AS “AKCIJU KOMERCBANKA “BALTIKUMS”” CONSOLIDATED AND BANK FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

CONTENTS

REPORT OF THE MANAGEMENT

Dear Shareholders, customers and partners,

Year 2009 was tough for Latvia and brought along heavy shocks as most sectors of the national economy faced decline, unemployment accelerated, and dependence on international financial support increased.

Despite the general turmoil, AS "Akciju komercbanka "Baltikums"" (Baltikums Banka) continued to implement its plans and improved its position in the chosen areas of activities in 2009. The conservative risk management, consistent strategic goals, and establishment of long-term relations with customers – these are the pillars of good financial results of Baltikums Banka. In 2009, profit of Baltikums Banka amounted to LVL 638 thousand.

Baltikums Banka has been successfully operating in Riga, Limassol, Kiev, and Almaty; it also has representative offices in Russia and Azerbaijan. The bank and its foreign branches employ an international team of more than 150 professionals.

The bank's assets made up LVL 111.7 million as of 31 December 2009. Baltikums Banka issued loans for the total of LVL 29.3 million; the bank issued no household loans for housing purchase. The deposits attracted by the bank by the end of December amounted to LVL 82.5 million.

Such performance was made possible in 2009 thanks to a thoroughly developed banking operations strategy and professional team of the bank. Despite an immaterial decrease the assets volume, which was caused by a drop in turnover of the bank's customers, Baltikums Banka has turned out to be one of the few Latvian banks that maintain profit; number of customers increases, efficiency of operations improves, investments are made in information technologies and in expansion of the bank's international partner network. The bank believes in prospects in acquiring new trends and improving existing ones as the competition in many banking sectors is less tough due to the crisis.

Baltikums Banka still maintains very high liquidity and balance quality indexes and its capital adequacy materially exceeds the level set by the controlling institution.

Currently the bank focuses on the following key trends of activities: Private Banking, Corporate Banking, and Wealth Management.

In 2009, Baltikums Banka introduced a private banking institution that builds up on the success of earlier achievements of Private Banking services that had been declared a priority. Now a new team of sales and customer service professionals operates at Baltikums Banka and the estimated sales of the bank's investment products and services have already showed results.

For convenience of the bank's customers an information landline has been established to provide customers with required information in three languages. The correspondent banks network has also been expanded to improve communication between customers and the bank.

In the past year, Baltikums Banka successfully redeemed its second issue bonds and repurchased a part of the third emission bonds on the secondary market. The bank's interest to repurchase its own bonds was caused by the following factors. First, Baltikums Banka possesses a significant amount of free financial resources. Secondly, Baltikums Banka repurchased the bonds before maturity and thus profited by minimising its interest expenses. Besides, the bank believes that by maintaining liquidity of its bonds on the market it would facilitate business relations with investors both now and in future. The bank believes that it is particularly important now when markets are prone to certain volatility. The bank might execute a new bonds emission in future depending on the situation on financial markets and prospective customer demand for project financing.

The investments management company "Baltikums Asset Management" owned by Baltikums Banka established an open investment fund "Baltikums Short-Term Investment Strategy Bonds Fund". The fund's resources are mostly invested in debt securities of growing economies. The fund aims at short-and medium-term investments in fixed income financial instruments; therefore, a larger share of investments would be made in short-term and medium-term debt securities.

Baltikums Banka received a permit from the Central Bank of Cyprus for offering its services in Cyprus according to the free competition principles. Now customers of the branch that successfully commenced its operation in the beginning of the year will enjoy the full range of the bank's products, services, and solutions in daily service, as well as Corporate Banking and Private Banking.

Baltikums Banka is an independent private bank and a family business. The bank keeps improving its business model by introducing latest technologies and methodologies. The bank has the Latvian origin and aims at joining leading independent private banks of the European Union by rendering modern and sought-after banking products, services, and solutions for business development, as well as for maintaining and increasing our customers' capital.

Baltikums Banka has been known for its consequence in establishing and maintaining successful and mutually beneficial relations with customers. Besides, the bank's aim is not only to render professional and high-quality services but also to jointly facilitate business, capital, assets, and risk management environment that would give customers both financial benefits and enhanced stability and security regarding their own future and future of their relatives and partners.

Our values remain unchanged: independence and objective approach, security, responsibility, and comprehensive protection of our customers' interest. We are grateful to all our customers for cooperation and trust expressed to us at these complicated times and will look forward to conducting successful business together.

Aldis Reims
Chairman of the Board

Riga, 30 March 2010

THE SUPERVISORY COUNCIL AND BOARD OF THE BANK

As of the date of signing the financial statements, members of the Board and Council of the Bank (hereafter "Bank's management") were as follows:

Council as of 31 December 2009

Name, Surname	Position	Date of Appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Oļegs Čepuļskis	Member of the Council	22 June 2001
Andrejs Kočetkovs	Member of the Council	22 June 2001

There have been no changes in the Supervisory Council during the reporting year.

Management Board as of 31 December 2009

Name, Surname	Position	Date of Appointment
Aldis Reims	Member of the Board	20 August 2001
	Acting Chairman of the Board	1 July 2002
	Chairman of the Board	25 April 2003
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
Leonarda Višņevska	Member of the Board	25 April 2003
Tatjana Drobina	Member of the Board	30 April 2008
Aleksandrs Halturins	Member of the Board	30 April 2008

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2010

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

The management of the AS "Akciju Komercbanka "Baltikums"" (hereafter the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereafter the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated and Bank financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The consolidated and Bank financial statements on pages 8 - 68 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2009 and the results of its performance and cash flows for the year ended 31 December 2009 as well as the financial position of the Bank as at 31 December 2009 and the results of its performance and cash flows for the year ended 31 December 2009.

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's assets, and the prevention and detection of fraud and other irregularities in the Group. The management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

Riga, 30 March 2010

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Independent Auditors' Report

To the shareholders of A/S „AKCIJU KOMERCBANKA „BALTIKUMS""

Report on the Financial Statements

We have audited the accompanying financial statements of A/S „AKCIJU KOMERCBANKA „BALTIKUMS"" ("the Bank"), which comprise the unconsolidated statement of financial position as at 31 December 2009, and the unconsolidated income statement, unconsolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 68. We have also audited the accompanying consolidated financial statements of A/S „AKCIJU KOMERCBANKA „BALTIKUMS"" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 68.

Management's Responsibility for the Financial Statements

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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal control relevant to the Bank's and Group'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 Bank's and Group's internal control systems. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG

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

Opinion

In our opinion, the unconsolidated financial statements of A/S „AKCIJU KOMERCBANKA „BALTIKUMS"" give a true and fair view of the financial position of the Bank as at 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.

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 2 to 3, the preparation of which is the responsibility of the Management, is consistent with the consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Bank and Group. In our opinion, the management report is consistent with the consolidated financial statements.

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
30 March 2010

Inga Lipšāne
Sworn Auditor
Certificate No 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

CONSOLIDATED AND BANK'S INCOME STATEMENT

	Notes	2009		2008	
		Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest income	6	5 650	5 554	5 680	5 643
Interest expense	7	(962)	(884)	(1 549)	(1 480)
Net interest income		**4 688**	**4 670**	**4 131**	**4 163**
Fee and commission income	8	4 493	4 460	4 789	4 761
Fee and commission expense	9	(783)	(736)	(892)	(891)
Net commission and fee income		**3 710**	**3 724**	**3 897**	**3 870**
Profit (loss) from financial assets and liabilities carried at fair value through profit or loss	10	548	548	(3 453)	(3 453)
Net foreign exchange gains	11	143	143	3 578	3 580
Gains arising from disposal of property		-	-	3	-
Gains from investment in associate	23	155	-	(61)	-
Other operating income	12	499	209	1 175	897
Operating income		**9 743**	**9 294**	**9 270**	**9 057**
Administrative expenses	13	(5 681)	(5 469)	(4 142)	(3 968)
Other operating expenses	14	(217)	(190)	(632)	(221)
Impairment of financial assets	15	(2 621)	(2 879)	(822)	(321)
Total operating expenses		**(8 519)**	**(8 538)**	**(5 596)**	**(4 510)**
Profit before income tax		**1 224**	**756**	**3 674**	**4 547**
Income tax expense	16	(151)	(118)	(1 198)	(1 191)
Profit for the period		**1 073**	**638**	**2 476**	**3 356**
Attributable to:					
Equity holders of the Bank		*1 073*	*638*	*2 740*	*3 356*
Minority interest		-	-	*(264)*	-
Profit for the period		**1 073**	**638**	**2 476**	**3 356**
Basic and diluted earnings per share (LVL)	41	**0.065**	**0.039**	**0.178**	**0.241**

The accompanying notes on pages 14 - 68 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 68 on 30 March 2010. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council
30 March 2010

Aldis Reims
Chairman of the Board

CONSOLIDATED AND BANK'S STATEMENT OF COMPREHENSIVE INCOME

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Profit for the period	**1 073**	**638**	**2 476**	**3 356**
Other comprehensive income	-	-	-	-
Total comprehensive income	**1 073**	**638**	**2 476**	**3 356**
Attributable to:				
Equity holders of the Bank	1 073	638	2 740	3 356
Minority interest	-	-	(264)	-

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Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2010

CONSOLIDATED AND BANK'S STATEMENT OF FINANCIAL POSITION

Assets	Notes	2009 Group LVL '000	2009 Bank LVL '000	2008 Group LVL '000	2008 Bank LVL '000
Cash and balances with the Bank of Latvia	17	6 043	6 043	5 550	5 549
Deposits with credit institutions	18	33 112	33 102	37 178	37 169
Demand deposits with credit institutions		*29 492*	*29 482*	*36 653*	*36 644*
Term deposits with credit institutions		*3 620*	*3 620*	*525*	*525*
Financial assets at fair value through profit or loss		15 498	15 498	7 857	7 857
Fixed income securities	*19*	*13 689*	*13 689*	*7 638*	*7 638*
Non-fixed income securities	*19*	*1 440*	*1 440*	-	-
Derivative financial instruments	*36*	*369*	*369*	*219*	*219*
Available-for-sale financial assets	20	2 327	34	10	10
Fixed income securities		*2 293*	-	-	-
Non-fixed income securities		*34*	*34*	*10*	*10*
Loans and receivables	21	29 500	29 339	34 556	34 213
Financial assets held-to-maturity	22	12 530	12 530	14 581	14 581
Investments in subsidiaries	23	-	6 667	-	3 171
Investments in associates	23	4 265	2 820	2	-
Intangible assets	24	276	255	257	212
Property and equipment	25	1 610	1 604	1 738	1 735
Investment property	26	4 707	647	3 619	530
Non-current assets held for sale	27	1 772	1 406	3 889	1 070
Income tax receivable		867	892	39	-
Other assets	28	861	838	3 186	3 175
Prepayments and accrued income		40	40	47	47
Total assets		**113 408**	**111 715**	**112 509**	**109 319**

The accompanying notes on pages 14 - 68 form an integral part of these financial statements.

