Joint Stock Company *Parex banka*

Unaudited Public Financial Report for 3rd Quarter of 2010

MAXIMUM RECOVERY OF STATE AID

PAREX BANKA

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MANAGEMENT REPORT

Dear shareholders and cooperation partners!

The first nine months of 2010 have been months of significant changes for joint stock company *Parex banka* – for the first time in Latvia's history a large scale bank restructuring project was carried out, thus helping not only the biggest Latvian national bank – *Parex banka* – which was going through difficult times triggered off by the process of global financial crisis, but also, as financial experts say, for Latvian banks with national capital in general.

On 23 March the Cabinet of Ministers of the Republic of Latvia approved the restructuring plan of *Parex banka* developed by international financial consultant *Nomura International plc* and on 31 March it was submitted to the European Commission for approval. The plan envisaged distributing part of *Parex banka* assets thus founding a new bank with a stable financial base. The objective of operations of the new bank was attraction of investors and repayment of state investments in the shortest time possible. Realisation of *Parex banka*'s assets in the market, for its part, was planned to take longer time, thus contributing to maximum recovery of state investments.

After several month of particularly intense work on 1 August 2010 the restructuring of *Parex banka* was successfully accomplished. As a result two companies now exist – majority of assets of *Parex banka* were transferred to *Citadele* bank, but problematic assets remained at *Parex banka, the resolution* bank.

The European Commission approved the restructuring plan of *Parex banka* on 15 September. Obtaining this authorization is a significant success in carrying out the recovery plan of the bank; many European banks have to wait much longer for the permission of the same type.

Taking into account the state investment in restructuring of *Parex banka*, the main task is recovery of maximum assets in the time limit prescribed. In order to reach the mentioned goal, activities of *Parex banka* are focused on recovery of assets, effective loan restructuring and administration of real estates, which once served as credit collaterals, reposessed. While planning a targeted rising of value of these assets, *Parex banka* provides professional real estate management services, so that when real estate markets recover real estates could be sold at a profit in the best interests of the state and tax payers.

Even though activities undertaken with an aim to increase assets to be recovered will inevitably cause losses even the most cautious forecasts say that with national economies recovering, value of loans and assets of *Parex banka* will increase in the future. The recovery term and total volume of assets to be recovered depends on both management efficiency of *Parex banka,* namely professional activities and knowledge of experts, and to a large extent also on global and local tendencies and speed of economic development, including impact of the said process on real estate markets.

By gradually recovering assets from the existing loan portfolio of *Parex banka*, it is planned that cash flow generated by the bank will be sufficient to make the next syndicated loan payment without state support. According to the agreement reached with providers of syndicated loan in March 2009, *Parex banka* has already repaid 70% of total loan amount. The remaining 30% or LVL 163 million is due in May 2011.

As at 30 September 2010 the loan portfolio of *Parex banka* and its group was LVL 630.6 and LVL 638.0 million respectively, total assets – LVL 859.7 and LVL 866.4 million. Equity as at the end of September of 2010 equalled LVL 74.5 and LVL 78.4 million.

In general, the activities of the Bank have been undertaken in compliance with the prognosis of asset realisation and the restructuring plan approved by the Government and the European Commission which necessarily includes incurring some losses. However, due to the intense work in the two month since 1st August, Parex Banka has managed to recover more than LVL 20 million, that is, since the splitting of the Bank, which is down to the determined efforts of the excellent team that we have in the Bank.

Total financial results are still strongly affected by provisions made during accounting period of the bank and group companies in the amount of LVL 83.8 and LVL 75.2 million respectively. Therefore the first nine month of this year were concluded with total losses of LVL 120.0 and LVL 103.0 million, but losses before provisions and taxes made up LVL 43.2 and LVL 19.8 million respectively. Taking into account the fact that balance of *Parex banka* consists of problematic assets, the aim of provisions is recovery of decrease in value of assets.

