RIETUMU BANK Group

Consolidated Financial Statements

for the year ended 31 December 2009

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Report of Council and Management Board

Operating results

Notwithstanding the negative effects of the economic and financial crisis, in 2009 Rietumu continued to operate and develop successfully, gaining full-year profit and maintaining its reputation of the most profitable and efficient Latvian bank.

The Group continued to implement the strategy focused on highly personalised service to corporate customers and high-net-worth individuals within the Baltic, CEE and CIS region; strengthening the customer service system by extending specialised “Personal Banker” services to all customers, which allows direct contact with personal managers, thus ensuring tailored approach to every customer and more effective mutual cooperation.

Considerable emphasis was given to ongoing technological modernisation aimed at improving customers’ interaction with the bank. In 2009 Rietumu introduced the new system of customer identification – Rietumu ID, which is the most up-to-date, user-friendly and at the same time highly secure system of interaction with the Bank. Operational functions of the internet-bank, Rietumu BankWorld, were widened, including electronic savings account opening and management, payment cards order, amongst others.

In continuation of technological development and enhancement of the remote account management systems, the bank completed restructuring of the branch network and closed three remaining branches in Riga. At present, all Rietumu’s customers can receive comprehensive financial services remotely or in HQ Rietumu Capital Centre, the most modern, high-tech and comfortable financial centre in Latvia.

Simultaneously, Rietumu continued to develop internationally. In autumn 2009 the bank opened a representative office in Paris, France.

In the foregoing year, Rietumu continued to enlarge trade finance services. Considering that most companies currently require additional working capital for further development, the bank offered several products in short-term lending and unsecured overdrafts for export, import and other trade operations financing.

Rietumu also continued to develop asset management services. The bank introduced new, more flexible types of term deposits, while the subsidiary RB Asset Management launched new capital-protected structured notes and offered a number of other investment products to customers.

In 2009 Rietumu completed the re-branding process, including introduction of the new logo and launch of the new, more functional and user friendly website.

Rietumu Bank’s Charity Fund continued to support various social projects, traditionally focusing on childcare and support of disadvantaged society groups, qualitative arts and culture projects.

Financial results of the Group

	2009	2008	2007	2006
At year end (LVL'000)				
Total assets	969,931	1,202,592	1,216,241	921,507
Loans and receivables from customers	454,020	561,954	599,436	374,695
Due to customers	664,405	652,038	876,791	659,943
Total shareholder's equity	132,821	131,860	121,331	96,158
For the year (LVL'000)				
Net profit before tax	10,477	21,813	40,119	33,937
Net profit after tax	7,986	18,801	34,607	29,584
Operating income	54,313	68,295	64,754	55,279
Ratios				
Earnings per share (LVL)				
After tax	0.08[1]	0.91	1.54	1.31
Before tax	0.10[1]	1.04	1.79	1.51
Dividend per share (LVL)	1.03[2]	0.228[3]	0.39[3]	0.33[3]
Return on equity				
Before tax	8.79%	16.54%	36.97%	35.29%
After tax	6.01%	14.26%	31.82%	30.77%
Return on assets				
Before tax	1.08%	1.98%	3.31%	3.68%
After tax	0.82%	1.71%	2.85%	3.21%
Capital adequacy ratio	17.38%	14.62%	14.04%	14.85%
Profit margin	19%	32%	62.08%	61.39%
Number of employees	736	787	631	657

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Kalinovsky

Riga, 23 March 2010

[1]- The decrease of the ratio is caused by increase of amount of shares from 25,000 to 100,000 thousands, for further information see Note 32

[2] -In 2009 the dividends were paid from retained earnings of previous years

[3] -In the year 2006, 2007 and 2008 dividends were paid for the year prior to financial year ended on reporting date

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of Rietumu Bank is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated financial statements on pages 9 to 72 are prepared in accordance with source documents and present fairly the financial position of the Group as of 31 December 2009 and the results of its operations and cash flows for the year ended 31 December 2009.

The consolidated 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. In the preparation of the financial statements the Management has made prudent and reasonable judgements and estimates.

The Management of Rietumu Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Management 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 institutions.

On behalf of the Management of the Bank:

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Kalinovsky

Riga, 23 March 2010

During the year and as of the date of the signing of the financial statements:

<u>The Council of Rietumu Bank</u>

31 December 2008 – 20 March 2009

Name	*Position*	*Date and period of appointment*
Leonid Esterkin	Chairman of the Council	25/09/97(13/08/08-13/08/11)
Arkady Suharenko	Deputy Council Chairman	25/09/97(13/08/08-13/08/11)
Brendan Thomas Murphy	Deputy Council Chairman	07/09/05(13/08/08-13/08/11)
Dermot Fachtna Desmond	Member of the Council	07/09/05(13/08/08-13/08/11)
Vitali Lipanov	Member of the Council	07/09/05(13/08/08-20/03/09)
Rolf Paul Fuls	Member of the Council	13/08/08(13/08/08-13/08/11)
Valentin Bluger	Member of the Council	25/09/97(13/08/08-13/08/11)

20 March 2009– 31 December 2009

Name	*Position*	*Date and period of appointment*
Leonid Esterkin	Chairman of the Council	25/09/97(13/08/08-13/08/11)
Arkady Suharenko	Deputy Council Chairman	25/09/97(13/08/08-13/08/11)
Brendan Thomas Murphy	Deputy Council Chairman	07/09/05(13/08/08-13/08/11)
Dermot Fachtna Desmond	Member of the Council	07/09/05(13/08/08-13/08/11)
Rolf Paul Fuls	Member of the Council	13/08/08(13/08/08-13/08/11)
Valentin Bluger	Member of the Council	25/09/97(13/08/08-13/08/11)

<u>The Board of Directors</u>

<u>31 December 2008 – 31 December 2009</u>

Name	*Position*	*Date and period of appointment*
Alexander Kalinovsky	Chairman of the Executive Board, President	20/07/06(02/07/09-02/07/12)
Alexander Pankov	Member of the Executive Board, First Vice President	20/07/06(02/07/09-02/07/12)
Janis Muizhnieks	Member of the Executive Board, Senior Vice President	20/07/06(02/07/09-02/07/12)
Dmitry Pyshkin	Member of the Executive Board, Senior Vice President	02/07/06(02/07/09-02/07/12)

There were no changes in the Board of Directors of the Bank during the period beginning December 31, 2009 through to the date of signing of these consolidated financial statements.