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Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2010

CONSOLIDATED AND BANK'S STATEMENT OF FINANCIAL POSITION

Liabilities and Equity	Notes	2009 Group LVL '000	2009 Bank LVL '000	2008 Group LVL '000	2008 Bank LVL '000
Due to credit institutions on demand	29	53	53	7	7
Derivatives	36	170	170	135	135
Financial liabilities carried at amortized cost		87 940	86 931	90 850	89 688
Loans received from credit institutions	*30*	*1 127*	*-*	*1 270*	*-*
Customers' deposits	*31*	*82 423*	*82 541*	*79 096*	*79 204*
Notes payable	*32*	*4 390*	*4 390*	*10 484*	*10 484*
Deferred income and accrued expenses	33	168	168	101	101
Provisions	34	130	126	87	86
Current tax liabilities		36	36	629	629
Other liabilities	35	582	33	87	37
Total liabilities		**89 079**	**87 517**	**91 896**	**90 683**
Equity					
Share capital	37	23 442	23 442	15 178	15 178
Reserves	37	17	17	17	17
Retained earnings		870	739	3 137	3 441
Total equity attributable to equity holders of the Bank		**24 329**	**24 198**	**18 332**	**18 636**
Minority interest		-	-	2 281	-
Total equity		**24 329**	**24 198**	**20 613**	**18 636**
Total liabilities and equity		**113 408**	**111 715**	**112 509**	**109 319**
Off-balance sheet items					
Contingent liabilities and commitments	39	5 907	5 907	3 662	3 662

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Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2010

CONSOLIDATED AND BANK'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

GROUP

	Share capital LVL`000	Reserve capital LVL`000	Retained earnings LVL`000	Total equity attributable to equity holders LVL`000	Minority interest LVL`000	Total equity LVL`000
Balance as at 31 December 2007	**10 525**	**17**	**2 361**	**12 903**	**182**	**13 085**
Dividends paid	-	-	(1 964)	(1 964)	-	(1 964)
Total comprehensive income	-	-	2 740	2 740	(264)	2 476
Effect of disposal of interest in subsidiary	-	-	-	-	2 363	2 363
Increase in share capital	4 653	-	-	4 653	-	4 653
Balance as at 31 December 2008	**15 178**	**17**	**3 137**	**18 332**	**2 281**	**20 613**
Dividends paid	-	-	(3 340)	(3 340)	-	**(3 340)**
Total comprehensive income	-	-	1 073	1 073	-	**1 073**
Effect of purchase of interest in subsidiary	-	-	-	-	(2 281)	**(2 281)**
Increase in share capital	8 264	-	-	8 264	-	**8 264**
Balance as at 31 December 2009	**23 442**	**17**	**870**	**24 329**	**-**	**24 329**

BANK

	Note	Share capital LVL '000	Reserve capital LVL '000	Retained earnings LVL '000	Total LVL '000
Balance as at 31 December 2007		**10 525**	**17**	**2 049**	**12 591**
Dividends paid		-	-	(1 964)	(1 964)
Total comprehensive income		-	-	3 356	3 356
Increase in share capital	37	4 653	-	-	4 653
Balance as at 31 December 2008		**15 178**	**17**	**3 441**	**18 636**
Dividends paid		-	-	(3 340)	**(3 340)**
Total comprehensive income		-	-	638	**638**
Increase in share capital		8 264	-	-	**8 264**
Balance as at 31 December 2009		**23 442**	**17**	**739**	**24 198**

The accompanying notes on pages 14 - 68 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 68 on 30 March 2010. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

CONSOLIDATED AND BANK'S STATEMENT OF CASH FLOWS

	Note	2009		2008	
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash flow from operating activities					
Profit before income tax		1 224	756	3 674	4 547
Amortization and depreciation		332	244	148	148
Impairment of financial assets		2 374	2 879	822	321
Loss on foreign exchange revaluation		89	89	326	325
Investment property and other revaluation		-	-	(159)	(126)
Loss from the sale of subsidiaries		-	-	(582)	-
		4 019	**3 968**	**4 229**	**5 215**
(Increase)/Decrease in loans and receivables		1 759	1 763	(9 854)	(9 950)
(Increase)/Decrease in available-for-sale financial assets		(2 317)	(24)	2 116	-
Increase in Financial assets classified as trading assets		(7 641)	(7 641)	(425)	(491)
Decrease in financial assets at fair value through profit or loss		-	-	25	-
(Increase)/Decrease in financial assets held-to-maturity		1 063	1 063	(10 297)	(8 730)
(Increase)/Decrease in prepayments and accrued income		7	7	(17)	(23)
Increase in other assets		(542)	(561)	(6 768)	(3 977)
Increase in customers' deposits		3 337	3 337	6 954	6 913
Increase/(Decrease) in financial liabilities held for trading		35	35	(53)	(53)
Increase/(Decrease) in other and current tax liabilities		283	(226)	(1 839)	(406)
Increase in deferred income and accrued expense		67	67	4	6
Net cash from/(used in) operating activities before tax		**70**	**1 788**	**(15 925)**	**(11 496)**
Corporate income tax paid		(1 198)	(1 191)	(488)	(488)
Net cash from/(used in) operating activities		**(1 128)**	**597**	**(16 413)**	**(11 984)**
Cash flow from investing activities					
Acquisition of property and equipment and intangible assets		(174)	(193)	(1 757)	(1 662)
Proceeds from sale of property and equipment		63	63	185	-
Acquisition of subsidiaries net of cash acquired		(2 671)	(2 659)	(1 524)	-
Proceeds from sale of subsidiaries net of cash disposed of		-	-	8 675	2 759
Other cash inflow/(outflow) from investment activities		1 551	(167)	(771)	(530)
Net cash from/(used in) investing activities		**(1 231)**	**(2 956)**	**4 808**	**567**
Cash flow from financing activities					
Proceeds from increase of share capital		8 264	8 264	4 653	4 653
Cash outflow from repayment of issued bonds		(6 094)	(6 094)	-	-
Dividends paid		(3 340)	(3 340)	(1 964)	(1 964)
Net cash from/(used in) financing activities		**(1 170)**	**(1 170)**	**2 689**	**2 689**
Net changes in cash and cash equivalents		**(3 529)**	**(3 529)**	**(8 916)**	**(8 728)**
Cash and cash equivalents at the beginning of the year		**42 696**	**42 686**	**51 938**	**51 739**
Effects of exchange rates fluctuations on cash held		(89)	(89)	(326)	(325)
Cash and cash equivalents at the end of the year	38	**39 078**	**39 068**	**42 696**	**42 686**

The accompanying notes on pages 14 - 68 form an integral part of these financial statements.

The Council and the Board of the Bank approve the issue of these financial statements as presented from page 8 - 68 on 30 March 2010. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

30 March 2010

1. GENERAL INFORMATION

JSC "Akciju komercbanka "Baltikums"" (the Bank) was established on 22 June 2001, when it was incorporated in the Republic of Latvia as a joint stock company. The address of the Bank is Maza Pils iela 13, Riga, LV 1050. The Bank is a commercial bank specializing in the financing of export and import operations, trade and shipping finance as well as investment management. The Bank operates in accordance with Latvian legislation and the license issued by the Bank of Latvia.

The immediate controlling party of the Bank is AS "Baltikums bankas grupa", which owns 100% of shares. AS "Baltikums bankas grupa" is owned in equal portions by four Latvian entities, which belong to 10 individuals.

The Bank is a majority shareholder in a number of subsidiaries located in Riga, Latvia, which comprise Baltikums Group (the Group), SIA "Baltikums Līzings" which specializes in finance leasing and lending, IPAS "Baltikums Asset Management" which is an investment company, SIA "Konsalting Invest", SIA "ZapDvina" and SIA "CityCap Service" which are property developers and SIA "Baltikums Direct" which manages representative offices in Russia, Ukraine, Kazakhstan and in Azerbaijan. The Bank has an investment in an associated company AAS "Baltikums".

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at the balance sheet date.

The consolidated financial statements were authorized for issue by the Board of Directors on 30 March 2010. The financial statements may be amended by the shareholders.

(2) Functional and presentation currency

These consolidated and Bank financial statements are presented in Latvian lats, which is the Bank's functional currency. Except where indicated otherwise, financial information presented in Latvian lats has been rounded to the nearest thousand.

(3) Basis of measurement

The financial statements have been prepared under the historical cost convention except for the following items, which are measured at fair value: non-hedging derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss, financial assets available for sale except for those whose fair value cannot be reliably estimated, and investment property.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting principles used in the preparation of the consolidated and the Bank's and Group's financial statements are consistent with those used in 2008.

(1) Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries' financial statements are included in consolidation as at the date when control is obtained until the date control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies of the Group.

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(2) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of the net identifiable assets and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of business operation is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognized immediately in the statement of income.

(3) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiaries at the exchange rate set by Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in income statement except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized directly in equity.

The exchange rates for the most significant currencies as set by the Bank of Latvia at reporting date are as follows:

	31 December 2009	**31 December 2008**
EUR	0.7028	0.7028
USD	0.4890	0.4950

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into LVL at exchange rates set by Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into LVL at spot exchange rates at the dates of the transactions.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized directly in the foreign currency translation reserve.

(4) Financial instruments

Classification:

Financial instruments are classified into one of the following categories:

Financial instruments designated at fair value through profit or loss are held-for-trading financial instruments and financial assets and liabilities that the Bank and the Group initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held for trading if is acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments for hedge accounting purposes.

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed term with respect to which the Bank and the Group have a positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale. Held-to-maturity financial instruments include certain debt securities.

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 (a) the Bank and the Group intend to sell immediately or in the short-term, (b) those that the Bank and the Group upon initial recognition designate as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply to these classification criteria.

Available-for-sale assets are those non-derivative financial assets classified at inception as available for sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available-for-sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Bank and the Group to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortized cost represent financial liabilities of the Bank and the Group other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits and other financial liabilities.

Reclassification of financial assets

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- If the financial asset would have met the definition of loans and receivables, or if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, The Group and the Bank reclassified certain non-derivative financial assets out of trading assets and into loans and advances to customers and available-for-sale investment securities. For details on the impact of these reclassifications, see Note 22.

(5) Recognition

The Group and the Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(6) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(7) Measurement

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments which have no quoted market price in an active market or for which no reliable fair value measurement is possible; such instruments are carried at cost less transaction costs and impairment.

All financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost using the effective interest rate method. All instruments are subject to revaluation when impaired.

Profit or loss arising from changes in the fair value of financial instruments designated through profit or loss are recognized in the income statement. Profit or loss arising from changes in the fair value of available-for-sale financial instruments is recognized in equity through other comprehensive income (except for impairment losses and foreign exchange gains and losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

(8) Derecognition

The Group and the Bank derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by The Group and the Bank is recognized as a separate asset or liability.

The Group and the Bank derecognize a financial liability when its contractual obligations are discharged or cancelled or expire.

(9) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, The Group and the Bank have a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(10) Identification and measurement of impairment of financial assets

Loans are stated in the balance sheet at the amount of the principal outstanding, less any impairment allowances. Impairment losses and recoveries are recognized monthly based on regular loan reviews. Allowances during the period are reflected in the income statement.

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or an advance by the Group on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at the specific asset level. All loans and advances and held-to-maturity investment securities are assessed for specific impairment.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale assets are recognized by transferring the cumulative loss that has been recognized in equity through statement of other comprehensive income to income statement. The cumulative loss that is removed from equity and recognized in the income statement is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the income statement. Changes in impairment allowance attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale bond increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed, with the amount of the reversal recognized in income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the income statement and is recognized in equity through statement of other comprehensive income.

