Information disclosed in the report is prepared in accordance with the Financial and Capital Market Commission's regulations No. 145 "Regulations on Preparation of Public Quarterly Reports of Credit Institutions".

Unaudited financial and operating results in 2009

Since 8 November 2008, when the Latvian state became the majority shareholder of Parex Bank, the Bank's operations have significantly improved in a number of fields. For example, the Bank's volume of deposits has stabilized and its liquidity indicators have gained ground. The Bank has also attracted new customers and developed a number of innovative products. The stabilization of the Bank's operations was also acknowledged by the Moody's rating agency, which upgraded Parex Bank's long-term rating outlook from negative to stable on 30 July 2009.

The most significant factors that contributed to the improvement of the Bank's financial indicators include a successfully negotiated agreement in March of 2009 on the restructuring of the Bank's syndicated loans, as well as the involvement of the European Bank for Reconstruction and Development (EBRD) in the Bank's shareholding structure, thus ensuring additional stability and more promising growth prospects for the Bank.

The year 2009 demonstrated that customers have remained loyal to the Bank, as evidenced by the volume of deposits and by improvements in the Bank's liquidity indicators. Furthermore, the Bank drew a significant number of new customers in 2009, and the stability of its financial indicators has provided a favourable environment for the attraction of a strategic investor.

A great deal of effort has been invested into improving the Bank's business operations, which were divided into three principal sectors – retail banking services, corporate client services and private capital management, with priority development goals defined in each of these three sectors. During the second half of 2009, the Bank founded several daughter companies, mainly to ensure the effective management of the Bank's repossessed real estate assets, as well as a maximum return. The Bank also drew up a restructuring plan last year and submitted it to the European Commission for approval. In the meantime, the restructuring of the Bank is continuing, in order to ensure that funds appropriated by Latvian state institutions for supporting the Bank are repaid as soon as possible, and that a strategic investor is attracted in the near future.

The Bank has been successful in attracting new customers and in developing new products. During the course of the year 2009, the Bank created and offered its clients a number of new deposit options, including the FLEX deposit. This is a term deposit denominated in Latvian lats (LVL), with the possibility of converting the FLEX deposit into other currencies an unlimited number of times during the term of the deposit. The Bank's new 3D savings account allows companies to better plan their cash flow, while the EXPRESS term deposit is a fixed term deposit with a fixed interest rate, which allows holders to receive earned interest already at the beginning of the deposit term.

Last year the Latvian government continued to support the Bank and extended the repayment terms of loans previously provided to the Bank by state institutions. During the year 2009, the Bank paid LVL 40.9 million in interest to the State Treasury for deposits placed in the Bank, as well as to the state joint stock company (JSC) Latvian Privatization Agency (LPA), for the subordinated loan. The LPA is currently the Bank's largest shareholder. Over the course of the year, the Bank's capital increased by LVL 165 million. The first increase in capital was provided by the LPA, while in September of 2009 the EBRD provided an additional LVL 51.4-million increase through the purchase of Parex Bank shares from the LPA. The EBRD and the LPA further increased the Bank' s equity capital by providing subordinated loans to the order of EUR 18.4 million (or LVL 12.9 million – granted by the EBRD) and EUR 53.1 million (or LVL 37.3 million – granted by the LPA).

The Bank and Group closed the year 2009 with total, unaudited net losses of LVL 107.5 million for the Bank and LVL 124.7 million for the Group. The majority of the losses for this 12-month period arose from the impairment charges of LVL 103.5 million for the Bank and 114.8 million for the Group

On 31 December 2009, the Bank’s loan portfolio was LVL 1.45 billion, while that of the Group was LVL 1.66 billion. Deposits amounted to LVL 1.54 billion for the Bank and LVL 1.69 billion for the Group. Total assets were LVL 2.48 billion and LVL 2.6 billion, respectively. The volume of capital and reserves had attained LVL 156.5 million for the Bank and LVL 141.5 million for the Group at year’s end.

