of the Bank and the Group, performance results, and the Bank's activities-related risks.

For the accounting period from 01 January 2010 to 30 June the Bank prepared condensed interim financial statements which were audited by "*Ernst & Young Baltic*", Ltd (Licence No.17). For the accounting period from 01 July 2010 to 30 September the Bank has not performed any additional interim audit. This public financial statement has been prepared based on unaudited financial statements for this period.

This financial report was approved by the Board of the Bank on November 22, 2010 and it is available on the Bank's Internet page at www.tkb.eu.

On behalf of the Bank's management:



Gundars Grieze
Chairman of the Board

Riga,
November 22, 2010

COMPOSITION OF THE BOARD AND COUNCIL OF THE BANK (GROUP HOLDING COMPANY)

Supervisory Council

Name, surname	Positions	Election date
Igors Buimisters	Chairman of the Council	24.03.2006, reelected 27.03.2009
Alfrēds Čepānis	Member of the Council	30.03.1999, reelected 27.03.2009
Charles E.G. Treherne	Member of the Council	16.03.2001/27.03.2009-06.10.2010
Igors Snisarevskis	Member of the Council	07.10.2010.

On 07 October 2010, the extraordinary shareholder meeting approved changes in the composition of the Council. Igors Buimisters and Alfreds Cepanis were reelected and Igors Snisarevskis was elected to the Council. Charles E.G.Treherne accordingly resigned his post as a member of the Council.

Management Board

Name, surname	Positions	Election date
Gundars Grieze	Chairman of the Board	28.06.1999, reelected 24.03.2009
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reelected 24.03.2009
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reelected 24.03.2009
Svetlana Krasovska	Member of the Board	24.10.1995, reelected 24.03.2009
Tatjana Konnova	Member of the Board	23.03.2006, reelected 24.03.2009

During the current period no changes in the Management Board occurred.

STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME

In thousands of lats	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>
Interest revenue		4 789	7 346	4 706	7 437
Interest expense		(2 949)	(2 531)	(2 960)	(2 549)
Net interest income		1 840	4 815	1 746	4 888
Loan impairment loss, net	5	(1 244)	(6 330)	(1 081)	(5 998)
Net interest income/(loss) after allowance for impairment		596	(1 515)	665	(1 110)
Commission income		3 816	4 098	3 810	4 089
Commission expense		(759)	(938)	(759)	(938)
Net commission income		3 057	3 160	3 051	3 151
Dividends		1	1	1	1
Net gains from trading financial assets	6	736	2 209	736	2 209
Net (losses)/gains from foreign currency trading and revaluation	6	598	2 938	600	2 939
Other income		49	96	51	79
Other non-interest (loss)/income		1 384	5 244	1 388	5 228
Salaries and benefits expenses		(3 543)	(3 549)	(3 445)	(3 472)
Administrative expenses		(1 677)	(1 612)	(1 704)	(1 654)
Depreciation		(547)	(511)	(541)	(507)
Other expenses		(125)	(86)	(121)	(84)
Other release of allowance, net		(44)	(7)	(44)	31
Other non-interest expense		(5 936)	(5 765)	(5 855)	(5 686)
(Loss)/profit before corporate income tax		(899)	1 124	(751)	1 583

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STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME (continued)

In thousands of lats	Note	The Group		The Bank	
		2010 (9 months)	2009 (9 months)	2010 (9 months)	2009 (9 months)
Corporate income tax		(289)	(227)	(287)	(212)
(Loss)/profit for the period from continuing operations		(1 188)	897	(1 038)	1 371
Loss after tax for the year from discontinued operations		(16)	(4 200)	-	-
(Loss)/profit for the period		(1 204)	(3 303)	(1 038)	1 371
Other comprehensive income:					
Available for sale financial asset revaluation profit		13	50	13	50
Change in foreign currency translation reserve		-	(1 157)	-	-
Total comprehensive (loss)/profit		(1 191)	(4 410)	(1 025)	1 421
(Loss)/profit for the period, incl.:		(1 204)	(3 303)	(1 038)	1 371
Attributable to equity holders of the Bank		(1 203)	(1 181)	(1 038)	1 371
Attributable to minority interest		(1)	(2 122)	-	-
Total comprehensive (loss)/profit, incl.:		(1 191)	(4 410)	(1 025)	1 421
Attributable to equity holders of the Bank		(1 190)	(2 088)	(1 025)	1 421
Attributable to minority interest		(1)	(2 322)	-	-
(Loss)/profit per share (basic and diluted) in lats from continuing operations		(8.44)	7.08	-	-
Loss per share (basic and diluted) in lats from discontinuing operations		(0.11)	(33.14)	-	-
Loss per share (basic and diluted) attributable to equity holders of the Bank in lats		(8.54)	(9.32)	-	-

