Consolidated Report for the Year 2009

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Report of the Council and the Board

Ladies and Gentlemen,
Dear Shareholders, Customers and Business Partners of Aizkraukles Banka!

The Group's and Bank's management is highly satisfied with the results for the year 2009. The business model aimed at supplying individual services to affluent and wealthy individuals and their businesses pursued by the Bank since the end of 2007 has proven to be a successful choice and brings sound and predictable revenue. We are proud to announce that the Bank has closed the year 2009 as a largest private Latvian bank by deposits.

The following has been achieved during 2009: the Group's and Bank's performance has stabilised, deposits have grown, the loan portfolio has been reduced, and the capital adequacy and liquidity ratios have improved substantially. Therefore, it may be concluded that the Group and the Bank have successfully attained the financial targets set for the year.

It was evident at the beginning of 2009 that both global and local financial sector would continue facing severe challenges. The negative processes persisting since 2008 showed their maximal impact in the first quarter of 2009, such as the drop of the securities market, the liquidity deficit as well as lack of trust between financial institutions. The above processes producing an adverse effect on the global economy facilitated worsening of the financial position of businesses and households.

However, it was already in spring 2009 when the macroeconomic indicators of the world's leading countries started to show positive economic tendencies, which is owing to the economic stabilisation programmes. Another result is better psychological climate, which is evidenced by the noteworthy improvement of customer confidence. All these factors promoted the growth of optimism of financial market players, which was followed by the first considerable growth of prices on the securities markets since the crisis set on at the beginning of 2008.

This was a year of major challenges for Latvia's economy. The year saw a rapid drop of GDP in Latvia's national economy. Based on the data provided by the Central Statistical Bureau of Latvia, GDP at constant prices for the fourth quarter of 2009 fell by 17.7% against the corresponding period of the prior year. During the reporting year, the unemployment rate in Latvia was growing, reaching 16% of the economically active population by the end of the year.

The above is strong evidence that there are still indications of uncertainty persisting in Latvia's economy because some investors have serious doubts about the state's ability to settle the obligations assumed and pursue fiscal discipline as well as carry out the required structural reforms, implementing the economic recovery plans approved.

To address the above, the Latvian government reached an agreement with the International Monetary Fund and the European Union on financial support to stabilise the economy and financial sector of Latvia. Most significant conditions of the agreement dealt with cutting of state budget expenditures and changes of the taxation system aimed at increasing state budget revenues and reducing the state budget deficit. The results achieved by the Latvian government can be viewed as positive because, at the end of 2009, some international financial advisors admitted that foreign investors were becoming increasingly interested in Latvia.
Latvia has fulfilled the conditions set by external lenders to be eligible for borrowing and overcome the crisis. Therefore, the LVL interest rates on the interbank markets have also stabilised, which confirms the improving investor confidence about Latvia.
The LVL interest rates on the interbank markets have also stabilised, which confirms the improving confidence about Latvia.

Changes in the consumer mood are one more reflection of the stabilising macroeconomic situation in Latvia, which has resulted in the stabilisation and even growth of real estate prices at the end of the year as well as the increase of the number of real estate transactions made in the country. During the reporting year the Bank's non-resident customers also expressed an increasing interest in investment opportunities in Latvia.

Economic uncertainty has reduced, which is evidenced by the fact that in the fourth quarter of 2009 Latvia's GDP grew by 2,4% compared to the third quarter of 2009.

In February, 2010, international rating agency Standard & Poor's revised outlook on Latvia from negative to stable.

In 2009, the Group's and Bank's management succeeded in implementing the measures they had planned to ensure the sufficiency of financial stability ratios:

- attraction of four thousand new customers a factor that also facilitated the increase in deposits by 22% for the Bank and 21% for the Group;
- loans balances were reduced by 11%, for the Bank (11% for the Group) which allowed considerable improvement of the Group's and Bank's asset liquidity;
- in 2009, syndicated loans amounting to 155 million euro were fully repaid;
- administrative expenses were reduced by 15% for the Bank (11% for the Group), and strict expense control and management is in place;
- Bank maintained high liquidity 57,53% (prior year 41,32%) (statutory minimum 30%), and capital adequacy ratio 15,04% (prior year 16,09%) (statutory minimum 8%), as of 31 December 2009;
- following stress-testing, capital base of the Bank allows absorbing up to LVL 35 million additional loan loss impairment, what is far from what is expected, considering signs of stabilisation in overdue trends and stabilisation in values of collaterals;
- following stress-testing, bank is able to maintain liquidity ratio above regulatory required limit in case deposits are declining by more than a quarter.

Given the rapid growth of the activity and prices in the security market, the value and liquidity of the Group's and the Bank's securities portfolio have increased and returned to the pre-crisis level of the year 2008.

The Group's and Bank's management believe that the economic situation in Latvia and the existing uncertainty could not have more significant adverse impact to business of the Group and the Bank and their financial ratios in future. The provision amounts for loans losses and impairment recognized on financial instruments during the recent years allows management to believe that the impact of the economical crisis is to the major extent reflected in the financial statements of the Group and Bank.

Furthermore, the Group's and Bank's management also believe that the economic situation in Latvia and the existing uncertainty as to further economic development of the country produce less impact on the Group and the Bank than on the enterprises which are focusing only on the domestic market because the export of financial services represents a noteworthy source of the Bank's income and mostly non-residents account for the Group's and Bank's deposit portfolio. A substantial increase in the non-resident deposits over 2009 shows strong customer confidence in Aizkraukles banka and the overall financial system of Latvia.

Having assessed the recent developments in Latvia and across the world, the Group's and Bank's management is confident that Aizkraukles banka is in a strong position to be able to continue in operational existence and fully meet its obligations in the foreseeable future according to its prudent financial plans.

The business strategy pursued by the Bank has been highly regarded by the international financial magazine Global Finance Magazine, which has recognised Aizkraukles Banka to be the best bank in Latvia in its list of World's Best Banks 2009.

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, and financial position of the Bank and the Group as at 31 December 2009 and 2008, and results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

As at 31 December, 2009 the Group comprised the following subsidiaries: AB.LV Capital Markets, AB.LV Asset Management, KS AB.LV Transform Partnership, SIA AB.LV Transform 1, AS AB Konsultācijas, SIA New Hanza City, and SIA Elizabetes 21a.

Financial Results

The Bank's assets as at 31 December 2009 amounted to LVL 992 billion. The share of net commission and fee income in the total operating income before allowances increased considerably from 19% to 29% over the reporting year. The Bank continues focusing on the development of less capital intensive services, which allows ensuring stable cash inflow from operating activities.

In 2009, the deposit amount considerably increased. Over the year deposits grew by LVL 155 million, or 22%, reaching LVL 869 million. This figure significantly exceeds the expectations as the Bank has projected an increase of 5%.

Report of the Council and the Board

Following through on the strategic goals set, the Bank continued reducing its loan portfolio. During the year the Bank's gross loan portfolio was decreased by LVL 67 million and as at 31 December 2009 it amounted to LVL 581 million. In 2009, the Group and the Bank recognised allowances for credit losses of LVL 36 million, and at the end of the year the allowances so established totalled LVL 46 million, or 8% of the total loan portfolio. In 2009, the primary focus was laid on restructuring of bad loans issued to corporate customers.

In 2009, owing to the increase of customer deposits and the targeted minimisation of the loan portfolio, the Bank was able to repay its syndicated loans of EUR 155 million, meanwhile retaining the high liquidity level.

The year 2009 was successful for the investment business. The annual yield of the Bank's debt securities portfolio reached 22,7% and its average balance in 2009 was LVL 90 million. The Bank's securities portfolio mainly comprises debt securities issued by OECD central governments, credit institutions and corporate companies.
The Bank's financial profit for the year 2009 before allowances was LVL 39 million. Nevertheless, for the first time in over 10 years the Bank is reporting a loss of LVL 19 million, which is mainly attributable to the allowances established according to the prudent and conservative assessment of its loan portfolio quality. Such a cautious approach is adopted to the current situation in Latvia's economy, including the drop in GDP and the increase in unemployment, leading to the decrease of household solvency and the impairment of loans.

The shareholders' equity of the Bank as at 31 December 2009 was LVL 74 million.

In 2009, the Bank established a new subsidiary – the limited partnership AB.LV Transform Partnership. This subsidiary performs the functions of a holding company and shareholder of entities founded to manage, administrate and sell the properties taken over the Bank, which previously have been pledged to secure the loans issued by the Bank. The investment made in the newly established subsidiary was EUR 45 million.

Improvement of Services

In 2009, the Group's representative office in Uzbekistan –Tashkent started its active operations. The Group has its representative offices also in Russia – Moscow and St. Petersburg, in Ukraine – Kyiv, with branch in Odessa, in Belarus – Minsk, in Kazakhstan – Almati, in Azerbaijan – Baku. At the end of the year it was resolved to open a new representative office in Tadzhikistan – Dushanbe. The main objective of the representative offices is to supply information about the Group and the Bank and their services as well as to facilitate international economic cooperation in various industries. The Group is planning to open more foreign representative offices in the nearest future.

In the reporting year Aizkraukles Banka became the first and only Baltic bank to issue VISA Infinite credit cards. Customers are offered also VISA Platinum, premium class American Express cards (Platinum and Centurion) as well as MasterCard credit cards.

In 2009, a modern safe deposit vault was opened in the Bank's headquarters in Riga, Elizabetes iela 23. The vault meets the highest security standards.

Given the stabilisation and upward tendencies observed on the global and local financial markets as well as responding to the government's call addressed to the banking sector for warming up economy, in midyear the Bank approved a business lending programme for the subsequent nine months. The total financing earmarked for business lending is EUR 40 million, which is to be disbursed until the end of the first half of 2010.

Group's and Bank's Plans and Intentions for the Year 2010

During the reporting year the Group and the Bank were mainly focusing on the efficient management and mitigation of liquidity risk and credit risk. Meanwhile, the key target in 2010 will be to ensure expansion of the Group's and Bank's business and boost profitability, continuing further development and improvement of business risk management methods.

In 2010, the Group's and Bank's management will also focus on restructuring of the loans issued under the Bank's mortgage lending programmes and improvement of the loan repayment possibilities.

Deposits are expected to increase by 15% in 2010. The growing liquidity and free cash will permit successful implementation of the Bank's plans, i.e. issuing new loans to corporate customers and making investments in securities, which will be subject to careful and thorough assessment of potential risks.

In 2010, the Group and the Bank are planning to establish a new investment company which would make investments in promising companies, ensuring high yield and return on the investment in the future.

Aizkraukles Banka for the Society

In 2009, Aizkraukles Banka continued supporting various projects of public importance.

The Bank supported an exhibition displaying the collection of clothes and accessories of the eminent designer and fashion historian Alexandre Vassiliev. The exhibition received huge public response, making it the most visited exhibition ever organised by the Museum of Decorative Arts and Design.

Traditionally, Aizkraukles Banka took an active part in supporting festivities marking the anniversary of proclamation of the Republic of Latvia organised by the embassies in Russia, Belarus, and Uzbekistan.

The Bank's corporate AB.LV Charity Fund celebrated its third anniversary in November 2009. The Fund's activities include support to contemporary art, development of urban environment, children and youth projects, education, and establishment of civil society.

During the three years of its existence the Fund supported 108 projects, having assigned more than LVL 650 thousand for this purpose. The projects so supported include contemporary art exhibitions of both renowned and young artists and dozens of children, and family friendly projects. The Fund has helped Latvian non-profit organisations in increasing restricted capital, obtaining donations, exchanging their experience during foreign conferences and seminars.

We are pleased to take this opportunity and express our gratitude to the Bank's customers for their confidence and loyalty. The management would also like to thank the Bank's employees for the work they have contributed.

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

The Council and the Board

The Council of the Bank:

Chairman of the Council:
Aleksandrs Bergmanis

Deputy Chairman of the Council:
Jānis Krīgers

Member of the Council:
Vladimirs Kutovojs

The Board of the Bank:		Date of Approval
Chairman of the Board:		
Ernests Bernis	Chief Executive Officer (CEO)	27/12/2007
Deputy Chairman of the Board:		
Oļegs Fiļs	DeputyChief Executive Officer (dCEO)	27/12/2007
Members of the Board:		
Aleksandrs Pāže	Chief Compliance Officer (CCO)	27/12/2007
Rolands Citajevs	Chief IT Officer (CIO)	27/12/2007
Vadims Reinfelds	Chief Operating Officer (COO)	27/12/2007
Edgars Pavlovičs	Chief Risk Officer (CRO)	27/12/2007
Māris Kannenieks	Chief Financial Officer (CFO)	03/04/2008

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

Statement of Responsibility of the Council and the Board

The Council and the Board of the Bank (hereinafter – the Management) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group). The financial statements are prepared in compliance with the requirements of the Law of the Republic of Latvia on Credit Institutions, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

The financial statements set out on pages 8 to 67 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2009 and 2008, and the results of their operations, changes in the shareholders' equity, and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union, and accounting policies in conformity with such Standards. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of the Bank are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud and other irregularities in the Group. The Management of the Bank are also responsible for operating the Group and the Bank in compliance with the Law of the Republic of Latvia on Credit Institutions, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

Income Statements and Other Comprehensive Income Statements

for the years ended 31 december 2009 and 2008

	Notes	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
Interest income	4	40,118	64,550	40,909	64,550
Interest expense	4	(22,321)	(30,413)	(22,466)	(30,342)
Net interest income		**17,797**	**34,137**	**18,443**	**34,208**
Commission and fee income	5	15,284	14,667	14,113	13,555
Commission and fee expense	5	(2,867)	(2,491)	(2,696)	(2,380)
Net commission and fee income		**12,417**	**12,176**	**11,417**	**11,175**
Net losses/(gains) from financial assets and liabilities at fair value through profit or loss	6	(1,539)	9,276	(1,539)	9,276
Net realised gains/(losses) from available-for-sale financial assets	6	891	(1,038)	891	(1,038)
Net result from foreign exchange trading and revaluation	6	9,212	2,660	9,284	2,669
Other income		2,129	836	628	696
Income from dividends		62	34	261	475
Change in allowances for credit losses	7	(36,859)	(17,729)	(36,859)	(17,729)
Operating income		**4,110**	**40,352**	**2,526**	**39,732**
Administrative expense	9	(20,641)	(23,077)	(18,597)	(21,784)
Depreciation		(1,815)	(1,707)	(1,725)	(1,664)
Investment properties	*20*	*(20)*	*(20)*	*(20)*	*(20)*
Property, plant and equipment	*21*	*(1,161)*	*(1,257)*	*(1,107)*	*(1,221)*
Intangible assets	*21*	*(634)*	*(430)*	*(598)*	*(423)*
Other expense		(1,971)	(1,103)	(1,595)	(1,406)
(Loss) from sale of tangible and intangible fixed assets		(204)	(71)	(204)	(71)
Impairment of financial instruments	15,17	(3,035)	(2,329)	(3,035)	(2,329)
Impairment of non financial assets	8	(2,154)	-	(122)	-
Total operating expense		**(29,820)**	**(28,287)**	**(25,278)**	**(27,254)**
(Loss)/profit before corporate income tax		**(25,710)**	**12,065**	**(22,752)**	**12,478**
Corporate income tax	10	3,541	(1,848)	3,532	(1,813)
NET (LOSS)/PROFIT FOR THE YEAR		**(22,169)**	**10,217**	**(19,220)**	**10,665**
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		14,396	(11,441)	14,396	(11,441)
Charge to income statement as a result of sale of available-for-sale securities		891	(1,084)	891	(1,084)
Change in deferred corporate income tax		(2,267)	1,879	(2,267)	1,879
Other comprehensive income, total		**13,020**	**(10,646)**	**13,020**	**(10,646)**
Total comprehensive income		***(9,149)***	***(429)***	***(6,200)***	***19***
Attributable to:					
Equity holders of the Bank		(8,338)	(395)		
Non-controlling interests		(811)	(34)		
KS "AB.LV Transform Pratnership"		*(799)*	*-*		
SIA "Elizabetes 21a"		*(12)*	*(31)*		
AS "AB Konsultācijas"		*-*	*(3)*		
Earnings per share, for (loss)/profit for the period		***(0,22)***	***0,10***	***(0,19)***	***0,11***

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

The accompanying notes form an integral part of these consolidated and separate financial statements.

Statements of Financial Position
as at 31 december 2009 and 2008

ASSETS	Notes	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Cash and demand deposits with central banks	13	44,986	57,860	44,986	57,860
Balances due from credit institutions	14	203,569	174,664	203,537	174,636
Financial assets at fair value through profit or loss		9,499	4,599	9,499	4,599
Debt securities and other fixed income securities	*15*	*12*	*768*	*12*	*768*
Shares and other non-fixed income securities	*17*	*52*	*-*	*52*	*-*
Derivatives	*16*	*9,435*	*3,831*	*9,435*	*3,831*
Available-for-sale financial assets		104,523	35,081	104,523	35,081
Debt securities and other fixed income securities	*15*	*102,376*	*31,108*	*102,376*	*31,108*
Shares and other non-fixed income securities	*17*	*2,147*	*3,973*	*2,147*	*3,973*
Loans and receivables		550,580	669,872	553,475	669,870
Loans	*18*	*531,444*	*626,869*	*534,339*	*626,867*
Debt securities and other fixed income securities	*15*	*19,136*	*43,003*	*19,136*	*43,003*
Prepaid expense and accrued income		505	336	451	274
Investments in subsidiaries	19	-	-	36,066	3,830
Investment properties	20	20,371	19,762	16,622	19,762
Tangible fixed assets	21	6,077	6,374	5,747	6,220
Intangible fixed assets	21	3,491	3,449	3,337	3,291
Current corporate income tax receivables	10	2,024	2,427	1,936	2,363
Deferred corporate income tax	10	5,458	4,185	5,079	3,850
Other assets	22	26,644	3,462	6,871	1,751
TOTAL ASSETS		**977,727**	**982,071**	**992,129**	**983,387**
LIABILITIES					
Demand deposits from credit institutions	23	1,027	15,690	1,027	15,690
Financial liabilities at fair value through profit or loss	16	176	19,238	176	19,238
Financial liabilities at amortised cost		905,096	865,768	912,639	864,504
Term deposits from credit institutions	*23*	*4,929*	*112,517*	*1,958*	*109,561*
Deposits	*24*	*858,503*	*712,315*	*869,017*	*714,007*
Subordinated liabilities	*25*	*41,664*	*40,936*	*41,664*	*40,936*
Deferred income and accrued expense		1,816	2,128	1,749	2,079
Current corporate income tax liabilities	10	15	1	-	-
Deferred corporate income tax	10	22	5	-	-
Other liabilities		590	1,073	2,456	1,594
TOTAL LIABILITIES		**908,742**	**903,903**	**918,047**	**903,105**
SHAREHOLDERS' EQUITY					
Paid-in share capital	26	15,000	15,000	15,000	15,000
Share premium		255	255	255	255
Reserve capital and other reserves		1,500	1,500	1,500	1,500
Fair value revaluation reserve of available-for-sale financial assets		88	(12,932)	88	(12,932)
Retained earnings brought forward		74,161	63,910	76,459	65,794
Retained earnings for the period		(21,358)	10,251	(19,220)	10,665
Attributable to the equity holders of the Bank		69,646	77,984	74,082	80,282
Attributable to non-controllig interests		(661)	184	-	-
TOTAL SHAREHOLDERS' EQUITY		**68,985**	**78,168**	**74,082**	**80,282**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**977,727**	**982,071**	**992,129**	**983,387**
MEMORANDUM ITEMS					
Funds under trust management	28	71,845	18,796	55,796	5,138
Contingent liabilities	28	16,884	19,322	16,884	19,322
Financial commitments	28	10,210	20,429	10,210	20,429

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

The accompanying notes form an integral part of these consolidated and separate financial statements.