During the year, substantial measures were undertaken to optimise expenditures. Administrative costs were reduced significantly, including personnel salary costs (by 41%), business travel expenses (by 91%), advertising, marketing and representation costs (by 81%), transport expenses (by 65%), office expenditures (by 58%) and telephone communications costs (by 31%).

Significant events after the end of the reporting period

On 12 February 2010, the Bank repaid a scheduled syndicated loan tranche of EUR 310 million (or LVL 218 million). As the Bank’s liquidity was improved, the Bank was able to provide the majority of this sum, or EUR 165 million, from its own sources. The remaining EUR 145 million were covered by the Latvian State Treasury in the form of a term deposit in the Bank.

On 15 February 2010, the Bank concluded its first issue of debt securities amounting to EUR 17.7 million, and signed two-year deposit agreements to the tune of EUR 130 million. These measures were undertaken in the process of restructuring Bank deposits that are subject to restrictions, thus significantly reducing total balance of such deposits and improving the Bank’s liquidity.

On 23 February 2010, the Latvian Cabinet of Ministers approved an increase of LVL 31.5 million in the Bank’s equity capital. On 26 February 2010, the capital increase was done by capitalizing the respective amount of from the existing State Treasury deposits with the Bank. No additional funds were provided for the Bank’s capital increase.

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BALANCE SHEETS AS AT 31 DECEMBER 2009 AND 31 DECEMBER 2008

LVL 000's

	Reporting period *Unaudited*	**Preceding reporting year** *Audited**	**Reporting period** *Unaudited*	**Preceding reporting year** *Audited**
	Group	**Group**	**Bank**	**Bank**
Cash and demand deposits with central banks	157 502	116 350	142 259	95 179
Demand deposits with credit institutions	208 495	94 444	183 831	114 247
Financial assets held for trading	4 765	25 918	4 774	25 553
Financial assets designated at fair value through profit and loss	2 770	1 629	-	-
Available-for-sale financial assets	114 349	158 691	95 199	153 722
Loans and receivables to customers:				
Loans to credit institutions	12 341	180 280	142 038	384 438
Loans to companies and private individuals	1 662 130	2 036 001	1 448 541	1 744 871
Held-to-maturity investments	299 371	758 546	318 649	797 989
Prepayments and accrued income	4 620	3 530	3 529	2 735
Fixed assets	52 508	60 492	12 545	20 238
Intangible assets	3 294	4 048	585	782
Investments in subsidiaries	-	-	72 725	51 442
Investment property	944	-	-	-
Income tax assets	38 893	20 346	35 415	17 345
Other assets	39 150	23 528	16 532	9 498
Total assets	**2 601 132**	**3 483 803**	**2 476 622**	**3 418 039**

Due to central banks	167 966	635 238	167 966	635 238
Demand liabilities to credit institutions	615	5 805	7 144	76 656
Financial liabilities held for trading	937	9 509	962	9 670
Financial liabilities designated at fair value through profit and loss	709	314	-	-
Financial liabilities measured at amortised cost:				
Loans from credit institutions	383 885	548 578	397 672	549 546
Deposits from customers	1 688 431	2 022 994	1 541 251	1 901 886
Issued debt securities	90 551	88 982	90 742	88 712
Subordinated liabilities	103 949	52 957	103 956	52 960
Other financial liabilities	5 430	2 341	-	-
Accrued expenses and deferred income	5 928	7 653	5 025	6 412
Income tax liabilities	1 312	787	-	-
Other liabilities	9 879	29 574	5 428	19 471
Total liabilities	**2 459 592**	**3 404 732**	**2 320 146**	**3 340 551**
Shareholders' equity	141 540	79 071	156 476	77 488
Total liabilities and shareholders' equity	**2 601 132**	**3 483 803**	**2 476 622**	**3 418 039**

Memorandum items				
Contingent liabilities	6 826	57 843	11 464	52 739
Financial commitments	126 088	179 632	166 323	269 518

* Auditors: SIA „Ernst & Young Baltic"

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STATEMENTS OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009 AND 31 DECEMBER 2008