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STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of lats	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>30.09.2010</u>	<u>31.12.2009</u>	<u>30.09.2010</u>	<u>31.12.2009</u>
ASSETS					
Cash and balances due from the Bank of Latvia		19 857	11 961	19 857	11 961
Due from credit institutions with a maturity of less than 3 months	7	94 375	121 124	94 375	121 124
<i>On demand</i>		79 840	94 120	79 840	94 120
<i>Other</i>		14 535	27 004	14 535	27 004
Held for trading financial assets		3 929	1 952	3 929	1 952
<i>Fixed income securities</i>		2 236	978	2 236	978
<i>Equity shares and other non-fixed income securities</i>		1 613	917	1 613	917
<i>Derivatives</i>		80	57	80	57
Available for sale financial assets		494	2 153	494	2 153
<i>Fixed income securities</i>		445	2 104	445	2 104
<i>Equity shares and other non-fixed income securities</i>		49	49	49	49
Due from credit institutions with a maturity of more than 3 months		293	379	293	379
Loans	8	93 315	98 023	94 854	99 212
Accrued income and deferred expenses		242	235	240	233
Long-term projects costs		2 405	2 318	2 405	2 318
Property and equipment	9	8 931	9 321	8 907	9 295
Intangible assets		336	272	336	272
Investments in share capital of subsidiary		-	-	52	52
Corporate income tax assets		24	896	-	881
Deferred tax assets		403	569	403	569
Other assets	10	5 675	2 880	5 405	2 802
Assets of disposal group classified as held for sale	11	13 835	13 849	13 848	13 848
TOTAL ASSETS		244 114	265 932	245 398	267 051

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STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of lats	Note	The Group		The Bank	
		30.09.2010	31.12.2009	30.09.2010	31.12.2009
LIABILITIES					
Due to credit institutions		2 587	2 143	2 587	2 143
<i>On demand</i>		2 561	2 118	2 561	2 118
<i>Term deposits with a maturity of more than 3 months</i>		26	25	26	25
Due to customers	12	193 598	221 061	193 614	221 061
<i>On demand</i>		139 433	109 076	139 449	109 076
<i>Term deposits</i>		54 165	111 985	54 165	111 985
Debt securities issued		2 809	2 811	3 513	3 514
Accrued expenses and deferred income		526	595	526	586
Corporate income tax liabilities		13	-	13	-
Other liabilities	13	8 489	2 950	8 457	2 945
Liabilities before subordinated liabilities		208 022	229 560	208 710	230 249
Subordinated liabilities		4 374	4 166	4 374	4 166
TOTAL LIABILITIES		212 396	233 726	213 084	234 415
EQUITY AND RESERVES					
Share capital	14	7 040	6 337	7 040	6 337
Share premium		111	111	111	111
Reserve capital and other reserves		3 804	3 804	3 804	3 804
Available for sale financial assets revaluation reserves		(8)	(21)	(8)	(21)
Retained earnings		20 763	21 966	21 367	22 405
Equity and reserves attributable to shareholders of the Bank		31 710	32 197	32 314	32 636
Minority shareholder interest		8	9	-	-
Total equity and reserves		31 718	32 206	32 314	32 636
TOTAL LIABILITIES AND EQUITY AND RESERVES		244 114	265 932	245 398	267 051

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**STATEMENTS OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENTS
OF CHANGES IN EQUITY**

(1) The Group

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Foreign exchange transaction reserve	Retained earnings	Total	Minority shareholder interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2008	6 337	111	3 804	(80)	(3 412)	23 594	30 354	2 994	33 348
<i>Net loss for the period</i>	-	-	-	-	-	(1 181)	(1 181)	(2 122)	(3 303)
<i>Other comprehensive expenses</i>	-	-	-	50	(957)	-	(907)	(200)	(1 107)
Total comprehensive loss	-	-	-	50	(957)	(1 181)	(2 088)	(2 322)	(4 410)
Issue of share capital	-	-	-	-	-	-	-	1 485	1 485
Changes in rezerves	-	-	10	-	-	-	10	42	52
BALANCE AS AT 30 SEPTEMBER 2009	6 337	111	3 814	(30)	(4 369)	22 413	28 276	2 199	30 475
BALANCE AS AT 31 DECEMBER 2009	6 337	111	3 804	(21)	-	21 966	32 197	9	32 206
<i>Net loss for the period</i>	-	-	-	-	-	(1 203)	(1 203)	(1)	(1 204)
<i>Other comprehensive income</i>	-	-	-	13	-	-	13	-	13
Total comprehensive loss	-	-	-	13	-	(1 203)	(1 190)	(1)	(1 191)
Issue of share capital	703	-	-	-	-	-	703	-	703
BALANCE AS AT 30 SEPTEMBER 2010	7 040	111	3 804	(8)	-	20 763	31 710	8	31 718