Statements of Changes in Shareholders' Equity of the Group

for the years ended 31 december 2009 and 2008

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the Bank	Non-controlling interests	**Total shareholders' equity**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
As at 1 January 2008	**15,000**	**255**	**1,500**	**(2,286)**	**68,910**	**83,379**	**215**	**83,594**
Total comprehensive income for the year 2008	-	-	-	*(10,646)*	*10,251*	*(395)*	*(34)*	*(429)*
Increase of non-controlling interest	-	-	-	-	-	-	3	3
Dividends paid	-	-	-	-	(5,000)	(5,000)	-	(5,000)
As at 31 December 2008	**15,000**	**255**	**1,500**	**(12,932)**	**74,161**	**77,984**	**184**	**78,168**
Total comprehensive income for the year 2009	-	-	-	*13,020*	*(21,358)*	*(8,338)*	*(811)*	*(9,149)*
Decrease of non-controlling interest	-	-	-	-	-	-	(34)	(34)
As at 31 December 2009	**15,000**	**255**	**1,500**	**88**	**52,803**	**69,646**	**(661)**	**68,985**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Statements of Changes in Shareholders’ Equity of the Bank

for the years ended 31 december 2009 and 2008

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	**Total shareholers' equity**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
As at 1 January 2008	**15,000**	**255**	**1,500**	**(2,286)**	**70,794**	**85,263**
Total comprehensive income for the year 2008	-	-	-	*(10,646)*	*10,665*	*19*
Dividends paid	-	-		-	(5,000)	(5,000)
As at 31 December 2008	**15,000**	**255**	**1,500**	**(12,932)**	**76,459**	**80,282**
Total comprehensive income for the year 2009	-	-	-	*13,020*	*(19,220)*	*(6,200)*
As at 31 December 2009	**15,000**	**255**	**1,500**	**88**	**57,239**	**74,082**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Cash Flow Statements

for the years ended 31 december 2009 and 2008

Cash flow from operating activities	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
(Loss)/profit before corporate income tax	(25,710)	12,065	(22,752)	12,478
Amortisation and depreciation of fixed assets	1,815	1,707	1,725	1,664
Increase in allowances for credit losses	39,013	17,729	36,981	17,729
Unrealised loss from revaluation of foreign currency positions	(798)	12,848	(798)	12,839
Net cash flow from operating activities before changes in assets and liabilities	**14,320**	**44,349**	**15,156**	**44,710**
Decrease in loans	63,067	42,168	60,170	42,167
(Increase) in financial assets at fair value through profit or loss	(4,902)	(2,408)	(4,902)	(2,408)
(Increase) in prepaid expense and accrued income	(169)	(141)	(177)	(178)
(Increase) in other assets	(23,764)	(1,101)	(3,646)	(1,222)
Decrease/(increase) in balances due from credit institutions	4,175	(7,283)	4,176	(7,283)
Increase/(decrease) in deposits	146,188	(111,462)	155,010	(111,344)
Increase in balances due to credit institutions	3,776	5,288	3,761	5,338
(Decrease)/increase in financial liabilities at fair value through profitor loss	(19,062)	9,809	(19,062)	9,809
(Decrease) in deferred income and accrued expense	(312)	(2,251)	(329)	(2,234)
(Decrease)/increase in other liabilities	(452)	(841)	862	(227)
Net cash flow from operating activities before corporate income tax	**182,865**	**(23,873)**	**211,019**	**(22,872)**
(Corporate income tax paid)	(1,478)	(5,334)	(1,444)	(5,156)
Net cash flow from operating activities	**181,387**	**(29,207)**	**209,575**	**(28,028)**
Cash flow from investing activities				
(Purchase) of available for sale financial assets	(150,887)	(5,223)	(150,887)	(5,223)
Sale of available for sale financial assets	116,410	9,984	116,410	9,984
(Purchase) of tangible fixed assets and investment properties	(2,594)	(4,275)	(1,772)	(4,106)
Proceeds from sale of tangible fixed assets and intangible assets	425	221	3,614	213
(Purchase) of investment in other entities	-	-	(32,236)	(1,398)
(Purchase) of equity shares in Group company	(34)	(28)	-	-
Net cash flow from investing activities	**(36,680)**	**679**	**(64,871)**	**(530)**
Cash flow from financing activities				
Proceeds from issuance of subordinated liabilities	728	19,815	728	19,815
Dividends (paid)		(4,999)	-	(4,999)
Syndicated loan received		108,935	-	108,935
Syndicated loan (repaid)	(111,364)	(154,682)	(111,364)	(154,682)
Net cash flow from financing activities	**(110,636)**	**(30,931)**	**(110,636)**	**(30,931)**
Net cash flow	**34,071**	**(59,459)**	**34,068**	**(59,489)**
Cash and cash equivalents at the beginning of the year	**176,057**	**248,364**	**176,029**	**248,357**
Gain/(Loss) from revaluation of foreign currency positions	798	(12,848)	798	(12,839)
Cash and cash equivalents at the end of the year *	**210,926**	**176,057**	**210,895**	**176,029**

***** See the components of cash and cash equivalents in Note 30.

Operational cash flows from interest	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
Interest received	31 164	54,522	31,955	54,522
Interest paid	(20,271)	(25,094)	(20,416)	(25,034)

The accompanying notes form an integral part of these consolidated and separate financial statements.

Notes to the Financial Statements for the year 2009

1. General Information

AS Aizkraukles Banka (hereinafter – the Bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company, under unified registration number 50003149401. At present, the legal address of the Bank is Elizabetes Street 23, Riga.

The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia that allows the Bank to render all the financial services specified in the Law on Credit Institutions.

The Bank's main scope of activity is investment services, settlement products, and asset management.

The following abbreviations are used in these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

These consolidated and separate financial statements contain the financial information about the Bank and its subsidiaries (jointly – the Group), as well as separately about the Bank. The Bank's separate financial statements are included in these financial statements to comply with legal requirements. The Bank is the parent of the Group.
The Group and the Bank operate the central office and two lending centres, as well as three foreign representation offices of the Bank outside Latvia in Belarus – Minsk, in Ukraine – Kyiv, in Kazakhstan – Almaty, and Tadzhikistan – Dushanbe, as well as six representation offices of AS AB Konsultācijas in Russia – Moscow and St. Petersburg, in Azerbaijan – Baku, in Uzbekistan – Tashkent, in Belarus – Minsk and in Ukraine – Kyiv with branch in Odessa.

The consolidated financial statements of the Group and the separate financial statements of the Bank for the year 2009 were approved by the Bank's Board on 23 February 2010.

The Group comprises the following subsidiaries:

Company	Country of incorporation	Registration number	Business profile	Bank's share (% of total share capital)
IPAS AB.LV Asset Management	LV	40003814724	Financial services	100
IBAS AB.LV Capital Market	LV	40003814705	Financial services	100
SIA Elizabetes 21a	LV	50003831571	Real estate transactions	88
AS AB Konsultācijas	LV	40003540368	Consulting services	100
SIA New Hanza City	LV	40103222826	Real estate transactions	100
SIA AB.LV Transform 1	LV	40103193211	Real estate transactions	100
KS AB.LV Transform Partnership	LV	40103260921	Financial services	99,9997
SIA AB.LV Transform Investments	LV	40103191969	Real estate transactions	100
SIA AB.LV Transform 2	LV	40103193033	Real estate transactions	100
SIA HAAS INVEST	LV	40003708394	Real estate transactions	51,22
SIA AB.LV Transform 3	LV	40103193067	Real estate transactions	100
SIA AB.LV Transform 4	LV	40103210494	Real estate transactions	100
SIA AB.LV Transform 6	LV	40103237323	Real estate transactions	100
SIA AB.LV Transform 7	LV	40103237304	Real estate transactions	100
SIA AB.LV Transform 8	LV	40103240484	Real estate transactions	100
SIA AB.LV Transform 9	LV	40103241210	Real estate transactions	100
SIA AB.LV Transform 10	LV	50103247681	Real estate transactions	100
SIA AB.LV Transform 11	LV	40103258310	Real estate transactions	100

2. Information on Principal Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2009 and 2008, is set out below.

a) Statement of Compliance

These consolidated and separate financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted in the EU.
The accounting policies are applied consistently by all entities of the Group.

Amended IFRS and IFRIC that Came Into Effect In the Reporting Period

The following IFRS appendices and IFRIC, as adopted in the EU, are amended and enter into force starting from 1 January 2009:

IFRS 7 Financial Instruments: Disclosures These amendments were issued in March 2009 and are applicable to annual periods beginning on or after 1 January 2009. The amendments outline additional disclosure requirements for fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The Group has adopted this amendment effective 1 January 2009 (see Note 32). The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 34.

The Group and the Bank have applied the following IFRS, IAS and IFRIC interpretations which are amended or enter into force in the reporting year, but which do not have an impact on the consolidated and separate financial statements:

IAS 1 *Presentation of Financial Statements* (revised). This amendment requires the company to make disclosures of the objectives, policies and processes of managing capital. The key amendments presented in these financial statements refer to the following changes of statement headings: *Balance Sheet* and *Income Statement* have been replaced by a *Statement of Financial Position* and a *Statement of Comprehensive Income* respectively. According to the requirements of IAS 1, the Group and the Bank present their income statements and other comprehensive income in one single statement of comprehensive income. The amount of comprehensive income is also shown in the statement of changes in shareholders' equity.

IAS 23 Borrowing Costs. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The adoption of this standard did not have any impact on the financial position or the performance of the Group.

IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments:* Recognition and Measurement. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this amendment did not have any impact on the financial position or the performance of the Group.

IFRIC 13 – *Customer Loyalty Programmes*. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The adoption of this interpretation did not have any impact on the financial position or the performance of the Group.

IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*. The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where, within the group, the hedging instruments can be held in the hedge of a net investment and, how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation did not have any impact on the financial position or the performance of the Group.

IFRS 8 *Operating Segment Information*. IFRS 8 Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. According to the requirements of this IFRS, information on operating segments shall be disclosed by the companies whose debt or equity instruments are traded in a public market. The Group's and the Bank's shares and debt securities are not traded in a public market, thereby no information on the operating segments of the Group and the Bank has been disclosed.

IFRSs and IFRIC Interpretations That Have Been Issued but Are Not yet Effective

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

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2010, once adopted by the EU). The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009). Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have Business combinations.

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

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

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010). The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group.

Amendment to IAS 39 *Financial Instruments*: *Recognition and Measurement – Eligible Hedged Items.* The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs

In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The second omnibus, issued in April 2009, is still to be adopted by the EU. The adoption of the following amendments (all not adopted by the

EU yet) may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segments. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 Statement of Cash Flows. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8, before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 Share-based Payment;
- IAS 1 Presentation of Financial Statements;
- IAS 17 Leases;
- IAS 38 Intangible Assets;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRIC 9 Reassessment of Embedded Derivatives;
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

IFRIC 12 *Service Concession Arrangements* (effective for financial years beginning on or after 29 March 2009). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

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

IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for financial years beginning on or after 31 October 2009). The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

IFRIC 18 *Transfers of Assets from Customers* (effective for financial years beginning on or after 31 October 2009).The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated financial statements because the Group does not have such agreements.

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

Significant Accounting Estimates and Assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change.

Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to depreciation rates of tangible fixed assets, intangible fixed assets, and investment properties, determining the allowance for credit losses, the collateral value, the fair value of financial assets and liabilities, as well as the value of investment properties.

b) Basis of Preparation

These consolidated and separate financial statements are reported in thousands of lats (LVL '000), unless otherwise stated, which is functional and presentation currency of the Group and the Bank.

These consolidated and separate financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value (see Note 32).

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia, unless otherwise stated, which is the functional and presentation currency of the Bank.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the Bank's and the Group's statement of financial position were as follows:

Reporting date	USD	EUR	RUB
31 December 2009	0,489	0,7028	0,0164
31 December 2008	0,495	0,7028	0,0171

Information given herein in brackets represents comparative figures for the year ended 31 December 2008, unless otherwise stated.

As described in the *Report of the Council and the Board* (pages 2 to 7), given the current economic situation, the management of the Bank has a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, these consolidated and separate financial statements for the year ended 31 December 2009 are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

c) Basis of Consolidation

Consolidated financial statements include all subsidiaries controlled by the parent. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases. Control is presumed to exist when the parent controls more than half of the voting power of the subsidiary or owns the power to govern the financial and operating policies of the subsidiary, or the power to appoint or remove the majority of the members of the board of the subsidiary.

The Bank's and its subsidiaries' financial statements are consolidated in the Group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication of impairment. Non-controlling interests represent the portion of profit or loss, as well as the equity in a subsidiary not attributable, directly or indirectly, to the Bank. The profit or loss attributable to non-controlling interests is separately disclosed in the statement of comprehensive income. Non-controlling interests are also presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

The Bank's subsidiaries comply with the Bank's policies and hedging methods.
Investments in subsidiaries are presented in the Bank's separate financial statements in accordance with the cost method.

In the consolidated financial statements, the acquisition price of a subsidiary is attributed to the fair value of the subsidiary's assets, liabilities, and contingent liabilities upon acquisition. An acquisition price, which exceeds the fair value of the subsidiary's acquired assets and liabilities, is recorded as goodwill.

d) Recognition and Derecognition of Financial Assets and Liabilities

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The Group recognises financial assets and liabilities in its statement of financial position when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.
A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Group and the Bank have transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.
A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled, or expires.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account.

e) Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the Group's and Bank's financial assets and liabilities is presented in Note 32.

f) Income and Expense Recognition

All major income and expense items are recognised on an accrual basis.
Interest income/expense is recognised in the statement of comprehensive income for financial assets/liabilities measured at amortised cost using the effective interest method.
Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income and expense directly attributable to financial assets/liabilities measured at amortised cost – for these assets/liabilities the respective commission and fee income and expense form an integral part of the effective interest rate.
Commission and fee income received once in a year for the whole reporting period is recognised in the statement of comprehensive income systematically on a straight-line basis during the period.

g) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at exchange rates set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at exchange rates set by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the statement of comprehensive income as profit or loss from revaluation of foreign currency positions.

h) Loans and Receivables

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

- those that the Bank intends to sell immediately or in the near term, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank, upon initial recognition, designates as available for sale; or
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment) as presented in Note 7. Gains or losses are recognised in the statement of comprehensive income upon recognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income/expense when the liabilities are derecognised through the amortisation process. Loans and receivables include loans and fixed income securities. Fixed income securities to be included in the respective portfolio are defined by a separate policy of the Bank.
For the purposes of these financial statements, finance lease receivables are classified as loans.
Securities included in the loans and receivables portfolio are held for the foreseeable future or to maturity with the purpose of generating profit from coupon and principal payments.

i) Available-for-Sale Portfolio

The Group and the Bank acquire available-for-sale securities to hold them for an undefined period and generate interest income and/or profit from the increase in prices of securities. The available-for-sale portfolio includes fixed income securities, investments in shares and investment funds.

After initial recognition at fair value, including direct transaction costs, available-for-sale securities are measured at fair value. The revaluation result is charged through statement of comprehensive income to the shareholders' equity as fair value revaluation reserve of available-for-sale financial assets. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

For available-for-sale securities acquired at a discount (premium), the respective discount (premium) amount is amortised on a systematic basis, using the effective interest method. Amortised amounts are charged to the statement of comprehensive income as interest income from debt securities.

Any gain or loss resulting from disposal of available-for-sale securities and the fair value revaluation reserve accrued until such disposal are included in the statement of comprehensive income as net realised profit/(loss) from available-for-sale financial assets.

Available-for-sale securities are divided into two portfolios:

- liquidity portfolio, which is aimed at forming the Bank's liquidity reserve with a minimum interest rate risk and credit risk;
- investments' held for undefined period portfolio, which is aimed at gaining maximum profit from long-term investments in financial assets.

j) Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are assets that are held for trading. Financial assets held for trading are included in the trading portfolio. Fixed income securities of the trading portfolio are held by the Group and the Bank for the purpose of selling and/or acquired for generating profit in the near term from the expected spread between purchasing and selling prices. The financial assets and liabilities to be included in the trading portfolio are defined by the Bank's trading portfolio policy.

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the statement of comprehensive income under "Net profit/(loss) from financial assets at fair value through profit or loss".

k) Finance Leases – Where the Bank is Lessor

Finance lease receivables are recognised as assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Income from finance leases is recognised over the lease term to produce a constant periodic return on the remaining balance of the liability.
Lease payments are charged to the statement of comprehensive income on a straight-line basis over the lease term.

l) Derivatives

In the ordinary course of business, the Group and the Bank use derivative financial instruments: currency swaps, futures, and forward foreign exchange rate contracts.

Derivative financial instruments are carried at cost and restated at fair value at the date of recognition and beyond. Derivative financial instruments are presented in the statement of financial position in a separate caption "Derivatives", under assets and liabilities respectively. The mark-to-market value is defined based on the quoted market prices or discounted cash flow models. Any gain or loss resulting from fair value movements of derivatives is recognised in the statement of comprehensive income as "Net profit/(loss) from financial assets at fair value through profit or loss".

m) Off-balance Sheet Instruments

In the ordinary course of business, the Group and the Bank are involved in off-balance sheet financial instruments comprising loan and credit line commitments, financial guarantees, as well as commercial letters of credit. Such financial instruments do not involve outflow of the Bank's economic benefits; thus they are not recorded as the Bank's liabilities. These financial instruments are presented in the financial statements as memorandum items upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for establishing allowances on loans as described in paragraph (n) below.

n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Allowances for Financial Assets and Financial Commitments

Non-performing debts are defined as financial assets and financial commitments with regard to which, based on the monitoring activities performed or other information obtained, the Management of the Group and the Bank believe that the contractual interest and principal due might not be collected or customers might default on other contractual conditions, which might result in an outflow of resources embodying economic benefits. According to the approved impairment assessment policy, the Group and the Bank determine individual and collective impairment.

The individual impairment allowance is determined after individually reviewing all credits for potentially uncollectable amounts. Individual assessment is made for credits that individually have objective evidence of impairment, based on the borrower's financial position, value of collateral, fulfilment of the loan agreement, and compliance with the credit exposure limits determined by the FCMC.