LVL 000's

	Reporting period *Unaudited*	Respective period of the preceding reporting year *Audited**	Reporting period *Unaudited*	Respective period of the preceding reporting year *Audited**
	Group	**Group**	**Bank**	**Bank**
Interest income	171 058	228 657	152 310	202 292
Interest expense	(145 883)	(132 045)	(141 315)	(125 759)
Dividends received	160	360	160	358
Commission and fee income	28 160	47 186	21 588	38 298
Commission and fee expense	(8 588)	(11 374)	(6 944)	(10 875)
Net gain/ (loss) on available for sale financial assets and financial liabilities	(11)	(8 080)	15	(7 095)
Net gain/ (loss) on financial assets measured at amortised cost	(327)	-	-	-
Net gain/ (loss) on financial liabilities measured at amortised cost	-	3 770	-	3 770
Net gain/ (loss) on financial assets or financial liabilities designated at fair value though profit and loss	1,557	3 907	1,491	4 027
Net gain/ (loss) on held for trading financial assets and financial liabilities	1 792	(9 660)	1 778	(9 571)
Gain/ (loss) from foreign exchange trading and revaluation of open positions	2 647	6 701	2 256	4 212
Net gain/ (loss) on disposal of non-current assets held for sale	(3 623)	(391)	-	-
Other income	14 337	12 228	9 549	7 715
Other expense	(4 476)	(1 515)	(4 115)	(1 062)
Administrative expense	(71 520)	(109 092)	(50 352)	(82 638)
Amortisation and depreciation charge	(11 344)	(9 314)	(7 752)	(7 346)
Impairment charge and reversals, net	(114 770)	(159 732)	(103 476)	(146 655)
Corporate income tax	16 169	7 424	17 262	6 321
(Loss)/ profit for the reporting period	**(124 662)**	**(130 970)**	**(107 545)**	**(124 008)**

* *Auditors: SIA „Ernst & Young Baltic"*

Statements of Comprehensive Income:

LVL 000's

	01.01.2009.-31.12.2009.	01.01.2008.-31.12.2008.	01.01.2009.-31.12.2009.	01.01.2008.-31.12.2008.
	Group	**Group**	**Bank**	**Bank**
Fair value revaluation reserve:				
Impairment of securities	3 150	7 384	3 150	7 384
Fair value revaluation reserve charged to statement of income	11	6 536	(15)	7 095
Amortisation	2 166	1 071	2 166	935
Change in fair value of available for sale securities	16 804	(31 375)	16 232	(31 344)
Deferred income tax charged directly to statements of comprehensive Income	-	479	-	279
Other comprehensive income / (loss) for the period	**22 131**	**(15 905)**	**21 533**	**(15 651)**
Total comprehensive income / (loss) for the period	**(102 531)**	**(146 875)**	**(86 012)**	**(139 659)**

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PERFORMANCE RATIOS OF THE GROUP AND THE BANK

	Reporting period	**Respective period of the preceding reporting year**	**Reporting period**	**Respective period of the preceding reporting year**
	Group	Group	Bank	Bank
Return on equity (ROE) (%)*	(113,02)	(85,88)	(91,93)	(84,18)
Return on assets (ROA) (%)*	(4,10)	(3,83)	(3,65)	(3,77)

* Average value is calculated as the arithmetic mean of the balance sheet assets or residual capital and reserves at the beginning of the reporting period and at the end of the reporting period.

RATINGS ASSIGNED BY RATING AGENCIES

	Long-term raiting	**Short-term rating**	**Financial strength rating**	**Support rating**	**Rating's outlook**
Moody's Investors Service	B2	Not Prime	E	-	Stable
Fitch	RD	RD	F	5	*

* Outlook for this rating is not assigned.