(2) The Bank

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2008	6 337	111	3 804	(80)	24 377	34 549
<i>Net profit for the period</i>	-	-	-	-	1 371	1 371
<i>Other comprehensive income</i>	-	-	-	50	-	50
Total comprehensive income	-	-	-	50	1 371	1 421
BALANCE AS AT 30 SEPTEMBER 2009	6 337	111	3 804	(30)	25 748	35 970
BALANCE AS AT 31 DECEMBER 2009	6 337	111	3 804	(21)	22 405	32 636
<i>Net profit for the period</i>	-	-	-	-	(1 038)	(1 038)
<i>Other comprehensive income</i>	-	-	-	13	-	13
Total comprehensive loss	-	-	-	13	(1 038)	(1 025)
Issue of share capital	703	-	-	-	-	703
BALANCE AS AT 30 SEPTEMBER 2010	7 040	111	3 804	(8)	21 367	32 314

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STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>
Cash flow as a result of operating activity:				
(Loss)/profit before corporate income tax	(899)	1 124	(751)	1 583
Loss before tax for the period from discontinued operations	(16)	(4 200)	-	--
Amortisation and depreciation	547	511	541	507
Increase in allowance for impairment of debts	1 515	6 251	1 354	5 939
Increase/(decrease) in other provisions	44	(39)	42	(79)
Foreign currency revaluation loss	960	(1 288)	963	(1 288)
Loss/(gain) from revaluation of financial assets	(584)	(2 318)	(584)	(2 318)
Expenses/(income) adjustments	(50)	-	(67)	-
Gain on disposal of fixed and intangible assets	1	3	1	3
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	1 518	44	1 499	4 347
(Increase)/decrease of held for trading financial assets	(1 356)	2 581	(1 356)	2 581
Decrease in due from credit institutions	1 773	7 921	1 773	7 921
(Increase)/decrease in loans	300	7 976	148	8 083
(Increase)/decrease in accrued income and deferred expense	(7)	(64)	(7)	(61)
(Increase) in other assets	(1 031)	(5 225)	(874)	(5 489)
Increase in due to credit institutions	-	(1)	-	(1)
Decrease in deposits	(27 463)	36 280	(27 447)	36 276
(Decrease)/increase in accrued expenses and deferred income	(69)	181	(60)	196
Increase in other liabilities	5 612	2 816	5 586	2 996
	(20 723)	52 509	(20 738)	56 849
Corporate income tax paid	762	(383)	773	(346)
Decrease in cash and cash equivalents from operating activities	(19 961)	52 126	(19 965)	56 503
Cash flows from investing activities				
Purchase of tangible and intangible fixed assets, net	(222)	(6 047)	(218)	(6 036)
Decrease in available-for-sale financial assets	1 672	(3 852)	1 672	(3 852)
Purchase of net assets of disposal group classified as held for sale	-	(1 669)	-	(1 669)
Cash flow of disposal group classified as available for sale	-	1 329	-	-
Cash outflow on long-term projects	(87)	(9)	(87)	(9)
Decrease in cash and cash equivalents from investing activities	1 363	(10 248)	1 367	(11 566)

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>
Cash flows from financing activities				
Subordinated liabilities issue	235	-	235	-
Repayment of subordinated liabilities	(111)	(109)	(111)	(109)
Issue of share capital	703	-	703	-
(Decrease)/increase in cash and cash equivalents from financing activities	827	(109)	827	(109)
Decrease in cash and cash equivalents	(17 771)	41 769	(17 771)	44 828
Cash and cash equivalents at the beginning of the period	130 320	56 285	130 320	56 285
Foreign currency revaluation loss	(878)	1 195	(878)	1 195
Cash and cash equivalents at the end of the period	111 671	99 249	111 671	102 308