The collective (portfolio) allowance relates to existing credit losses, as well as to the impairment losses 'incurred, but not yet known to the Bank. The collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account changes in collateral values, credit concentration risk, general economic and market conditions, or events that have occurred prior to the reporting date and that indicate an adverse impact on the future cash flows from certain loans and receivable balances outstanding. This method permits to attribute each group of loans to historical loss experience for groups of assets with similar credit characteristics and observable market data reflecting current circumstances.

When a loan had been classified as non-performing, an allowance for credit losses is established for that specific loan or amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the Group's and Bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advances collectability and collateral values. Ultimate losses may vary from the current estimates. The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance.

The above estimates are reviewed periodically. As changes of the allowance become necessary as a result of the review made, respective allowance changes are taken to the statement of comprehensive income of the reporting period. The Management of the Group and the Bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available facts and information.

When loans cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

During the reporting period, the Bank improved its impairment allowance methodology. Allowance rates for mortgage loans issued to private individuals have been re-introduced, and the methodology for establishing collective impairment allowances for business loans have been improved. Allowance rates for housing loans issued to private individuals (having indications of quality deterioration) have been determined considering the decrease in the collateral value. For business loans, homogeneous loan pools have been determined, which permits identification of non-performing loans, and the collective impairment allowance is established on the basis of such pools.

The Group/Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired. Based on the estimates of the Management of the Group/Bank, a decline in the fair value of the instrument by more than 20% below its cost or for more than one financial year is treated as objective evidence of significant and prolonged impairment of available-for-sale financial instruments. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss.
Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

o) Intangible Fixed Assets

Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.
The Group and the Bank have applied the annual rate of 20% to amortise their intangible assets.

p) Tangible Fixed Assets

Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Fixed assets, including leasehold improvements under construction and preparation, are not depreciated. Land is not subject to depreciation.

The Group and the Bank have applied the following depreciation rates:

Category	Annual rate
Buildings and property improvements	5,5%
Transport vehicles	20%
EDP equipment and software	16—33%
Office equipment	10—33%

Costs of maintenance and repair are charged to the statement of comprehensive income as incurred.
Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

q) Investment Properties

Investment properties comprise land and buildings as well as costs of the investment property development project in progress that are not used by the Group and the Bank, and are held with the main purpose to earn rentals as well as gain on value appreciation. Such investments are classified as investment property and are accounted for using the cost model of accounting for investment properties. Investment properties are carried in the statement of financial position at their cost value less accumulated depreciation. The annual depreciation rate applied to investment properties is 5%.

r) Employee Benefits

Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and allowances, are charged to the statement of comprehensive income as administrative expense in the period when the services are provided.

The accrual for employee vacation pay is estimated for the Group's or Bank's personnel based on the total number of vacation days earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

s) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% (15%) and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on fixed assets, accrual for employee vacation pay, and revaluation of items of the statement of financial position, including securities revaluation and fair value revaluation reserve.
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

t) Impairment of Non-financial Assets

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.
A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase amount constitutes reversal of impairment losses.

u) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value (see Note 30).

v) Reclassification

In 2008, following the introduced amendments to IAS 39 and IFRS 7, the Group and the Bank reclassified part of the securities from the trading portfolio and the available-for-sale portfolio to loans and receivables. The management of the Group and the Bank based the respective decisions on their assumptions and estimates and by assessing each instrument individually. Initially, the reclassified debt securities were measured at their fair value as at the date of reclassification, and subsequently recognised in the statement of financial position at amortised cost according to the approved policy for accounting loans and receivables.

According to the policy approved for loans and receivables, the fixed income securities included in this portfolio are carried in the balance sheet at amortised cost, which, based on the Management's assumptions, does not differ materially from their fair value.

The reclassification of financial instruments introduced in 2008 had the following effect on the Group's and Bank's statement of comprehensive income and equity:

	01/07/2008 Before reclassification LVL '000	01/07/2008 After reclassification LVL '000	31/12/2008 After reclassification LVL '000	31/12/2009 After reclassification LVL '000
(Loss)/profit on revaluation of financial assets at fair value through profit or loss	63	34	(748)	5
Fair value revaluation reserve of available-for-sale financial assets	(4,139)	(1,524)	(12,867)	937
Revaluation reserve of financial instruments reclassified to loans and receivables	-	(2,615)	(2,347)	(835)

Given the positive development of the financial markets in 2009, the management of the Group and the Bank reclassified part of the securities included in the loan and receivables portfolio which no longer met the conditions of this portfolio to the available-for-sale portfolio.

Based on the analysis carried out, the Group's and the Bank's management resolved to reclassify part of the securities included in the loan and receivables portfolio in the amount of LVL 18,600 to the available-for-sale portfolio.

3. Risk Management

Risks are inherent in the Group's and Bank's business, and risk management is one of the Group's and Bank's strategic values which is based on the confidence that efficient risk management is critical for the success of the Group and the Bank. Managing risks permits keeping the Group's and Bank's exposure at a level meeting their willingness and ability to assume risks. In the ordinary course of business, the Group and the Bank are exposed to various risks, the most significant of them being credit risk, liquidity risk, and market risks (including interest rate risk, currency risk), as well as operational risk.

Risk management means identification, assessment, and control of potential risks.
The risk management process includes the following:

- identification, assessment, and measurement of significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance with the risk management policies and procedures, and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the Group and the Bank;
- regular revision and improvement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the Council.
The introduction and efficiency of such policies are controlled by the Board and the Chief Risk Officer, while the practical implementation is provided by the respective business structural units, including the Risk Management Division and the Loan Administration Division whose functions are strictly segregated from the business functions.
To create a highly disciplined, conservative, and constructive risk management and control environment, training seminars for the staff are organised on a regular basis.

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the Group's and Bank's business, set relevant limits, introduce reliable control procedures as well as control risk and exposure, in compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the Group's and Bank's operational and financial market development; the improvement process is controlled by the Internal Audit Department on a regular basis.

4. Interest Income and Expense

Interest income	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
on loans and advances to customers	32,110	51,430	32,901	51,430
non-impaired	*27,863*	*49,214*	*27,863*	*49,214*
impaired	*4,247*	*2,216*	*5,038*	*2,216*
on debt securities and other fixed income securities	6,912	7,186	6,912	7,186
financial assets at fair value through profit or loss	*91*	*188*	*91*	*188*
available-for-sale financial assets	*4,338*	*3,602*	*4,338*	*3,602*
loans and receivables	*2,483*	*3,396*	*2,483*	*3,396*
non-impaired	*2,220*	*3,396*	*2,220*	*3,396*
impaired	*263*	*-*	*263*	*-*
on balances due from the Bank of Latvia	557	2,061	557	2,061
on balances due from credit institutions	441	3,738	441	3,738
other interest income	98	135	98	135
Total interest income	**40,118**	**64,550**	**40,909**	**64,550**

Interest expense				
on deposits from non-bank customers	15,360	17,923	15,591	17,923
on balances due to credit institutions and central banks	2,152	8,753	2,066	8,682
on subordinated liabilities	1,508	2,004	1,508	2,004
other interest expense	3,301	1,733	3,301	1,733
Total interest expense	**22,321**	**30,413**	**22,466**	**30,342**

5. Commission and Fee Income and Expense

Commission and fee income	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
commission on payment transfers on behalf of customers	9,191	9,203	9,191	9,203
service fees	2,245	1,387	2,023	1,387
commission on transactions with settlement cards	1,553	1,525	1,553	1,525
commission on brokerage operations	821	575	103	195
commission on trust transactions	547	749	316	60
commission on documentary transactions	299	323	299	323
other commission and fee income	628	905	628	862
Total commission and fee income	**15,284**	**14,667**	**14,113**	**13,555**
Commission and fee expense				
correspondent bank service charges	1,671	1,708	1,671	1,708
commission on transactions with settlement cards	859	613	859	613
other commission and fee expense	337	170	166	59
Total commission and fee expense	**2,867**	**2,491**	**2,696**	**2,380**

6. Net Gains/Losses on Financial Assets

	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
Gains/(losses) from revaluation of financial assets and liabilitiesat fair value through profit or loss	6,679	(12,445)	6,679	(12,445)
Revaluation of derivatives	*6,674*	*(11,697)*	*6,674*	*(11,697)*
Revaluation of debt securities	*5*	*(748)*	*5*	*(748)*
(Loss)/profit from trading with financial assets and liabilities at fair value through profit or loss	(8,218)	21,721	(8,218)	21,721
Trading with derivatives	*(9,397)*	*21,699*	*(9,397)*	*21,699*
Trading with debt securities	*1,179*	*22*	*1,179*	*22*
Net (losses)/gains from financial assets and liabilities at fair value through profit or loss	**(1,539)**	**9,276**	**(1,539)**	**9,276**
Gains/(losses) from sale of available-for-sale securities	891	(1,038)	891	(1,038)
Net realised gains/(losses) from available-for-sale financial assets	**891**	**(1,038)**	**891**	**(1,038)**
Profit from foreign currency exchange	8,414	15,508	8,486	15,508
Profit/(loss) from revaluation of foreign currency positions	798	(12,848)	798	(12,839)
Net result from foreign exchange trading and revaluation	**9,212**	**2,660**	**9,284**	**2,669**

The result of foreign exchange transactions mainly represents currency exchange loss or gain.

7. Allowances for Credit Losses

The table below presents changes in allowances for credit losses of the Group and the Bank in 2009:

	Mortgage loans	Business loans	Consumer loans	Other loans	Securities at fair value	Available for-sale securities	Loan and receivables portfolio securties	Other assets	**Total**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Individual allowances at the beginning of the period	825	5,107	77	50	-	17	-	72	6,148
Collective allowances at the beginning of the period	13,630	461	464	414	-	-	-	-	14,969
Total allowances at the beginning of the period	**14,455**	**5,568**	**541**	**464**	**-**	**17**	**-**	**72**	**21,117**
Individual allowances	656	13,768	488	1,405	2	172	3,970	266	20,727
Collective allowances	18,756	-	-	1,362	-	-	-	-	20,118
Asset write-off expenses	-	-	-	-	-	-	-	45	45
Total allowances charged to statement of comprehensive income	**19,412**	**13,768**	**488**	**2,767**	**2**	**172**	**3,970**	**311**	**40,890**
Release of previously established individual allowances	(528)	(2,203)	(38)	(38)	-	-	-	-	(2,807)
Release of previously established collective allowances	(426)	(461)	(234)	(102)	-	-	-	-	(1,223)
Recovery of written-off assets	-	-	-	-	-	-	-	(1)	(1)
Total release of previously established allowances	**(954)**	**(2,664)**	**(272)**	**(140)**	**-**	**-**	**-**	**(1)**	**(4,031)**
Total allowances expense, net	**18,458**	**11,104**	**216**	**2,627**	**2**	**172**	**3,970**	**310**	**36,859**
Recovery of write-offs/asset write-off (expense)	-	-	-	-	-	-	-	44	44
Increase in allowances due to currency fluctuations	-	30	-	-	-	2	43	-	75
(Reversal) of individual allowances due to write-offs	(33)	(5,674)	(497)	(823)	-	-	-	-	(7,027)
Total change in allowances for the period	**18,425**	**5,460**	**(281)**	**1,804**	**2**	**174**	**4,013**	**354**	**29,951**
Individual allowances at the end of the period	920	11,028	30	594	2	191	4,013	338	17,116
Collective allowances at the end of the period	31,960	-	230	1,674	-	-	-	-	33,864
Total allowances at the end of the period	**32,880**	**11,028**	**260**	**2,268**	**2**	**191**	**4,013**	**338**	**50,980**

As at 31 December 2009 and 2008, the Group's and Bank's financial assets were not past due except for loans and one coupon payment from the security in the amount of LVL 340 (17) thousand.

The accompanying notes form an integral part of these consolidated and separate financial statements.

The table below presents changes in allowances for credit losses of the Group and the Bank in 2008:

	Mortgage loans	Business loans	Consumer loans	Other loans	Other assets	Available for-sale securities	**Total**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Individual allowance at the beginning of the year	85	1,215	80	-	-	-	1,380
Collective allowance at the beginning of the year	931	1,261	-	-	-	-	2,192
Total allowances at the beginning of the year	**1,016**	**2,476**	**80**	**-**	**-**	**-**	**3,572**
Individual allowance charged to statement of comprehensive income	773	4,129	24	55	72	17	5,070
Collective allowance charged to statement of comprehensive income	12,699	2	481	414	-	-	13,596
Asset write-off expenses	-	-	16	-	-	-	16
Statement of comprehensive income	**13,472**	**4,131**	**521**	**469**	**72**	**17**	**18,682**
Release of previously established individual allowance	(2)	(109)	(15)	(5)	-	-	(131)
Release of previously established collective allowance	-	(802)	(17)	-	-	-	(819)
Recovery of written-off assets	-	-	(3)	-	-	-	(3)
Total release of previously established allowances	**(2)**	**(911)**	**(35)**	**(5)**	**-**	**-**	**(953)**
Total allowance expense, net	**13,470**	**3,220**	**486**	**464**	**72**	**17**	**17,729**
Recovery of write-offs/asset write-off (expenses)	-	-	13	-	-	-	13
(Decrease) in allowance due to currency fluctuations	(9)	(6)	-	-	-	-	(15)
(Reversal) of individual allowances due to write-offs	(22)	(122)	(12)	-	-	-	(156)
Total allowance expense, net	**13,439**	**3,092**	**487**	**464**	**72**	**17**	**17,571**
Individual allowance at the end of the year	825	5,107	77	50	72	17	6,148
Collective allowance at the end of the year	13,630	461	464	414	-	-	14,969
Total allowances at the end of the year	**14,455**	**5,568**	**541**	**464**	**72**	**17**	**21,117**

8. Impairment of Other Assets

The Group's and the Bank's management have determined the fair value of the immovable properties taken over by the Bank for sale on the basis of the expected discounted future cash flow from the sale of the above properties. Based on the analysis carried out in 2009, the Group and the Bank recognised the impairment of non-financial assets.

The table below presents changes in impairment for non-financial assets of the Group in 2009:

	Available for sale non financial	Investment in associates	**Total**
	LVL '000	LVL '000	LVL '000
Impairment of other assets	2,057	97	2,154
Total impairment of other assets	**2,057**	**97**	**2,154**

The table below presents changes in impairment for non-financial assets of the Bank in 2009:

	Available for sale non financial	Investment in associates	**Total**
	LVL '000	LVL '000	LVL '000
Impairment of other assets	122	-	122
Total impairment of other assets	**122**	**-**	**122**

As at 31 December 2008, the Group and Bank did not recognized impairment of non-financial assets.

The accompanying notes form an integral part of these consolidated and separate financial statements.

9. Administrative Expense

	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
Remuneration to personnel	11,014	12,718	10,196	12,097
Statutory social insurance contributions	2,793	2,784	2,601	2,663
Equipment maintenance expense and stationery	1,496	1,138	1,323	1,123
Rent of premises, repairs and maintenance costs	1,328	1,315	1,256	1,279
Remuneration to the Council and the Board	818	979	617	771
Communication expense	490	594	533	564
Advertising and marketing expense	533	656	490	652
Investment property maintenance costs	106	122	106	122
Training expense	25	193	23	186
Donations	138	337	-	337
Other administrative expense	1,900	2,241	1,452	1,990
Total administrative expense	**20,641**	**23,077**	**18,597**	**21,784**

The following table specifies employees of the Group and the Bank as at 31 December 2009 and 2008:

	Group 31/12/2009 number	Group 31/12/2008 number	Bank 31/12/2009 number	Bank 31/12/2008 number
Management	15	15	10	10
Heads of divisions and departments	90	101	82	91
Other personnel	428	470	404	451
Total	**533**	**586**	**496**	**552**

In 2009, the Group and the Bank employed an average of 542 (587) and 507 (558) persons.

10. Taxation

	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
Profit before corporate income tax	(25,710)	12,065	(22,752)	12,478
Group's profit adjustments for corporate income tax	187	651	-	-
Theoretical corporate income tax	**(3,828)**	**1,907**	**(3,413)**	**1,872**
Permanent differences	323	171	(83)	171
Temporary differences	(2,772)	1,722	(2,765)	1,726
Tax rebates	-	(287)	-	(287)
Tax loss carried forward	6,295	-	6,261	-
Actual corporate income tax expense for the reporting year	**18**	**3,513**	**-**	**3,482**
Adjustments to prior year corporate income tax	(66)	(99)	(66)	(99)
Tax paid abroad	30	156	30	156
Deferred corporate income tax	(3,523)	(1,722)	(3,496)	(1,726)
Total corporate income tax expense for the reporting year	**(3,541)**	**1,848**	**(3,532)**	**1,813**

Deferred corporate income tax calculation:

	Group 31/12/2009 Amounts subject to temporary differences LVL '000	Group 31/12/2008 Amounts subject to temporary differences LVL '000	Bank 31/12/2009 Amounts subject to temporary differences LVL '000	Bank 31/12/2008 Amounts subject to temporary differences LVL '000
Accelerated tax depreciation	3,260	3,332	3,084	3,285
Fair value revaluation reserve for available-for-sale financial assets	(103)	(15,214)	(103)	(15,214)
Collective (portfolio) allowances and other accrued liabilities	(1,879)	(1,965)	(1,783)	(1,951)
Revaluation of assets, net	6,685	(11,785)	6,685	(11,785)
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	-	-
Tax losses	(41,969)	-	(41,744)	-
Basis for calculation of deferred corporate income tax	**(36,241)**	**(27,867)**	**(33,861)**	**(25,665)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/	**(5,458)**	**(4,185)**	**(5,079)**	**(3,850)**
liability at the end of the year	**22**	**5**	**-**	**-**

	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
Deferred corporate income tax at the	(4,185)	(579)	(3,850)	(245)
beginning of the year	5	-	-	-
(Decrease) charged to statement of comprehensive income during the year	(3,523)	(1,722)	(3,496)	(1,726)
Increase/(decrease) attributable to fair value revaluation reserve under equity	2,267	(1,879)	2,267	(1,879)
Deferred corporate income tax (asset)/	**(5,458)**	**(4,185)**	**(5,079)**	**(3,850)**
liability at the end of the year	**22**	**5**	**-**	**-**

The Group's and Bank's management believes that there is reasonable certainty that future taxable profit will be sufficient to fully recover the recognised deferred tax asset in the taxation periods following the reporting year.

The Group's and Bank's tax paid:

Taxes	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
Corporate income tax	1,472	5,334	1,444	5,156
Personal income tax	6,198	3,587	6,065	3,454
Statutory social insurance contributions	3,686	3,385	3,494	3,243
Real estate tax	111	93	97	87
Value added tax	-	123	-	20

In 2009, the overpayment of other taxes of 1,700 thousand LVL is included in statutory social insurance contribution payments.