Detailed information about ratings can be found on the web sites of the rating agencies: www.moodys.com; www.fitchratings.com

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CONSOLIDATION GROUP

No.	Name of company	Registration number	Registration address	Country of domicile	Company type*	% of total paid-in share capital	% of total voting rights	Basis for inclusion in the group**
1	AS "Parex banka"	LV-40003074590	Latvia, Riga LV-1010, Republikas laukums 2A	LV	BNK	100	100	MAS
2	IPAS "Parex Asset Management"	LV-40003577500	Latvia, Riga LV-1010, Republikas laukums 2A	LV	IPS	100	100	MS
3	Regalite Holdings Limited	CY-HE93438	Cyprus, Nicosia 1075, 58 Arch. Makarios 3	CY	PLS	100	100	MS
4	AB "Parex bankas"	LT-112021619	Lithuania, Vilnius LT-03107, K. Kalinausko 13	LT	BNK	100	100	MS
5	SIA "Parex Express Kredīts"	LV-40003238125	Latvia, Riga LV-1010, Republikas laukums 2A	LV	CFI	100	100	MS
6	AS "Parex atklātais pensiju fonds"	LV-40003397312	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PFO	100	100	MS
7	AAS "Parex Dzīvība"	LV-40003786859	Latvia, Riga LV-1010, Republikas laukums 2A	LV	APS	100	100	MMS
8	OU "Parex Leasing & Factoring"	EE-10925733	Estonia, Tallinn 10119, Roosikrantsi 2	EE	LIZ	100	100	MS
9	ZAO "Parex Asset Management"	RU-1037706024872	Russia, Moscow 119049, Donskaja 4 - 2	RU	IBS	100	100	MMS
10	OOO "Parex Asset Management Ukraina"	UA-32984601	Ukraine, Kiev 01034, Glibocicka 17	UA	IBS	100	100	MMS
11	SIA "E & P Baltic Properties"	LV-40003754637	Latvia, Riga LV-1010, Republikas laukums 2A	LV	IPS	50	50	MMS
12	UAB "Parex faktoringas ir lizingas"	LT-126233315	Lithuania, Vilnius LT03107, K.Kalinausko 13	LT	LIZ	100	100	MMS
13	UAB "Parex investiciju valdymas"	LT-111829843	Lithuania, Vilnius LT01109, Gyneju 16	LT	IBS	100	100	MMS
14	AP Anlage & Privatbank AG	CH-130.0.007.738-0	Switzerland, Freienbach 8807, Kantonsstrase 1	CH	BNK	100	100	MS
15	OOO "Parex Leasing and Factoring"	AZ-1105-T10-3749	Azerbaijan, Baku AZ1065, Dz.Dzabbarli 44,	AZ	LIZ	100	100	MS
16	OOO "Ekspress Lizing"	RU-1037867006726	Russia, St. Petersburg 192019, Sedova 11, liter	RU	LIZ	100	100	MS
17	OOO "Laska Lizing"	UA-33104543	Ukraine, Kiev 03150, Dimitrova 5	UA	LIZ	100	100	MS
18	OOO "Parex Leasing"	RU-1047796715603	Russia, Moscow 125047, Čajanova 10 - 1	RU	LIZ	100	100	MS
19	IOOO "Pareks Lizing"	BY-190567618	Belarus, Minsk 220007, Aerodromnaja 125 - 1	BY	LIZ	100	100	MS
20	OOO "Extroleasing"	RU-1027739537220	Russia, Moscow 111116, Energeticheskaja 3	RU	LIZ	100	100	MS
21	Calenia Investments Limited	CY-HE156501	Cyprus, Nicosia 1075, 58 Arch. Makarios 3	CY	PLS	100	100	MS
22	SIA "Parex Līzings un faktorings"	LV-50003760921	Latvia, Riga LV-1010, Republikas laukums 2A	LV	LIZ	100	100	MS
23	SIA "Rīgas Pirmā Garāža"	LV-40003397543	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
24	SIA "Parex Private Banking"	LV-40003103438	Latvia, Riga LV-1050, Smilšu 7	LV	PLS	100	100	MS