Other important events

On 30 July 2010 *Parex banka* sued its former members of the Executive Board Valērijs Kargins and Viktors Krasovickis and asked for compensation of damages incurred during their operation. The total claim exceeds LVL 62 million.

On 16 August 2010 Riga Regional Court decided to secure the said claim of *Parex banka*. At the same time the court decided that *Parex banka* has to secure compensation which might incur as a result of abiding by the decision by transferring LVL 7 million to bailiff's deposit account. *Parex banka* implemented the respective court decision on 19 August. On 15 November 2010 *Parex banka* applied to Riga Regional Court with a request to reduce the sum of claim of collateral by saying that the value of properties formally owned by V.Kargins and V.Krasovickis in Latvia is incommensurate with collateral established by the court. *Parex banka* has also pointed out that actually the bank who wants to protect its infringed legal interests in a fair trial is put in a considerably more unfavourable situation if compared to respondents.

The main events after end of accounting period

After the end of accounting period activities of *Parex banka* have been focused on effective recovery of assets, loan restructuring and real estate management by retaining and promoting growth of their value. In a view of global and local economic processes there is a reason for a cautious forecast as to the future perspectives of *Parex banka* that in the coming accounting periods, along with recovery of real estate markets, *Parex banka* will be able to accomplish the tasks set in the approved restructuring plan: firstly – repayment of syndicated loan, and secondly – maximum recovery of state investment.

In line with the current status and business strategy of *Parex banka* the Executive Board has introduced a range of structural and organizational changes. In order to ensure effective operation of the bank and to avoid duplication of functions, every member of the Executive Board has its distinct area of responsibility. For example, the main areas of competence of Chairman of the Executive Board of *Parex banka* Christopher Gwilliam is management of the Board, strategic operation of the bank, management of restructuring maters and supervision of representations and branches in Latvia as well as abroad. Finance, Risk Management and Operational Sector, credit administration and control, supervision of IT area, as well matters related to finance, personnel and administration fall under direct supervision of member of the Executive Board of *Parex banka* Solvita Deglava. Member of the Executive Board of *Parex banka* Jurijs Adamovičs in his turn is responsible for management of legal matters and restructuring of CIS loans, management of assets taken over by the bank, corporate communication and matters related to minority shareholders.

Considering the amount of assets managed by *Parex banka* which as at 30 September 2010 amounted to almost LVL 900 million a great deal of attention is paid to management thereof. For the given reason *Parex banka* pays special attention to recruitment of accordingly qualified experts and formation of professional team, as well as the company carefully and responsibly evaluates administrative resources and attracts effective outsourcing service providers.

BALANCE SHEETS AS AT 30 SEPTEMBER 2010 AND 31 DECEMBER 2009

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	28 438	157 502	28 436	142 259
Demand deposits with credit institutions	16 118	208 495	19 587	183 831
Financial assets held for trading	14 585	4 765	14 585	4 774
Financial assets designated at fair value through profit and loss	-	2 770	-	-
Available-for-sale financial assets	84 571	114 349	84 571	95 199
Loans and receivables to customers:				
Loans to credit institutions	-	12 341	-	142 038
Loans to companies and private individuals	637 997	1 660 368	630 618	1 445 406
Held-to-maturity investments	23 936	299 371	41 098	318 649
Prepayments and accrued income	3 759	4 620	4 107	3 529
Fixed assets	4 105	52 495	3 873	12 545
Intangible assets	190	3 294	153	585
Investments in subsidiaries	-	-	9 961	72 725
Investment property	4 443	878	-	-
Income tax assets	-	39 469	-	35 991
Other assets	48 213	36 180	22 684	13 619
Total assets	**866 355**	**2 596 897**	**859 673**	**2 471 150**