11. Classification of Financial and Non-Financial Instruments

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2009:

Assets	At fair value through profit or loss LVL`000	Available-for-sale LVL`000	At amortised cost LVL`000	Total LVL`000
Cash and demand deposits with central banks	-	-	44,986	44,986
Balances due from credit institutions	-	-	203,569	203,569
Fixed income securities	12	102,376	19,136	121,524
Shares and other non-fixed income securities	52	2,147	-	2,199
Derivatives	9,435	-	-	9,435
Loans and receivables	-	-	531,444	531,444
Total financial assets	**9,499**	**104,523**	**799,135**	**913,157**
Non-financial assets	-	-	-	64,570
Total assets	**9,499**	**104,523**	**799,135**	**977,727**
Liabilities				
Balances due to credit institutions	-	-	5,956	5,956
Derivatives	176	-	-	176
Deposits	-	-	858,503	858,503
Subordinated liabilities	-	-	41,664	41,664
Total financial liabilities	**176**	**-**	**906,123**	**906,299**
Non-financial liabilities	-	-	-	2,443
Shareholders' equity	-	-	-	68,985
Total liabilities and shareholders' equity	**176**	**-**	**906,123**	**977,727**

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2008:

Assets	At fair value through profit or loss LVL`000	Available-for-sale LVL`000	At amortised cost LVL`000	Total LVL`000
Cash and demand deposits with central banks	-	-	57,860	57,860
Balances due from credit institutions	-	-	174,664	174,664
Fixed income securities	768	31,108	43,003	74,879
Shares and other non-fixed income securities	-	3,973	-	3,973
Derivatives	3,831	-	-	3,831
Loans and receivables	-	-	626,869	626,869
Total financial assets	**4,599**	**35,081**	**902,396**	**942,076**
Non-financial assets	-	-	-	39,995
Total assets	**4,599**	**35,081**	**902,396**	**982,071**
Liabilities				
Balances due to credit institutions	-	-	128,207	128,207
Derivatives	19,238	-	-	19,238
Deposits	-	-	712,315	712,315
Subordinated liabilities	-	-	40,936	40,936
Total financial liabilities	**19,238**	**-**	**881,458**	**900,696**
Non-financial liabilities	-	-	-	3,207
Shareholders' equity	-	-	-	78,168
Total liabilities and shareholders' equity	**19,238**	**-**	**881,458**	**982,071**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2009:

Assets	At fair value through profit or loss LVL`000	Available-for-sale LVL`000	At amortised cost LVL`000	Total LVL`000
Cash and demand deposits with central banks	-	-	44,986	44,986
Balances due from credit institutions	-	-	203,537	203,537
Fixed income securities	12	102,376	19,136	121,524
Shares and other non-fixed income securities	52	2,147	-	2,199
Derivatives	9,435	-	-	9,435
Loans and receivables	-	-	534,339	534,339
Total financial assets	**9,499**	**104,523**	**801,998**	**916,020**
Non-financial assets	-	-	-	76,109
Total assets	**9,499**	**104,523**	**801,998**	**992,129**
Liabilities				
Balances due to credit institutions	-	-	2,985	2,985
Derivatives	176	-	-	176
Deposits	-	-	869,017	869,017
Subordinated liabilities	-	-	41,664	41,664
Total financial liabilities	**176**	**-**	**913,666**	**913,842**
Non-financial liabilities	-	-	-	4,205
Shareholders' equity	-	-	-	74,082
Total liabilities and shareholders' equity	**176**	**-**	**913,666**	**992,129**

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2008:

Assets	At fair value through profit or loss LVL`000	Available-for-sale LVL`000	At amortised cost LVL`000	Total LVL`000
Cash and demand deposits with central banks	-	-	57,860	57,860
Balances due from credit institutions	-	-	174,636	174,636
Fixed income securities	768	31,108	43,003	74,879
Shares and other non-fixed income securities	-	3,973	-	3,973
Derivatives	3,831	-	-	3,831
Loans and receivables	-	-	626,867	626,867
Total financial assets	**4,599**	**35,081**	**902,366**	**942,046**
Non-financial assets	-	-	-	41,341
Total assets	**4,599**	**35,081**	**902,366**	**983,387**
Liabilities				
Balances due to credit institutions	-	-	125,251	125,251
Derivatives	19,238	-	-	19,238
Deposits	-	-	714,007	714,007
Subordinated liabilities	-	-	40,936	40,936
Total financial liabilities	**19,238**	**-**	**880,194**	**899,432**
Non-financial liabilities	-	-	-	3,673
Shareholders' equity	-	-	-	80,282
Total liabilities and shareholders' equity	**19,238**	**-**	**880,194**	**983,387**

The accompanying notes form an integral part of these consolidated and separate financial statements.

12. Financial Assets by Risk Ratings

The tables below demonstrate the Group's and Bank's financial assets in breakdown by stated internal risk rating groups. Higher-rating financial assets are standard assets with a sound credit standing while lower-rating financial assets are those assets which have doubtful credit quality and require close monitoring by the Group and the Bank.

Financial assets of the Group by risk rating:

	31/12/2009					31/12/2008				
Financial assets	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**
Cash and demand deposits with central banks	44,986	-	**44,986**	-	**44,986**	57,860	-	**57,860**	-	**57,860**
Balances due from credit institutions	203,569	-	**203,569**	-	**203,569**	174,664	-	**174,664**	-	**174,664**
Financial assets at fair value through profit or loss	9,487	14	**9,501**	(2)	**9,499**	4,599	-	**4,599**	-	**4,599**
Available-for-sale financial assets	104,098	616	**104,714**	(191)	**104,523**	35,098	-	**35,098**	(17)	**35,081**
Loans and receivables	519,796	81,221	**601,017**	(50,437)	**550,580**	639,420	51,480	**690,900**	(21,028)	**669,872**
Incl. debt securities	*17,881*	*5,268*	***23,149***	*(4,013)*	***19,136***	*43,003*	-	***43,003***	-	***43,003***
loans to customers	*501,915*	*75,953*	***577,868***	*(46,424)*	***531,444***	*596,417*	*51,480*	***647,897***	*(21,028)*	***626,869***
Mortgage loans	*376,264*	*50,060*	***426,324***	*(32,880)*	***393,444***	*419,337*	*29,849*	***449,186***	*(14,455)*	***434,731***
Business loans	*116,039*	*23,072*	***139,111***	*(11,019)*	***128,092***	*172,757*	*20,389*	***193,146***	*(5,568)*	***187,578***
Consumer loans	*1,060*	*229*	***1,289***	*(259)*	***1,030***	*2,143*	*745*	***2,888***	*(541)*	***2,347***
Other loans	*8,552*	*2,592*	***11,144***	*(2,266)*	***8,878***	*2,180*	*497*	***2,677***	*(464)*	***2,213***
Total financial assets	**881,936**	**81,851**	**963,787**	**(50,630)**	**913,157**	**911,641**	**51,480**	**963,121**	**(21,045)**	**942,076**

Financial assets of the Bank by risk rating:

	31/12/2009					31/12/2008				
Financial assets	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**
Cash and demand deposits with central banks	44,986	-	**44,986**	-	**44,986**	57,860	-	**57,860**	-	**57,860**
Balances due from credit institutions	203,537	-	**203,537**	-	**203,537**	174,636	-	**174,636**	-	**174,636**
Financial assets at fair value through profit or loss	9,487	14	**9,501**	(2)	**9,499**	4,599	-	**4,599**	-	**4,599**
Available-for-sale financial assets	104,098	616	**104,714**	(191)	**104,523**	35,098	-	**35,098**	(17)	**35,081**
Loans and receivables	522,691	81,221	**603,912**	(50,437)	**553,475**	639,418	51,480	**690,898**	(21,028)	**669,870**
Incl. debt securities	*17,881*	*5,268*	***23,149***	*(4,013)*	***19,136***	*43,003*	-	***43,003***	-	***43,003***
loans to customers	*504,810*	*75,953*	***580,763***	*(46,424)*	***534,339***	*596,415*	*51,480*	***647,895***	*(21,028)*	***626,867***
Mortgage loans	*376,264*	*50,060*	***426,324***	*(32,880)*	***393,444***	*419,337*	*29,849*	***449,186***	*(14,455)*	***434,731***
Business loans	*118,954*	*23,072*	***142,026***	*(11,019)*	***131,007***	*172,757*	*20,389*	***193,146***	*(5,568)*	***187,578***
Consumer loans	*1,060*	*229*	***1,289***	*(259)*	***1,030***	*2,143*	*745*	***2,888***	*(541)*	***2,347***
Other loans	*8,532*	*2,592*	***11,124***	*(2,266)*	***8,858***	*2,178*	*497*	***2,675***	*(464)*	***2,211***
Total financial assets	**884,799**	**81,851**	**966,650**	**(50,630)**	**916,020**	**911,611**	**51,480**	**963,091**	**(21,045)**	**942,046**

The accompanying notes form an integral part of these consolidated and separate financial statements.

13. Cash and Demand Deposits with Central Banks

	Group/Bank 31/12/2009 LVL '000	Group/Bank 31/12/2008 LVL '000
Cash	3,880	4,927
Deposits with the Bank of Latvia	41,106	52,933
Total cash and demand deposits with central banks	**44,986**	**57,860**

In accordance with the resolution of the Council of the Bank of Latvia, credit institutions have to comply with the obligatory reserve requirement. As at 31 December 2009, the obligatory reserve requirement for liabilities with the original maturity above two years was 3% (3%), while for other liabilities included in the reserve basis it was 5% (5%).
The Group and the Bank were in compliance with this requirement as at 31 December 2009.

14. Balances Due from Credit Institutions

As at 31 December 2009, the Bank had established correspondent relationships with 25 (25) credit institutions registered in the OECD area (including EMU and EU countries), 5 (6) credit institutions registered in Latvia, and 22 (24) credit institutions incorporated in other countries.

Balances due from credit institutions to the Group by geographical area and structure in 2009:

	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Demand deposits with credit institutions						
Correspondent account balances	52	19,922	1,182	17,606	8,618	47,380
Total demand deposits with credit institutions	**52**	**19,922**	**1,182**	**17,606**	**8,618**	**47,380**
Other balances due from credit institutions						
Security deposits	538	7,444	3,175	-	-	11,157
Term deposits	-	31,625	35,166	78,241	-	145,032
Total other balances due from credit institutions	**538**	**39,069**	**38,341**	**78,241**	**-**	**156,189**
Total balances due from credit institutions	**590**	**58,991**	**39,523**	**95,847**	**8,618**	**203,569**

Balances due from credit institutions to the Group by geographical area and structure in 2008:

	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Demand deposits with credit institutions						
Correspondent account balances	1,454	27,426	4,202	39,875	6,096	79,053
Overnight deposits	3,218	-	-	7,425	-	10,643
Total demand deposits with credit institutions	**4,672**	**27,426**	**4,202**	**47,300**	**6,096**	**89,696**
Other balances due from credit institutions						
Security deposits	1,428	7,439	13,660	-	-	22,527
Term deposits	-	27,868	17,248	17,325	-	62,441
Total other balances due from credit institutions	**1,428**	**35,307**	**30,908**	**17,325**	**-**	**84,968**
Total balances due from credit institutions	**6,100**	**62,733**	**35,110**	**64,625**	**6,096**	**174,664**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Balances due from credit institutions to the Bank by geographical area and structure in 2009:

	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Demand deposits with credit institutions						
Correspondent account balances	40	19,922	1,182	17,606	8,598	47,348
Total demand deposits with credit institutions	**40**	**19,922**	**1,182**	**17,606**	**8,598**	**47,348**
Other balances due from credit institutions						
Security deposits	538	7,444	3,175	-	-	11,157
Term deposits	-	31,625	35,166	78,241	-	145,032
Total other balances due from credit institutions	**538**	**39,069**	**38,341**	**78,241**	**-**	**156,189**
Total balances due from credit institutions	**578**	**58,991**	**39,523**	**95,847**	**8,598**	**203,537**

Balances due from credit institutions to the Bank by geographical area and structure in 2008:

	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Demand deposits with credit institutions						
Correspondent account balances	1,441	27,426	4,202	39,875	6,081	79,025
Overnight deposits	3,218	-	-	7,425	-	10,643
Total demand deposits with credit institutions	**4,659**	**27,426**	**4,202**	**47,300**	**6,081**	**89,668**
Other balances due from credit institutions						
Security deposits	1,428	7,439	13,660	-	-	22,527
Term deposits	-	27,868	17,248	17,325	-	62,441
Total other balances due from credit institutions	**1,428**	**35,307**	**30,908**	**17,325**	**-**	**84,968**
Total balances due from credit institutions	**6,087**	**62,733**	**35,110**	**64,625**	**6,081**	**174,636**

Concentration of balances due from credit institutions by geographical area:

	Group 31/12/2009 number	Group 31/12/2008 number	Bank 31/12/2009 number	Bank 31/12/2008 number
Balances over LVL 15,000,000				
due from credit institutions registered in OECD area	3	3	3	3
Balances from LVL 5,000,000 to LVL 15,000,000				
due from credit institutions registered in OECD area	3	6	3	6
due from credit institutions registered in other countries	1	-	1	-
Balances up to LVL 5,000,000				
due from credit institutions registered in OECD area	25	34	25	34
due from credit institutions registered in other countries	21	24	21	24
due from credit institutions registered in Latvia	4	7	4	6
Total				
due from credit institutions registered in OECD area	31	43	31	43
due from credit institutions registered in other countries	22	24	22	24
due from credit institutions registered in Latvia	4	7	4	6

As at 31 December 2009, the Group's and the Bank's major balances due from credit institutions registered in the OECD area were as follows: LVL 90 (40) million due from JP Morgan Chase Bank NA, LVL 32 (14) due from Commerzbank AG, and LVL 22 million due from the Bank of Montreal.

15. Debt Securities and Other Fixed Income Securities

The Group's and Bank's investments in debt securities are classified by the investment type as follows:

	Group/Bank			Group/Bank		
	31/12/2009			31/12/2008		
	At fair value	Available-for-sale	Loans and receivables	At fair value	Available-for-sale	Loans and receivables
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Debt securities issued in Latvia						
Latvian government debt securities	-	1,984	3,376	-	12,113	3,348
Latvian credit institutions debt securities	-	2,621	175	-	15	176
Debt securities issued in OECD area						
Government debt securities	-	49,214	-	-	-	-
Issued by municipalities	-	-	765	-	-	1,132
Issued by credit institutions	12	22,371	8,262	546	10,664	16,956
Issued by financial institutions	-	449	-	-	-	-
Issued by corporate companies	-	12,783	452	50	2,252	8,386
Debt securities issued in other countries						
Government and central bank debt securities	-	5,242	1,427	-	1,670	1,477
Issued by municipalities	-	692	-	-	225	-
Issued by financial institutions	-	3,430	1,091	129	2,155	3,406
Issued by state-owned companies	-	-	243	-	254	973
Issued by credit institutions	-	-	-	-	15	-
Issued by corporate companies	-	3,590	3,345	43	1,745	7,149
Total debt securities and other fixed income securities, net	**12**	**102,376**	**19,136**	**768**	**31,108**	**43,003**

In the end of 2009, the Management of the Group and the Bank recognised impairment of available-for-sale securities in the amount of LVL 3,035 (0) thousand.

In 2009, impairment of the securities included in the loan and receivables portfolio was recognised in the total amount of LVL 4,013 (0) thousand. The following securities were impaired: three securities issued by credit institutions of OECD countries in the amount of LVL 525 thousand, one security issued by a financial institution of other countries in the amount of LVL 240 thousand, and two securities issued by corporate companies in the amount of LVL 392 thousand.

The available-for-sale securities are classified as follows:

	Group/Bank		Group/Bank	
	31/12/2009		31/12/2008	
	Liquidity portfolio	Investments held for undefined period portfolio	Liquidity portfolio	Investments held for undefined period portfolio
	LVL '000	LVL '000	LVL '000	LVL '000
Debt securities issued in Latvia				
Latvian government debt securities	1,984	-	12,113	-
Latvian credit institutions debt securities	-	2,621	-	15
Debt securities issued in OECD area				
Government and central bank debt securities	48,710	504	-	-
Issued by municipalities	-	-	-	-
Issued by credit institutions	-	22,371	2,216	8,448
Issued by financial institutions	-	449	-	-
Issued by corporate companies	-	12,783	-	2,252
Debt securities issued in other countries				
Government and central bank debt securities	-	5,242	-	1,670
Issued by municipalities	-	692	-	225
Issued by credit institutions	-	3,430	-	2,155
Issued by financial institutions	-	-	-	254
Issued by state-owned companies	-	-	-	15
Issued by corporate companies	-	3,590	-	1,745
Total available-for-sale securities, net	**50,694**	**51,682**	**14,329**	**16,779**

As at 31 December 2009, the following securities belonging to the Bank's portfolio of investments held for undefined period were not listed on stock exchanges: available-for-sale securities issued by companies of other countries of LVL 1,360 (1,375) thousand, available-for-sale securities issued by credit institutions of OECD countries of LVL 101 (103) thousand and Latvia of 2,593 (0) thousand, as well as 449 (0) thousand debt securities with fixed income issued in other countries. In 2009, the average interest rate of fixed income securities was 7,68% (6,36%).

16. Derivatives

The table below presents the notional amounts of foreign currency exchange contracts and other derivative financial instruments and their fair values. The notional amount of foreign currency exchange contracts is the amount receivable.
The notional amount of other derivative financial instruments is the value of the underlying assets of these instruments.

	Group/Bank		Group/Bank		Group/Bank	
	31/12/2009	31/12/2008	31/12/2009		31/12/2008	
	Notional amount		Fair value			
			Assets	Liabilities	Assets	Liabilities
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Foreign currency exchange contracts						
Forwards	4,398	6,934	703	39	1,235	105
Swaps	107,863	130,996	2,058	137	2,596	7,437
Futures	135,133	126,103	6,605	-	-	11,345
Total foreign currency exchange contracts	**247,394**	**264,033**	**9,366**	**176**	**3,831**	**18,887**
Interest rate derivatives						
Futures	2,891	25,565	69	-	-	351
Total interest rate derivatives	**2,891**	**25,565**	**69**	**-**	**-**	**351**
Options						
Options	185	187	-	-	-	-
Total options	**185**	**187**	**-**	**-**	**-**	**-**
Total derivatives			**9,435**	**176**	**3,831**	**19,238**

17. Shares and Other Non-Fixed Income Securities

As at 31 December 2009 and 2008, all the Group's and Bank's investments in shares and investment funds are classified as available-for-sale financial assets.

	Group/Bank			Group/Bank		
	31/12/2009			31/12/2008		
	Listed	Non-listed	**Total**	Listed	Non-listed	**Total**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Investments in funds	-	2,086	2,086	-	2,475	2,475
Equity shares in foreign financial institutions	-	61	61	147	31	178
Equity shares in foreign corporate entities	28	-	28	31	-	31
Equity shares in Latvian corporate entities	24	-	24	1,281	8	1,289
Total shares and other non-fixed income securities	**52**	**2,147**	**2,199**	**1,459**	**2,514**	**3,973**

In the end of 2009, the Management of the Group and the Bank recognised impairment of equity shares in the amount of LVL 0 (2,055) thousand.