(11) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

NOTES TO THE CONSOLIDATED AND BANK'S FINANCIAL STATEMENTS

When available, the Group and the Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The table below analysis financial instruments carried at fair value, by valuation method:

Group

2009	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss			
Fixed income securities	13 689	-	13 689
Non-fixed income securities	1 440	-	1 440
Derivative financial instruments	-	369	369
Available for sale assets			
Fixed income securities	-	2 293	2 293
Non-fixed income securities	-	34	34
	15 129	**2 696**	**17 825**
Financial liabilities			
Derivatives	-	170	170
	-	**170**	**170**
2008			
Financial assets			
Financial assets at fair value through profit or loss			
Fixed income securities	7 638	-	7 638
Derivative financial instruments	-	219	219
Available for sale assets	-	-	-
Non-fixed income securities	-	10	10
	7 638	**229**	**7 867**
Financial liabilities			
Derivatives	-	135	135
	-	**135**	**135**

Bank

2009	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Total
Financial assets			
Financial assets at fair value through profit or loss			
Fixed income securities	13 689	-	13 689
Non-fixed income securities	1 440	-	1 440
Derivative financial instruments	-	369	369
Available for sale assets			
Non-fixed income securities	-	34	34
	15 129	**403**	**15 532**
Financial liabilities			
Derivatives	-	170	170
	-	**170**	**170**
2008			
Financial assets			
Financial assets at fair value through profit or loss			
Fixed income securities	7 638	-	7 638
Derivative financial instruments	-	219	219
Available for sale assets			
Non-fixed income securities	-	10	10
	7 638	**229**	**7 867**
Financial liabilities			
Derivatives	-	135	135
	-	**135**	**135**

(1) Included in this category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

(2) Included in this category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.

(12) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank classifies all derivative financial instruments as trading.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognized immediately in the income statement.

(13) Repo transactions

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities continue to be recognized on the balance sheet. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized on the balance sheet. The amount paid for securities is recognized as a loan provided to the seller. The Bank and the Group are involved in two types of such transactions – classic *repo* and *buy/sellback* transactions. The result of *repo* and *buy/sellback* transactions is recognized in the profit or loss statement as interest income or expense according to the accrual principle.

(14) Investment in subsidiaries

Investments in subsidiaries are carried at the initial cost less impairment, if any, in the Bank financial statements. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition.

(15) Impairment of non-financial assets

The carrying amounts of the Bank's and Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(16) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment property is initially recognized in the balance sheet at its acquisition cost. Subsequently, investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The useful life of investment property has been estimated at 20 years, with the annual depreciation rate of 5%.

(17) Repossessed assets

As part of the normal course of business the Group and Bank occasionally takes possession of property that originally was pledged as security for a loan. When the Group and Bank acquires (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Group and Bank. When the Group and Bank is uncertain of its intentions with respect to property that it has repossessed, those properties are classified as investment property. Other types of collateral (repossessed finance lease objects) are classified as other assets.

Repossessed assets are valued at lower of cost and net realizable value.

(18) Non-current assets held for sale

The Group and the Bank classify assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The Group and the Bank measure assets classified as held for sale at the lower of their carrying amount and fair value less costs to sell.

(19) Property and equipment

Items of property and equipment are measured at acquisition cost including direct costs, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis. Based on the useful life and residual value of the respective item of property and equipment, the following annual depreciation rates are applied:

Furniture and equipment	20%
Computers	25%
Other	20%

Gains and losses on the disposal of property and equipment are recognized in the income statement in the period of disposal. Repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and useful life is extended.

Depreciation methods, useful lives and residual amounts are reviewed at each reporting date.

(20) Investments in associates

Associates are those entities in which the Group has significant influence, but no control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(21) Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the trust or investment vehicle.

(22) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank.

Intangible assets are recorded at acquisition cost less accumulated amortization and amortized to the income statement in equal amounts over the useful life of the intangible asset. The amortization rate for software is 20%

(23) Income and expense recognition

All significant income and expense categories, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Interest income and expenses include discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Fees and commission (excluding commission for long-term loans issued) are accounted for when collected or incurred. Income and expense that refers to the accounting period are reflected in the income statement regardless of the date of receipt or payment. Loan origination fees together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method..

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(24) Credit-related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

(25) Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity, in which case it is recognised in other comprehensive income or equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(26) Dividends

The Group and Bank receive dividends from the equity instruments that are recorded to income when the right to receive payment is established. Proposed dividends are recognised in the financial statements only when approved by shareholders.

(27) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with original maturity of less than 3 months less balances due to the Bank of Latvia and credit institutions with original maturity of less than 3 months. The balances under sale and repurchase agreements are not included in the cash and cash equivalents.

(28) Leases

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to a lessee. Title may or may not eventually be transferred. When assets are leased out under a finance lease, the net investment in finance lease is recognized as a receivable. The net investment in finance lease represents the difference between the gross receivable and unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease. Assets leased out under an operating lease, are presented within property and equipment in the balance sheet, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment.

Derivative financial instruments

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into lats, applying the exchange rate set by the Bank of Latvia. EURIBOR and LIBOR interest rates are used as benchmarks for a risk-free interest rate for discounting purposes.

Liabilities to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in the active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(34) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

(35) New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2009, and which the Group and Bank have applied:

- IAS 1(revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a statement of comprehensive income.

  The Group and Bank has elected to present two statements: an income statement and a statement of comprehensive income.

  Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- Determination and presentation of operating segments. As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Chairman of the Board, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

  Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

  An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Chairman of the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

  Segment results that are reported to the Chairman of the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009) aim at requiring enhanced disclosures about fair value measurements and liquidity risk associated with financial instruments. These amendments have been adopted by the Bank to the extent applicable to the Bank's operations. Comparative information has been re-presented so that it also is in conformity with the revised standard

(36) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009 and have not been applied in preparing these financial statements.

- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009;) 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. As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009,) requires the term minority interest to be replaced by non-controlling interest, which is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009): clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however, inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Group and Bank's financial statements as the Group and Bank does not apply hedge accounting.

- Amendment to IAS 32 Financial instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010) clarifies how to account for certain rights when the issued instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are issued pro rata to the issuer's existing shareholders for a fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer's functional currency. The amendment is not relevant to the Group and Bank's financial statements as the Group and Bank has not issued such instruments at any time in the past.

- IFRIC 12 Service Concession Agreements (effective for annual financial statements for periods beginning on or after 1 January 2008, as issued by IASB; but effective for periods on or after 1 April 2009, as adopted by EU) applies to service concession operators that are private sector entities operating under public-to-private service concession arrangements. This interpretation explains how to account for the obligations undertaken and rights received in service concession arrangements. As the Bank does not operate under service concession agreements, this Interpretation does not have any impact on the Bank's results of operations and financial position.

- IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009, as issued by IASB, but effective for annual periods beginning on or after 1 January 2010, as adopted by EU): IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases: the agreement meets the definition of a construction contract in accordance with IAS 11.3, the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses. In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Group and Bank's financial statements as the Group and Bank does not provide real estate construction services or develop real estate for sale.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008, as issued by IASB, but effective for annual periods beginning on or after 1 July 2009, as adopted by EU): the Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16 is not relevant to the Group and Bank's financial statements as the Group and Bank has not designated any hedges of a net investment in a foreign operation.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective prospectively for annual periods beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU): the Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in the statement of comprehensive income. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the shareholders it is not possible to determine the effects of application in advance.

- IFRIC 18 *Transfers of Assets from Customers* (effective prospectively for annual reports beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU): the Interpretation provides clarification and guidance on the accounting for transfers of items of property, plant and equipment from customers, or cash to acquire or construct an item of property, plant and equipment. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation.

4. RISK MANAGEMENT

Within the framework of internal control system, the Bank and the Group have developed and follow the Risk Management Policy or fundamental principles which are defined below:

1) general guidelines observed by the Bank and the Group in its activities aimed at decreasing all types of risks which may lead to losses;
2) description of risk transactions and other risks to which the Bank and the Group is exposed;
3) general daily control of risk transactions and management of transaction related risks.

The Risk Management Policy describes and determines the aggregate of measures to ensure that the possibility to suffer losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffer other losses. The Board and the Council of the Bank have approved the Risk Management Policy. The Board and the Council of the Bank have also approved all other policies listed below related to risk management. The Bank's board supervises the Risk Management System, but the structural units of the respective sectors are responsible for the daily activities. The Risk Management System is monitored by the Internal Audit Division on a regular basis is being continuously developed pursuant to the development of the Bank and the Group and activities in the financial markets.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfilment of contractual obligations by the Bank and the Group's debtor or counterparty.

Credit risk is managed in accordance with the credit risk management policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, restriction and control.

The management of risks related to ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements, is controlled by the Asset and Liability Committee that sets limits for transactions with each counter party.

The Bank and the Group monitor the concentration of significant balance sheet and off balance items' credit risk by geographical regions (i.e., countries, groups of countries, specific regions within the countries etc), client groups (i.e., central governments, local authorities, state enterprises, private enterprises, private individuals, etc) and industries.

(2) Foreign exchange risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of balance sheet and off-balance sheet items denominated in foreign currencies due to change in exchange rates.

The Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency. In order to improve the currency structure of its balance sheet, in 2007 the Bank and the Group issued bonds in EUR currency, taking into account the then still increasing share of EUR denominated assets.

As at 31 December 2009 and 2008 respectively, the lat was pegged to the EUR.

The Asset and Liability Committee sets limits for the open position in each currency providing an acceptable overall level of foreign currency risk.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in USD or EUR to LVL exchange rates is as follows:

'000 LVL	2009		2008	
	Income	Total comprehensive income	Income	Total comprehensive income
5% appreciation of USD against LVL	7	7	(16)	(16)
5% depreciation of USD against LVL	(7)	(7)	16	16
5% appreciation of EUR against LVL	(1)	(1)	(12)	(12)
5% depreciation of EUR against LVL	1	1	12	12

(3) Interest rate risk

Interest rate risk is the risk of potential loss the Bank and the Group may incur as a result of interest rate fluctuations.

For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analyses of assets and liabilities by maturity and type of interest. An increase of interest rates by 100 basis points would result in the following change to income and total comprehensive income:

	2009 LVL '000	2008 LVL '000
LVL	107	89
EUR	(105)	(89)
USD	(195)	(187)

The interest reprising analysis is disclosed in Note 49.

(4) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavourable prices in order for the Bank and the Group to fulfil its liabilities to creditors and depositors.

Liquidity risk management is based on the analysis of the structure of assets and liabilities performed by the Bank's Financial Analysis and Risk Management Department. That includes the analysis of dynamics in customer funds by customer group and assessment of the possibilities of external borrowing. Based on this information, the Asset and Liability Committee monitors the Bank and the Group's ability to fulfil all its commitments. Operating short-term liquidity management, i.e. the attraction and placement of resources, in the Bank and the Group is performed by the Resources Department of the Bank and the Group based on the short-term liquidity forecast.

Details of the reported ratio of net liquid assets at the reporting date and during the reporting period were as follows:

At 31 December	2009	2008
At the period end	59.6%	60.7%
Minimum for the period	57.0%	57.8%
Maximum for the period	66.8%	85.3%

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities.

(5) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Bank and the Group perform an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

(6) Operational risks

The Bank and the Group's organizational structure, precise job specifications, clear division of responsibilities as well as control procedures allow the Bank and the Group to monitor operational risks. The Bank has also developed an action plan for various crisis situations. The Bank and the Group have set up an independent "Internal audit service" (IAS) with its main functions to ensure that the Bank's and the Group's activities comply with existing legislation, approved plans, policies and other internal Bank and the Group documents and to monitor the compliance of the Bank's and the Group's department activities with internal control procedures.

(7) Reputational risk

The Bank and the Group recognize the importance of the prevention of money laundering and prevention of terrorism financing. The Reputation Risk Management Department was set up in the Bank to implement an internal control system, which monitors the timely control of clients and their business partners. IAS regularly monitors execution of money laundering and terrorism financing prevention policy and procedures.