Cash and cash equivalents are calculated as follows

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>
Due from credit institutions with a maturity of less than 3 months	94 375	86 465	94 375	89 524
Cash and balances due from the Bank of Latvia and other Central Banks	19 857	14 623	19 857	14 623
Due to credit institutions with a maturity of less than 3 months	(2 561)	(1 839)	(2 561)	(1 839)
CASH AND CASH EQUIVALENTS	111 671	99 249	111 671	102 308

Reflection of the received and (paid) sums of interest income/(expense) and dividends is provided below:

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>	<u>2010</u> <u>(9 months)</u>	<u>2009</u> <u>(9 months)</u>
Interest income received during the reporting period	5 024	7 041	4 966	6 949
Interest expenses paid during the reporting period	(2 862)	(2 329)	(2 873)	(2 349)
Dividends paid during the reporting period	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

JSC "Trasta Komercbanka" (hereinafter – the Bank) has been registered as a joint stock company, in the Latvian Register of Companies with the identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

By the end of the period the Bank had five representative offices outside Latvia, i.e. in Canada, Kazakhstan, Tadjikistan, Ukraine and Belarus. Their mission is to represent interests of the Bank in the respective countries, maintain relations with the Bank customers and provide them with necessary information. The Bank has a foreign branch in Cyprus and two branches in Latvia – in Liepaja and Daugavpils. Their functions incorporate provision of financial services to customers of the Bank.

Taking into account the specificity of Bank's activities, its total volume of assets and liabilities can vary significantly between periods, which is associated with the Bank's client-based activities and their deposit balances.

The Bank has established two subsidiaries, SIA TKB LĪZINGS and SIA TKB NEKUSTAMIE ĪPAŠUMI, thus broadening the range of services offered by the Bank.

This financial statements were approved by the Board of the Bank on 22 November 2010.

2 ACCOUNTING AND ASSESSMENT PRINCIPLES

(1) General principles

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 as adopted by European Union and do not include a complete set of financial statements as required by IAS 1 „*Presentation of Financial Statements*”. Therefore, these interim condensed financial statements should be analysed together with the Group's and Bank's financial statements for the previous reporting year.

The monetary unit used in the financial statements is **the lat (LVL)**, the monetary unit of the Republic of Latvia. All amounts in the financial statements are reported in **thousands of Lats (LVL 000's)**.

The Bank maintains its accounts based on appropriate accounting methods and policies which have been applied on a consistent basis. Since the end of the previous reporting year, no other changes in accounting policies have been made.

(2) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements according to International Accounting Standard 27. The consolidation was based on control over the subsidiaries arising from the majority of voting rights in the subsidiaries.

2 ACCOUNTING AND ASSESSMENT PRINCIPLES (continued)

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

(3) Foreign currency exchange rates

	<u>30.09.2010</u>	<u>31.12.2009</u>	<u>30.09.2009</u>
LVL 1 = EUR	1.423	1.423	1.423
USD	1.934	2.045	2.083
GBP	1.221	1.277	1.307
RUB	58.824	60.976	62.893
UAH	15.337	16.393	17.606

3 INTERNAL CONTROL SYSTEM OF LAUNDERING OF THE PROCEEDS FROM CRIME AND PREVENTION OF TERRORISM FINANCING

Since 2007 TKB has yearly drafted and approved a plan of measures in order to upgrade the internal control system for prevention of money laundering and terrorist financing and, in accordance with this plan; the measures are taken regularly to improve the money laundering and terrorist financing risk management process

The Bank continuously develops its internal control system, including the technical equipment. In 2010, TKB actively worked to do the preparatory work for introduction of an internationally recognized automated transaction monitoring system in 2010. This system will greatly improve the monitoring of customer transactions, alert on deviations from the model of customer behaviour, possible suspicious transactions, and the system will also assess the customer risk degree. By using this system the analysis of links between several accounts will be automated as well.

4 RISK CONTROL AND MANAGEMENT

In order to manage risks and meet the performance standards for Bank activities - capital adequacy, liquidity, foreign currency positions and risk control and administration of Bank transactions - the Bank has approved its Risk Management Policy and other policies, including its Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, Country Risk Management Policy, Lending Policy, Trading Portfolio Policy and other policies approved by the Council and the Board of the Bank. These policies have been developed in accordance with the Strategic Plan of the Bank, and they are regularly updated based on the development of the market and Bank core activities.

These policies set the principles according to which the Bank defines:

- ✓ General guidelines applied by the Bank in its operations in order to minimise all kinds of risks which may result in losses;
- ✓ Classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- ✓ General day-to-day control and administration of the Bank's risk exposures.