18. Loans

The breakdown of loans issued by the Group and the Bank by customer profile:

Customer profile	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Other private individuals	451,294	474,390	451,294	474,390
Corporate companies	112,627	164,893	115,522	164,891
Financial institutions	8,263	2,047	8,263	2,047
Bank's employees	5,684	6,567	5,684	6,567
Total loans	**577,868**	**647,897**	**580,763**	**647,895**
Less allowance for credit losses	(46,424)	(21,028)	(46,424)	(21,028)
Total loans, net	**531,444**	**626,869**	**534,339**	**626,867**

The industry analysis of loans granted by the Group and the Bank and the maximum and minimum exposure are provided below:

	Group		Group		Bank		Bank	
	31/12/2009		31/12/2008		31/12/2009		31/12/2008	
Industry profile*	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000
Private individuals (mortgage loans)	437,512	156,533	449,186	65,825	437,512	156,533	449,186	65,825
Real estate management	35,260	2,810	45,035	2,648	35,260	2,810	45,035	2,648
Trade	26,400	1,206	49,910	7,614	26,400	1,206	49,910	7,614
Private individuals (other loans)	19,466	3,438	31,772	18,943	19,466	3,438	31,772	18,943
Construction	19,203	4,828	36,971	4,179	19,203	4,828	36,971	4,179
Financial intermediaries	8,486	212	2,280	214	8,486	212	2,280	214
Transport and logistics	7,908	70	10,514	519	7,908	70	10,514	519
Other service industries	6,206	298	4,899	362	6,206	298	4,899	362
Manufacturing	2,993	16	16,434	1,815	2,993	16	16,434	1,815
Agriculture and forestry	71	3	541	541	71	3	541	541
Other industries	14,363	2,007	355	355	17,258	2,007	353	353
Total loans, gross	**577,868**	**171,421**	**647,897**	**103,015**	**580,763**	**171,421**	**647,895**	**103,013**
Less allowance for credit losses	(46,424)	(46,242)	(21,028)	(21,028)	(46,424)	(46,424)	(21,028)	(21,028)
Total loans, net	**531,444**	**125,179**	**626,869**	**81,987**	**534,339**	**124,997**	**626,867**	**81,985**

***** The industry profile of loans with the original maturity of up to one year is determined by the Bank based on the industry where the borrower operates, while for loans with the original maturity exceeding one year – based on the purpose of the loan granted (by the industry for the development of which the loan has been issued).

Credit quality analysis for the Group is as follows:

	31/12/2009		31/12/2008	
	Loans, total	Incl. past due payments	Loans, total	Incl. past due payments
	LVL '000	LVL '000	LVL '000	LVL '000
Not individualy impaired loans				
Mortgage loans	333,528	1,023	418,714	4,288
Business loans	100,350	8,736	159,501	1,512
Consumer loans	862	9	2,143	-
Other loans	8,408	11	2,180	-
Total non-impaired loans, gross	**443,148**	**9,779**	**582,538**	**5,800**
Impaired loans				
Mortgage loans	92,796	55,082	30,472	26,185
Business loans	38,761	19,237	33,645	14,524
Consumer loans	427	224	745	540
Other loans	2,736	2,685	497	456
Total impaired loans, gross	**134,720**	**77,228**	**65,359**	**41,705**
Total loans, gross	**577,868**	**87,007**	**647,897**	**47,505**
Less allowance for credit losses	(46,424)		(21,028)	
Total loans, net	**531,444**		**626,869**	

Credit quality analysis for the Bank is as follows:

	31/12/2009		31/12/2008	
	Loans, total	Incl. past due payments	Loans, total	Incl. past due payments
	LVL '000	LVL '000	LVL '000	LVL '000
Not individualy impaired loans				
Mortgage loans	333,528	1,023	418,714	4,288
Business loans	103,265	8,736	159,501	1,512
Consumer loans	862	9	2,143	-
Other loans	8,388	11	2,178	-
Total non-impaired loans, gross	**446,043**	**9,779**	**582,536**	**5,800**
Impaired loans				
Mortgage loans	92,796	55,082	30,472	26,185
Business loans	38,761	19,237	33,645	14,524
Consumer loans	427	224	745	540
Other loans	2,736	2,685	497	456
Total impaired loans, gross	**134,720**	**77,228**	**65,359**	**41,705**
Total loans, gross	**580,763**	**87,007**	**647,895**	**47,505**
Less allowance for credit losses	(46,424)		(21,028)	
Total loans, net	**534,339**		**626,867**	

The table below provides the aging analysis of past due loans of the Group and the Bank as at 31 December 2009:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	188	98	-	-	286
31—59 days	82	116	-	31	229
60—89 days	167	-	1	-	168
More than 90 days	55,668	27,759	232	2,665	86,324
Total past due loans	**56,105**	**27,973**	**233**	**2,696**	**87,007**

The table below provides the aging analysis of past due loans of the Group and the Bank as at 31 December 2008:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	458	1,966	30	-	2,454
31—59 days	412	1,517	32	-	1,961
60—89 days	1,933	957	62	-	2,952
More than 90 days	27,670	11,596	416	456	40,138
Total past due loans	**30,473**	**16,036**	**540**	**456**	**47,505**

As at 31 December 2009, the gross amount of loans having the maturity date for principal or interest changed was LVL 170,455 (145,768) thousand. These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due.

19. Investments in Subsidiaries

As at 31 December 2009, the Bank held shares in the following subsidiaries:

Company	Country of incorporation	Business profile	Share capital	Equity	Bank's share (% of total share capital)	Share capital	Equity	Bank's share (% of total share capital)
			31/12/2009			31/12/2008		
			LVL '000	LVL '000	(%)	LVL '000	LVL '000	(%)
KS AB.LV Transform Partnership	LV	Holding company	31,626	28,883	99,9997	-	-	-
SIA Elizabetes 21a	LV	Real estate transactions	1,750	1,238	88	1,400	995	85
SIA New Hanza City	LV	Real estate transactions	1,100	1,148	100	-	-	-
IPAS AB.LV Asset Management	LV	Financial services	700	588	100	700	886	100
IBAS AB.LV Capital Market	LV	Financial services	700	677	100	700	445	100
AS AB Konsultācijas	LV	Consulting services	300	303	100	240	281	100
SIA AB.LV Transform 1	LV	Real estate transactions	100	32	100	-	-	-
SIA AB.LV Transform Investments	LV	Real estate transactions	-	-	-	1,000	1,008	100
		Total:	**36,276**	**32,869**		**4,040**	**3,615**	

During the reporting period the Bank increased the share capital of SIA Elizabetes 21a from 85% to 88% additionally invested LVL 350 thousand.
In April 2009, the Bank increased the share capital of its subsidiary AS AB Konsultācijas by LVL 60 thousand.
In 2009, the Bank established its subsidiary SIA New Hanza City with the share capital of LVL 1,100 thousand. The business goal of SIA New Hanza City is development of the territory located in Riga, between Pulkvieža Brieža iela, Hanzas iela, Skanstes iela, and Sporta iela.

During the reporting period, the Bank also established the limited partnership AB.LV Transform Partnership to optimise its investments in equity shares of companies established for the management, administration and disposal of the real estate objects pledged as a security for the loans and subsequently taken over by the Bank. In 2009, the Bank sold all the shares of SIA AB.LV Transform Investments to the newly established partnership KS AB.LV Transform Partnership.

The accompanying notes form an integral part of these consolidated and separate financial statements.

As at 31 December 2009, funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation amounted to LVL 16,049 (13,658) thousand. The value of financial instruments of the AB.LV Capital Market customers as at 31 December 2009 was LVL 92,314 (69,349) thousand.

20. Investment Properties

	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Investment properties	17,812	17,260	16,492	17,260
Prepayments for investment properties	2,559	2,502	130	2,502
Total investment properties	**20,371**	**19,762**	**16,622**	**19,762**

The movements in the Group's and Bank's investment properties in 2009 are as follows:

	Group			Bank		
	Land LVL '000	Buildings LVL '000	**Total, excl. prepayments** LVL '000	Land LVL '000	Buildings LVL '000	**Total, excl. prepayments** LVL '000
Acquisition value as at 01/01/2009	**16,926**	**404**	**17,330**	**16,926**	**404**	**17,330**
Additions	776	-	776	463	-	463
Disposals	(48)	(206)	(254)	(1,055)	(206)	(1,261)
Acquisition value as at 31/12/2009	**17,654**	**198**	**17,852**	**16,334**	**198**	**16,532**
Accumulated depreciation as at 01/01/2009	**-**	**70**	**70**	**-**	**70**	**70**
Depreciation charge	-	20	20	-	20	20
Depreciation of disposed asset	-	(50)	(50)	-	(50)	(50)
Accumulated depreciation as at 31/12/2009	**-**	**40**	**40**	**-**	**40**	**40**
Net carrying amount as at 01/01/2009	**16,926**	**334**	**17,260**	**16,926**	**334**	**17,260**
Net carrying amount as at 31/12/2009	**17,654**	**158**	**17,812**	**16,334**	**158**	**16,492**

The movements in the Group's and Bank's investment properties in 2008 are as follows:

	Group			Bank		
	Land LVL '000	Buildings LVL '000	**Total, excl. prepayments** LVL '000	Land LVL '000	Buildings LVL '000	**Total, excl. prepayments LVL '000**
Acquisition value as at 01/01/2008	**13,923**	**404**	**14,327**	**13,923**	**404**	**14,327**
Additions	3,003	-	3,003	3,003	-	3,003
Acquisition value as at 31/12/2008	**16,926**	**404**	**17,330**	**16,926**	**404**	**17,330**
Accumulated depreciation as at 01/01/2008	**-**	**50**	**50**	**-**	**50**	**50**
Depreciation charge	-	20	20	-	20	20
Accumulated depreciation as at 31/12/2008	**-**	**70**	**70**	**-**	**70**	**70**
Net carrying amount as at 01/01/2008	**13,923**	**354**	**14,277**	**13,923**	**354**	**14,277**
Net carrying amount as at 31/12/2008	**16,926**	**334**	**17,260**	**16,926**	**334**	**17,260**

The market value of the Group's and Bank's investment properties as at 31 December 2009 was LVL 19 (26) million.

The Management of the Bank and the Group believe that the most credible market value of investment properties was identified based on the evaluations presented by independent valuers. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not properly developed.
Rentals from investment properties in 2009 amounted to LVL 150 (281) thousand, whereas the related property maintenance expense was LVL 194 (192) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to LVL 16 (10) thousand.

21. Intangible and Tangible Fixed Assets

	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Intangible fixed assets	1,193	1,558	1,039	1,400
Prepayments for intangible fixed assets	2,298	1,891	2,298	1,891
Total intangible fixed assets	**3,491**	**3,449**	**3,337**	**3,291**
Land	321	129	129	129
Buildings and property improvements	3,618	3,702	3,618	3,702
Leasehold improvements	227	246	227	246
Transport vehicles	484	557	396	447
Office equipment	1,424	1,672	1,374	1,628
EDP equipment	*937*	*984*	*922*	*967*
Other tangible fixed assets	*487*	*688*	*452*	*661*
Prepayments for tangible fixed assets	3	68	3	68
Total tangible fixed assets	**6,077**	**6,374**	**5,747**	**6,220**
Total net carrying amount of fixed assets	**9,568**	**9,823**	**9,084**	**9,511**

The movements in the Group's intangible and tangible fixed assets in 2009 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improve-ments LVL '000	Leasehold improve-ments LVL '000	Transport vehicles LVL '000	Office equipment LVL '000	**Total, less prepay-ments** LVL '000
Acquisition value as at 01/01/2009	**3,187**	**129**	**4,806**	**653**	**879**	**6,057**	**15,711**
Additions	271	192	115	55	112	490	1,235
Disposals	(32)	-	-	(42)	(70)	(270)	(414)
Acquisition value as at 31/12/2009	**3,426**	**321**	**4,921**	**666**	**921**	**6,277**	**16,532**
Accumulated depreciation as at 01/01/2009	**1,629**	**-**	**1,104**	**407**	**322**	**4,385**	**7,847**
Depreciation charge	634	-	199	57	175	730	1,795
Disposals	(30)	-	-	(25)	(60)	(262)	(377)
Accumulated depreciation as at 31/12/2009	**2,233**	**-**	**1,303**	**439**	**437**	**4,853**	**9,265**
Net carrying amount as at 01/01/2009	**1,558**	**129**	**3,702**	**246**	**557**	**1,672**	**7,864**
Net carrying amount as at 31/12/2009	**1,193**	**321**	**3,618**	**227**	**484**	**1,424**	**7,267**

The movements in the Group's intangible and tangible fixed assets in 2008 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improve-ments LVL '000	Leasehold improve-ments LVL '000	Transport vehicles LVL '000	Office equipment LVL '000	**Total, less prepay-ments** LVL '000
Acquisition value as at 01/01/2008	**2,246**	**129**	**4,874**	**793**	**625**	**6,140**	**14,807**
Additions	1,013	-	85	27	421	522	2,068
Disposals	(72)	-	(153)	(167)	(167)	(605)	(1,164)
Acquisition value as at 31/12/2008	**3,187**	**129**	**4,806**	**653**	**879**	**6,057**	**15,711**
Accumulated depreciation as at 01/01/2008	**1,271**	**-**	**980**	**363**	**343**	**4,146**	**7,103**
Depreciation charge	430	-	220	114	139	784	1,687
Disposals	(72)	-	(96)	(70)	(160)	(545)	(943)
Accumulated depreciation as at 31/12/2008	**1,629**	**-**	**1,104**	**407**	**322**	**4,385**	**7,847**
Net carrying amount as at 01/01/2008	**975**	**129**	**3,894**	**430**	**282**	**1,994**	**7,704**
Net carrying amount as at 31/12/2008	**1,558**	**129**	**3,702**	**246**	**557**	**1,672**	**7,864**

As at 31 December 2009, the Group and the Bank owned intangible and tangible fixed assets having the net carrying amount of 0 and the cost value of LVL 4,236 (0) and LVL 4,227 (3,202) thousand.

The accompanying notes form an integral part of these consolidated and separate financial statements.

The movements in the Bank's intangible and tangible fixed assets in 2009 are as follows:

	Intangible fixed assets	Land	Buildings and property improve-ments	Leasehold improve-ments	Transport vehicles	Office equipment	**Total, less prepay-ments**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Acquisition value as at 01/01/2009	**3,018**	**129**	**4,806**	**653**	**709**	**5,988**	**15,303**
Additions	239	-	115	55	92	466	967
Disposals	(32)	-	-	(42)	(52)	(270)	(396)
Acquisition value as at 31/12/2009	**3,225**	**129**	**4,921**	**666**	**749**	**6,184**	**15,874**
Accumulated depreciation as at 01/01/2009	**1,618**	**-**	**1,104**	**407**	**262**	**4,360**	**7,751**
Depreciation charge	598	-	199	57	139	712	1,705
Disposals	(30)	-	-	(25)	(48)	(262)	(365)
Accumulated depreciation as at 31/12/2009	**2,186**	**-**	**1,303**	**439**	**353**	**4,810**	**9,091**
Net carrying amount as at 01/01/2009	**1,400**	**129**	**3,702**	**246**	**447**	**1,628**	**7,552**
Net carrying amount as at 31/12/2009	**1,039**	**129**	**3,618**	**227**	**396**	**1,374**	**6,783**

The movements in the Bank's intangible and tangible fixed assets in 2008 are as follows:

	Intangible fixed assets	Land	Buildings and property improve-ments	Leasehold improve-ments	Transport vehicles	Office equipment	**Total, less prepay-ments**
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Acquisition value as at 01/01/2008	**2,222**	**129**	**4,874**	**793**	**498**	**6,098**	**14,614**
Additions	868	-	85	27	373	493	1,846
Disposals	(72)	-	(153)	(167)	(162)	(603)	(1,157)
Acquisition value as at 31/12/2008	**3,018**	**129**	**4,806**	**653**	**709**	**5,988**	**15,303**
Accumulated depreciation as at 01/01/2008	**1,267**	**-**	**980**	**363**	**311**	**4,130**	**7,051**
Depreciation charge	423	-	220	114	109	778	1,644
Disposals	(72)	-	(96)	(70)	(158)	(548)	(944)
Accumulated depreciation as at 31/12/2008	**1,618**	**-**	**1,104**	**407**	**262**	**4,360**	**7,751**
Net carrying amount as at 01/01/2008	**955**	**129**	**3,894**	**430**	**187**	**1,968**	**7,563**
Net carrying amount as at 31/12/2008	**1,400**	**129**	**3,702**	**246**	**447**	**1,628**	**7,552**

Information about contractual commitments on purchase of intangible and tangible fixed assets is disclosed in Note 28.

22. Other Assets

	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
	LVL '000	LVL '000	LVL '000	LVL '000
Assets held for sale	23,179	2,516	835	882
Clearing of payment cards	1,300	56	1,300	56
Tax receivables	894	379	471	355
Unsettled SPOT transactions	389	44	389	44
Suspense items	364	55	364	55
Other settlements with third parties	165	54	3,253	54
Other assets	353	358	259	305
Total other assets, net	**26,644**	**3,462**	**6,871**	**1,751**

23. Balances Due to Credit Institutions

	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Other term deposits	4,929	112,517	1,958	109,561
Demand deposits from credit institutions:	1,027	15,690	1,027	15,690
Balances repayable on demand	*1,027*	*1,087*	*1,027*	*1,087*
Overnight deposits	-	*14,603*	-	*14,603*
Total balances due to credit institutions and central banks	**5,956**	**128,207**	**2,985**	**125,251**

In 2008, other term deposits included syndicated loans of EUR 155 million. During the reporting period, all syndicated loans were repaid.

24. Deposits

Customer profile	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Corporate companies	760,573	615,873	771,087	617,565
Private individuals	89,283	73,831	89,283	73,831
Financial institutions	4,723	10,139	4,723	10,139
State-owned enterprises	2,233	10,981	2,233	10,981
Non-profit institutions serving private individuals	1,390	560	1,390	560
Municipalities	301	931	301	931
Total deposits from customers	**858,503**	**712,315**	**869,017**	**714,007**

Geographical profile of customer residence	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL 000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Other countries	525,069	401,311	525,069	401,311
Other EU Member States	113,486	83,631	113,486	83,631
Other OECD countries	100,851	101,292	100,851	101,292
EMU countries	69,857	57,423	69,857	57,423
Latvia	49,240	68,658	59,754	70,350
Total deposits from customers	**858,503**	**712,315**	**869,017**	**714,007**

25. Subordinated Liabilities

As at 31 December 2009, the Group's and the Bank's subordinated liabilities of LVL 41,664 (40,936) thousand comprised subordinated bonds in the amount of LVL 12,995 (11,894) thousand and subordinated loans in the amount of LVL 28,669 (29,042) thousand.

In 2008, the Bank initiated two subordinated bond issues - in US Dollars and Euro – with the original issue amount of USD 20 million and EUR 10 million respectively. As at 31 December 2009, the carrying amount of the subordinated bonds so issued was USD 14,1 (12,6) million and EUR 8,7 (7,7) million. The issue of these subordinated bonds was closed and these bonds are not registered with the Riga Stock Exchange. The bonds were acquired by both private individuals and legal entities. The bonds mature on 1 October 2018. Starting from 1 October 2013, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 13% will be calculated and paid from 1 October 2013.