(8) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The FCMC sets and monitors capital requirements for the Bank.

According to the requirements of the Financial and Capital Market Commission, the capital adequacy ratio should be maintained at 8% at least. As of 31 December 2009, the Bank and the Group were in compliance with the law "On Credit Institutions" and the requirements of the Financial and Capital Market Commission for capital adequacy and minimum equity. For the calculation of capital adequacy ratio refer to Note 49.

(9) Know-your-Client ('KYC') policies

The primary goal of the Bank's KYC policy is a well-established customer identification program which includes the ascertainment of beneficial owners, client business and client partners.

The Bank's KYC policy includes, apart from obligatory identification of the customer, an interview and the completion of the customer's form. Based on this information, a new basic profile of the customer emerges, which becomes the keystone for the customer's file.

The main objective of this stage is to understand the business and profile of the customer. All activities of the Bank and the Group are aimed at increasing the financial transaction security level. In the future, this attitude will allow the Bank and the Group to develop the optimum service configuration for each customer. Additionally, the policy helps the Bank and the Group decrease the risk of unusual and suspicious financial operations emerging in the future.

As the working relationship between the customer and the Bank progresses, further understanding of the customer's business deepens. The customer's profile expands and should contain detailed information, business description and transaction type. Knowing the customers' business and their transactions allows the Bank and the Group to prevent any efforts of unauthorized money transfers, access to the account's information and other crimes.

5. USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty:

(i) Allowances for credit losses

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are reviewed by the Credit Risk function.

(ii) Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) Impairment of financial instruments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. Due to downturns in financial and capital markets, the market price is not always a reliable source for impairment indication. The Bank uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on the analysis of the financial position of the issuer of the financial instrument.

(iv) Impairment of non-current assets held for sale

When assessing the net realizable value of the non-current assets held for sale, the management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers). The net realizable value assessment includes estimated selling expenses, the timing of the sale, and the liquidity of the market.

(v) Impairment of goodwill

The recoverable amount of goodwill is estimated at each reporting date for the impairment loss measurement purposes. The recoverable amount of goodwill is the greater of value in use of related cash-generating unit and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(vi) Valuation of repossessed collateral

Reposessed collateral is valued at lower of cost and net realisable value. Accordingly, the management estimates the net realisable value of assets whenever there are indications that the carrying amount may have decreased below its cost. If this has occurred, assets are written down to their net realisable value.

(vii) Fair value of assets and liabilities at acquisition

The fair value of assets acquired in a business combination is based on the discounted estimated cash flows from individual assets and/or external valuations.

6. INTEREST INCOME

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest income on assets at amortized cost:	2 853	2 794	3 279	3 242
Credit institutions	*564*	*593*	*424*	*423*
Loans	*2 289*	*2 201*	*2 855*	*2 819*
Interest income from securities at fair value through profit or loss	1 011	1 011	1 604	1 604
Interest income from available-for-sale securities	37	-	-	-
Interest income from held-to-maturity securities	1 749	1 749	797	797
	5 650	**5 554**	**5 680**	**5 643**

7. INTEREST EXPENSE

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest expense from liabilities measured at amortized cost:	763	728	1 389	1 320
Credit institutions	*38*	*1*	*111*	*42*
Customers deposits	*365*	*367*	*485*	*485*
Notes payable	*360*	*360*	*793*	*793*
Other interest expenses	199	156	160	160
	962	**884**	**1 549**	**1 480**

8. FEE AND COMMISSION INCOME

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Payment transactions	3 610	3 610	3 975	3 975
Corporate banking fee income	156	156	222	222
Securities transactions	194	194	45	45
Trust operation	51	51	197	197
Account servicing	290	290	182	182
Management of investment funds and plans	22	-	27	-
Other	170	159	141	140
	4 493	**4 460**	**4 789**	**4 761**

9. FEE AND COMMISSION EXPENSE

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Correspondent accounts	568	568	762	762
Cash transactions and payment card transaction	64	64	51	51
Customer acquisition and distribution of fund shares	39	39	41	41
Brokerage fee and commission for investment distribution	47	-	1	-
Securities transactions	65	65	37	37
	783	**736**	**892**	**891**

10. PROFIT (LOSS) FROM FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Loss from trading on financial assets and liabilities held-for-trading	(2 135)	(2 135)	(1 930)	(1 930)
Loss on revaluation of financial assets and liabilities	2 683	2 683	(1 523)	(1 523)
Net loss from financial assets and liabilities at fair value through profit or loss	**548**	**548**	**(3 453)**	**(3 453)**

11. NET FOREIGN EXCHANGE GAINS

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Net gain on foreign exchange trading	232	232	3 904	3 905
Loss on foreign exchange revaluation	(89)	(89)	(326)	(325)
	143	**143**	**3 578**	**3 580**

12. OTHER OPERATING INCOME

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Penalties received	140	140	164	164
Fee on real estate rent	229	53	237	26
Gain on sale of subsidiaries, sale of investment property	49	-	747	686
Other	81	16	27	21
	499	**209**	**1 175**	**897**

13. ADMINISTRATIVE EXPENSES

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Remuneration of the Council and the Board	369	350	367	351
Salaries and remuneration of the staff	1 994	1 978	1 338	1 322
Social contributions	541	533	356	349
Other staff costs	167	167	168	165
Communications and transport	198	195	170	167
Professional services	635	592	501	488
Rent, utilities and maintenance	948	947	656	658
Depreciation and amortization	332	244	252	157
Computer network	132	131	68	67
Advertising and marketing	122	122	64	64
Other taxes	98	94	103	100
Insurance	65	52	32	32
Other	80	64	67	48
	5 681	**5 469**	**4 142**	**3 968**

The average number of employees in the Bank in 2009 was 149 (2008: 115).

14. OTHER OPERATING EXPENSES

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Membership fees	28	27	23	23
Fee on real estate management	25	6	26	2
Loss from disposal of subsidiary companies	-	-	320	-
Fee on managing acquisition/disposal of subsidiaries	-	-	262	195
Other, including expenses related to the collection of loans	164	157	1	1
	217	**190**	**632**	**221**

15. IMPAIRMENT OF ASSETS

Impairment of assets for the Bank

	2009 LVL '000	2008 LVL '000
Total allowances as of 1 January	**413**	**91**
Increase in loan loss allowances	1 710	283
Increase in securities' loss allowances	988	38
Increase in investment in subsidiaries value loss allowance	186	-
Release of previously established allowances	(5)	-
Change for the year	2 879	321
Change of previously established allowances due to currency fluctuations	(51)	1
Total allowance as of 31 December	**3 241**	**413**

Impairment of assets for the Group

	2009 LVL '000	2008 LVL '000
Total allowance as of 1 January	**943**	**119**
Increase in loan loss allowances	1 896	285
Increase in securities' loss allowances	988	38
Increase in long-term investment for sale value loss	-	505
Long-term investment for sale value recovery by the sale of assets (part of which refers to Group)	(258)	-
Release of previously established allowances	(5)	-
Reduction in allowance	-	(6)
Change for the year	2 621	822
Long-term investment for sale value recovery by the sale of assets (part of which refers to minority shareholders, the sale of a subsidiary company)	(247)	-
Change of previously established allowances due to currency fluctuations	(51)	2
Total allowance as of 31 December	**3 266**	**943**

16. INCOME TAX EXPENSE

	2009		2008	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Current year tax expense	151	118	1 198	1 191
	151	**118**	**1 198**	**1 191**

The table below shows the reconciliation between the current tax expense and the theoretically calculated tax amount using the basic tax rate, which was 15% in 2009 and 2008.

	2009		2008	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Profit before tax	1 224	756	3 674	4 547
Theoretically calculated tax at rate 15%	184	113	551	682
Non-deductible expenses and exempt income, net	14	5	647	509
Effect of tax losses utilized, not previously recognized	(47)	-	-	-
Income tax expense	**151**	**118**	**1 198**	**1 191**

17. CASH AND BALANCES WITH THE BANK OF LATVIA

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Cash	608	608	262	261
Balance with the Bank of Latvia (including minimum reserve deposit)	5 435	5 435	5 288	5 288
	6 043	**6 043**	**5 550**	**5 549**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. During 2009 the Bank complied with these requirements. As at 31 December 2009 the determined amount of obligatory reserves was LVL 4 093 thousand (2008: LVL 4 696 thousand).

18. DEPOSITS WITH CREDIT INSTITUTIONS

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	367	357	2 608	2 599
Credit institutions registered in OECD countries	19 648	19 648	24 454	24 454
Credit institutions of other countries	9 477	9 477	9 591	9 591
Total demand deposits with credit institutions	**29 492**	**29 482**	**36 653**	**36 644**
Term deposits with credit institutions	**3 620**	**3 620**	**525**	**525**
Total deposits with credit institutions	**33 112**	**33 102**	**37 178**	**37 169**

As at 31 December 2009, the Bank had correspondent accounts with 40 banks (2008: 35). The largest account balances are due from Sberbank (Russia) of LVL 6 851 thousand (2008: LVL 8 317 thousand) and Raiffeisen Zentralbank Oesterreich LVL 7 199 thousand (2008: LVL 12 486 thousand), Deutsche Bank AG – LVL 7 665 thousand (2008: LVL 4 992 thousand).

As at 31 December 2009 the Bank had amounts due from 3 banks and other financial institutions (2008: 5), which exceeded 10% of total due from credit institutions. The aggregate value of these balances as of 31 December 2009 was LVL 21 715 thousand (2008: LVL 36 455 thousand).

The average effective interest rate on due amounts from credit institutions is 6.14% (2008: 3.05%).

As at 31 December 2009 the amount of LVL 527 thousand was pledged as collateral for OTC futures exchange contract (2008: LVL 500 thousand).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Fixed income securities				
Latvian government debt securities	1 625	1 625	-	-
Eurobonds issued by Latvian credit institutions	-	-	244	244
Eurobonds issued by companies and credit institutions of other countries	12 064	12 064	7 394	7 394
Total fixed income securities at fair value through profit or loss	**13 689**	**13 689**	**7 638**	**7 638**
Shares and investments in non-fixed income securities				
Investment fund certificates	1 440	1 440	-	-
Total shares and non-fixed income securities at fair value through profit or loss	**1 440**	**1 440**	**-**	**-**
Total financial assets at fair value through profit or loss	**15 129**	**15 129**	**7 638**	**7 638**

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Fixed income securities				
Debt securities issued by private companies	2 293	-	-	-
Shares and investments in non-fixed income securities				
SWIFT shares	34	34	10	10
Total financial assets available-for-sale	**2 327**	**34**	**10**	**10**

21. LOANS AND RECEIVABLES

(a) Loans	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Financial institutions	128	360	-	205
Private companies	29 964	29 738	33 392	33 144
Individuals	1 666	1 288	1 564	1 239
Total loans	**31 758**	**31 386**	**34 956**	**34 588**
Impairment allowance (Note 15)	(2 258)	(2 047)	(400)	(375)
Net loans	**29 500**	**29 339**	**34 556**	**34 213**

(b) Analysis of loans by type	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Loan portfolio				
Corporate loans	11 030	10 916	26 041	25 673
Industrial loans	12 821	12 821	3 198	3 198
Payment cards loans	97	97	52	52
Mortgage loans	268	14	21	21
Other loans	978	978	870	870
Accrued interest	424	420	312	312
Total Loan portfolio	**25 618**	**25 246**	**30 494**	**30 126**
Securities loans				
Reverse repo	6 138	6 138	4 460	4 460
Accrued interest	2	2	2	2
Total securities loans	**6 140**	**6 140**	**4 462**	**4 462**
Total loans	**31 758**	**31 386**	**34 956**	**34 588**
Impairment allowance (Note 15)	(2 258)	(2 047)	(400)	(375)
Loans net	**29 500**	**29 339**	**34 556**	**34 213**

(c) Geographical segmentation of the loans

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Loans to residents of Latvia	6 895	6 622	7 404	7 036
Loans to residents of OECD countries	5 317	5 222	6 525	6 525
Loans to residents of the other countries	19 120	19 120	20 713	20 713
Accrued interest	426	422	314	314
Total loans	**31 758**	**31 386**	**34 956**	**34 588**
Impairment allowance (Note 15)	(2 258)	(2 047)	(400)	(375)
Loans net	**29 500**	**29 339**	**34 556**	**34 213**

The average interest rate on the loan portfolio is 8.49 % (2008: 11.36%). The average interest rate on repo transactions is 3.11% (2008: 3.14%).