No.	Name of company	Registration number	Registration address	Country of domicile	Company type*	% of total paid-in share capital	% of total voting rights	Basis for inclusion in the group**
25	OOO "Extrocredit"	RU-1067746758518	Russia, Moscow 111116, Energeticheskaja 3	RU	CFI	99	99	MMS
26	LLC "Parex Leasing and Factoring"	GE-205224461	Georgia, Tbilisi, Kazbegi avenue 44	GE	LIZ	100	100	MS
27	SIA "RPG interjers"	LV-40103157899	Latvia, Riga LV-1010, Republikas laukums 1	LV	PLS	100	100	MMS
28	SIA "PR Speciālie projekti"	LV-40103195231	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
29	OOO "Parex Investments Ukraine"	UA-35726203	Ukraine, Kiev 03150, Gorkovo 172	UA	IBS	100	100	MMS
30	OAO Parex Ukrainian Equity Fund	UA-10681020000023247	Ukraine, Kiev 03150, Gorkovo 172	UA	IBS	100	100	MMS
31	SIA "NIF"	LV-40103250571	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
32	SIA "NIF Dzīvojamie īpašumi"	LV-40103253915	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
33	SIA "NIF Komercīpašumi"	LV-40103254003	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
34	SIA "NIF Zemes īpašumi"	LV-40103255348	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
35	UAB "Nekilnojamojo turto valdymo fondas"	LT-302462108	Lithuania, Vilnius LT03107, K.Kalinausko 13	LT	PLS	100	100	MMS
36	OÜ "Restruktureeritud Kinnisvarafond"	EE-11788043	Estonia, Tallinn 10119, Roosikrantsi 2	EE	PLS	100	100	MMS

*BNK – bank, IBS – investment brokerage company, IPS – investment management company, PFO – pension fund, CFI – other financial institution, LIZ – leasing company, PLS – company providing various support services, APS – insurance company.
** MS – subsidiary company, MMS – subsidiary of the subsidiary company, KC – joint venture, MAS – parent company.

INFORMATION ABOUT PAREX BANKA'S BRANCHES

As at 31 December 2009 the Bank was operating a total of 23 branches, including 4 foreign branches, 3 small client service centres, 49 mid-size client service centres and 5 representative offices.

ISSUED SHARE CAPITAL AS AT 31 DECEMBER 2009

Shareholders	Nominal value (LVL)	Number of shares	Paid-in share capital (LVL)	Voting rights	Paid-in share capital (%)
SJSC "Privatizācijas Aģentūra"	1	168 920 791	168 920 791	144 470 791	73,44%
EBRD	1	51 444 325	51 444 325	51 444 325	22,36%
Other	1	9 662 179	9 662 179	5 468 323	4,20%
Total		**230 027 295**	**230 027 295**	**201 383 439**	**100%**

MANAGEMENT OF THE BANK AS AT 31 DECEMBER 2009

Council of the Bank

Name	Position
Andžs Ūbelis	Chairman of the Council
Michael Joseph Bourke	Deputy chairman of the Council
Laurence Phillips Adams	Member of the Council
Kaspars Āboliņš	Member of the Council
Juris Vaskāns	Member of the Council

Management of the Bank

Name	Position
Nils Melngailis	Chairman of the Management Board, p.p.
Guntis Beļavskis	Member of the Management Board, p.p.
Roberts Stuģis	Member of the Management Board
Vladimirs Ivanovs	Member of the Management Board
Valters Ābele	Member of the Management Board

Since 29 June 2009 the EBRD is represented in Parex banka’s Supervisory Council. A new Supervisory Council of Parex banka was elected during the annual General meeting of the Bank’s Shareholders. The following members were elected to Parex banka’s Council – Andžs Ūbelis, Michael J. Bourke, Laurence Phillips Adams (EBRD nominee), Kaspars Āboliņš and Carl Hakan Kallaker. Due to Carl Hakan Kallaker leaving his duties, the rest of the previous Council was reappointed on 28 August 2009 and Juris Vaskāns was appointed as the new member of the Council.

INFORMATION ON CERTAIN PARTIES THAT WERE RELATED TO THE BANK AT THE MOMENT IT RECEIVED STATE

Pursuant to FCMC regulations On preparation of quarterly public reports of banks (Article 14^1) the following table represents summary of material transactions with certain parties that were related to the Bank at the moment it received the State Aid:

	Amounts as at 31.12.2009, LVL 000’s	Average interest rate *	Interest income/ (expense) in 2009 LVL 000’s
Loans issued by the Bank	29,038	2.10%	1,016
Deposits placed with the Bank	28,006	7.90%	(3,024)
Subordinated financing provided to the bank	36,008	11.20%	(4,768)

* according to year-end rates

Loan contracts were entered into force in the period from 2002 – 2008 and are maturing in 2018. Loans are USD and EUR denominated.