The Bank received also subordinated loans for the total amount of USD 53,6 (53,6) million and EUR 3,3 (3,3) million. Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the Bank's share capital.

The accompanying notes form an integral part of these consolidated and separate financial statements.

The analysis of subordinated loans as at 31 December 2009:

Lenders	Loan amount LVL '000	Accumulated interest LVL '000	% of total subordinated capital (%)	Interest rate	Currency	Date of the agreement	Date of maturity
Harpic Group LTD	7,335	30	25,68	5,03	USD	14.08.2008	19.08.2018
Multicross LLC	4,890	28	17,12	7,13	USD	19.03.2007	02.04.2017
Euro Swiss LLC	4,890	28	17,12	7,13	USD	19.03.2007	02.04.2017
Reynolds Holding Ltd	2,445	5	8,56	7,40	USD	09.11.2006	20.11.2011
Major lenders in total	**19,560**	**91**	**68,48**				
Other lenders							
residents	649	1	2,27	7,40—8,39	USD		
non-residents	5,985	11	20,96	7,40—8,39	USD		
residents	35		0,12	7,14	EUR		
non-residents	2,333	4	8,17	6,31—7,14	EUR		
Other lenders in total	**9,002**	**16**	**31,52**				
Total	**28,562**	**107**	**100,00**				

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. Their weighted average maturity is 5,58 years.

26. Paid-in Share Capital

As at 31 December 2009, the registered and paid-in share capital of the Bank amounted to LVL 15 million (15 million). The share capital consists of ordinary shares with voting rights only. All the shares have the par value of LVL 150 (150) each.

As at 31 December 2009, the Bank had 95 (106) shareholders, including 12 (17) legal entities and 83 (89) private individuals, holding the total of 100,000 shares.

The members of the Board directly hold 93.81% (93.81%) of the share capital, while the members of the Council – 3,35% (3,35%) of the share capital.

The major shareholders of the Bank and the groups of related shareholders are as follows:

	31/12/2009		31/12/2008	
	Paid-in share capital	% of total paid-in share capital	Paid-in share capital	% of total paid-in share capital
	LVL '000	**(%)**	**LVL '000**	**(%)**
Oļegs Fiļs	**7,056**	**47,04**	**7,056**	**47,04**
Group of related shareholders				
Ernests Bernis	6,902	46,01	6,902	46,01
Nika Berne	154	1,03	154	1,03
Total group of related shareholders	**7,056**	**47,04**	**7,056**	**47,04**

The accompanying notes form an integral part of these consolidated and separate financial statements.

27. Dividends Proposed and Paid

	Group/Bank 2009 LVL '000	Group/Bank 2008 LVL '000
Dividends proposed	-	5,000
Dividends paid	-	4,999

	Group/Bank 2009 LVL '000	Group/Bank 2008 LVL '000
Dividends proposed per share	-	50
Dividends paid per share	-	50

28. Memorandum Items

Contingent liabilities	Group/Bank 31/12/2009 LVL '000	Group/Bank 31/12/2008 LVL '000
Outstanding guarantees	16,221	17,436
Letters of credit	663	1,886
Total contingent liabilities	**16,884**	**19,322**
Financial commitments		
Loan commitments	1,488	11,347
Unutilised credit lines	3,659	4,555
Undrawn credit facilities on settlement cards	4,935	4,178
Contractual commitments on purchase of intangible assets	103	92
Contractual commitments on purchase of other tangible assets	25	257
Total financial commitments	**10,210**	**20,429**
Total contingent liabilities and financial commitments	**27,094**	**39,751**

As at 31 December 2009, funds under trust management by the Group amounted to LVL 71,845 (18,796) thousand, while funds under trust management by the Bank amounted to LVL 55,796 (5,138) thousand. The Bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the Bank. Meanwhile, the Group's funds under trust management include also funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation.
The related credit risk and all other risks remain fully with the customer which provided these funds to the Group and/or the Bank.

29. Related Party Disclosures

Related parties are defined as shareholders who have the ability to exercise significant influence over the Group and the Bank, members of the Council and the Board, key management personnel, their close relatives, and companies in which they have a controlling interest, as well as subsidiaries and associates of the Group.

	Group 31/12/2009		Group 31/12/2008	
Loans issued to related parties	Amount LVL '000	Terms	Amount LVL '000	Terms
Management	163	2%—15%	254	5%—10%
Related legal entities	1,693	6%—24%	3,647	6%—18%
Other related private individuals	656	2%—15%	686	5%—24%
Total loans issued to related parties	**2,512**		**4,587**	
Loan commitments and other memorandum items	203		639	5%—24%
Less allowance for credit losses	-		(5)	
Net loans, loan commitments and other memorandum items	**2,715**		**5,221**	

The accompanying notes form an integral part of these consolidated and separate financial statements.

Loans issued to related parties	Bank 31/12/2009 Amount LVL '000	Bank 31/12/2009 Terms	Bank 31/12/2008 Amount LVL '000	Bank 31/12/2008 Terms
Management	148	2%—15%	141	5%—10%
Related legal entities	4,630	6%—24%	3,647	6%—18%
Other related private individuals	567	2%—15%	686	5%—24%
Total loans issued to related parties	**5,345**		**4,474**	
Loan commitments and other memorandum items	343		639	5%—24%
Less allowance for credit losses	(182)		(5)	
Net loans, loan commitments and other memorandum items	**5,506**		**5,108**	

As at 31 December 2009, the deposits of related parties with the Group amounted to LVL 3,752 (3,496) thousand, while those with the Bank amounted to LVL 15,179 (5,387) thousand.
All related party deposits bear standard interest rates offered by the Bank.

The Latvian banking legislation requires that any credit exposure to a non-related entity or a group of non-related entities may not exceed 25% of credit institution's equity. The total credit exposure to all related parties may not exceed 15% of Bank's equity.
As at 31 December 2009, the Bank was in compliance with the above requirements for the non-zero risk credit exposures to related parties and non-related entities.

Interest income and expense from transactions with related parties:

	Group 2009 LVL '000	Group 2008 LVL '000	Bank 2009 LVL '000	Bank 2008 LVL '000
Interest income	653	259	649	259
Interest expense	326	166	324	259

30. Cash and Cash Equivalents

	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Cash and deposits with the Bank of Latvia	44,986	57,860	44,986	57,860
Balances due from credit institutions	166,968	133,887	166,936	133,859
Balances due to credit institutions	(1,027)	(15,690)	(1,027)	(15,690)
Total cash and cash equivalents	**210,927**	**176,057**	**210,895**	**176,029**

31. Capital Management and Capital Adequacy

The primary objective of the Group's and Bank's capital management is to ensure that the Group and the Bank comply with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the Group and the Bank maintain healthy capital ratios in order to support their business and maximise the shareholders' value.
The goals of the Group's and Bank's capital management are consistent with those of the previous years while the capital management procedures and the procedure for calculating capital adequacy were materially affected by the new Basel II requirements regarding minimum capital requirements for banks. During the reporting year, the methodology for calculating the capital requirement for operational risk was introduced, and significant changes were made to the methodology for calculating the capital requirement for credit risk. According to the capital adequacy rules of Basel II, the Group and the Bank have resolved to apply the standardised approach to calculate the capital requirements for credit risk and market risks, and the basic indicator approach to calculate the capital requirement for operational risk.

Capital adequacy refers to the sufficiency of the Group's and Bank's capital resources to cover the credit risk, operational risk, and market risks.
As at 31 December 2009, the Bank's capital adequacy ratio in accordance with the FCMC requirements was 15,04% (16,09%), while the Group's capital adequacy ratio was 14,56% (15,78%).

The Group's and Bank's equity consists of Tier 1 and Tier 2. Tier 1 comprises paid-in share capital, share premium, reserve capital, retained earnings including current year's profit which is not to be paid in dividends, less negative fair value revaluation reserve of available-for-sale financial assets and intangible fixed assets. Tier 2 includes subordinated capital and positive fair value revaluation reserve of available-for-sale financial assets (45%).

The reserve capital is the value of the Group's and Bank's property, which, following the defined procedure, is accrued to cover unexpected losses or for other financing needs, based on the decision of the shareholders' meeting. There are no legal restrictions on utilisation of the reserves.

The capital adequacy ratio of the Group and the Bank is calculated in accordance with the FCMC requirements.

Tier 1	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
paid-in share capital	15,000	15,000	15,000	15,000
share premium	255	255	255	255
reserve capital	1,500	1,500	1,500	1,500
retained earnings	74,161	63,910	76,460	65,794
intangible fixed assets	(3,491)	(3,449)	(3,337)	(3,291)
non-controlling interests	(661)	184	-	-
current year's audited (loss)/ profit (not subject to distribution of dividends)	(21,358)	10,251	(19,220)	10,665
negative fair value revaluation reserve of available-for-sale financial assets	-	(12,932)	-	(12,932)
decrease in Tier 1 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS *(50%)*	(715)	(3,510)	(715)	(3,510)
Total Tier 1	**64,691**	**71,209**	**69,943**	**73,481**
Tier 2				
fair value revaluation reserve of available-for-sale financial assets (45%)	39	-	39	-
decrease in Tier 2 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS *(50%)*	(715)	(3,510)	(715)	(3,510)
subordinated capital (based on the remaining maturity, with the adjustment rate of 40%—100%)	32,458	35,094	32,458	35,094
Total Tier 2	**31,782**	**31,584**	**31,782**	**31,584**
Total eligible capital	**96,473**	**102,793**	**101,725**	**105,065**
Capital charge for credit risk on banking book	43,056	43,235	44,222	43,373
Total capital charge for market risks on trading book	1,970	2,318	1,970	2,318
capital charge for foreign currency risk	*871*	*720*	*871*	*720*
capital charge for position risk	*989*	*1,410*	*989*	*1,410*
capital charge for counterparty risk	*110*	*188*	*110*	*188*
Capital charge for operational risk	7,980	6,554	7,922	6,559
Total capital charge 8%	**53,006**	**52,107**	**54,114**	**52,250**
Capital adequacy ratio (%)	**14,56**	**15,78**	**15,04**	**16,09**
Minimum capital adequacy ratio (%)	8,00	8,00	8,00	8,00

The Group's and the Bank's capital charge for credit risk exposures by the following exposure categories:

Financial assets	Group 31/12/2009 LVL '000	Group 31/12/2008 LVL '000	Bank 31/12/2009 LVL '000	Bank 31/12/2008 LVL '000
Government or central banks	1,109	646	1,071	630
Regional or local governments	191	108	191	108
Institutions	5,972	5,235	6,204	5,235
Commercial companies	11,650	18,296	11,650	18,296
Low risk portfolio	10,480	5,232	10,480	5,232
Secured by real estate	3,958	8,583	3,958	8,583
Past-due exposures	5,194	2,349	5,194	2,349
High risk exposures	250	297	250	297
Other positions	4,252	2,489	5,224	2,643
Total financial assets	**43,056**	**43,235**	**44,222**	**43,373**

32. Fair Value of Financial Instruments

The Group and the Bank disclose the fair values of each category of financial assets and financial liabilities in such a manner so as to be able to compare the fair values with the carrying amounts. The breakdown of the Group's and Bank's financial assets and financial liabilities by categories is presented in Note 11. The Group and the Bank assume that the fair value of liquid financial assets and liabilities, or financial assets and liabilities with a short redemption term (less than 3 months) approximates their carrying value. This assumption also applies to term deposits and savings accounts.

The carrying amounts and fair values of the Group's financial assets and financial liabilities are as follows:

	31/12/2009		31/12/2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000
Cash and demand deposits with central banks	44,986	44,986	57,860	57,860
Balances due from credit institutions	203,569	203,569	174,664	174,664
Financial assets at fair value through profit or loss	9,499	9,499	4,599	4,599
Available-for-sale financial assets	104,523	104,523	35,081	35,081
Loans and receivables	550,580	518,047	669,872	659,756
Total financial assets	**913,157**	**880,624**	**942,076**	**931,960**
Financial liabilities				
Demand deposits from credit institutions	1,027	1,027	15,690	15,690
Financial liabilities at fair value through profit or loss	176	176	19,238	19,238
Financial liabilities at amortised cost	905,096	909,215	865,768	866,989
Total financial liabilities	**906,299**	**910,418**	**900,696**	**901,917**

The carrying amounts and fair values of the Bank's financial assets and financial liabilities are as follows:

	31/12/2009		31/12/2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000
Cash and demand deposits with central banks	44,986	44,986	57,860	57,860
Balances due from credit institutions	203,537	203,537	174,636	174,636
Financial assets at fair value through profit or loss	9,499	9,499	4,599	4,599
Available-for-sale financial assets	104,523	104,523	35,081	35,081
Loans and receivables	553,475	520,942	669,870	659,754
Total financial assets	**916,020**	**883,487**	**942,046**	**931,930**
Financial liabilities				
Demand deposits from credit institutions	1,027	1,027	15,690	15,690
Financial liabilities at fair value through profit or loss	176	176	19,238	19,238
Financial liabilities at amortised cost	912,639	916,758	864,504	865,725
Total financial liabilities	**913,842**	**917,961**	**899,432**	**900,653**

Hierarchy of Input Data for Determining the Fair value of Financial Assets and Liabilities

The Group and the Bank use the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

Level 1: Prices in active markets.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable.
Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Level 3 inputs, i.e. other valuation techniques, are used for available-for-sale financial assets not quoted in the market and for which no quoted prices for similar assets in active markets are available. In determining the fair value for such financial assets, valuation models based on the assumptions and estimates regarding the potential future financials of the investment property, and the industry and geographical area risks in which the respective investment property operates.

The Group's and the Bank's financial assets defined at fair value and available for sale according to the hierarchy of input data for determining the fair value:

	31/12/2009				31/12/2008			
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Financial assets at fair value through profit or loss	9,499	-	-	9,499	4,599	-	-	4,599
Fixed income securities	*12*	-	-	*12*	*768*	-	-	*768*
Shares and other non-fixed income securities	*52*	-	-	*52*	-	-	-	-
Derivatives	*9,435*	-	-	*9,435*	*3,831*	-	-	*3,831*
Available-for-sale financial assets	98,158	4,218	2,147	104,523	8,690	23,916	2,475	35,081
Fixed income securities	*98,158*	*4,218*	-	*102,376*	*7,192*	*23,916*	-	*31,108*
Shares and other non-fixed income securities	-	-	*2,147*	*2,147*	*1,498*	-	*2,475*	*3,973*
Total financial assets	**107,657**	**4,218**	**2,147**	**114,022**	**13,289**	**23,916**	**2,475**	**39,680**
Financial liabilities								
Financial liabilities at fair value through profit or loss	176	-	-	176	19,238			19,238
Derivatives	*176*	-	-	*176*	*19,238*	-	-	*19,238*
Total financial liabilities	**176**	**-**	**-**	**176**	**19,238**	**-**	**-**	**19,238**

In 2009, the global financial markets saw a rapid growth of the securities market activity and a considerable increase in securities prices. Based on these positive developments and following the above mentioned input hierarchy for the fair value measurement, during the reporting period, the Group and the Bank transferred part of the available-for sale securities in the amount of LVL 21,309 from Level 2 to Level 1.

In addition, during the reporting period, available-for-sale securities in the amount of LVL 550 thousand were transferred from Level 1 to Level 2. The securities were transferred as they were no longer actively traded during the reporting period, and their fair value was determined by applying other techniques which used other observable market inputs.
During the reporting period, no other transfers of financial instruments between the levels of the fair value hierarchy took place.

In 2009 and 2008, the fair value of only one investment fund was determined by applying the terms of Level 3 of the fair value hierarchy The analysis of the audited financial statements of the above mentioned fund did not show any impairment of the Group's and the Bank's initial investment during the reporting period. Considering the positive financials reported in the audited financial statements of the closed investment fund, the value of the Group's and the Bank's investment has increased. However, the Group's and the Bank's management having prudently assessed risks related to this investment believes that the fair value of the investment corresponds its net carrying amount.

33. Credit Risk

Credit risk is exposure to potential losses in case the Group's or Bank's counterparty or debtor will be unable to pay the contractual obligations to the Group or the Bank.

Credit Risk Management Framework

Credit risk is managed according to the credit policy. Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral.
To assess solvency of private individuals, the Bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories.

The Group and the Bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are granted risk/monitoring factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.

Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the Bank considers such reduced value. For collateral, the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, factoring receivables, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.
For effective credit risk management, the Assets Evaluation Committee performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

In the event that the Group and the Bank consider that the risk related to the loan issued to a corporate customer might have increased (payments are past due and/or the Group and the Bank obtain other information about customer's creditworthiness), the Group and the Bank review the customer's financial position and assess the risk of potential loss.
The Bank analyses the quality of the respective loan portfolio. The age of past due loans is used as one of the quality criteria.

The Group and the Bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.
The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements.
The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis.

Credit Risk Concentration

The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.
The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the Group and the Bank treat as high the credit exposure exceeding 10% of equity. Pursuant to the statutory requirements, the total credit exposure cannot be more than eight times as large as equity.

As at 31 December 2009 and 2008, the Group and the Bank were in compliance with this requirement. Ten major exposures as at 31 December 2009 amounted to 7,4% (8,6%) of the total Group's and Bank's gross loan portfolio.
The credit risk concentration and maximum exposure by industry sectors are presented in Note 18.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified. The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank have reviewed this part of the loan portfolio.

Low activity was still observed on the real estate market in 2009, which affected customer financing in this sector. Currently, loans issued under programmes related to real estate development have less liquid collaterals. Measures taken by the Bank in this connection include property revaluation and assessment of alternative sources of income for customers and, if any of these factors is inadequate for loan security or servicing purposes, respective allowances are established. No financing options for new real estate development projects are being considered at present.

As at 31 December 2009, the amount of those properties which had been taken over during the loan restructuring process carried out by the Group/Bank with the purpose of selling those properties to recover the debts was LVL 22,708 (2,516) thousand.