(g) Industry analysis of the loan portfolio of the Bank

	2009 '000 LVL	2008 '000 LVL
Water transport	14 179	11 382
Financial services (repo)	6 140	4 462
Wholesale	437	3 805
Real estate	420	465
Metal ware production	-	858
Other services	8 163	13 241
Total	**29 339**	**34 213**

(h) Analysis of loans by type of collateral (Bank)

LVL'000	31 December 2009	% of loan portfolio	31 December 2008	% of loan portfolio
Commercial buildings	4 213	14	3 092	9
Commercial assets pledge	4 267	15	1 898	6
Commercial assets: water transport	13 452	46	17 884	52
Goods: scrap metal	-	-	4 193	12
Traded securities	6 140	21	4 462	13
Other	1 267	4	2 684	8
Total	**29 339**	**100**	**34 213**	**100**

(j) Restructured loans

As at 31 December 2009, the Bank restructured loans in the total amount of:

LVL'000	2009 '000 LVL	2008 '000 LVL
Interest rate decreased	3 357	-
Maturity prolonged	2 350	-
Total	**5 707**	-

(k) Repossessed assets

During the reporting year the Bank took over the outstanding loans pledged collateral – the two shipping companies at 100% share. Assets were classified as non-current held for sale. For details refer to Note 27.

(l) Significant credit exposures

As at 31 December 2009 and 2008 the Bank had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients of more than 25% of Bank's equity. As at December 31 2009 and 2008 the Bank was in compliance with this requirement.

22. FINANCIAL ASSETS HELD-TO-MATURITY

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Debt securities and other fixed income securities				
Eurobonds issued by Latvian credit institutions	914	914	868	868
Eurobonds issued by companies and credit institutions of other countries	12 624	12 624	13 751	13 751
Total bonds	13 538	13 538	14 619	14 619
Impairment allowance	(1 008)	(1 008)	(38)	(38)
	12 530	**12 530**	**14 581**	**14 581**

Analysis of movements in the impairment allowance

	2009 '000 LVL	2008 '000 LVL
Balance at the beginning of the year	38	-
Net charge for the year	988	38
Currency revaluation	(18)	-
Balance at the end of the year	**1 008**	**38**

Reclassification out of held for trading financial instruments

Pursuant to the amendments to IAS 39 and IFRS 7 (described in Note 3 (4)), the Bank reclassified certain trading assets to financial assets held to maturity . The Bank identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. For the trading assets identified for reclassification that would have met the definition of financial assets held to maturity, the Bank had the intention and ability to hold them for the foreseeable future or until maturity. For the trading assets identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made, effective from 1 July 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

	1 July 2008		31 December 2009	
'000 LVL	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Trading assets reclassified to held-to-maturity financial assets	5 755	5 755	5 296	4 218
	5 755	**5 755**	**5 296**	**4 218**

The table below sets out the amounts actually recognized in profit or loss and equity during 2009 in respect of financial assets reclassified out of trading assets:

'000LVL	Net income	Equity
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	-	-
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	96	-
Coupon income	511	-
Savings on coupon income	(22)	-
Net impairment loss	(380)	-

The table below sets out the amounts that would have been recognized in the period following reclassification during 2009 if the reclassifications had not been made:

LVL '000	Profit or loss
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	(1 078)

23. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	Share in equity	2009 Cost LVL '000	2008 Cost LVL '000
SIA "Baltikums Līzings"	100%	345	345
Impairment allowances (Note 15)		(186)	
AS IPS "Baltikums Asset Management"	100%	136	111
SIA "Baltikums Direct"	100%	7	7
SIA "Konsalting Invest"	100%	5 295	2 708
SIA "Zapdvina Development"	100%	690	-
SIA "CityCap Service"	100%	380	-
		6 667	**3 171**

SIA "Baltikums Direct"

SIA "Baltikums Direct" was acquired in September 2007 and operates as the coordinator of activities between other Group companies operating in Russia, Ukraine and Kazakhstan, whose responsibilities include attracting clients and representing the Bank's and Group's interests in those countries.

Profit for the year ended 31 December 2009 is LVL 0 thousand (2008: a profit of LVL 2 thousand). SIA "Baltikums Direct" net assets as at 31 December 2009 amounted to LVL 1 thousand (2008: 2).

SIA "Baltikums Līzings"

Main business activities of the company are provision of leasing and other financing services. For the year ended 31 December 2009, net loss of SIA "Baltikums Līzings" was LVL 187 thousand (2008: 9). As at 31 December 2009, net assets of SIA "Baltikums Līzings" amounted to LVL 158 thousand (2008: LVL 345 thousand).

(b) Summary of acquisitions and disposals of subsidiaries during the year 2009

Acquisitions in 2009:	Shareholding acquired	Net assets at the date of the deal LVL '000	Consideration received/(paid) LVL '000	Goodwill LVL '000
SIA "Konsalting Invest"	49%	2 611	(2 587)	(24)

During the year 2009 the Bank has reclassified shared of SIA "Zapdvina Develpoment" un SIA "CityCap Service" from non-current assets held for sale to investment in subsidiaries. The Bank's management has assessed the recoverable amount of assets at the date of reclassification and believes that their recoverable amount does not differ significantly from their carrying amounts of LVL 690 thousand and LVL 380 thousand, respectively.

	Pre-acquisition carrying amounts SIA "Konsalting Invest" LVL'000	Recognised values on acquisition LVL'000
Non-current assets	2 086	**3 195**
Available-for-sale financial assets	1 139	**1 163**
Current assets	3	**5**
Long-term liabilities	(564)	**(564)**
Short term liabilities	(53)	**(53)**
Net identifiable assets	**2 611**	**3 746**
Goodwill on acquisition	**(24)**	**(89)**
Consideration paid, satisfied in cash	**2 587**	**2 587**
Cash acquired	(3)	(3)
Net cash outflow	**2 584**	**2 584**

SIA "Konsalting Invest"

The activities of SIA "Konsalting Invest" comprise investment and rental of real estate. One hundred percent of SIA "Konsalting Invest" was acquired in April 2008 for LVL 1 516 thousand. Management of the Group concluded that there were no differences between the fair value and pre-acquisition carrying amounts of net assets of the acquired subsidiary at the date of acquisition.

During 2008 the share capital of the company was increased to LVL 5 309 thousand. In December 2008, a 49% share in the company was sold to a related party; in October 2009 it was bought back. Profit for 2009 was LVL 636 thousand (2008: loss LVL 455 thousand). The shareholders equity and reserves of SIA Konsulting Invest as at 31 December 2009 were LVL 5 290 thousand (31 December 2008 – LVL 4 654 thousand).

IPAS "Baltikums Asset Management"

IPAS Baltikums Asset Management has established the following open-end mutual funds - Baltic Index Fund, Government bond fund and International Equity Fund of Funds. IPAS "Baltikums Asset Management" also received a license to manage state pension system funds. In September 2008 IPAS "Baltikums Asset Management" was sold to a third party with funds, which were under management, and the Bank bought 100% of AS IPS "Finasta Asset Management", which has been renamed AS IPS "Baltikums Asset Management". AS IPS "Baltikums Asset Management" in 2009 established and is managing Baltikums Short-Term Investment Strategy Bond Fund. The licence to operate as a mutual find manager was re-registered 11 November 2008. As at 31 December 2009 the net loss of AS IPS "Baltikums Asset Management" was LVL 13 thousand (2008: loss LVL 25 thousand), equity amounted to LVL 114 thousand (2008: 102 thousand).

(c) Investments in associates (Bank and Group)

Company	Share in equity	2009 Value LVL '000 Group	2009 Value LVL '000 Bank	2008 Value LVL '000 Group	2008 Value LVL '000 Bank
LLC "Балтикумс Траст" (Kiev)	25%	1	-	1	-
LLC "Балтикумс Траст" (Sankt-Petersburg)	25%	1	-	1	-
AAS "Baltikums"	49%	2 975	2 820	-	-
AS Termo biznesa Centrs	21.96%	1 288	-	-	-
Total (rounded)		**4 265**	**2 820**	**2**	**-**

In 2008, LLC "Baltikums Direct", a wholly owned subsidiary of the Bank, acquired 25% of LLC "Балтикумс Траст" (Kiev) and 25% of LLC "Балтикумс Траст" (Sankt- Petersburg). 2009 AS Business Center Thermo shares were reclassified from held for sale to investment in associated companies and an additional 0.46% of shares were purchased. On February, 9 2009 FCMC authorized the Bank to purchase 49.89% shares in AAS "Baltikums", which the Bank has already pre-paid on December, 15 2008. AAS Baltikums was a related party to the Bank before acquisition.

Participation in value increase by the end of 2009

	ООО„Балтикумс Траст", Kiev ООО„Балтикумс Траст", Sankt-Peterburg	AS „Termo"	AAS „Baltikums"	Total
Acquisition value	**2**	**1 264**	**2 820**	**4 086**
Purchased (payment in cash)	-	24	-	**24**
Increase in the value by the end of the year 2009 under the equity method	-	-	155	**155**
Value as at 31 December 2009	**2**	**1 288**	**2 975**	**4 265**

24. INTANGIBLE ASSETS

Group

	Goodwill LVL '000	Software LVL '000	Total LVL '000
Acquisition cost			
As of 31 December 2007	**131**	**250**	**381**
Additions for the period	93	165	258
Disposals during the period	(179)	-	(179)
As of 31 December 2008	**45**	**415**	**460**
Additions for the period	(24)	105	81
Disposals during the period	-	(1)	(1)
As of 31 December 2009	**21**	**519**	**540**
As of 31 December 2007	**-**	**169**	**169**
Amortization for the period	-	34	34
As of 31 December 2008	**-**	**203**	**203**
Amortization for the period		62	62
Disposals during the period	-	(1)	(1)
As of 31 December 2009	**-**	**264**	**264**
Net book value			
As of 31 December 2007	**131**	**81**	**212**
As of 31 December 2008	**45**	**212**	**257**
As of 31 December 2009	**21**	**255**	**276**

Bank

	Goodwill LVL '000	Software LVL '000	Total LVL '000
Acquisition cost			
As of 31 December 2007	**-**	**247**	**247**
Additions for the period	-	165	165
As of 31 December 2008	**-**	**412**	**412**
Additions for the period		105	105
Disposals during the period		(1)	(1)
As of 31 December 2009	**-**	**516**	**516**
Amortization			
As of 31 December 2007	**-**	**166**	**166**
Amortization for the period	-	34	34
As of 31 December 2008	**-**	**200**	**200**
Amortization for the period	-	62	62
Disposals during the period	-	(1)	(1)
As of 31 December 2009	**-**	**261**	**261**
Net book value			
As of 31 December 2007	**-**	**81**	**81**
As of 31 December 2008	**-**	**212**	**212**
As of 31 December 2009	**-**	**255**	**255**

The amounts of goodwill in the table above are shown at their gross amounts and there are no accumulated impairment losses.