Due to central banks	7 028	167 966	7 028	167 966
Demand liabilities to credit institutions	3 804	615	3 804	7 144
Financial liabilities held for trading	-	937	-	962
Financial liabilities designated at fair value through profit and loss	-	709	-	-
Financial liabilities measured at amortised cost:				
Loans from credit institutions	174 607	383 885	174 607	397 672
Deposits from customers	531 884	1 687 849	531 884	1 540 669
Issued debt securities	-	90 551	-	90 742
Subordinated liabilities	53 120	103 949	53 120	103 956
Other financial liabilities	451	5 430	451	-
Accrued expenses and deferred income	5 769	5 928	5 772	5 025
Income tax liabilities	-	1 282	-	-
Other liabilities	11 264	8 846	8 460	4 345
Total liabilities	**787 927**	**2 457 947**	**785 126**	**2 318 481**
Shareholders' equity	78 428	138 950	74 547	152 669
Total liabilities and shareholders' equity	**866 355**	**2 596 897**	**859 673**	**2 471 150**

Memorandum items				
Contingent liabilities	1 114	6 826	2 653	11 464
Financial commitments	920	126 088	26 369	166 323

* Auditors: SIA „PricewaterhouseCoopers”

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".

STATEMENTS OF INCOME
FOR 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2010 AND 30 SEPTEMBER 2009

LVL 000's

	Reporting period *Unaudited*	Respective period of the preceding reporting year *Unaudited*	Reporting period *Unaudited*	Respective period of the preceding reporting year *Unaudited*
	Group	**Group**	**Bank**	**Bank**
Interest income	64 848	139 846	57 799	123 947
Interest expense	(73 770)	(112 311)	(70 575)	(109 156)
Dividends received	-	71	-	71
Commission and fee income	15 686	21 367	11 568	16 479
Commission and fee expense	(5 022)	(6 244)	(3 583)	(5 059)
Net gain/ (loss) on available for sale financial assets and financial liabilities	(479)	(548)	(1 453)	(523)
Net gain/ (loss) on financial assets or financial liabilities designated at fair value though profit and loss	65	45	-	-
Net gain/ (loss) on held for trading financial assets and financial liabilities	629	3 968	(58)	3 875
Gain/ (loss) from foreign exchange trading and revaluation of open positions	-	1 140	-	1 037
Net gain/ (loss) on disposal of non-current assets held for sale	(984)	(2 293)	-	-
Other income	8 430	8 089	5 540	5 086
Other expense	(1 183)	(4 716)	(487)	(4 213)
Administrative expense	(41 500)	(55 544)	(31 412)	(38 779)
Amortisation and depreciation charge	(5 817)	(8 395)	(2 668)	(6 290)
Impairment charge and reversals, net	(75 242)	(81 793)	(83 752)	(75 029)
Restructuring	12 270	-	-	-
Corporate income tax	(939)	12 034	(904)	11 704
(Loss)/ profit for the reporting period	**(103 008)**	**(85 284)**	**(119 985)**	**(76 850)**

Statements of Comprehensive Income:

LVL 000's

	01.01.2010.- 30.09.2010. *Unaudited*	**01.01.2009.- 30.09.2009.** *Unaudited*	**01.01.2010.- 30.09.2010.** *Unaudited*	**01.01.2009.- 30.09.2009.** *Unaudited*
	Group	**Group**	**Bank**	**Bank**
Net change in fair value revaluation reserve of securities	10 982	19 503	10 363	19 142
Other comprehensive income / (loss) for the period	**10 982**	**19 503**	**10 363**	**19 142**

Total comprehensive income / (loss) for the period	**(92 026)**	**(65 781)**	**(109 622)**	**(57 708)**

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”.