The main purpose of the Bank's Risk Management Policy is to describe and determine the set of measures which would help the Bank to minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not fully paid in a timely fashion, or where the Bank incurs losses of another kind.

4 RISK CONTROL AND MANAGEMENT (continued)

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Bank's Risk Management Policy is implemented by the Council, the Board, the Asset-Liability Assessment Committee (hereinafter – ALCO), the Loan Committee and the Loan Assessment Committee of the Bank, as well as by the respective structural units of the Bank engaged in risk transaction control.

The Risk Control and Management Policy of the Group did not differ materially from the Bank's policies.

5 LOAN IMPAIRMENT LOSS, NET

In thousands of lats	The Group		The Bank	
	2010 (9 months)	2009 (9 months)	2010 (9 months)	2009 (9 months)
Balance as at 1 January	17 076	4 963	16 240	4 778
<i>incl. for due from credit institutions</i>	1 479	-	1 479	-
<i>incl. for loans</i>	15 597	4 963	14 761	4 778
Additional <i>individual</i> allowance	3 345	6 273	3 178	5 920
Change in <i>collective</i> allowance	10	184	10	184
Release of <i>individual</i> allowances	(2 111)	(127)	(2 107)	(106)
Effect of changes in currency exchange rates	271	(79)	273	(60)
Balance as at 30 September	18 591	11 214	17 594	10 716
<i>incl. for due from credit institutions</i>	439	-	439	-
<i>incl. for loans</i>	18 152	11 214	17 155	10 716

The cause of significant impairment in the previous period is the deterioration of general economic and financial situation, which resulted in inability of borrowers to repay their loans.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

6 NET PROFIT/(LOSS) FROM FINANCIAL ASSETS HELD FOR TRADING AND FOREIGN CURRENCY TRADING

Changes in profit/loss from the financial instruments held for trading are mainly associated with fair value changes of these securities, whereof profit of 521 thousand lats in the reporting period (2009: profit of 681 thousand lats) is related to equity securities and profit of 215 thousand lats in the reporting period (2009: profit of 1 528 thousand lats) is related to debt securities.

Changes in profit/loss from foreign currency are related to decrease in the volume of trade transactions and changes in currency rates, as well as loss on the exchange rate difference resulting from the Bank's investment that is described in Note 11 and recorded in U.S. dollars. According to IFRS, this investment is recorded at the acquisition date, the amount of exchange rate and balance in terms of lats does not change. Given that the Bank intends to sell this investment and to receive income in U.S. dollars, the Bank has valued this investment in U.S. dollars, including it the calculation of open foreign exchange position. To minimize the possible currency fluctuation risk, the said position is covered with various financial commitments in U.S. dollars. As a result of revaluation of these commitments the Banks has suffered losses in the amount of 785 thousand lats. The Bank is planning to cover these losses by realizing the above mentioned investment.

7 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF LESS THAN 3 MONTHS

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>30.09.2010.</u>	<u>31.12.2009.</u>	<u>30.09.2010.</u>	<u>31.12.2009.</u>
Due from credit institutions registered in the Republic of Latvia	11 112	10 276	11 112	10 276
Due from credit institutions registered in the foreign countries	83 263	111 817	83 263	111 817
	94 375	122 093	94 375	122 093
Impairment loss	-	(969)	-	(969)
	94 375	121 124	94 375	121 124

Changes in claims on credit institutions are related to the fact that at the previous year-end the Bank had attracted customer deposits with duration of 3-6 months, which in turn reduced the volume of deposits during the reporting period, and consequently the claims on credit institutions, too.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	30.09.2010.	31.12.2009.	30.09.2010.	31.12.2009.
8 LOANS				
Private enterprises	90 283	91 688	86 011	87 212
Private persons	19 987	20 086	19 673	19 793
Related companies	-	-	5 178	5 336
Financial institutions	3	64	3	64
Employees	1 194	1 782	1 144	1 568
Total gross loans	111 467	113 620	112 009	113 973
Impairment allowances, <i>individually assessed</i>	(17 467)	(14 922)	(16 470)	(14 086)
Impairment allowances, <i>collectively assessed</i>	(685)	(675)	(685)	(675)
	93 315	98 023	94 854	99 212
Loans by types of loans may be specified as follows:				
Mortgage loans	42 777	47 076	42 623	46 887
Commercial loans	29 309	29 977	34 487	35 313
Industrial loans	11 838	11 469	11 838	11 469
Finance lease	4 364	4 682	-	-
Overdrafts	1 416	1 959	1 416	1 959
Reverse REPO	1 317	1 182	1 317	1 182
Consumer loans	363	311	245	199
Factoring	289	417	289	417
Secured by deposit	418	395	418	395
Payment card loans	315	317	315	317
Other	19 061	15 835	19 061	15 835
	111 467	113 620	112 009	113 973