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Independent Auditors' Report

To the shareholders of AS "Rietumu Banka"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AS "Rietumu Banka" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement and statements of comprehensive income, changes in shareholders' 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 9 to 72.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 Group's preparation and fair presentation of the consolidated 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 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.

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

KPMG

Opinion

In our opinion, the consolidated financial statements of AS "Rietumu Banka" 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 Report of Management, as set out on pages 3 to 4, the preparation of which is the responsibility of 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 financial statements of the Group. In our opinion, the management report is consistent with the consolidated financial statements.

KPMG Baltics SIA
License No 55

Stephen Young
Chairman of the Board
Riga, Latvia
23 March 2010

Inga Lipšāne
Sworn Auditor
Certificate No 112

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

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2009

	Note	2009 '000 LVL	2008 '000 LVL
Interest income	6	42,051	66,167
Interest expense	6	(12,909)	(26,423)
Net interest income		**29,142**	**39,744**
Fee and commission income	7	13,341	17,582
Fee and commission expense	8	(3,126)	(3,924)
Net fee and commission income		**10,215**	**13,658**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	1,145	(2,152)
Net foreign exchange income	10	7,418	9,592
Net realised gain on available-for-sale assets	11	218	625
Share of profit of equity accounted investees (net of income tax)		59	42
Other income	12	6,116	6,786
Operating Income		**54,313**	**68,295**
Impairment losses	13	(20,677)	(22,208)
General administrative expenses	14	(23,159)	(24,274)
Profit before income tax		**10,477**	**21,813**
Income tax expense	15	(2,491)	(3,012)
Profit for the period		**7,986**	**18,801**
Attributable to:			
Equity holders of the parent		**8,319**	**18,964**
Minority interest		**(333)**	**(163)**

The consolidated income statement is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements set out on pages 14 to 72.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Kalinovsky

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	Note	2009 '000 LVL	2008 '000 LVL
Profit for the period		**7,986**	**18,801**
Other comprehensive income			
Exchange differences on translating foreign operations		(397)	(179)
Change in revaluation reserve		(811)	(1,404)
Income tax related to change in revaluation reserve	15	14	267
Other comprehensive income for the period		**(1,194)**	**(1,316)**
Total comprehensive income for the period		**6,792**	**17,485**
Attributable to:			
Equity holders of the parent		**7,356**	**17,648**
Minority interest		**(564)**	**(163)**

The consolidated comprehensive income statement is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements set out on pages 14 to 72.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Kalinovsky

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **As at 31 December 2009**	**Note**	**2009** **’000 LVL**	**2008** **’000 LVL**
ASSETS			
Cash and balances with the central bank	16	38,989	45,547
Financial instruments at fair value through profit or loss	17	74,022	154,383
Loans and receivables from banks	18	301,298	238,579
Loans and receivables from customers	19	454,020	561,954
Available-for-sale assets	20	1,397	1,481
Held-to-maturity investments	21	5,385	20,869
Investments in associates	22	115	97
Property and equipment	23	33,512	35,619
Intangible assets	24	4,005	4,500
Investment property	25	30,141	12,629
Current tax asset		1,929	3,903
Deferred tax assets	31	151	52
Other assets	26	24,967	22,979
Total Assets		**969,931**	**1,102,592**
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Financial instruments at fair value through profit or loss	17	356	849
Deposits and balances from banks	27	88,713	155,365
Current accounts and deposits from customers	28	664,405	652,038
Amounts payable under repurchase agreements	17	72,990	150,097
Provisions	35	382	387
Other borrowed funds	29	895	1,299
Current tax liability		78	-
Deferred tax liability	31	1,423	756
Other liabilities	30	7,868	9,941
Total Liabilities		**837,110**	**970,732**
Share capital	32	100,000	22,500
Share premium	32	4,809	4,809
Revaluation reserve	32	1,312	1,977
Other reserves	32	20,025	25
Currency translation reserve	32	(477)	(179)
Retained earnings		6,413	101,425
Total Equity Attributable to Equity Holders of the Bank		**132,082**	**130,557**
Minority Interest		**739**	**1,303**
Total Shareholders’ Equity		**132,821**	**131,860**
Total Liabilities and Shareholders’ Equity		**969,931**	**1,102,592**
Commitments and Contingencies	34	52,827	65,555

The consolidated statement of financial position is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements set out on pages 14 to 72.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Kalinovsky