Deposit contracts were entered into force in 2008 and are maturing in 2011. Deposits are LVL denominated.

Subordinated financing contracts were entered into force in 2008 and have maturities ranging 2015 through 2018. Subordinated financing is LVL and EUR denominated. Prior repayment can be unilaterally requested only upon liquidation of the Bank.

RISK MANAGEMENT

Risk management principles are set out in Group's Risk and Capital Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group' business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group's employee about the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks;
- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by independent units - Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

Credit risk

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The group is exposed to credit risk in to its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent units of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes analysis of the industry, the company, and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board.

After the loan is issued, customer's financial position is monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group's related parties, an industry limit, limit by customer type and loan product. A number of limits were breached in 1st half of 2009 due to insufficient capital level and restricted Bank financing for leasing companies. Limits breached included individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures (for the Bank) and industry limit, limit by customer type and type of collateral (for leasing subsidiaries). As at the date of approval of this report the relavant limits set for the Bank were complied with.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. Market risk is managed by the Group's business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by Risk and Compliance Sector.

To assess the position risk, scenario analysis is applied. Scenario analysis is based on historic data and price changes of various financial instruments in different low probability high impact scenarios. For example, a flight-to-quality scenario assumes that investors move their capital from riskier investments towards safer investments (for instance, U.S. or other AAA-rated sovereign bonds). To manage market risk, the Group sets individual limits to issuers and financial instruments, as well as products exposed to market risk.

Equity price risk

Equity price risk is the risk that the Group will incur a loss due to changes in equity prices. Equity price risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee. Further the decisions so made are approved by the Bank's Management Board.

Interest rate risk

Interest rate risk is related to the negative impact of interest rate changes on the Group's income and economic value.

Interest rate risk management in the Group is carried out in accordance with the Group's Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable interest rate risk level and the Group's internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement and management is the responsibility of Treasury Sector, while risk reporting is the responsibility of Risk and Compliance Sector.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. Based on the market analysis and the Group's financing structure, ALCO sets customer deposit interest rates. During the period when restrictions are imposed on the Bank's activities, these functions are carried out by the Bank's Management Board. Partially, the Group mitigates interest rate risk using derivatives.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable liquidity risk level, the Group's internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Liquidity risk management is the responsibility of the Treasury Sector, while risk measuring, monitoring and reporting is within the responsibility of the Risk and Compliance Sector.

Information disclosed in the report is prepared in accordance with the Financial and Capital Market Commission's regulations No. 145 "Regulations on Preparation of Public Quarterly Reports of Credit Institutions".

Liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management is ensured by the Treasury Sector in collaboration with Finance department. However the main source of liquidity is the funding provided by the State Treasury. By persistently improving the liquidity situation, the Bank as of July is in compliance with liquidity ratio requirements. Also starting from period ended in August the Bank meets mandatory reserve requirements in the Bank of Latvia.

Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are equal to the requirements by Latvian legislation. To assess currency risk, the Group also uses scenario analysis.

As at the date of approval of this report, due to limited access to currency risk mitigation instruments, the Bank and Group was not able to comply with the limit for the total open currency position, as well as for the single open currency positions in EUR (Bank and Group) and LTL (Group). The full compliance will be restored, once the Bank is able to operate as before in the financial markets and re-opens the limits with currency dealers.

Operational risk

The Group defines operational risk as the risk of losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues, as well as unmanageable risks or risks with unquantifiable impact, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk – the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;
- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Defining the limits of the acceptable losses;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- "Four-eye-principle" and segregation of duties;
- Business continuity planning;
- Risk assessment within product development;
- Insurance;
- Investments in appropriate data processing and information protection technologies.