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

9 TANGIBLE ASSETS

The major part of Bank's fixed assets consists of the principal office building and land parcel located at 9 Miesnieku Street, Riga. During the reporting period the Bank has not made any significant acquisition of fixed assets

10 OTHER ASSETS

The other assets mostly consist of balances in brokerage companies and real property that served as collateral of issued loans and that came into the possession of Bank. Bank's balances in brokerage companies at the end of the reporting period comprised 1 472 thousands of lats (2009: 1 477 thousand lats), and which secure Bank's and customers' operations with securities. The real property is planned to be sold. At the end of the reporting period the value of such real property amounted to LVL 3154 thousand (2009: 359 thousand lats).

11 ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE DISCONTINUED OPERATIONS

At the end of the 2009 year the Bank purchased 100% of the share capital of Cyprus Company „Heckbert C7 Holdings, which owns 100% of the share capital of the company “Ferrous” (Hungary), which is the owner of 25.085% of the share capital of the Ukrainian gas company “Devon”. The purpose of this transaction was to obtain control over 25.085% of the share capital of “Devon”. “Heckbert C7 Holdings” and “Ferrous” do not performed any other commercial activities except the holding of the shares of “Devon”.

The shares of “Heckbert C7 Holdings” were acquired through selling the direct and indirect holding in the commercial bank “Misto Bank” of Ukraine through netting of mutual claims. The value of this transaction was USD 28 million that corresponds to 13 701 thousand lats. Besides, additional expenses related to the transaction were paid in the amount of 147 thousand. Independent evaluation of the impairment did not show any impairment of the investment. Independent experts have measured the fair value of the shares of “Devon” which proved to be much higher than the investment purchase price.

The purpose of purchasing this investment is its further realization, thus according to International Financial Reporting Standard 5 the investment is classified as “financial assets held for sale”. Such classification has the following justification:

1. this asset is available for immediate sale;
2. management of the Bank is determined to sell this asset;
3. management of the Bank is actively involved in searching a buyer of this asset and has made an agreement with an agent;
4. the investment realization price is based on its current fair value;
5. management of the Bank is planning to finalize this selling within a year.

The assets and liabilities of this subsidiary are disclosed in the Group's consolidated financial statements separated from other Group's assets and liabilities as the assets and liabilities of disposal group classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

11 ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE DISCONTINUED OPERATIONS (continued)

Presented below is the information about the assets and liabilities of disposal group classified as held for sale, and also results of its activity.

ASSETS/LIABILITIES	30.09.2010	31.12.2009
Investments in share capital of subsidiary	13 848	13 848
Other assets	1	18
Other liabilities	(14)	(17)
Net assets directly associated with disposal group	13 835	13 849

12 DUE TO CUSTOMERS

In thousands of lats	The Group		The Bank	
	30.09.2010.	31.12.2009.	30.09.2010.	31.12.2009.
Private enterprises	156 496	193 786	156 496	193 786
Individuals	34 191	24 332	34 191	24 332
Non-governmental-organizations servicing individuals	106	155	106	155
Financial institutions	2 787	2 776	2 803	2 776
Local government	18	12	18	12
	193 598	221 061	193 614	221 061

Changes in deposits are related to the fact that at the previous year-end the Bank had attracted customer deposits with duration of 3-6 months, which in turn reduced the volume of deposits in the reporting period.

13 OTHER LIABILITIES

Other liabilities include suspense accounts, unpaid dividends, money in transit and other liabilities.

Suspense accounts (cleared after the period) represent payments received by the Bank where the beneficiary is not clearly identified. In the reporting period this amount was 6 481 thousand lats (2009: 191 thousand lats). After clarification they are credited to customer accounts.

The unpaid dividends of previous periods during the reporting period amounted to 1 767 thousand lats (2009: 1 767 thousand lats).

The funds, transferred to other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit. In the reporting period this amount was 74 thousand lats (2009: 204 thousand lats).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

14 SHARE CAPITAL

In December 2009, shareholders of the Bank decided to increase the share capital. As of the end of the reporting period shareholders have subscribed for 2.8 million lats and 703 thousand lats have been paid. The deadline for payment of these shares is 28 December 2010. After the increase the share capital will amount to 9.1 million lats.