CONSOLIDATED STATEMENT OF CASH FLOWS **For the year ended 31 December 2009**		**2009** **'000 LVL**	**2008** **'000 LVL**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		11,880	21,813
Amortisation and depreciation		2,782	1,940
Profit from sale of subsidiaries		(307)	-
Profit from disposal of property, plant, equipment		(27)	-
Impairment losses		19,710	22,208
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**34,038**	**45,961**
(Increase) /Decrease in loans and receivables from banks – term deposits		(80,914)	119,158
Decrease in loans and receivables from non-banking customers		66,856	41,405
Increase in assets available-for-sale investments		84	(4)
(Increase)/Decrease in financial instruments at fair value through profit or loss		80,361	(76,337)
Increase/(Decrease) in derivative liabilities		(493)	489
Decrease in provisions		(5)	-
(Increase)/Decrease in other assets		12,199	(15,382)
Increase/(Decrease) in deposit from banks – term deposits		(67,119)	8,693
Increase /(Decrease) in deposits from non-banking customers		12,367	(224,753)
Increase/(Decrease) in amounts payable under repurchase agreements		(77,107)	99,060
Increase/(Decrease) in other liabilities		(1,995)	4,676
Decrease in cash and cash equivalents from operating activities before corporate income tax		**(21,728)**	**2,966**
Corporate income tax paid		(742)	(7,744)
Net cash and cash equivalents used in operating activities		**(22,470)**	**(4,778)**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,934)	(8,170)
(Increase in equity investments in other entities and acquisition of subsidiaries)		(832)	(31,049)
Proceeds from sale of subsidiaries		120	-
Increase in Investment property		(10,017)	(7,529)
Proceeds from held-to-maturity investments		15,979	3,065
Proceeds from sale of property, plant and equipment		1,169	254
Cash and cash equivalents from investing activities		**3,485**	**(43,429)**
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in share capital and reserves		97,500	-
(Decrease)/Increase in borrowed funds		(404)	1,299
Dividends paid		(103,331)	(8,775)
Cash and cash equivalents used in financing activities		**(6,235)**	**(7,476)**
Net cash flow for the period		**(25,220)**	**(55,683)**
Cash and cash equivalents at the beginning of the year		**271,382**	**327,065**
Cash and cash equivalents at the end of the year	33	**246,162**	**271,382**

The consolidated statement of cash flows is to be read in conjunction with the Notes to, and forming part of, the consolidated financial statements set out on pages 14 to 72.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Kalinovsky

CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
For the year ended 31 December 2009

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Foreign currency translation reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total Equity '000 LVL	Minority interest '000 LVL	Total Equity '000 LVL
Balance at 1 January 2008	**22,500**	**4,809**	**3,284**	**-**	**16**	**90,722**	**121,331**	**-**	**121,331**
Prior year adjustment	-	-	-	-	-	141	**141**	-	**141**
Transfers	-	-	(17)	-	156	(139)	**-**	-	**-**
Minority share on acquisition of subsidiaries	-	-	-	-	-	-	**-**	1,960	**1,960**
Total comprehensive income	-	-	(1,137)	(179)	-	18,964	**17,648**	(163)	**17,485**
Dividends paid	-	-	-	-	-	(8,775)	**(8,775)**	-	**(8,775)**
Balance at 31 December 2008	**22,500**	**4,809**	**2,130**	**(179)**	**172**	**100,913**	**130,345**	**1,797**	**132,142**
Prior year adjustment	-	-	(153)	-	(147)	512	**212**	(494)	**(282)**
Balance at 1 January 2009 restated	**22,500**	**4,809**	**1,977**	**(179)**	**25**	**101,425**	**130,557**	**1,303**	**131,860**
Dividends paid	-	-	-	-	-	(103,331)	**(103,331)**	-	**(103,331)**
Increase in share capital	77,500	-	-	-	-	-	**77,500**	-	**77,500**
Increase in reserve capital	-	-	-	-	20,000	-	**20,000**	-	**20,000**
Total comprehensive income	-	-	(665)	(298)	-	8,319	**7,356**	(564)	**6,792**
Balance at 31 December 2009	**100,000**	**4,809**	**1,312**	**(477)**	**20,025**	**6,413**	**132,082**	**739**	**132,821**

The consolidated statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 14 to 72.

Chairman of the Council
Leonid Esterkin

Chairman of the Board
Alexander Kalinovsky

1 Background

Principal activities

These consolidated financial statements include the financial statements of JSC "Rietumu Bank" (the "Bank") and its subsidiaries (together referred to as the "Group"). The principal subsidiaries of the Group are set out below.

JSC "Rietumu Bank" was established in the Republic of Latvia as a Joint Stock Company and was granted its general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC"). The registered address of the Bank's head office is Vesetas Street 7, Riga, Latvia. The average number of people employed by the Bank during the year was 736 (2008: 787).

Significant subsidiaries

Name	Country of incorporation	Principal Activities	Ownership %	
			2009 '000 LVL	**2008 '000 LVL**
RB Securities Ltd	Stasinou 1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	Financial services	99.99%	99.99%
"RB Investments" JSC	Vesetas 7, Riga, Latvia	Investments	100%	100%
"RB Securities" IBC	Vesetas 7, Riga, Latvia	Financial services	100%	100%
"RB Asset Manager" ISC	Vesetas 7, Riga, Latvia	Financial services	100%	100%
"RB Drošība" Ltd	Vesetas 7, Riga, Latvia	Security services	100%	100%
"RB Vidzeme" Ltd	Vesetas 7, Riga, Latvia	Investments	100%	100%
"RB Namu Serviss" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"Westleasing" Ltd	Fabriciusa street 8, 4th floor, office 18, Minsk Belarus	Leasing company	50%	50%
"Westtransinvest" Ltd	Fabriciusa street 8, 4th floor, office 18, Minsk Belarus	Leasing company	50%	50%
"Westleasing-M" Ltd	Kostjakova street 10, Moscow, Russia	Leasing company	50%	50%
"Elektro Bizness" Ltd	Vesetas 7, Riga, Latvia	Electricity production company	90%	90%
Rietumu Bankas Labdarības fonds	Vesetas 7, Riga, Latvia	Charity	-	-
RB Opportunity Fund I	Vesetas 7, Riga, Latvia	Investments	100%	100%
"Interrent" Ltd	Kulman Street 5b, 4th floor, office 6, Minsk, Belarus	Real estate, renting	100%	100%
"Vesetas 7" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"Overseas Estate" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"Deviņdesmit seši" Ltd	Jomas Street 86, Jurmala, Latvia	Leisure and Hotel complex	100%	-
"M 322" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	-
"H-Blok" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	100%
"Aristida Briāna 9" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	100%	-
"RB Zeme" Ltd	Vesetas 7, Riga, Latvia	Real estate operating	-	100%

1 Background, continued

In the subsidiaries with an ownership share of 50% the Group has the right to majority votes in the Board of Directors and therefore controls the operations of these subsidiaries.