25. PROPERTY AND EQUIPMENT

	Land for own use LVL '000		Leasehold improvement LVL '000		Vehicles LVL '000		Office equipment LVL '000		Total LVL '000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
As of 31 December 2007	**-**	**-**	**169**	**169**	**80**	**80**	**420**	**394**	**669**	**643**
Additions	1 255	1 255	-	-	18	18	224	224	1 497	1 497
Additions as a result of acquisition of subsidiaries	-	-	-	-	-	-	3	-	3	-
Disposal of subsidiary	-	-	-	-	-	-	(19)	-	(19)	-
Disposals	-	-	-	-	-	-	(62)	(55)	(62)	(55)
As of 31 December 2008	**1 255**	**1 255**	**169**	**169**	**98**	**98**	**566**	**563**	**2 088**	**2085**
Additions							93	88	93	88
Disposals	-	-	-	-	(8)	(8)	(174)	(174)	(182)	(182)
As of 31 December 2009	**1 255**	**1 255**	**169**	**169**	**90**	**90**	**485**	**477**	**1 999**	**1 991**
Depreciation										
As of 31 December 2007	**-**	**-**	**11**	**11**	**18**	**18**	**281**	**262**	**310**	**291**
Depreciation			42	42	16	16	56	56	114	114
Accumulated depreciation as a result of acquisition of subsidiaries	-	-	-	-	-	-	(14)	-	(14)	-
Disposals	-	-	-	-	-	-	(60)	(55)	(60)	(55)
As of 31 December 2008	**-**	**-**	**53**	**53**	**34**	**34**	**263**	**263**	**350**	**350**
Depreciation			41	41	18	18	99	97	158	156
Disposals	-	-	-	-	(8)	(8)	(111)	(111)	(119)	(119)
As of 31 December 2009	**-**	**-**	**94**	**94**	**44**	**44**	**251**	**249**	**389**	**387**
Net book value										
As of 31 December 2007	**-**	**-**	**158**	**158**	**62**	**62**	**139**	**132**	**359**	**352**
As of 31 December 2008	**1 255**	**1 255**	**116**	**116**	**64**	**64**	**303**	**300**	**1 738**	**1 735**
As of 31 December 2009	**1 255**	**1 255**	**75**	**75**	**46**	**46**	**234**	**228**	**1 610**	**1 604**

26. INVESTMENT PROPERTY

The investment property of the Group consists of the following property items:

	2009		2008	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Land and building Ūdens street 12, Riga	3 196	244	3 344	255
Land and building Raiņa street 28, Daugavpils	260	260	275	275
Rooms Tallinn, Estonia	102	102	-	-
Land plot Akācijas 5, Daugavpils	708	-	-	-
Land plot Mūkupurva, Riga	400	-	-	-
Pre-payment for land plot in Liepaja	41	41	-	-
	4 707	**647**	**3 619**	**530**

	Group LVL '000	Bank LVL '000
As of 31 December 2007	**545**	**-**
Acquisition of land and building on 12 Ūdens street, Riga	3 446	262
Acquisition of land and building on 28 Raiņa street, Daugavpils	277	277
Depreciation of building on 12 Ūdens street, Riga	(102)	(8)
Depreciation of building on 28 Raiņa street, Daugavpils	(2)	(1)
Reduction as a result of disposal of subsidiary	(545)	-
As of 31 December 2008	**3 619**	**530**
Depreciation of building on 12 Ūdens street, Riga	(97)	(11)
Depreciation of building on 12 Ūdens street, Riga(part of which refers to another company, the sale of a subsidiary company)	(51)	-
Depreciation of building on 28 Raiņa street, Daugavpils	(15)	(15)
Rooms Tallinn, Estonia	102	102
Pre-payment for land plot in Lepaja	41	41
Acquisition of land plot Akācijas 5, Daugavpils	708	-
Acquisition of land plot Mūkupurva, Riga	400	-
As of 31 December 2009	**4 707**	**647**

27. NON-CURRENT ASSETS HELD FOR SALE

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Assets held for sale	1 772	1 406	4 394	1 070
	1 772	**1 406**	**4 394**	**1 070**
Impairment loss (Note 15)	-	-	(505)	-
	1 772	**1 406**	**3 889**	**1 070**

Non-current assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell, and include unlisted real estate investment and licensed mass media companies' shares. There is no active market for such an investment and there have been no recent transactions to provide basis for fair value. In addition, the discounted cash flow method would result in a wide range of fair values as there is no certainty regarding the future cash flows in this industry. During the reporting year the Bank took over the shares of two borrowers, which were pledged as collateral. Book value of assets belonging to these shipping companies is LVL 1 406 thousand, and management believes that the fair value as of December, 31 2009 did not differ significantly from the book value. The Bank has obtained an appraisal of fair value of vessels from external experts; the appraised fair value exceeded the book value of vessels.

The movement of items of investment held for sale during the reporting period was as follows:

	Group LVL'000	Bank LVL'000
As of 31 December 2008	**3 889**	**1 070**
Repossessed loan collateral	1 406	1 406
Acquisitions	366	-
Reclassified to investment in subsidiaries	(2 334)	(1 070)
Disposals	(2 060)	-
Recovered impairment allowance (Note 15)	505	-
As of 31 December 2009	**1 772**	**1 406**

28. OTHER ASSETS

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Prepayment for AAS Baltikums shares	-	-	2 820	2 820
Cash with brokers for securities settlements	38	38	63	63
Taxes receivable (VAT)	179	179	84	84
Receivables from SPOT deals	143	143	39	39
Receivables from securities deals	309	309	107	107
Other debtors	192	169	73	62
	861	**838**	**3 186**	**3 175**

On 15 December 2008 the Bank acquired 49.89 % of the share capital of AAS „Baltikums" (non- life insurance company, acting in Latvia) in the amount of LVL 2,820 thousand. The total sum was paid in cash. At acquisition, the equity of AAS „Baltikums" was LVL 5,862 thousand, with the Bank's interest at LVL 2,923 thousand. On February, 9 2009 the Bank received permission from the Financial and Capital Markets Commission for 49.89% shares acquisition.

29. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Credit institutions registered in other countries	53	53	7	7
	53	**53**	**7**	**7**

As at 31 December 2009 the Bank had two banks or credit institutions whose account balances exceeded 10% of total due to credit institutions (2008: none).

The average interest rate on amounts due to credit institutions registered in Latvia in 2009 was 4.22% (4.35% in 2008).

30. LOANS RECEIVED FROM CREDIT INSTITUTIONS

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Credit institutions registered in Latvia	1 127	-	1 270	-
	1 127	**-**	**1 270**	**-**

Annual interest rate on amounts due to credit institutions registered in Latvia (SEB) in 2009 was EURIBOR 6M + 1.75%, (2008: EURIBOR 6M + 1.75%).

31. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: CUSTOMERS DEPOSITS

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Current accounts:				
Financial institutions	957	961	1 391	1 392
Corporate	60 420	60 433	62 786	62 791
Individuals	5 972	5 972	4 130	4 130
	67 349	**67 366**	**68 307**	**68 313**
Term deposits:	346	447	1 827	1 929
Financial institutions	12 679	12 679	7 934	7 934
Corporate	2 049	2 049	1 028	1 028
Individuals	**15 074**	**15 175**	**10 789**	**10 891**
Deposits total	**82 423**	**82 541**	**79 096**	**79 204**

As of 31 December 2009, the Bank maintained customer deposit balances of LVL 427 thousand (2008: LVL 197 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

The average term deposits rate was 2.13% in 2009 (4.21% in 2008). The average demand deposits rate was 0.16% in 2009 (0.33% in 2008).

As at 31 December 2009 and 2008 the Bank had no customer/customer group with deposits exceeding 10% of the total customer deposits.

32. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: NOTES PAYABLE

In April 2006 the Bank carried out a second issue of bonds. The size of the issue was EUR 5 million (LVL 3 514 thousand), and the coupon rate was 6.875%.The Bank has repaid bonds at maturity – 20 April 2009.

In February 2007 the Bank carried out the third issue of bonds. The size of the issue was EUR 10 million (LVL 7 028 thousand), and a floating coupon rate of 3 month EURIBOR + 3.0%. The Bank has repaid bonds at maturity –2 February 2010. All bonds are publicly traded at Riga Stock Exchange.

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Notes payable	4 392	4 392	10 514	10 514
Non-amortized commission on issue	(2)	(2)	(30)	(30)
	4 390	**4 390**	**10 484**	**10 484**

33. DEFERRED INCOME AND ACCRUED EXPENSES

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Prepaid income	48	48	35	35
Accrued expenses	120	120	66	66
	168	**168**	**101**	**101**

34. PROVISIONS

	Group LVL '000	Bank LVL '000
As of 31 December 2008	**87**	**86**
Increase in provisions	43	40
As of 31 December 2009	**130**	**126**

Provisions consist of provisions for unused vacations of employees.

35. OTHER LIABILITIES

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Funds in transit	-	-	7	7
Settlements related to credit cards	13	13	20	20
Other borrowed funds	524	-	-	-
Settlements related to placing investments	-	-	36	-
Other creditors	45	20	24	10
	582	**33**	**87**	**37**

36. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group and Bank

	2009 '000 LVL		2008 '000 LVL	
	Carrying value	Notional value	Carrying value	Notional value
Assets				
Forward contracts	369	24 953	219	7 619
Total derivative financial assets	**369**	**24 953**	**219**	**7 619**
Liabilities				
Forward contracts	170	24 754	135	7 535
Total derivative liabilities	**170**	**24 754**	**135**	**7 535**

As of 31 December 2009 the Bank had 21 foreign exchange forward contracts outstanding (2008: 14 contracts).

37. SHARE CAPITAL AND RESERVES

As of 31 December 2009 the authorized share capital comprised 23 442 200 ordinary shares (2008: 15 178 200) with a par value of LVL 1 and fully paid. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2009		2008	
	Quantity	**'000 LVL**	**Quantity**	**'000 LVL**
Share capital				
Ordinary shares with voting rights	23 442 200	23 442	15 178 200	15 178
	23 442 200	**23 442**	**15 178 200**	**15 178**

During year 2009 the share capital was increased one time, 8 264 000 shares were issued at LVL 1 per share. The new shares were distributed among current shareholders according to prior shareholders' structure.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of Latvia, as of the balance sheet date, reserves available for distribution amount to LVL 638 thousand (2008: LVL 3 356 thousand).

Reserve capital amounting to LVL 17 thousand (2008: LVL 17 thousand) represents a historically-established reserve accumulated from retained earnings in accordance with the legislation of the Republic of Latvia. The reserve capital is not subject to any restrictions and can be distributed to the shareholders upon the appropriate decision.

38. CASH AND CASH EQUIVALENTS

	2009		2008	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Cash	608	608	262	261
Due from the Bank of Latvia	5 435	5 435	5 288	5 288
Due from credit institutions on demand and within 3 months	33 088	33 078	37 153	37 144
Due to credit institutions on demand and within 3 months	(53)	(53)	(7)	(7)
	39 078	**39 068**	**42 696**	**42 686**

39. CONTINGENT LIABILITIES AND COMMITMENTS

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed to completely perform as contracted.