The Bank's registered and paid up share capital Bank's registered and paid up share capital on 30 September, 2010 amounted to 7 040 thousand LVL (2009: 6 337 thousand LVL), consisting of 140 800 ordinary voting shares, with a nominal value of LVL 50. The total number of shareholders is 47, out of which 10 legal entities and 37 individuals.

List of shareholders:

Shareholder	Country	Shareholding 30 September 2010		Shareholding 31 December 2009	
		%	LVL'000	%	LVL'000
I.Buimisters	Latvia	37.68	2 653	37.10	2 351
S.Tarasenoks*	Latvia	12.73	896	14.15	896
SIA "C&R Invest"	Latvia	13.72	966	13.58	861
C.E.G. Treherne	Great Britain	9.32	656	9.18	582
GCK Holdings					
Netherlands B.V.	Netherlands	6.96	490	6.80	431
Rikam S.A.H.	Luxembourg	6.85	483	6.79	430
Figon Co Limited	Cyprus	3.20	225	3.16	201
Another shareholders		9.54	671	9.24	585

* Since Sergejs Tarasenoks passed away, his shares are included in the succession mass.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

15 SEGMENT ANALYSIS

The analysis of segments of the Group and Bank includes only one segment since the Group / Bank considers its operation as a whole and does not break it down into separate segments. The following analysis of segments is based on the Group's and the Bank's internal reports.

(1) Balance

In thousands of lats	The Group		The Bank	
	30.09.2010	31.12.2009	30.09.2010	31.12.2009
Cash	19 857	11 961	19 857	11 961
Balance from credit institutions	95 093	122 920	95 093	122 920
Loans and receivables	110 280	112 226	110 864	112 595
Other state fixed income securities	2 648	3 066	2 648	3 066
Shares and other investments	1 662	966	15 562	14 866
Fixed assets and intangible assets	9 267	9 594	9 243	9 567
Other assets	24 141	22 500	9 941	8 512
Total assets	262 948	283 233	263 208	283 487
Balances due to banks	2 587	2 143	2 587	2 143
Deposits	193 163	220 731	193 179	220 731
Issued bonds	2 804	2 806	3 507	3 509
Other liabilities	9 682	4 120	9 627	4 080
Impairment and accrued liabilities	18 671	17 113	17 671	16 276
Equity	36 041	36 320	36 637	36 748
Total equity and liabilities	262 948	283 233	263 208	283 487
Total assets per internal reporting	262 948	283 233	263 208	283 487
Reconciling items:				
<i>Impairment</i> ¹	(18 671)	(17 113)	(17 671)	(16 276)
<i>Other reconciling items</i> ²	(163)	(188)	(139)	(160)
Total assets per IFRS statements	244 114	265 932	245 398	267 051
Total liabilities per internal reporting	226 907	246 913	226 571	246 739
Reconciling items:				
<i>Impairment</i> ¹	(18 671)	(17 113)	(17 671)	(16 276)
<i>Subordinated liabilities</i> ³	4 323	4 112	4 323	4 112
<i>Other reconciling items</i> ²	(163)	(186)	(139)	(160)
Total liabilities per IFRS statements	212 396	233 726	213 084	234 415

¹ For internal reporting purposes impairment is shown as a liability and not netted with related assets.

² Other reconciling items mostly represent cut-off and classification required by IFRS.

³ For internal reporting purposes the subordinated liabilities are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

15 SEGMENT ANALYSIS (continued)

(2) Profit and loss statement

In thousands of lats	The Group		The Bank	
	2010 (9 months)	2009 (9 months)	2010 (9 months)	2009 (9 months)
Interest revenue	4 789	7 346	4 705	7 437
Commission revenue	3 816	4 098	3 811	4 089
Profit from trading	1 336	5 148	1 337	5 149
Impairment	2 844	650	2 840	668
Other income	49	9 666	51	79
Total revenues	12 834	26 908	12 744	17 422
Interest expenses	2 949	2 531	2 960	2 549
Commission expenses	759	938	759	938
Administration expenses ¹	5 801	5 673	5 715	5 635
Tax expenses	289	227	287	212
Impairment	4 132	6 988	3 965	6 635
Other expenses	108	13 854	96	82
Total expenses	14 038	30 211	13 782	16 051
Profit	(1 204)	(3 303)	(1 038)	1 371
Total revenues per internal reporting	8 605	11 444	8 516	11 526
Reconciling item, net ²	-	-	-	-
Total revenues per IFRS statements	8 605	11 444	8 516	11 526

¹ The Bank's administration expenses include depreciation charge in the amount of 541 thousand lats (2009: 507 thousand lats). The Group's administration expenses accordingly include depreciation charge in the amount of 547 thousand lats (2009: 511 thousand lats).