In 2009, the Group sold its 100% share in RB Zeme Ltd with a profit of LVL 233 thousand that is presented under Other income.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at the reporting date.

The Board of Directors authorised the consolidated financial statements for issue on March 23, 2010. The shareholders may request amendment to the consolidated financial statements before they are approved.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are stated at fair value;
- derivatives are stated at fair value;
- available-for-sale assets are stated at fair value;
- buildings which are revalued periodically to their fair value;
- non-current assets held for sale which are stated at the lower of cost and fair value;
- investment property which is stated at fair value.

(c) Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated, being the Bank's functional currency.

The functional currencies of subsidiaries of the Bank are LVL except for the subsidiaries listed below:

"RB Securities" Ltd	USD (US dollar)
"Westleasing" Ltd	BYR (Belarus rouble)
"Westtransinvest" Ltd	BYR (Belarus rouble)
"Westleasing-M" Ltd	RUB (Russian rouble)
"Interrent" Ltd	BYR (Belarus rouble)

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and subsidiary companies at the spot exchange rate on 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised 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 recognised in the 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 recognised in equity through statement of other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency of the Bank at exchange rates set by Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into LVL at average exchange rate for the year. Foreign currency differences arising on translation to the Bank functional currency are recognised in equity in a foreign currency translation reserve, through other comprehensive income.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of associated entity. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds the Group’s interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

3 Significant accounting policies, continued

(iii) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iv) 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 trusts and investment vehicles are not included in these consolidated financial statements except when the Group controls the operations of the trust or investment vehicle.

(c) 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 acquiree at the date of acquisition. Goodwill 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 and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to assets sold.

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

(d) Fair value measurement principles

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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.

(i) Financial assets

When available, the Group measures the fair value of an financial asset using quoted prices in an active market for that financial asset. 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 Group 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 Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

3 Significant accounting policies, continued

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 (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group 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 risk.

(ii) Property

The fair value of property is based on internal valuations performed by the Group that are, on a regular basis (once in two years or when market conditions significantly change), corroborated with external, independent valuations prepared by valuation companies, having appropriate professional qualifications and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which property could be exchanged on the date of the valuation between willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(iii) Intangible assets

The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

(iv) Minority interest

Minority interest represents the equity interest in a subsidiary, not attributable, directly or indirectly, to the parent. Adjustments to prior year arise as a result of amended prior period financial information reported in the current period.

3 Significant accounting policies, continued

(e) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the following:

\+ Cash and balances with central bank;

\+ Demand deposits due from other banks

\- Demand deposits due to other banks

(f) Financial instruments

(i) Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or that are 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 or that are designated to this category at initial recognition.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

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

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

Loans and receivables include regular loans and credit card balances and finance lease.

Liabilities at amortised cost include deposits and balances with Central Bank, deposits and balances from banks and current accounts and deposits from customers.

3 Significant accounting policies, continued

(ii) Recognition

The Group initially recognises loans and receivables, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are recognised in the statement of financial position on the trade date when the Group becomes a party to the contractual provisions of the instrument.

(iii) Measurement

A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets other than loans and receivables, held to maturity bonds, equity investments at cost are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost, less impairment if any.

All held to maturity investments, loans and receivables and financial liabilities at amortised cost, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;

- a gain or loss on an available-for-sale financial asset is recognised in revaluation reserve through statement of 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.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

3 Significant accounting policies, continued

(v) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire and when there is no legal or constructive evidence that a liability exists as at reporting date.

(vi) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under “repo” transactions.

The difference between the sale and repurchase price represents the interest expense and is recognised in the income statement over the term of the “repo” agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under “reverse repo” transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the “reverse repo” agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(vii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Group classifies all derivative financial instruments as held for trading.

Derivatives are initially recognised 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 recognised immediately in the income statement.

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the embedded derivative is material.

(viii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3 Significant accounting policies, continued

(g) Leases

The lease of property and equipment is classified as a finance lease if it transfers substantially all risks and rewards of ownership to the lessee. Title does not have to be transferred. All other leases are classified as operating leases.

The Company as lessor

Assets leased out under operating lease are carried in the statement of financial position analogously to other assets. Income is recognised on a straight-line basis over each lease term. Other payments associated with the lease are recognised in the income statement as a significant component of rental income.

When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable before allowance is recognised as unearned finance income.

The Company as lessee

The Company does not have assets under finance lease.

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

(h) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Land and buildings of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised in equity through statement of other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement.

A revaluation decrease on an item of land or buildings is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in revaluation reserve through statement of other comprehensive income, in which case it is recognised in equity through statement of other comprehensive income.

3 Significant accounting policies, continued

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually. The estimated useful lives are as follows:

Buildings	50 years
Equipment	2.5 to 4 years
Furniture	8 years
Vehicles	2.5 to 5 years
Computer software	5 years

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in income statement in other operating income.

(j) Other assets

Other assets include collateral supporting loans that were terminated due to default of a borrower and the Group initiated the sales process of collateral. If the collateral is property and title has been transferred to the Group, the assets are shown as investment property.

If the borrower fails to fulfill the contractual obligations, the Board of Directors may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Group cannot assume title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Group is assuming the constructive title to the asset, the Group classifies the asset as other assets.

(k) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

(l) Impairment

(i) Financial assets

At each balance sheet date the Group 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.

3 Significant accounting policies, continued

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group 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.

All loans and receivables due from customers and held-to-maturity investment securities are assessed individually and specific impairment allowance is established if necessary.