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	Regalite Holdings Limited	CY-HE93438	Cyprus, Nicosia 1075, 58 Arch. Makarios 3 Avenue, Iris Tower, 6th floor, office 602	CY	PLS	100	100	MS
3	OOO "Parex Leasing and Factoring"	AZ-1105-T10-3749	Azerbaijan, Baku AZ1065, Dz.Dzabbarli 44, "Caspian Plaza"	AZ	LIZ	100	100	MS
4	OOO "Ekspress Lizing"	RU-1037867006726	Russia, St. Petersburg 192019, Sedova 11, liter A	RU	LIZ	100	100	MS
5	LLC "Laska Lizing"	UA-33104543	Ukraine, Kiev 03150, Dimitrova 5	UA	LIZ	100	100	MS
6	LLC "Parex Leasing"	RU-1047796715603	Russia, Moscow 111116, Energeticheskaja 3	RU	LIZ	100	100	MS
7	OOO "Extroleasing"	RU-1027739537220	Russia, Moscow 111116, Energeticheskaja 3	RU	LIZ	100	100	MS
8	SIA "Parex Private Banking"	LV-40003103438	Latvia, Riga LV-1050, Smilšu 7	LV	PLS	100	100	MS
9	OOO "Extrocredit"	RU-1067746758518	Russia, Moscow 111116, Energeticheskaja 3	RU	CFI	99	99	MMS
10	LLC "Parex Leasing and Factoring"	GE-205224461	Georgia, Tbilisi, Kazbegi avenue 44	GE	LIZ	100	100	MS
11	SIA "NIF"	LV-40103250571	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
12	SIA “NIF Dzīvojamie īpašumi”	LV-40103253915	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
13	SIA “NIF Komercīpašumi”	LV-40103254003	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
14	SIA “NIF Zemes īpašumi”	LV-40103255348	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
15	UAB “Nekilnojamojo turto valdymo fondas”	LT-302462108	Lithuania, Vilnius LT03107, K.Kalinausko 13	LT	PLS	100	100	MMS
16	OÜ “Restruktureeritud Kinnisvarafond”	EE-11788043	Estonia, Tallinn 10119, Roosikrantsi 2	EE	PLS	100	100	MMS
17	SIA “NIF Projekts 1”	LV-50103300111	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS

*BNK – bank, CFI – other financial institution, LIZ – leasing company, PLS – company providing various support services.
** MS – subsidiary company, MMS – subsidiary of the subsidiary company, MAS – parent company.

INFORMATION ABOUT PAREX BANKA'S BRANCHES

As at 30 September 2010 the Bank was operating a total of 2 branches, including 2 foreign branches, and 4 representative offices.

ISSUED SHARE CAPITAL AS AT 30 SEPTEMBER 2010

Shareholders	Nominal value (LVL)	Number of shares	Paid-in share capital (LVL)	Voting rights	Paid-in share capital (%)
SJSC "Privatizācijas Aģentūra"	1	212 233 292	212 233 292	156 283 292	81.15%
EBRD	1	39 631 824	39 631 824	39 631 824	15.15%
Other	1	9 662 179	9 662 179	5 468 323	3.70%
Total		**261 527 295**	**261 527 295**	**201 383 439**	**100%**

MANAGEMENT OF THE BANK AS AT 30 SEPTEMBER 2010

Council of the Bank

Name	Position
Michael Joseph Bourke	Chairman of the Council
Sarmīte Jumīte	Deputy chairman of the Council
Vladimirs Loginovs	Member of the Council
Mary Ellen Collins	Member of the Council

Management of the Bank

Name	Position
Christopher John Gwilliam	Chairman of the Management Board, p.p.
Solvita Deglava	Member of the Management Board, p.p.
Jurijs Adamovičs	Member of the Management Board

Roberts Stuģis was dismissed from duties as a member of the Management Board according to 15 March 2010 Council's decision.

New Council of Parex banka was elected during extraordinary meeting of shareholders on April 6, 2010. Following Council members were elected – Juris Jākobsons, Michael J. Bourke, Laurence Phillip Adams, Juris Vaskāns and Klāvs Vasks. Two new representatives were elected to the Council – Juris Jākobsons and Klāvs Vasks. Representatives of Ministry of Finance Andžs Ūbelis and Kaspars Āboliņš have resigned from Parex banka's Council effective 31 March 2010.

On July 30, 2010 the new members were elected to the Management Board: Solvita Deglava and Christopher John Gwilliam, who took up their duties on August 1, 2010, and Jurijs Adamovičs, who took up his duties on August 16, 2010.