² Reconciling item is mainly due to cut-off, as well as nominal interest rate accounting used for internal reporting purposes in contrast to effective interest rate accounting used for IFRS compliant financial statements.

(3) The Group's income analysis by the place of customers' residence

In thousands of lats	2010 (9 months)		2009 (9 months)	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest income	1 744	3 045	2 890	4 456
Commission income	245	3 571	227	3 871
Total income	1 989	6 616	3 117	8 327

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

15 SEGMENT ANALYSIS (continued)

(4) The Bank's income analysis by the place of customers' residence

In thousands of lats	2010 (9 months)		2009 (9 months)	
	Latvian residents	Latvian non- residents	Latvian residents	Latvian non- residents
Interest income	1 673	3 033	2 809	4 628
Commission income	239	3 571	218	3 871
Total income	1 912	6 604	3 027	8 499

16 OFF-BALANCE SHEET ITEMS

Off-balance liabilities

In thousands of lats	The Group		The Bank	
	30.09.2010	31.12.2009	30.09.2010	31.12.2009
Contingent liabilities	6 407	6 759	6 702	7 145
<i>including guarantees</i>	275	436	570	822
<i>including rent commitments</i>	6 132	6 323	6 132	6 323
Commitments to customers	3 431	2 543	5 420	4 436
<i>including unused credit limits</i>	3 023	2 417	5 012	4 310
<i>including letters of credit</i>	242	83	242	83
<i>including other liabilities</i> ¹	166	43	166	43
	9 838	9 302	12 122	11 581

¹ Other liabilities are disclosed as the Bank's future liabilities for acquisition of fixed assets.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

17 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, chairpersons and members of the council and management board, internal service manager and members and other employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, and brokerage etc. These transactions are conducted on normal business terms.

(1) Amount of the Group transactions with related persons is presented below

In thousands of lats	30.09.2010				31.12.2009			
	Shareholders	Other related parties ¹	Council and board	Total	Shareholders	Other related parties ¹	Council and board	Total
Assets								
Loans	105	2 719	169	2 993	659	4 195	133	4 987
<i>Allowance for loans</i>	(2)	(57)	(5)	(64)	(12)	(1 022)	(2)	(1 036)
Loans, net	103	2 662	164	2 929	647	3 173	131	3 951
Liabilities								
Deposits	533	264	160	957	9	1 143	204	1 356
Non-balance items								
Unused credit lines	77	8	35	120	22	7	22	51
Comprehensive income report								
	30.09.2010				30.09.2009			
Interest income	5	62	5	72	21	32	7	60
Commissions income	4	17	2	23	1	20	2	23
Interest expense	-	(7)	(4)	(11)	-	(9)	(9)	(18)
Reserve decreasing income, net	10	965	(3)	972	-	(19)	-	(19)
Other expenses	(8)	(14)	(23)	(45)	(10)	(36)	(29)	(75)

¹ Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

17 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Amount of the Bank transactions with related persons is presented below

In thousands of lats	30.09.2010					31.12.2009				
	Shareholders	Subsidiary companies	Other related persons ¹	Council and Board	Total	Shareholders	Subsidiary companies	Other related	Council and Board	Total
Assets										
Credits	79	5 178	2 713	157	8 127	546	5 336	4 139	108	10 129
<i>Reserves for unsecured credits</i>	(2)	-	(57)	(5)	(64)	(12)	-	(1 022)	(2)	(1 036)
Credits, net	77	5 178	2 656	152	8 063	534	5 336	3 117	106	9 093
Liabilities										
Deposits	533	1	264	160	958	9	7	1 143	204	1 363
Non-balance items										
Unused credit limits	77	2 051	8	35	2 171	22	1 892	7	22	1 943
Comprehensive income report										
	30.09.2010					30.09.2009				
Interest income	3	128	61	4	196	15	363	29	5	412
Commissions income	4	1	17	2	24	1	-	20	2	23
Interest expenditure	-	(11)	(7)	(4)	(22)	-	(18)	(9)	(9)	(36)
Reserve decreasing income, net	10	-	965	(3)	972	-	39	(19)	-	20
Other expenses	(8)	(59)	(14)	(23)	(104)	(10)	(110)	(36)	(29)	(185)

¹ Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

18 EVENTS AFTER BALANCE SHEET DATE

During the period from the last day of the reporting period until the publication date of these financial statements there have not been any subsequent events that could materially affect these statements or notes thereto.

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