For lease contracts for which the specific impairment allowance is not recognised, a collective impairment allowance is recognised as a percentage of net investment in finance leases before allowance without accrued interest based on historical experience. In 2008 and 2009, the percentage for collective allowance amounts to 0.25%.

All other loans and receivables for which no objective evidence of impairment is identified on an individual basis are grouped into sub-portfolios with similar credit risk characteristics according to the Group's internal loan portfolio rating procedure and a collective impairment allowance is assessed using statistical modelling of historical trends of the probability of default and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Loans and receivables are stated in the balance sheet at amortised cost, less any impairment allowances. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Impairment allowances during the period are reflected in the income statement. If the borrower fails to fulfil the contractual obligations, the Board of Directors may decide that loan agreement will be terminated and that the right to collateral pledged as security will be exercised.

Impairment losses on assets carried at amortised 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 recognised in the income statement and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised 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 the income statement.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in equity through statement of other comprehensive income to income statement. The cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised 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 recognised in income statement, the impairment loss is reversed, with the amount of the reversal recognised 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 recognised in equity through statement of other comprehensive income.

3 Significant accounting policies, continued

(ii) Non-financial assets

The carrying amounts of the 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 income statement. 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 amortisation, if no impairment loss had been recognised.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, which can be estimated reliably. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Credit related commitments

In the normal course of business, the Group 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 Group 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.

3 Significant accounting policies, continued

(o) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly 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 recognised 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 recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 realised.

(p) Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the income statement using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only. Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

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.

A release of liability is recognised in the income statement when there is a legal or constructive evidence that the Group no longer has any liability outstanding.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

(q) Dividends

The Group receives 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.

3 Significant accounting policies, continued

(r) Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis as the service is provided. The Group pays fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

(s) 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 has 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 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.

- 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 Group to the extent applicable to the Group's operations. Comparative information has been re-presented so that it also is in conformity with the revised standard

  All other standards and amendments to standards that became mandatory for the first time for the financial year beginning 1 January 2009 are not applicable to the Group.

(t) 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.

3 Significant accounting policies, continued

(t) New Standards and Interpretations not yet adopted, continued

- 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's financial statements, as the Group 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's financial statements as the Group 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 Group does not operate under service concession agreements, this Interpretation does not have any impact on the Group'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's financial statements as the Group 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's financial statements as the Group has not designated any hedges of a net investment in a foreign operation.

3 Significant accounting policies, continued

(t) New Standards and Interpretations not yet adopted, continued

- 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

The Group has exposure to the following risks:

- market risk
- credit risk
- liquidity risks
- operational risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

(a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board of Directors of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the First Vice President of the Bank and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

4 Risk management, continued

(b) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chairman of the Board of Directors. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Financial Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits, which are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

(i) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. For further analysis of interest repricing refer to Note 42 Interest rate analysis.

The fair value of financial assets at fair value through profit or loss and financial assets available for sale is not sensitive to interest rate changes as the portfolio for the these categories consists of equity securities and short term government bonds as of 31 December 2009 and 2008.

An analysis of sensitivity of the net income for the year to changes in fair value of financial instruments at fair value through profit or loss due to changes in the interest rates based on positions existing as at 31 December 2009 and 2008 and a scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2009		**31 December 2008**	
	Income	**Total comprehensive income**	**Income**	**Total comprehensive income**
100 bp parallel increase	1,747	1,747	1,905	1,905
100 bp parallel decrease	(1,747)	(1,747)	(1,905)	(1,905)

The management of interest risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

4 Risk management, continued

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Group's exposure to currency risk at year-end refer to Note 42 Currency analysis.

An analysis of sensitivity of the Group's net income for the year and other comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a scenario of a 5% change in USD or EUR to LVL exchange rates, while the other variable remain constant, is as follows:

	2009		2008	
'000 LVL	**Income**	**Total comprehensive income**	**Income**	**Total comprehensive income**
5% appreciation of USD against LVL	48	48	(411)	(411)
5% depreciation of USD against LVL	(48)	(48)	411	411
5% appreciation of EUR against LVL	880	880	2,579	2,579
5% depreciation of EUR against LVL	(880)	(880)	(2,579)	(2,579)
5% appreciation of RUB against LVL	116	116	192	192
5% depreciation of RUB against LVL	(116)	(116)	(192)	(192)
5% appreciation of BYR against LVL	17	17	20	20
5% depreciation of BYR against LVL	(17)	(17)	(20)	(20)

(iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

An analysis of sensitivity of the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2009 and 2008 and a scenario of a 5% change in all securities prices, while the other variables remain constant, is as follows:

	2009		2008	
'000 LVL	**Income**	**Total comprehensive income**	**Income**	**Total comprehensive income**
5% increase in securities prices	3,684	3,684	7,719	7,719
5% decrease in securities prices	(3,684)	(3,684)	(7,719)	(7,719)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

4 Risk management, continued

(c) Credit risk, continued

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Group's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Risk Department's Credit Risk Management Division then independently reviews the loan/credit application and the report and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. Either independent appraisal companies or the Group's specialists regularly assess the current market value of collateral, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

The Bank's Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department reviews retail loan/credit applications.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 19 "Loans and receivables from customers".

4 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and receivables from banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a daily basis. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

4 Risk management, continued

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Bank.

(f) Capital management

The Group'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 impact of the level of capital on shareholders returns is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization.

The FCMC sets and monitors capital requirements for the Group.

4 Risk management, continued

(f) Capital management, continued

The Group defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by FCMC banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2009, this minimum level is 8%. The Group was in compliance with the statutory capital ratio during the years ended 31 December 2008 and 31 December 2009.