The analysis of maximum geographical concentration for the Group, as at 31 December 2009:

Assets	Latvia LVL '000	EMU countries LVL '000	Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	41,945	2,321	41	-	679	44,986
Balances due from credit institutions	589	58,992	39,523	95,847	8,618	203,569
Financial assets at fair value through profit or loss	731	-	-	8,732	36	9,499
Available-for-sale financial assets	4,605	2,101	2,275	48,740	46,802	104,523
Loans and receivables	522,525	-	1,386	16,418	10,251	550,580
Total financial assets	**570,395**	**63,414**	**43,225**	**169,737**	**66,386**	**913,157**
Non-financial assets	63,562	2	41	905	60	64,570
Total assets	**633,957**	**63,416**	**43,266**	**170,642**	**66,446**	**977,727**
Contingent liabilities	14,906	207	436	93	579	16,221
Financial commitments	4,295	-	-	772	5,143	10,210
Total geographical concentration of assets and memorandum items	**653,158**	**63,623**	**43,702**	**171,507**	**72,168**	**1,004,158**

The analysis of maximum geographical concentration for the Group as at 31 December 2008:

Assets	Latvia LVL '000	EMU countries LVL '000	Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	54,226	3,357	39	238	-	57,860
Balances due from credit institutions	6,100	62,733	35,110	64,625	6,096	174,664
Financial assets at fair value through profit or loss	1,437	-	-	2,386	776	4,599
Available-for-sale financial assets	12,161	396	699	2,234	19,591	35,081
Loans and receivables	582,723	1,526	11,049	4,575	69,999	669,872
Total financial assets	**656,647**	**68,012**	**46,897**	**74,058**	**96,462**	**942,076**
Non-financial assets	39,874	8	-	47	66	39,995
Total assets	**696,521**	**68,020**	**46,897**	**74,105**	**96,528**	**982,071**
Contingent liabilities	16,909	200	824	191	1,198	19,322
Financial commitments	13,920	62	451	505	5,491	20,429
Total geographical concentration of assets and memorandum items	**727,350**	**68,282**	**48,172**	**74,801**	**103,217**	**1,021,822**

The analysis of maximum geographical concentration for the Bank as at 31 December 2009:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	41,945	2,321	41	-	679	44,986
Balances due from credit institutions	578	58,991	39,523	95,847	8,598	203,537
Financial assets at fair value through profit or loss	731	-	-	8,732	36	9,499
Available-for-sale financial assets	4,605	2,101	2,275	48,740	46,802	104,523
Loans and receivables	525,420	-	1,386	16,418	10,251	553,475
Total financial assets	**573,279**	**63,413**	**43,225**	**169,737**	**66,366**	**916,020**
Non-financial assets	75,101	2	41	905	60	76,109
Total assets	**648,380**	**63,415**	**43,266**	**170,642**	**66,426**	**992,129**
Contingent liabilities	14,906	207	436	93	579	16,221
Financial commitments	4,295	-	-	772	5,143	10,210
Total geographical concentration of assets and memorandum items	**667,581**	**63,622**	**43,702**	**171,507**	**72,148**	**1,018,560**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The analysis of maximum geographical concentration for the Bank as at 31 December 2008:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and demand deposits with central banks	54,226	3,357	39	238	-	57,860
Balances due from credit institutions	6,087	62,733	35,110	64,625	6,081	174,636
Financial assets at fair value through profit or loss	1,437	-	-	2,386	776	4,599
Available-for-sale financial assets	12,161	396	699	2,234	19,591	35,081
Loans and receivables	582,721	1,526	11,049	4,575	69,999	669,870
Total financial assets	**656,632**	**68,012**	**46,897**	**74,058**	**96,447**	**942,046**
Non-financial assets	41,220	8	-	47	66	41,341
Total assets	**697,852**	**68,020**	**46,897**	**74,105**	**96,513**	**983,387**
Contingent liabilities	16,909	200	824	191	1,198	19,322
Financial commitments	13,920	62	451	505	5,491	20,429
Total geographical concentration of assets and memorandum items	**728,681**	**68,282**	**48,172**	**74,801**	**103,202**	**1,023,138**

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

The credit risk inherent in the Group's and Bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers.

The Group's and Bank's securities portfolios by the credit rating classes:

	Group/Bank 31/12/2009				Group/Bank 31/12/2008			
Credit ratings	Trading portfolio LVL`000	Liquidity portfolio LVL`000	Investments held for undefined period portfolio LVL`000	Loans and receivables LVL`000	Trading portfolio LVL`000	Liquidity portfolio LVL`000	Investments held for undefined period portfolio LVL`000	Loans and receivables LVL`000
AAA to AA-	-	48,710	2,146	-	-	2,216	921	-
A+ to A-	-	-	-	-	-	-	-	1,458
BBB+ to BBB-	-		16,860	761	-	12,113	1,753	10,292
BB+ to BB-	-	1,985	12,283	4,803	86	-	3,605	11,808
B+ to B-	-	-	16,399	6,360	460	-	7,396	18,407
Below B-	12	-	2,081	5,916	-	-	559	863
No rating	-	-	1,912	1,293	222	-	2,545	175
Shares and investments in funds	52	-	2,147	-	-	-	3,973	-
Securities portfolio, net	**64**	**50,695**	**53,828**	**19,133**	**768**	**14,329**	**20,752**	**43,003**

34. Financial Risk

a) Liquidity Risk

Liquidity is the Group's and Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Group's and Bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Risk Officer (CRO) is responsible for liquidity risk management. Risk management Division is responsible for risks evaluation and control. Chief Financial Officer (CFO) is responsible for liquidity management and the Financial Markets Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted.

The key principles and procedures to timely identify, analyse and control liquidity risk are laid down in the liquidity management policy.

For ordinary liquidity risk management purposes, the Bank applies the following indicators having certain limits and restrictions set:

- net liquidity positions by all currencies in total and by each separate currency;
- liquidity ratios for different maturity bands;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

Contingency Liquidity Risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within Bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, Financial Market Division, and Risk management Division. The Group and the Bank have defined principles to identify liquidity crisis stages, and actions to overcome crisis situations. The main objective of Bank's contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or Bank specific event. These plans ensure that all roles and responsibilities are clearly defined and all necessary management information is in place.

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis.

The main indicators of an actual or potential liquidity crisis are as follows:

- The liquidity ratio "Less than 30 days" is below 45%.
- Counterparties reduce limits applicable to the transactions with the Bank.
- Interbank refinancing has become more difficult.
- Mass media report negative information, which may cause deposit outflow from the Group and the Bank.
- Mass media report negative information, which may indicate that a significant portion of the Group's and Bank's assets might be jeopardised (funds may be frozen with insolvent banks, issuers of securities may default on the obligations listed in the issue prospectuses, etc.)

If any of the crisis stages is established, the Group and the Bank implement the following measures:

- Information available about financial institutions facing difficulties is updated daily to prevent transfers of the Group's and Bank's as well as customers' cash to accounts with such institutions.
- The Group and the Bank do not use the services of the credit institutions referred to above as payment intermediaries.
- The limits assigned to counterparties are revised to achieve concentration of the Group's and Bank's transactions and cash with credit institutions which, based on the Bank's assessment, are treated as safe.
- The distribution of assets and liabilities into maturity bands is reviewed and analysed carefully to find solutions how assets may be restructured to enhance their liquidity.
- Considering that gravest adverse consequences might be related to deposit outflow, the Group and the Bank have commenced working actively to maintain and enhance customer confidence and loyalty, as well as bring in new customers.

To assess the efficiency of the measures taken and be able to respond proactively to the changes of the situation, the Group's and Bank's internal indicators used to manage liquidity risk are controlled on a daily basis.

Given the global financial crisis which intensified at the end of 2008 and sustained tension also in 2009, the management of the Group/Bank continued to focus specifically on liquidity issues. Owing to the co-ordinated and professional action of the crisis team and other responsible specialists of the Group and the Bank, the Bank managed to ensure and maintain high liquidity ratio – as at 31 December 2009 the liquidity ratio reached 57,53% (41,32%). The FCMC stipulates that the Bank should maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank's total current liabilities.

Liquidity ratios of the Group and the Bank:

Liquidity ratio	Group/Bank 2009 Highest %	Group/Bank 2009 Lowest %	Group/Bank 2009 Average %	Group/Bank 2008 Highest %	Group/Bank 2008 Lowest %	Group/Bank 2008 Average %
on demand	40,2	26,2	32,5	44,9	25,2	33,2
less than 30 days (the FCMC stipulates)	57,5	33,8	43,2	57,7	32,1	44,6
less than 90 days	53,1	39,8	45,0	59,1	39,9	48,5

The distribution of the Group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2009:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and demand deposits with central banks	-	44,986	-	-	*44,986*	-	-	-	-	44,986
Balances due from credit institutions	-	51,344	140,861	6,374	*198,579*	4,990	-	-	*4,990*	203,569
Financial assets at fair value through profit or loss	-	-	1,094	8,393	*9,487*	12	-	-	*12*	9,499
Available-for-sale financial assets	-	148	437	64,617	*65,202*	39,321	-	-	*39,321*	104,523
Loans and receivables	73,975	27,967	5,928	61,906	*169,776*	49,736	331,068	-	*380,804*	550,580
Other assets	-	26,679	470	7,482	*34,631*	-	-	29,939	*29,939*	64,570
Total assets	**73,975**	**151,124**	**148,790**	**148,772**	***522,661***	**94,059**	**331,068**	**29,939**	***455,066***	**977,727**
Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,027	-	-	*1,027*	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	42	134	*176*	-	-	-	-	176
Financial liabilities at amortised cost	-	421,564	138,051	293,821	*853,436*	23,003	28,657	-	*51,660*	905,096
Other liabilities	-	2,443	-	-	*2,443*	-	-	-	-	2,443
Total liabilities	**-**	**425,034**	**138,093**	**293,955**	***857,082***	**23,003**	**28,657**	**-**	***51,660***	**908,742**
Shareholders' equity	-	-	-	-	-	-	-	68,985	*68,985*	68,985
Total liabilities and shareholders' equity	**-**	**425,034**	**138,093**	**293,955**	***857,082***	**23,003**	**28,657**	**68,985**	***120,645***	**977,727**
Total memorandum items	**-**	**11,130**	**623**	**6,818**	***18,571***	**8,523**	**-**	**-**	***8,523***	**27,094**
Net liquidity position	x	(285,040)	10,074	(152,001)	*(352,992)*	62,533	302,411	(39,046)	*325,898*	x
Total liquidity position	x	(285,040)	(274,966)	(426,967)	*x*	(364,434)	(62,023)	(101,069)	*x*	x

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2008:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Pledged assets LVL '000	Total LVL '000
Cash and demand deposits with central banks	-	57,860	-	-	*57,860*	-	-	-	-	-	57,860
Balances due from credit institutions	-	142,496	545	25,339	*168,380*	6,284	-	-	*6,284*	-	174,664
Financial assets at fair value through profit or loss	-	-	2,520	2,079	*4,599*	-	-	-	-	-	4,599
Available-for-sale financial assets	-	-	16,624	3,837	*20,461*	2,506	-	-	*2,506*	12,114	35,081
Loans and receivables	31,426	31,654	21,568	103,365	*188,013*	252,029	226,632	-	*478,661*	3,198	669,872
Other assets	-	44	-	6,612	*6,656*	-	-	33,339	*33,339*	-	39,995
Total assets	**31,426**	**232,054**	**41,257**	**141,232**	***445,969***	**260,819**	**226,632**	**33,339**	***520,790***	**15,312**	**982,071**

Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Pledged assets LVL '000	Total LVL '000
Demand deposits from credit institutions	-	1,087	3	-	*1,090*	-	-	-	-	14,600	15,690
Financial liabilities at fair value through profit or loss	-	-	1,731	17,507	*19,238*	-	-	-	-	-	19,238
Financial liabilities at amortised cost	-	392,580	114,154	303,024	*809,758*	27,067	28,943		*56,010*	-	865,768
Other liabilities	-	3,207	-	-	*3,207*	-	-	-	-	-	3,207
Total liabilities	**-**	**396,874**	**115,888**	**320,531**	***833,293***	**27,067**	**28,943**	**-**	***56,010***	**14,600**	**903,903**
Shareholders' equity	-	-	-	-	-	-	-	78,168	*78,168*	-	78,168
Total liabilities and shareholders' equity	**-**	**396,874**	**115,888**	**320,531**	***833,293***	**27,067**	**28,943**	**78,168**	***134,178***	**14,600**	**982,071**
Total memorandum items	**-**	**16,936**	**26**	**8,534**	***25,496***	**14,240**	**15**	**-**	***14,255***	**-**	**39,751**
Net liquidity position	x	(181,756)	(74,657)	(187,833)	*(412,820)*	219,512	197,674	(44,829)	*372,357*	x	x
Total liquidity position	x	(181,756)	(256,413)	(444,246)	*x*	(224,734)	(27,060)	(71,889)	*x*		x

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2009:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	**Total** LVL '000
Cash and demand deposits with central banks	-	44,986	-	-	*44,986*	-	-	-	-	44,986
Balances due from credit institutions	-	51,312	140,861	6,374	*198,547*	4,990	-	-	*4,990*	203,537
Financial assets at fair value through profit or loss	-	-	1,094	8,393	*9,487*	12	-	-	*12*	9,499
Available-for-sale financial ass	-	148	437	64,617	*65,202*	39,321	-	-	*39,321*	104,523
Loans and receivables	73,975	27,967	5,908	61,906	*169,756*	52,651	331,068	-	*383,719*	553,475
Other assets	-	6,017	470	7,015	*13,502*	-	-	62,607	*62,607*	76,109
Total assets	**73,975**	**130,430**	**148,770**	**148,305**	***501,480***	**96,974**	**331,068**	**62,607**	***490,649***	**992,129**
Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	**Total** LVL '000
Demand deposits from credit institutions	-	1,027	-	-	*1,027*	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	42	134	*176*	-	-	-	-	176
Financial liabilities at amortised cost	-	421,565	148,564	290,850	*860,979*	23,003	28,657	-	*51,660*	912,639
Other liabilities	-	4,205	-	-	*4,205*	-	-	-	-	4,205
Total liabilities	**-**	**426,797**	**148,606**	**290,984**	***866,387***	**23,003**	**28,657**	**-**	***51,660***	**918,047**
Shareholders' equity	-	-	-	-	-	-	-	74,082	*74,082*	74,082
Total liabilities and shareholders' equity	**-**	**426,797**	**148,606**	**290,984**	***866,387***	**23,003**	**28,657**	**74,082**	***125,742***	**992,129**
Total memorandum items	**-**	**11,130**	**623**	**6,818**	***18,571***	**8,523**		**-**	***8,523***	**27,094**
Net liquidity position	x	(307,497)	(459)	(149,497)	*(383,478)*	65,448	302,411	(11,475)	*356,384*	x
Total liquidity position	x	(307,497)	(307,956)	(457,453)	*x*	(392,005)	(89,594)	(101,069)	*x*	x

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Bank's assets, liabilities, and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2008:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and demand deposits with central banks	-	57,860	-	-	*57,860*	-	-	-	-	57,860
Balances due from credit institutions	-	142,468	545	25,339	*168,352*	6,284	-	-	*6,284*	174,636
Financial assets at fair value through profit or loss	-	-	2,520	2,079	*4,599*	-	-	-	-	4,599
Available-for-sale financial assets	-	-	16,624	3,837	*20,461*	2,506	-	-	*2,506*	35,081
Loans and receivables	31,426	31,652	21,568	103,365	*188,011*	252,029	226,632	-	*478,661*	669,870
Other assets	-	44	-	6,213	*6,257*	-	-	35,084	*35,084*	41,341
Total assets	**31,426**	**232,024**	**41,257**	**140,833**	***445,540***	**260,819**	**226,632**	**35,084**	***522,535***	**983,387**

Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,087	3	-	*1,090*	-	-	-	-	15,690
Financial liabilities at fair value through profit or loss	-	-	1,731	17,507	*19,238*	-	-	-	-	19,238
Financial liabilities at amortised cost	-	392,708	115,718	300,068	*808,494*	27,067	28,943	-	*56,010*	864,504
Other liabilities	-	3,673	-	-	*3,673*	-	-	-	-	3,673
Total liabilities	**-**	**397,468**	**117,452**	**317,575**	***832,495***	**27,067**	**28,943**	**-**	***56,010***	**903,105**
Shareholders' equity	-	-	-	-	-	-	-	80,282	*80,282*	80,282
Total liabilities and shareholders' equity	**-**	**397,468**	**117,452**	**317,575**	***832,495***	**27,067**	**28,943**	**80,282**	***136,292***	**983,387**
Total memorandum items	**-**	**16,936**	**26**	**8,534**	***25,496***	**14,240**	**15**	**-**	***14,255***	**39,751**
Net liquidity position	x	(182,380)	(76,221)	(185,276)	*(412,451)*	219,512	197,674	(45,198)	*371,988*	x
Total liquidity position	x	(182,380)	(258,601)	(443,877)	*x*	(224,365)	(26,691)	(71,889)	*x*	x

The Group and the Bank have prepared these consolidated financial statements on a going concern basis notwithstanding the fact that they have a significant negative liquidity gap in the "on demand" maturity range of assets and liabilities. The Group's and Bank's Management closely monitor and manage the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative liquidity gap in "on demand" assets and liabilities as at 31 December 2009 and 2008 is substantially due to significant "on demand" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The maturity gap analysis does not reflect the historical stability of current accounts. These balances are included in amounts due "on demand".
The Group and the Bank have reviewed the historical stability of their current accounts and concluded that half of the balances have the ultimate maturity of more than one year.

The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group's and Bank's operations. The Group's and the Bank's ability to avoid adverse changes in their liquidity position is depending on management's effectiveness in the continuing execution of the actions taken.

The assets which have been impaired are stated net of provisions.
In estimating the amount of expected financial liabilities the Group and the Bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2009 and 2008 which is expected in the future but has not been assessed at the reporting date.

The accompanying notes form an integral part of these consolidated and separate financial statements.

The table below analyses financial liabilities and memorandum items of the Group and interest which are payable in the future but has not been assessed as at 31 December 2009 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,027	-	-	*1,027*	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	42	134	*176*	-	-	-	176
Financial liabilities at amortised cost	409,397	148,983	299,700	*858,080*	29,689	31,943	*61,632*	919,712
Total financial liabilities	**410,424**	**149,025**	**299,834**	***859,283***	**29,689**	**31,943**	***61,632***	**920,915**
Contingent liabilities	919	623	6,818	*8,360*	8,509	15	*8,524*	16,884
Financial commitments	10,210	-	-	*10,210*	-	-	-	10,210
Total financial liabilities and memorandum items	**421,553**	**149,648**	**306,652**	***877,853***	**38,198**	**31,958**	***70,156***	**948,009**

The table below analyses financial liabilities and memorandum items of the Group and interest which are payable in the future but has not been assessed as at 31 December 2008 into relevant maturity bands based on the remaining period, as at the reporting date to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,090	-	-	*1,090*	-	-	-	1,090
Financial liabilities at fair value through profit or loss	-	1,731	17,507	*19,238*	-	-	-	19,238
Financial liabilities at amortised cost	392,252	118,340	309,397	*819,989*	5,983	33,835	*39,818*	859,807
Total financial liabilities	**393,342**	**120,071**	**326,904**	***840,317***	**5,983**	**33,835**	***39,818***	**880,135**
Contingent liabilities	1,504	26	3,537	*5,067*	14,240	15	*14,255*	19,322
Financial commitments	15,432	-	4,997	*20,429*	-	-	-	20,429
Total financial liabilities and memorandum items	**410,278**	**120,097**	**335,438**	***865,813***	**20,223**	**33,850**	***54,073***	**919,886**

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2009 into relevant maturity bands based on the remaining period, as at the reporting date to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,027	-	-	*1,027*	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	42	134	*176*	-	-	-	176
Financial liabilities at amortised cost	419,911	148,983	296,729	*865,623*	29,689	31,943	*61,632*	927,255
Total financial liabilities	**420,938**	**149,025**	**296,863**	***866,826***	**29,689**	**31,943**	***61,632***	**928,458**
Contingent liabilities	919	623	6,818	*8,360*	8,509	15	*8,524*	16,884
Financial commitments	10,210	-	-	*10,210*	-	-	-	10,210
Total financial liabilities and memorandum items	**432,067**	**149,648**	**303,681**	***885,396***	**38,198**	**31,958**	***70,156***	**955,552**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2008, into relevant maturity bands based on the remaining period, as at the reporting date to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,090	-	-	*1,090*	-	-	-	1,090
Financial liabilities at fair value through profit or loss	-	1,731	17,507	*19,238*	-	-	-	19,238
Financial liabilities at amortised cost	392,124	116,777	306,441	*815,342*	35,983	33,835	*69,818*	885,160
Total financial liabilities	**393,214**	**118,508**	**323,948**	***835,670***	**35,983**	**33,835**	***69,818***	**905,488**
Contingent liabilities	1,504	26	3,537	*5,067*	14,240	15	*14,255*	19,322
Financial commitments	15,432	-	4,997	*20,429*	-	-	-	20,429
Total financial liabilities and memorandum items	**410,150**	**118,534**	**332,482**	***861,166***	**50,223**	**33,850**	***84,073***	**945,239**

b) Currency Risk

The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies as well as cash flows arising from derivatives. The Group and the Bank have major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Group's and Bank's open position in EUR is minimal. The Group's and Bank's open currency position in USD is also rather small (2009: 3,3% (5,0%) and 5,2% (4,9%) of equity for the Group and the Bank respectively) and, therefore, the effect of changes in the USD exchange rate is insignificant, and the Group and the Bank do not conduct more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the limits policy. At the end of 2009, all the above limits had been met.