On August 1, 2010 the following board members have finished their work at the Bank's Management Board: Vladimirs Ivanovs, Valters Abele and Guntis Beļavskis. 16th August 2010 was the last working day for Nils Melngailis at the Bank's Management Board (till July 31 – as the Chairman of the Board, from August 1 till August 16 – as the member of the Board).

The Extraordinary Board meeting took place on July 30, 2010, where the new Council of the Bank was elected - Michael J. Bourke, Sarmīte Jumīte, Mary E. Collins and Vladimirs Loginovs.

31st July 2010 was the last working day at the Council of the Bank for Juris Jākobsons , Juris Vaskāns, Klāvs Vasks, Laurence Philip Adams.

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

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:

LVL 000's

	3rd quarter of 2010			3rd quarter of 2009		
	Period-end balance	**Average interest rate ***	**Interest income/ (expense)**	**Period-end balance**	**Average interest rate ***	**Interest income/ (expense)**
Loans issued by the Bank	29 814	2.12%	376	28 822	2.77%	843
Deposits placed with the Bank	28 001	1.53%	(998)	28 009	12.12%	(2 290)
Subordinated financing provided to the bank	36 006	6.73%	(2 094)	36 013	14.20%	(3 566)

* according to period-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 unit - Risk and Compliance Sector (from 1 August Risk Management Division).

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 (from 1 August Risk Management Division). 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.

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.

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 (from 1 August Risk Management Division).

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 due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits were set by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC were approved by the Bank's Management Board. Market risk was 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 was measured, monitored and risk levels were reported by Risk and Compliance Sector. From 1 August the Group does not take up new market risks, hence FMCC is not operating any more.

Until 1 August to manage market risk, the Group set individual limits to issuers and financial instruments, as well as products exposed to market risk. To assess position risk the Group also used scenario analysis.

Interest rate risk

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

Until 1 August Interest rate risk management in the Group was carried out in accordance with the Group's Interest rate Risk Management Policy. Interest rate risk was assessed and decisions were made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO were approved by the Bank's Management Board. ALCO set the acceptable interest rate risk level and the Group's internal limit system, monitored the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement, management and reporting were responsibilities of Treasury Sector (from 1 August Risk Management Division). Interest rate risk management in the Group is coordinated by the Risk and Compliance Sector (from 1 August Risk Management Division).

Until 1 August the Group managed 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 set 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.

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 was assessed and decisions were made by ALCO. The decisions of ALCO were approved by the Bank's Management Board. ALCO set the acceptable liquidity risk level, the Group's internal limit system and defined instruments for the management of liquidity risk, as well as monitored the compliance with the set limits. Liquidity risk management was the responsibility of the Treasury Sector (from 1 August Risk Management Division and Finance Planning & Control Division), while risk measuring, monitoring and reporting was within the responsibility of the Risk and Compliance Sector (from 1 August Risk Management Division).

Liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management, as well as liquidity risk measurement, management and reporting was ensured by the Treasury Sector in collaboration with Finance department (from 1 August Risk Management Division and Finance Planning & Control Division). Liquidity risk management in the Group was coordinated by the Risk and Compliance Sector (from 1 August Risk Management Division and Finance Planning & Control Division). However the main source of liquidity is the funding provided by the State Treasury. In 2010 the Bank is in compliance with liquidity ratio requirements and 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 defined the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits. From 1 August operations of FMCC were discontinued and acceptable currency risk level and internal limits are set by Risk Management Division and Finance Planning & Control Division.

Day-to-day currency risk management was the responsibility of Treasury Sector (from 1 August Risk Management Division and Finance Planning & Control Division), while risk monitoring and reporting was the responsibility of Risk and Compliance Sector (from 1 August Risk Management Division and Finance Planning & Control Division). 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.

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;
- Insurance;

- Investments in appropriate data processing and information protection technologies.