The following table shows the composition of the Group's capital position calculated in accordance with the requirements of the Basle II and FCMC, as at 31 December 2009:

	2009	2008
	'000 LVL	**'000 LVL**
Tier 1 capital		
Share capital	100,000	22,500
Share premium	4,809	4,809
Reserve	20,025	172
Minority interest	739	1,797
Revaluation reserve – foreign currency translation	(477)	(179)
Retained earnings from prior years	(1,906)	81,949
Current year profit	8,319	18,964
Deductions from the capital base		
Intangible assets	(4,005)	(4,500)
Other deductions	(801)	(1,840)
Dividends declared or proposed		(5,130)
Total tier 1 capital	**126,703**	**118,542**
Tier 2 capital		
Asset revaluation reserve	-	57
Total tier 2 capital	**-**	**57**
Total capital	**126,703**	**118,599**
Capital requirement	**58,324**	**65,082**
Total capital adequacy ratio	**17.38%**	**14.58%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The Group has complied with all externally imposed capital requirements during the years ended 31 December 2009 and 31 December 2008.

5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumption 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 recognised 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 judgements about each counterparty's financial position and the net realisable 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 independently approved by the Credit Risk function.

Collectively assessed impairment allowance cover credit losses inherent in the portfolio of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentration and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the estimates of future cash flows for specific counterparty allowance and the model assumptions and parameters used in determining collective allowance.

(ii) Impairment of equity and debt securities

The determination of objective evidence of impairment for financial instruments carried at amortised cost or for financial instruments available for sale is based on management's evaluation of financial position and financial performance of the borrowers.

Measurement of impairment of financial instruments carried at amortised cost requires estimates of probable future cash flows which is subject to uncertainty. Measurement of impairment of available for sale financial instruments requires management assessment whether a decrease in fair value is significant and prolonged. A significant decline is considered to be a decrease in excess of 20% of original cost and a prolonged decline is considered to be a decrease in value longer than 9 months. Where observable market data is not available, an assessment of fair value for available for sale financial instruments uses cash flow valuation techniques.

(iii) Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to income statement. When measuring the fair value of the investment property, the management evaluates similar transactions on the market and whether prices paid for such transactions are arm's length or estimates future cash flows, their probability and calculate yields for discounting. Management corroborates its internal valuations with external valuations prepared by licensed valuation companies with appropriate experience on a regular basis.

5 Use of estimates and judgements, continued

(iv) Valuation of collateral recognised under other assets

Assets assumed as collateral are valued at the lower of cost and net realisable value. When assessing the net realisable value of the assets, 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).

(v) Valuation of equipment and intangible assets other then goodwill

The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

Equipment and intangible assets other than goodwill (i.e. software, licenses) are recognised at cost less accumulated depreciation / amortisation. If indications of impairment are identified, the asset's recoverable amount is estimated. The recoverable amount is the greater of its value in use or 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.

The depreciation / amortisation rates are reviewed at the end of each reporting period based on the management estimates of remaining usefull life of individual assets or group of assets taking into consideration the current condition of the asset and also the purpose for which the asset is used in business activities of the Group.

(vi) 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. In 2009 and 2008, the Group used discount rates in range of 4-7%.

6 Net interest income

	2009 '000 LVL	2008 '000 LVL
Interest income		
Loans and advances due from customers	37,765	50,868
Loans and advances due from financial institutions	2,868	9,928
Financial instruments at fair value through profit or loss	926	795
Held-to-maturity investments	413	659
Amounts receivable under reverse repurchase agreements	79	3,917
	42,051	**66,167**
Interest expense		
Current accounts and deposits due to customers	8,031	15,167
Deposits and balances due to financial institutions	3,554	9,634
Amounts payable under repurchase agreements	356	93
Certificates of deposit and promissory notes	34	58
Other interest expense	934	1,471
	12,909	**26,423**

7 Fee and commission income

	2009 '000 LVL	2008 '000 LVL
Money transfers	6,181	9,223
Commission income from payment cards	2,924	3,125
Revenue from customer asset management and brokerage commissions	1,015	1,617
Remote system fee	540	643
Commission from documentary operations	387	686
Cash withdrawals	218	308
Commission from account servicing	180	227
Other	1,896	1,753
	13,341	**17,582**

8 Fee and commission expense

	2009 '000 LVL	2008 '000 LVL
Commission for maintenance of syndicated loan	1,021	1,023
Credit card expenses	943	1,054
On correspondent accounts	511	896
Brokerage fees	291	510
Cash withdrawal fees	12	12
Other	348	429
	3,126	**3,924**

9 Net gain/(loss) on financial instruments at fair value through profit or loss

	2009 '000 LVL	2008 '000 LVL
Equity instruments	904	(80)
Debt instruments	(157)	(2,085)
Derivatives	398	13
	1,145	**(2,152)**

10 Net foreign exchange income/(loss)

	2009 '000 LVL	2008 '000 LVL
Gain/(loss) from revaluation of financial assets and liabilities	(502)	(2,085)
Gain on conversion of foreign currency	7,920	11,677
	7,418	**9,592**

11 Net realised gain/(loss) on available-for-sale assets

	2009 '000 LVL	2008 '000 LVL
Equity instruments	218	625
	218	**625**

12 Other income/(expenses)

	2009 '000 LVL	2008 '000 LVL
Income from operating lease	635	449
Income from sale of subsidiaries	233	-
Loss from revaluation of investment property	(464)	-
Penalties received	331	1,714
Profit from sale of property	27	-
Dividends received	13	26
Other	5,341	4,597
	6,116	**6,786**

Other income includes the de-recognition of a liability of LVL 2,283 thousand (2008: LVL 3,131 thousand) for which there is no evidence of a legal or constructive obligation outstanding at reporting date.