The Bank's limits policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

The Group's currency position as at 31 December 2009:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	40,775	670	3,489	-	52	44,986
Balances due from credit institutions	1	125,525	53,907	7,569	16,567	203,569
Financial assets at fair value through profit or loss	2,788	6,709	-	2	-	9,499
Available-for-sale financial assets	1,984	96,341	4,057	2,141	-	104,523
Loans and receivables	5,536	56,023	488,005	1,006	10	550,580
Other assets	51,852	897	11,622	4	195	64,570
Total assets	**102,936**	**286,165**	**561,080**	**10,722**	**16,824**	**977,727**
Liabilities						
Demand deposits from credit institutions	-	831	196	-	-	1,027
Financial liabilities at fair value through profit or loss	176	-	-	-	-	176
Financial liabilities at amortised cost	19,151	535,419	323,832	10,254	16,440	905,096
Other liabilities	340	713	1,361	26	3	2,443
Total liabilities	**19,667**	**536,963**	**325,389**	**10,280**	**16,443**	**908,742**
Shareholders' equity	68,985	-	-	-	-	68,985
Total liabilities and shareholders' equity	**88,652**	**536,963**	**325,389**	**10,280**	**16,443**	**977,727**
Net (short)/long balance sheet position	**14,284**	**(250,798)**	**235,691**	**442**	**381**	**x**
Derivatives, notional amount	(4,900)	253,969	(239,575)	(248)	161	x
Net open long/(short) currency position	**9,384**	**3,171**	**(3,884)**	**194**	**542**	**x**
Percentage of shareholders' equity, (%)	**9,7%**	**3,3%**	**(4,0%)**	**0,2%**	**0,6%**	**x**

The Group's currency position as at 31 December 2008:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	53,114	228	4,470	-	48	57,860
Balances due from credit institutions	461	123,067	33,341	3,393	14,402	174,664
Financial assets at fair value through profit or loss	3,831	768	-	-	-	4,599
Available-for-sale financial assets	12,144	19,357	1,369	2,123	88	35,081
Loans and receivables	8,924	85,376	574,567	979	26	669,872
Other assets	34,637	2,289	1,654	1,176	239	39,995
Total assets	**113,111**	**231,085**	**615,401**	**7,671**	**14,803**	**982,071**
Liabilities						
Demand deposits from credit institutions	14,606	788	295	-	1	15,690
Financial liabilities at fair value through profit or loss	7,542	11,696	-	-	-	19,238
Financial liabilities at amortised cost	25,946	429,604	376,796	7,559	25,863	865,768
Other liabilities	2,184	625	368	22	8	3,207
Total liabilities	**50,278**	**442,713**	**377,459**	**7,581**	**25,872**	**903,903**
Shareholders' equity	78,168	-	-	-	-	78,168
Total liabilities and shareholders' equity	**128,446**	**442,713**	**377,459**	**7,581**	**25,872**	**982,071**
Net (short)/long balance sheet position	**(15,335)**	**(211,628)**	**237,942**	**90**	**(11,069)**	**x**
Derivatives, notional amount	8,684	216,804	(241,729)	-	11,744	x
Net open (short)/long currency position	**(6,651)**	**5,176**	**(3,787)**	**90**	**675**	**x**
Percentage of shareholders' equity, (%)	**(6,5%)**	**5,0%**	**(3,7%)**	**0,1%**	**0,7%**	**x**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The Bank's currency position as at 31 December 2009:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	40,775	670	3,489	-	52	44,986
Balances due from credit institutions	1	125,525	53,896	7,552	16,563	203,537
Financial assets at fair value through profit or loss	2,788	6,709	-	2	-	9,499
Available-for-sale financial assets	1,984	96,341	4,057	2,141	-	104,523
Loans and receivables	5,536	56,023	490,900	1,006	10	553,475
Other assets	48,113	3,185	24,612	4	195	76,109
Total assets	**99,197**	**288,453**	**576,954**	**10,705**	**16,820**	**992,129**
Liabilities						
Demand deposits from credit institutions	-	831	196	-	-	1,027
Financial liabilities at fair value through profit or loss	176	-	-	-	-	176
Financial liabilities at amortised cost	19,151	535,419	331,375	10,254	16,440	912,639
Other liabilities	2,102	713	1,361	26	3	4,205
Total liabilities	**21,429**	**536,963**	**332,932**	**10,280**	**16,443**	918,047
Shareholders' equity	74,082	-	-	-	-	74,082
Total liabilities and shareholders' equity	**95,511**	**536,963**	**332,932**	**10,280**	**16,443**	**992,129**
Net (short)/long balance sheet position	**3,686**	**(248,510)**	**244,022**	**425**	**377**	**x**
Derivatives, notional amount	(4,900)	253,969	(239,575)	(248)	161	x
Net open (short)/long currency position	**(1,214)**	**5,459**	**4,447**	**177**	**538**	x
Percentage of shareholders' equity, (%)	**(1,2%)**	**5,4%**	**4,4%**	**0,2%**	**0,5%**	**x**

The Bank's currency position as at 31 December 2008:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	53,114	228	4,470	-	48	57,860
Balances due from credit institutions	461	123,067	33,328	3,393	14,387	174,636
Financial assets at fair value through profit or loss	3,831	768	-	-	-	4,599
Available-for-sale financial assets	12,144	19,357	1,369	2,123	88	35,081
Loans and receivables	8,922	85,376	574,567	979	26	669,870
Other assets	36,000	2,289	1,637	1,176	239	41,341
Total assets	**114,472**	**231,085**	**615,371**	**7,671**	**14,788**	**983,387**
Liabilities						
Demand deposits from credit institutions	14,606	788	295	-	1	15,690
Financial liabilities at fair value through profit or loss	7,542	11,696	-	-	-	19,238
Financial liabilities at amortised cost	27,616	429,604	373,862	7,559	25,863	864,504
Other liabilities	2,650	625	368	22	8	3,673
Total liabilities	**52,414**	**442,713**	**374,525**	**7,581**	**25,872**	**903,105**
Shareholders' equity	80,282	-	-	-	-	80,282
Total liabilities and shareholders' equity	**132,696**	**442,713**	**374,525**	**7,581**	**25,872**	**983,387**
Net (short)/long balance sheet position	**(18,224)**	**(211,628)**	**240,846**	**90**	**(11,084)**	**x**
Derivatives, notional amount	8,684	216,804	(241,729)	-	11,744	x
Net open (short)/long currency position	**(9,540)**	**5,176**	**(883)**	**90**	**660**	**x**
Percentage of shareholders' equity, (%)	**(9,1%)**	**4,9%**	**(0,8%)**	**0,1%**	**0,6%**	**x**

The Law on Credit Institutions requires that open positions in each foreign currency may not exceed 10% of equity, and that the total foreign currency open position may not exceed 20% of equity.
As at 31 December 2009, the Group and the Bank were in compliance with the above requirements of the Law on Credit Institutions.

c) Market Risk

The exposure of the trade portfolio to market risk and the capital charge for market risk is determined according to the standard approach described in the Regulations for Calculation of Minimum Capital Requirement whereby the positions for general risk debt securities are calculated under the therm method.
Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management. The Financial Markets Division is responsible for maintaining interest rate risk within specified limits.
Assessment of interest rate risk is conducted striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk. Interest rate risk is assessed both in terms of income and economic value. The term economic value means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.
For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.
The assets, liabilities, and memorandum items distribution into maturity bands follows such principles:

- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/maturity date;
- financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date.

Distribution of current account balances into maturity bands is based on the Bank's historical experience about current account balance sensitivity to changes in interest rates. Derivatives are represented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.

The effect of interest rate risk on the economic value is calculated according to the duration method, i.e. the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit/loss is analysed applying the gap analysis, i.e. analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2009 and 2008:

		Group/Bank		Group/Bank	
		31/12/2009		31/12/2008	
		+100 bps	-100 bps	+100 bps	-100 bps
		LVL '000	LVL '000	LVL '000	LVL '000
	Effect of changes on equity	(1,337)	1,337	(202)	202
Total for all	Effect of changes on profit/loss	(1,392)	1,392	(485)	485
USD	Effect of changes on equity	(1,261)	1,261	(167)	167
	Effect of changes on profit/loss	(2,393)	2,393	336	(336)
EUR	Effect of changes on equity	(76)	76	(35)	35
	Effect of changes on profit/loss	765	(765)	(960)	960
LVL	Effect of changes on equity	-	-	-	-
	Effect of changes on profit/loss	236	(236)	140	(140)

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2009, based on interest rate changes:

Assets	Up to 1 month LVL '000	1—3 months LVL '000	3—6 months LVL '000	6—12 months LVL '000	1—5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	41,105	-	-	-	-	-	3,881	44,986
Balances due from credit institutions	192,308	1,100	4,160	1,107	4,743	-	151	203,569
Financial assets at fair value through profit or loss	-	-	-	-	12	-	9,487	9,499
Available-for-sale financial assets	3,811	7,355	1,945	7,503	21,193	7,905	54,811	104,523
Loans and receivables	128,464	85,348	130,756	178,419	15,531	2,356	9,706	550,580
Other assets	-	-	-	-	-	-	64,570	64,570
Total assets	**365,688**	**93,803**	**136,861**	**187,029**	**41,479**	**10,261**	**142,606**	**977,727**
Liabilities								
Demand deposits from credit institutions	1,027	-	-	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	176	176
Financial liabilities at amortised cost	549,767	165,708	49,505	66,775	25,908	28,657	18,776	905,096
Other liabilities	-	-	-	-	-	-	2,443	2,443
Total liabilities	**550,794**	**165,708**	**49,505**	**66,775**	**25,908**	**28,657**	**21,395**	**908,742**
Shareholders' equity	-	-	-	-	-	-	68,985	68,985
Total liabilities and shareholders' equity	**550,794**	**165,708**	**49,505**	**66,775**	**25,908**	**28,657**	**90,380**	**977,727**
Futures, sold	-	6,589	-	-	-	-	-	6,589
Interest rate repricing maturity gaps	**(185,106)**	**(65,316)**	**87,356**	**120,254**	**15,571**	**(18,396)**	**52,226**	**x**

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2008, based on interest rate changes:

Assents	Up to 1 month LVL '000	1—3 months LVL '000	3—6 months LVL '000	6—12 months LVL '000	1—5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	52,933	-	-	-	-	-	4,927	57,860
Balances due from credit institutions	136,239	3,595	6,967	-	6,282	-	21,581	174,664
Financial assets at fair value through profit or loss	-	-	-	124	454	149	3,872	4,599
Available-for-sale financial assets	99	6,490	1,364	3,466	5,473	1,179	17,010	35,081
Loans and receivables	84,138	77,724	129,525	300,632	63,695	11,318	2,840	669,872
Other assets	-	-	-	-	-	-	39,995	39,995
Total assets	**273,409**	**87,809**	**137,856**	**304,222**	**75,904**	**12,646**	**90,225**	**982,071**
Liabilities								
Demand deposits from credit institutions	15,687	-	-	-	-	-	3	15,690
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	19,238	19,238
Financial liabilities at amortised cost	497,319	169,602	42,542	82,598	26,572	28,943	18,192	865,768
Other liabilities	-	-	-	-	-	-	3,207	3,207
Total liabilities	**513,006**	**169,602**	**42,542**	**82,598**	**26,572**	**28,943**	**40,640**	**903,903**
Shareholders' equity	-	-	-	-	-	-	78,168	78,168
Total liabilities and shareholders' equity	**513,006**	**169,602**	**42,542**	**82,598**	**26,572**	**28,943**	**118,808**	**982,071**
Futures, sold	-	25,120	-	-	(17,487)	(8,429)	-	(796)
Interest rate repricing maturity gaps	**(239,597)**	**(56,673)**	**95,314**	**221,624**	**31,845**	**(24,726)**	**(28,583)**	**x**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2009, based on interest rate changes:

Assets	Up to 1 month LVL '000	1—3 months LVL '000	3—6 months LVL '000	6—12 months LVL '000	1—5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	41,105	-	-	-	-	-	3,881	44,986
Balances due from credit institutions	192,276	1,100	4,160	1,107	4,743	-	151	203,537
Financial assets at fair value through profit or loss	-	-	-	-	12	-	9,487	9,499
Available-for-sale financial assets	3,811	7,355	1,945	7,503	21,193	7,905	54,811	104,523
Loans and receivables	128,464	88,243	130,756	178,419	15,531	2,356	9,706	553,475
Other assets	-	-	-	-	-	-	76,109	76,109
Total assets	**365,656**	**96,698**	**136,861**	**187,029**	**41,479**	**10,261**	**154,145**	**992,129**
Liabilities								
Demand deposits from credit institutions	1,027	-	-	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	176	176
Financial liabilities at amortised costs	560,281	165,708	49,505	66,775	22,937	28,657	18,776	912,639
Other liabilities	-	-	-	-	-	-	4,205	4,205
Total liabilities	**561,308**	**165,708**	**49,505**	**66,775**	**22,937**	**28,657**	**23,157**	**918,047**
Shareholders' equity	-	-	-	-	-	-	74,082	74,082
Total liabilities and shareholders' equity	**561,308**	**165,708**	**49,505**	**66,775**	**22,937**	**28,657**	**97,239**	**992,129**
Futures, sold	-	6,589	-	-	-	-	-	6,589
Interest rate repricing maturity gaps	**(195,652)**	**(62,421)**	**87,356**	**120,254**	**18,542**	**(18,396)**	**56,906**	**x**

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2008, based on interest rate changes:

Assets	Up to 1 month LVL '000	1—3 months LVL '000	3—6 months LVL '000	6 —12 months LVL '000	1—5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	52,933	-	-	-	-	-	4,927	57,860
Balances due from credit institutions	136,211	3,595	6,967	-	6,282	-	21,581	174,636
Financial assets at fair value through profit or loss	-	-	-	124	454	149	3,872	4,599
Available-for-sale financial assets	99	6,490	1,364	3,466	5,473	1,179	17,010	35,081
Loans and receivables	84,136	77,724	129,525	300,632	63,695	11,318	2,840	669,870
Other assets	-	-	-	-	-	-	41,341	41,341
Total assets	**273,379**	**87,809**	**137,856**	**304,222**	**75,904**	**12,646**	**91,571**	**983,387**
Liabilities								
Demand deposits from credit institutions	15,687	-	-	-	-	-	3	15,690
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	19,238	19,238
Financial liabilities at amortised cost	494,491	171,166	42,542	82,598	26,572	28,943	18,192	864,504
Other liabilities	-	-	-	-	-	-	3,673	3,673
Total liabilities	**510,178**	**171,166**	**42,542**	**82,598**	**26,572**	**28,943**	**41,106**	**903,105**
Shareholders' equity	-	-	-	-	-	-	80,282	80,282
Total liabilities and shareholders' equity	**510,178**	**171,166**	**42,542**	**82,598**	**26,572**	**28,943**	**121,388**	**983,387**
Futures, sold	-	25,120	-	-	(17,487)	(8,429)	-	(796)
Interest rate repricing maturity gaps	**(236,799)**	**(58,237)**	**95,314**	**221,624**	**31,845**	**(24,726)**	**(29,817)**	**x**

The accompanying notes form an integral part of these consolidated and separate financial statements.

35. Non-Financial Risk

During the course of their operations, the Group and the Bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the Bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

Operational Risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk. Operational risk is inherent in all products, activities, processes, and systems of the Group and the Bank.
The operational risk management policy is approved by the Council of the Bank. The Board of the Bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the Group and the Bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management. Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit according to the relevant internal regulations.

In 2009, the Bank revised and optimised the operational risk management environment, defining the key efficiency principles:

- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/or mitigating operational risk adequately;
- ensuring business continuity.

After the introduction of the new policy, in September 2008 an operational risk event database was established. The key objectives of the database are as follows:

- collection of data about operational risk events and losses of the Group and the Bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events, and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which will enable the Bank to identify potential losses and take all required measures to prevent such losses.
During the reporting year, approximately 1,300 (400) events were registered in the database, of which only 85 (22) events were those which resulted in actual losses in the amount of LVL 23,4 (21) thousand. The considerable number of the identified and registered events and, at the same time, rather small amount of loss testify to the active involvement of the Group's and the Bank's employees in the operational risk management and to the effectiveness of the control environment.

36. Litigation and Claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals, as well as other proceedings related to specific transactions. The Management believe that any legal proceedings pending as at 31 December 2009 will not result in material losses for the Bank and/or the Group.

37. Events after Reporting Date

On 11 February 2010, the Board of Aizkraukles Banka has made decision to support and advance for further approval to the Shareholder's Meeting of the Bank the project about the increase of the shares' capital of Aizkraukles Banka, through an issue of 10,000 new shares with a nominal value of 150 LVL. The planned share issue markup is 5,000,000 LVL. Therefore the equity of Aizkraukles Banka will be increased in total for 6,500,000 LVL.

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

Independent Auditors' Report

ERNST & YOUNG
Quality In Everything We Do

To the shareholders of AS Aizkraukles banka
Report on the Financial Statements

We have audited 2009 consolidated financial statements of AS Aizkraukles banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS Aizkraukles banka (hereinafter – the Bank), which are set out on pages 8 through 67 of the accompanying 2009 Consolidated Annual Report and which comprise the statement of financial position as at 31 December 2009, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (included on pages 2 through 7 of the accompanying 2009 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2009.

Ernst & Young Baltic SIA
License No. 17

Diāna Krišjāne
Chairwoman of the Board

Iveta Vimba
Latvian Certified Auditor
Certificate No. 153

Riga, 23 February 2010

The accompanying notes form an integral part of these consolidated and separate financial statements.