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Unutilized loan facilities	5 535	5 535	3 289	3 289
Unutilized credit card facilities	339	339	293	293
Letters of credit	29	29	-	-
Guarantees	4	4	80	80
	5 907	**5 907**	**3 662**	**3 662**

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

40. LITIGATION

Management is unaware of any significant actual, pending or threatened claims against the Group and Bank.

41. EARNINGS PER SHARE

As of 31 December 2009 the Bank has no dilutive potential for ordinary shares and therefore, diluted earnings per share are the same as the basic earnings per share.

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

	2009		2008	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Net income attributable to Equity holders of the Bank	1 073	638	2 476	3 356
Weighted average number of shares outstanding during the year	16 555 533	16 555 533	13 944 000	13 944 000
Basic earnings per share, LVL	**0.065**	**0.039**	**0.178**	**0.241**

42. ASSETS UNDER MANAGEMENT

	2009		2008	
Assets under management	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Due from Latvian credit institutions	5	5	2	2
Loans	1 370	1 370	-	-
Non-fixed income securities	192	192	194	194
Fixed-income securities,	3 981	3 981	5 700	5 700
of which pledged in repo transactions	3 178	3 178	5 651	5 651
Other assets	204	204	703	703
Total Assets under management	**5 752**	**5 752**	**6 599**	**6 599**
Liabilities under management				
Non-resident trust liabilities	504	504	6 321	6 321
Resident trust liabilities	5 248	5 248	278	278
Total liabilities under management	**5 752**	**5 752**	**6 599**	**6 599**

There were no outstanding balances with related parties included in the assets under management by the Bank as of 31 December 2009 (2008: LVL 151 thousand).

44. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND OTHER ASSETS (BANK)

LVL'000 31 December 2009	Amortized cost	Fair value through profit or loss	Available-for-sale	Non-financial assets	Total
Assets					
Cash and balances with the Bank of Latvia	6 043	-	-	-	**6 043**
Deposits with credit institutions	33 102	-	-	-	**33 102**
Financial assets at fair value through profit or loss	-	15 498	-	-	**15 498**
Available-for-sale financial assets	-		34	-	**34**
Loans and receivables	29 339	-	-	-	**29 339**
Financial assets held-to-maturity	12 530	-	-	-	**12 530**
Investments in subsidiaries	-	-	-	6 667	**6 667**
Investments in associates	-	-	-	2 820	**2 820**
Intangible assets	-	-	-	255	**255**
Property and equipment	-	-	-	1 604	**1 604**
Investment property	-	-	-	647	**647**
Non-current assets held for sale	-	-	-	1 406	**1 406**
Income tax receivable	-	-	-	892	**892**
Other assets	-	-	-	838	**838**
Prepayments and accrued income	-	-	-	40	**40**
Total	**81 014**	**15 498**	**34**	**15 169**	**111 715**

LVL'000 31 December 2008	Amortized cost	Fair value through profit or loss	Available-for-sale	Non-financial assets	Total
Assets					
Cash and balances with the Bank of Latvia	5 549	-	-	-	**5 549**
Deposits with credit institutions	37 169	-	-	-	**37 169**
Financial assets at fair value through profit or loss	-	7 857	-	-	**7 857**
Available-for-sale financial assets	-	-	10	-	**10**
Loans and receivables	34 213	-	-	-	**34 213**
Financial assets held-to-maturity	14 581	-	-	-	**14 581**
Investment in subsidiaries and associates	-	-	-	3 171	**3 171**
Intangible assets	-	-	-	212	**212**
Property and equipment	-	-	-	1 735	**1 735**
Investment property	-	-	-	530	**530**
Non-current assets held for sale	-	-	-	1 070	**1 070**
Other assets	-	-	-	3 175	**3 175**
Prepayments and accrued income	-	-	-	47	**47**
Total	**91 512**	**7 857**	**10**	**9 940**	**109 319**

The classification for the Group is not significantly different from that of the Bank disclosed above.

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of assets and liabilities based on the term from the balance sheet date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as of 31 December 2009 was as follows:

2009 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
ASSETS							
Cash and balances with the Bank of Latvia	6 043	-	-	-	-	-	**6 043**
Deposits with credit institutions	32 074	1 028	-	-	-	-	**33 102**
Financial assets at fair value through profit or loss	14 009	49	-	-	-	1 440	**15 498**
Available-for-sale financial assets	-	-	-	-	-	34	**34**
Loans and receivables	8 728	250	2 462	3 427	8 779	5 693	**29 339**
Financial assets held-to-maturity	695	1 214	988	711	4 420	4 502	**12 530**

2009 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
ASSETS							
Investments in subsidiaries	-	-	-	-	-	6 667	**6 667**
Investments in associates	-	-	-	-	-	2 820	**2 820**
Intangible assets	-	-	-	-	-	255	**255**
Property and equipment	-	-	-	-	-	1 604	**1 604**
Investment property	-	-	-	-	647	-	**647**
Non-current assets held for sale	-	-	1 406	-	-	-	**1 406**
Income tax receivable	-	892	-	-	-	-	**892**
Other assets	659	179	-	-	-	-	**838**
Prepayments and accrued income	-	-	40	-	-	-	**40**
Total assets	**62 208**	**3 612**	**4 896**	**4 138**	**13 846**	**23 015**	**111 715**
LIABILITIES AND EQUITY							
Due to credit institutions on demand	53	-	-	-	-	-	**53**
Derivatives	121	49	-	-	-	-	**170**
Financial liabilities carried at amortized cost	79 460	5 397	1 734	94	246	-	**86 931**
Deferred income and accrued expenses	168	-	-	-	-	-	**168**
Provisions	126	-	-	-	-	-	**126**
Current tax liabilities	36	-	-	-	-	-	**36**
Other liabilities	33	-	-	-	-	-	**33**
Total equity attributable to equity holders of the Bank	-	-	-	-	-	24 198	**24 198**
Total liabilities and equity	**79 997**	**5 446**	**1 734**	**94**	**246**	**24 198**	**111 715**
Maturity gap	**(23 692)**	**(1 834)**	**3 162**	**4 044**	**13 600**	**(1 183)**	**(5 907)**
Off-balance sheet items	**5 903**	**4**	-	-	-	-	**5 907**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

2008 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
ASSETS							
Cash and balances with the Bank of Latvia	5 549	-	-	-	-	-	**5 549**
Deposits with credit institutions	37 169	-	-	-	-	-	**37 169**
Financial assets at fair value through profit or loss	219	-	-	-	7 638	-	**7 857**
Available-for-sale financial assets	-	-	-	-	-	10	**10**
Loans and receivables	6 699	2 757	2 068	8 754	13 935	-	**34 213**
Financial assets held-to-maturity	7 493	226	82	2 218	4 562	-	**14 581**
Investment in subsidiaries and associates	-	-	-	-	-	3 171	**3 171**
Intangible assets	-	-	-	-	-	212	**212**
Property and equipment	-	-	-	-	-	1 735	**1 735**
Investment property	-	-	-	-	530	-	**530**
Non-current assets held for sale	-	-	-	1 070	-	-	**1 070**
Other assets	3 175	-	-	-	-	-	**3 175**
Prepayments and accrued income	-	-	-	47	-	-	**47**
Total assets	**60 304**	**2 983**	**2 150**	**12 089**	**26 665**	**5 128**	**109 319**
LIABILITIES AND EQUITY							
Due to credit institutions on demand	7	-	-	-	-	-	**7**
Derivatives	135	-	-	-	-	-	**135**
Financial liabilities carried at amortized cost	76 896	1 083	4 357	258	7 094	-	**89 688**
Deferred income and accrued expenses	66	35	-	-	-	-	**101**
Provisions	86	-	-	-	-	-	**86**
Current tax liabilities	629	-	-	-	-	-	**629**
Other liabilities	37	-	-	-	-	-	**37**
Total equity attributable to equity holders of the Bank	-	-	-	-	-	18 636	**18 636**
Total liabilities and equity	**77 856**	**1 118**	**4 357**	**258**	**7 094**	**18 636**	**109 319**
Maturity gap	**(21 214)**	**1 865**	**(2 207)**	**11 831**	**19 571**	**(13 508)**	**(3 662)**
Off-balance sheet items	**3 662**	-	-	-	-	-	**3 662**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

46. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

LVL '000

31 December 2009	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
Non-derivative liabilities						
Due to credit institutions on demand	53	(53)	(53)	-	-	-
Customers' deposits	82 541	(82 597)	(79 463)	(1 014)	(1 859)	(261)
Notes payable	4 390	(4 406)	-	(4 406)	-	-
Total non-derivative liabilities	**86 984**	**(87 056)**	**(79 516)**	**(5 420)**	**(1 859)**	**(261)**
Derivative liabilities						
Trading: outflow	(24 754)	(24 754)	(22 466)	(2 288)	-	-
Trading: inflow	24 584	24 584	22 345	2 239	-	-
Total derivative liabilities	**(170)**	**(170)**	**(121)**	**(49)**	**-**	**-**
Contingent liabilities and commitments	5 907	(5 907)	(5 907)	-	-	-
Total liabilities	**93 090**	**(92 764)**	**(85 175)**	**(5 469)**	**(1 859)**	**(261)**

LVL '000

31 December 2008	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
Non-derivative liabilities						
Due to credit institutions on demand	7	(7)	(7)	-	-	-
Customers' deposits	79 204	(79 265)	(76 905)	(1 002)	(1 228)	(130)
Notes payable	10 484	(11 161)	-	(140)	(3 903)	(7 118)
Total non-derivative liabilities	**89 695**	**(90 433)**	**(76 912)**	**(1 142)**	**(5 131)**	**(7 248)**
Derivative liabilities						
Trading: outflow	(7 535)	(7 535)	(7 535)	-	-	-
Trading: inflow	7 400	7 400	7 400	-	-	-
Total derivative liabilities	**(135)**	**(135)**	**(135)**	-	-	-
Contingent liabilities and commitments	3 662	(3 662)	(3 662)	-	-	-
Total liabilities	**93 222**	**(94 230)**	**(80 709)**	**(1 142)**	**(5 131)**	**(7 248)**

47. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity.