13 Impairment losses

	2009 '000 LVL	2008 '000 LVL
Impairment losses		
Loans and receivables from customers	(20,264)	(21,700)
Held-to maturity financial instruments	-	(327)
Property, plant and equipment	-	(91)
Intangible assets	(971)	-
Other assets	(2,350)	(420)
	(23,585)	**(22,538)**
Reversals of impairment losses		
Loans and receivables from customers	2,403	232
Property and equipment	-	97
Held-to-maturity investments	495	-
Other assets	10	1
	2,908	**330**
Net impairment losses	**(20,677)**	**(22,208)**

14 General administrative expenses

	2009 '000 LVL	2008 '000 LVL
Employee compensation	8,431	10,015
Depreciation and amortisation	2,782	1,940
Payroll related taxes	2,045	2,122
Taxes other than on corporate income and payroll	981	1,018
Insurance	966	777
Repairs and maintenance	899	1,011
Communications and information services	858	989
Salaries to Board of Directors and Council	846	1,725
Rent	769	661
Charity and sponsorship	603	871
Travel expenses	502	330
Professional services	435	300
Advertising and marketing	393	261
Office supplies (Stationary)	69	62
Security	4	7
Other	2,576	2,185
	23,159	**24,274**

15 Income tax expense

Recognised in the income statement	**2009 ’000 LVL**	**2008 ’000 LVL**
Current tax expense		
Current year	2,127	3,525
	2,127	**3,525**
Deferred tax expense		
Origination and reversal of temporary differences	338	(513)
Under/(over) provided in prior years	26	-
	364	**(513)**
Total income tax expense in the income statement	**2,491**	**3,012**

The tax rate applicable in countries in which group entities operate:	**2009 ’000 LVL**	**2008 ’000 LVL**
Latvia	15.00%	15.00%
Belarus	26.28%	26.28%
Cyprus	10.00%	10.00%
Russia	20.00%	24.00%

Reconciliation of effective tax rate:

	2009 ’000 LVL	**%**	**2008 ’000 LVL**	**%**
Income before tax	10,477	-	21,813	-
Income tax at the applicable tax rate	1,572	15.00%	3,202	14.68%
Non-deductible expenses	1,304	12.45%	583	2.67%
Tax exempt income	(47)	(0.45%)	(33)	(0.15%)
Reversal of previously non-recognised tax loss	-	-	(113)	(0.52%)
Tax relief on donations	(336)	(3.21%)	(685)	(3.14%)
Effect of different tax rate in other countries	(2)	(0.02%)	58	0.27%
	2,491	**23.77%**	**3,012**	**13.81%**

Income tax recognised in other comprehensive income	**2009 ’000 LVL**		**2008 ’000 LVL**	
Deferred tax expense	**Tax Base**	**Deferred income tax**	**Tax Base**	**Deferred income tax**
Decrease of revaluation reserve for property	(95)	(14)	(1,699)	(267)
Total income tax recognised in equity	**(95)**	**(14)**	**(1,699)**	**(267)**

16 Cash and balances with central bank

Cash and balances with central bank comprised of the following items:

	2009 '000 LVL	2008 '000 LVL
Cash	3,727	2,824
Balances due from the Bank of Latvia	35,262	42,723
	38,989	**45,547**

Deposits with the Bank of Latvia represent the balance outstanding on the correspondent account with the Bank of Latvia in LVL and EUR.

In accordance with the Bank of Latvia's regulations the Group is required to maintain a compulsory reserve set based on the average monthly balance of the following items:

+ deposits from the public

- less liabilities against credit institutions

- less balance due to the State Treasury on its consolidated account with the Bank

+ bonds and other debt securities issued by the Bank

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

17 Financial instruments at fair value through profit or loss

	2009 '000 LVL	2008 '000 LVL
US government bonds	72,976	150,050
Equity investments	731	3,093
Derivative financial instruments	315	1,240
Financial assets at fair value through profit or loss	**74,022**	**154,383**
Derivative financial instruments	(356)	(849)
Financial liabilities at fair value through profit or loss	**(356)**	**(849)**
Amount payable under repurchase agreement, at amortised cost	72,990	150,097
Assets pledged under repurchase agreements (see above)	72,976	150,050

17 Financial instruments at fair value through profit or loss, continued

Derivative financial assets and liabilities

	2009 '000 LVL		2008 '000 LVL	
	Carrying value	**Notional value**	**Carrying value**	**Notional value**
Assets				
Forward contracts	44	16,745	183	31,648
Option premium	63	63	49	49
Embedded derivatives separated from host contract	-	-	1,008	-
Swap contracts	208	208	-	-
Total derivative financial assets	**315**	**-**	**1,240**	**-**
Liabilities				
Options on equities	-	-	8	-
Future contracts	-	-	330	-
Swap contracts	4	4	-	-
Forward contracts	352	17,046	511	31,902
Total derivative liabilities	**356**	**-**	**849**	-

Financial instruments reclassified to loans and receivables

Pursuant to the amendments to IAS 39 and IFRS 7, as of 1 July 2008, the Group reclassified trading assets of LVL 23,980 thousands to Loans and receivables from customers. The table below sets out the amounts that would have been recognised in the period following reclassification during 2008 if the reclassifications had not been made:

'000LVL	**2009**		**2008**	
	Income statement	**Total comprehensive income**	**Income statement**	**Total comprehensive income**
Net gain / (loss) on financial instruments at fair value through profit and loss reclassified to loans and advances to customers	(346)	(346)	657	657

18 Loans and receivables from banks

	2009 '000 LVL	2008 '000 LVL
Nostro accounts		
Latvian commercial banks	22,398	20,553
OECD banks	177,254	161,240
Non-OECD banks	10,338	46,392
Total Nostro accounts	**209,990**	**228,185**
Deposit accounts		
Latvian commercial banks	10,664	6,930
OECD banks	76,832	205
Non-OECD banks	3,812	3,259
Total loans and deposits	**91,308**	**10,394**
	301,298	**238,579**

Concentration of placements with banks and other financial institutions

As at 31 December 2009 the Group had four (2008: four) banks and financial institutions, whose balances exceeded 10% of total loans and receivable from banks. The gross value of these balances as of 31 December 2009 and 2008 were LVL 106,966 thousand and LVL 105,132 thousand, respectively.