The LVL equivalent of assets and liabilities as at 31 December 2009 by the currencies in which they are denominated is as follows:

2009 **LVL '000**	**LVL** **LVL '000**	**USD** **LVL '000**	**EUR** **LVL '000**	**Other currencies** **LVL '000**	**Total** **LVL '000**
ASSETS					
Cash and balances with the Bank of Latvia	4 978	259	752	54	**6 043**
Deposits with credit institutions	3 074	9 993	11 921	8 114	**33 102**
Financial assets at fair value through profit or loss	1 994	11 267	1 767	470	**15 498**
Available-for-sale financial assets	-	-	34	-	**34**
Loans and receivables	409	14 863	14 067	-	**29 339**
Financial assets held-to-maturity	-	10 160	2 370	-	**12 530**
Investments in subsidiaries	6 667	-	-	-	**6 667**
Investments in associates	2 820	-	-	-	**2 820**
Intangible assets	154	-	101	-	**255**
Property and equipment	1 566	-	38	-	**1 604**
Investment property	647	-	-	-	**647**
Non-current assets held for sale	-	-	1 406	-	**1 406**
Income tax receivable	892	-	-	-	**892**
Other assets	478	305	38	17	**838**
Prepayments and accrued income	21	9	5	5	**40**
Total assets	**23 700**	**46 856**	**32 499**	**8 660**	**111 715**
LIABILITIES AND EQUITY					
Due to credit institutions on demand	-	50	3	-	**53**
Derivatives	170	-	-	-	**170**
Financial liabilities carried at amortized cost	800	41 542	36 121	8 468	**86 931**
Deferred income and accrued expenses	107	6	55	-	**168**
Provisions	122	-	4	-	**126**
Current tax liabilities	36	-	-	-	**36**
Other liabilities	15	14	4	-	**33**
Total equity attributable to equity holders of the Bank	24 352	-	(154)	-	**24 198**
Total liabilities and equity	**25 602**	**41 612**	**36 033**	**8 468**	**111 715**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	8 944	12 577	17 110	2 681	**40 765**
Spot and forward transaction liabilities	(6 352)	(17 673)	(14 661)	(2 605)	**(40 424)**
Net long/short currency position	**690**	**127**	**(1 085)**	**286**	**-**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

48. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

2008 LVL '000	LVL LVL '000	USD LVL '000	EUR LVL '000	Other currencies LVL '000	Total LVL '000
ASSETS					
Cash and balances with the Bank of Latvia	4 388	58	1 093	10	**5 549**
Deposits with credit institutions	2 501	18 146	7 495	9 027	**37 169**
Financial assets at fair value through profit or loss	219	7 172	-	466	**7 857**
Available-for-sale financial assets	-	-	10	-	**10**
Loans and receivables	287	15 156	18 770	-	**34 213**
Financial assets held-to-maturity	-	10 222	4 359	-	**14 581**
Investment in subsidiaries and associates	3 171	-	-	-	**3 171**
Intangible assets	212	-	-	-	**212**
Property and equipment	1 675	-	60	-	**1 735**
Investment property	530	-	-	-	**530**
Non-current assets held for sale	1 070	-	-	-	**1 070**
Other assets	3 081	70	20	4	**3 175**
Prepayments and accrued income	36	6	5	-	**47**
Total assets	**17 170**	**50 830**	**31 812**	**9 507**	**109 319**
LIABILITIES AND EQUITY					
Due to credit institutions on demand	-	6	1	-	**7**
Derivatives	135	-	-	-	**135**
Financial liabilities carried at amortized cost	1 344	42 246	34 425	11 673	**89 688**
Deferred income and accrued expenses	66	25	10	-	**101**
Provisions	86	-	-	-	**86**
Current tax liabilities	629	-	-	-	**629**
Other liabilities	8	25	4	-	**37**
Total equity attributable to equity holders of the Bank	18 636	-	-	-	**18 636**
Total liabilities and equity	**20 904**	**42 302**	**34 440**	**11 673**	**109 319**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	6 463	5 323	7 034	4 658	**23 478**
Spot and forward transaction liabilities	(2 890)	(14 640)	(4 639)	(1 309)	**(23 478)**
Net long/short currency position	**(161)**	**(789)**	**(233)**	**1 183**	**-**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

49. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2009, interest rate re-pricing categories were:

2009 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL '000
ASSETS								
Cash and balances with the Bank of Latvia	5 435	-	-	-	-	-	608	**6 043**
Deposits with credit institutions	32 078	1 024	-	-	-	-	-	**33 102**
Financial assets at fair value through profit or loss	413	3 162	958	682	5 066	5 217	-	**15 498**
Available-for-sale financial assets	-	-	-	-	-	-	34	**34**
Loans and receivables	18 420	63	2 284	2 868	1 260	4 444	-	**29 339**
Financial assets held-to-maturity	696	1 198	988	711	8 212	725	-	**12 530**
Investments in subsidiaries	-	-	-	-	-	-	6 667	**6 667**
Investments in associates							2 820	**2 820**
Intangible assets	-	-	-	-	-	-	255	**255**
Property and equipment	-	-	-	-	-	-	1 604	**1 604**
Investment property	-	-	-	-	-	-	647	**647**
Non-current assets held for sale	-	-	-	-	-	-	1 406	**1 406**
Income tax receivable	-	-	-	-	-	-	892	**892**
Other assets	-	-	-	-	-	-	838	**838**
Prepayments and accrued income	-	-	-	-	-	-	40	**40**
Total assets	**57 042**	**5 447**	**4 230**	**4 261**	**14 538**	**10 386**	**15 811**	**111 715**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	53	-	-	-	-	-	-	**53**
Derivatives	170	-	-	-	-	-	-	**170**
Financial liabilities carried at amortized cost	79 503	5 362	1 727	93	246	-	-	**86 931**
Deferred income and accrued expenses	-	-	-	-	-	-	168	**168**
Provisions	-	-	-	-	-	-	126	**126**
Current tax liabilities	-	-	-	-	-	-	36	**36**
Other liabilities	-	-	-	-	-	-	33	**33**
Total equity attributable to equity holders of the Bank	-	-	-	-	-	-	24 198	**24 198**
Total liabilities and equity	**79 726**	**5 362**	**1 727**	**93**	**246**	**-**	**24 561**	**111 715**
Interest rate risk net position	**(22 684)**	**85**	**2 503**	**4 168**	**14 292**	**10 386**	**(8 750)**	**-**
Interest rate risk gross (cumulative) position	**(22 684)**	**(22 599)**	**(20 096)**	**(15 928)**	**(1 636)**	**8 750**	**-**	

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

49. REPRICING MATURITY ANALYSIS (BANK) (continued)

2008 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL '000
ASSETS								
Cash and balances with the Bank of Latvia	5 288	-	-	-	-	-	261	**5 549**
Deposits with credit institutions	37 144	-	-	-	25	-	-	**37 169**
Financial assets at fair value through profit or loss	378	514	191	151	4 224	2 399	-	**7 857**
Available-for-sale financial assets	-	-	-	-	-	-	10	**10**
Loans and receivables	21 135	231	1 451	6 612	3 376	1 284	124	**34 213**
Financial assets held-to-maturity	74	226	82	2 218	11 482	499	-	**14 581**
Investment in subsidiaries and associates	-	-	-	-	-	-	3 171	**3 171**
Intangible assets	-	-	-	-	-	-	212	**212**
Property and equipment	-	-	-	-	-	-	1 735	**1 735**
Investment property	-	-	-	-	-	-	530	**530**
Non-current assets held for sale	-	-	-	-	-	-	1 070	**1 070**
Other assets	-	-	-	-	-	-	3 175	**3 175**
Prepayments and accrued income	-	-	-	-	-	-	47	**47**
Total assets	**64 019**	**971**	**1 724**	**8 981**	**19 107**	**4 182**	**10 335**	**109 319**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	7	-	-	-	-	-	-	**7**
Derivatives	135	-	-	-	-	-	-	**135**
Financial liabilities carried at amortized cost	76 921	7 951	4 440	257	119	-	-	**89 688**
Deferred income and accrued expenses	-	-	-	-	-	-	101	**101**
Provisions	-	-	-	-	-	-	86	**86**
Current tax liabilities	-	-	-	-	-	-	629	**629**
Other liabilities	-	-	-	-	-	-	37	**37**
Total equity attributable to equity holders of the Bank	-	-	-	-	-	-	18 636	**18 636**
Total liabilities and equity	**77 063**	**7 951**	**4 440**	**257**	**119**	**-**	**19 489**	**109 319**
Interest rate risk net position	**(13 044)**	**(6 980)**	**(2 716)**	**8 724**	**18 988**	**4 182**	**(9 154)**	**-**
Interest rate risk gross (cumulative) position	**(13 044)**	**(20 024)**	**(22 740)**	**(14 016)**	**4 972**	**9 154**	**-**	**-**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

50. CAPITAL ADEQUACY CALCULATION (BANK)

	2009	2008
	'000 LVL	'000 LVL
Tier 1 capital		
Share capital	23 442	15 178
Reserves	17	17
Retained earnings	101	85
Profit for the year	638	3 356
Intangible assets	(255)	(212)
Other deductions	(1 226)	-
Total tier 1 capital	**22 717**	**18 424**
Tier 2 capital	-	-
Decrease of Tier 1 capital and Tier 2 capital	(2 820)	(2 820)
Equity	**19 897**	**15 604**
Risk-weighted assets		
Banking book	66 525	69 085
Trading book	21 025	12 165
Operational risk	10 738	3 340
Total risk weighted assets	**98 288**	**84 590**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	**20%**	**18%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**20%**	**18%**

As of 31 December 2008, the Bank's capital adequacy ratio was 20% (2008: 18%) which is above the minimum required ratio of 8% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission of Latvia.

51. BUSINESS SEGMENT ANALYSIS

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Business segments

The Group's main business segments are banking and asset management.

Banking – includes loans, deposits, payment transfers and cash operations, as well as trade and water transport financing to retail and corporate customers.

Asset Management – includes asset and property management of the Group and customers.

	Banking LVL '000		Asset Management LVL '000		Eliminations LVL '000		Group LVL '000	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Total revenue from external customers	10 931	11 451	337	257	-	-	11 268	11 708
Total revenue from internal customers	31	3	2	22	(33)	(25)	-	-
Total revenue	**10 962**	**11 454**	**339**	**279**	**(33)**	**(25)**	**11 268**	**11 708**
Income before tax	1 136	4 268	88	(594)	-	-	1 224	3 674
Income tax	(151)	(1 198)	-	-	-	-	(151)	(1 198)
Net income	**985**	**3 070**	**88**	**(594)**	**-**	**-**	**1 073**	**2 476**
Attributable to:								
Equity holders of the Bank	985	3 070	88	(330)	-	-	1 073	2 740
Minority interest	-	-	-	(264)	-	-	-	(264)
Net income	**985**	**3 070**	**88**	**(594)**	**-**	**-**	**1 073**	**2 476**
Segment assets	112 242	109 870	8 174	6 078	(7 008)	(3 439)	113 408	112 509
Segment liabilities	87 764	90 889	1 677	1 320	(362)	(313)	89 079	91 896
Capital expenditure	193	1 662	5	-	-	-	198	1 662
Depreciation	156	123	2	95	-	-	158	218
Amortization	62	34	-	-	-	-	62	34
Impairment charge	1 891	285	-	-	-	-	1 891	285

Group revenues from non-EU clients constitute 67% in 2009 (2008: 51%). Group revenues from EU clients constitute 33% (2008: 49%).

52. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group and Bank have performed an assessment of its financial instruments, as required by IFRS 7 *Financial Instruments: Disclosures*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The estimated fair values of financial instruments at fair value through profit or loss and quoted available-for-sale securities are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instrument at the reporting date.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimated fair values of all financial instruments approximate their carrying values at 31 December 2009 and 2008.

53. AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2009 and 2008 and their corresponding average effective interest rates as at these dates. These interest rates represent the estimated profitability of the above assets and liabilities.

The Group's average effective interest rates have not been presented as the difference to the Bank's analysis is insignificant.

	2009		2008	
	Average value LVL '000	**Average effective interest rate**	**Average value LVL '000**	**Average effective interest rate**
Interest bearing assets				
Demand deposits with credit institutions	33 195	0.46%	40 573	1.2%
Financial assets held for trading: *Fixed income securities*	26 696	10.34%	22 070	11.5%
Loans and receivables excluding repo	26 141	8.49%	24 972	11.4%
Loans and receivables (repo)	3 772	3.11%	4 347	3.1%
Held-to-maturity financial investments (term deposits due from credit institutions)	7 165	6.14%	8 541	2.9%
Total interest bearing assets	**96 969**		**100 503**	
Interest bearing liabilities				
Balances due to credit institutions (short-term)	19	4.22%	1 062	4.5%
Customers' deposits	81 036	0.64%	63 474	1.0%
Notes payable	7 548	4.77%	10 542	7.5%
Total interest bearing liabilities	**88 603**		**75 078**	