19 Loans and receivables from customers

	2009 '000 LVL	2008 '000 LVL
Private companies		
Finance leases	12,426	23,527
Other secured lending	414,062	487,445
Individuals	53,534	71,039
Specific and collective impairment allowance	(26,002)	(20,057)
Net Loans and receivables from customers	**454,020**	**561,954**

19 Loans and receivables from customers, continued

(a) Finance leases

Loans and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

	2009 '000 LVL	2008 '000 LVL
Gross investment in finance leases, receivable		
Less than one year	10,461	16,587
Between one and five years	6,343	14,942
Total gross investment in finance leases	16,804	31,529
Unearned finance income	(3,595)	(7,773)
Net investment in finance lease before allowance	13,209	23,756
Impairment allowance	(783)	(229)
Net investment in finance lease	**12,426**	**23,527**

	2009 '000 LVL	2008 '000 LVL
The net investment in finance leases comprises:		
Less than one year	7,460	11,746
Between one and five years	4,966	11,781
Net investment in finance lease	**12,426**	**23,527**

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

			Of which past due by the following terms				
As at 31 Dec 2009	**Total LVL'000**	**Of which not past due on the reporting date**	**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	**Net carrying value of overdue loans**
Net carrying amount	**454,020**	384,326	50,166	10,128	2,811	6,589	69,694
Out of which impaired	**53,734**	37,721	2,369	4,701	3,242	5,701	16,013
Assessed fair value of collateral	**590,471**	498,897	70,222	8,363	3,161	9,828	91,574
As at 31 Dec 2008							
Net carrying amount	**561,954**	494,427	54,578	5,161	5,276	2,512	67,527
Out of which impaired	**60,088**	44,928	3,637	4,670	5,020	1,833	15,160
Assessed fair value of collateral	**786,771**	706,646	60,421	7,002	8,175	4,527	80,125

19 Loans and receivables from customers, continued

(ii) Analysis of loan by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2009:

LVL'000	31 December 2009	% of loan portfolio	31 December 2008	% of loan portfolio
Commercial buildings	182,519	40.20	209,780	37.33
Commercial assets pledge	96,623	21.28	126,467	22.50
Land mortgage	64,039	14.10	85,265	15.17
Traded securities	33,252	7.32	35,343	6.29
Mortgage on residential properties	30,026	6.61	42,821	7.62
Financial instruments classified as loans and receivables	24,182	5.33	24,878	4.43
Deposit	2,359	0.52	1,949	0.35
Guarantee	1,652	0.36	13,447	2.39
Other	19,368	4.28	22,004	3.92
Total	**454,020**	**100**	**561,954**	**100**

The amounts shown in the table above represent the carrying value of the loans, and not the fair value of the collateral.

(iii) Impaired loans

	2009 '000 LVL	2008 '000 LVL
Impaired loans gross	78,771	78,555
Specific impairment allowance	(25,037)	(18,467)
Net Loans and receivables from customers	**53,734**	**60,088**
Fair value of collateral related to impaired loans	**66,032**	**90,006**

When reviewing loans the Group sets the following categories for individual loans to assess their credit risk:

	2009 '000 LVL Gross	Specific and collective impairment allowance	2008 '000 LVL Gross	Specific and collective impairment allowance
Standard	407,912	(1,212)	504,250	(1,590)
Watch	33,523	(5,413)	40,188	(4,699)
Substandard	32,428	(14,741)	33,161	(10,435)
Doubtful	4,749	(3,226)	4,264	(3,185)
Lost	1,410	(1,410)	148	(148)
Total	**480,022**	**(26,002)**	**582,011**	**(20,057)**

19 Loans and receivables from customers, continued

(iv) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2009 and 2008 are as follows:

LVL'000	2009 '000 LVL	2008 '000 LVL
Allowance for impairment		
Balance at 1 January	20,057	2,913
Increase in allowance as a result of acquisition of subsidiaries	-	1,795
Charge for the year	20,264	21,700
Reversal of impairment allowance loss	(2,403)	(232)
Effect of foreign currency translation	(65)	(125)
Derecognition of loans and transfer to other assets	(11,851)	(5,994)
Balance at 31 December	**26,002**	**20,057**

When loans foreclose and recovery through sale of collateral commences, the Group reclassifies the carrying value of the loan to other assets. Consequently the impairment allowance related to these loans is written off. In 2009, the Group reclassified to other assets loans in the net value of LVL 15,221 thousand (2008: LVL 6,788 thousand).

(v) Restructured loans

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

LVL'000	2009 '000 LVL	2008 '000 LVL
Interest waiver	34,874	-
Principal payments waiver	114,699	-
Total	**149,573**	**-**

(a) Industry analysis of the loan portfolio

	2009 '000 LVL	2008 '000 LVL
Real estate management	110,633	161,776
Financial services	151,420	143,474
Individuals	47,452	69,527
Manufacturing	37,524	40,734
Wholesale and retailing	23,792	38,750
Financial instruments reclassified to loans and receivables	24,182	24,878
Investments in finance lease	12,426	23,749
Food industry	9,686	23,108
Transport and communication	9,041	9,776
Tourism	1,226	616
Other	26,638	25,566
	454,020	**561,954**

19 Loans and receivables from customers, continued

(b) Geographical analysis of the loan portfolio

	2009 '000 LVL	2008 '000 LVL
Latvia	203,718	264,749
OECD countries	60,051	166,583
Non-OECD countries	190,251	130,622
	454,020	**561,954**

(c) Significant credit exposures

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

20 Available-for-sale assets

	2009 '000 LVL	2008 '000 LVL
Equity investments		
Corporate shares	1,397	1,481
	1,397	**1,481**

Available for sale corporate shares include SWIFT, NASDAQ OMX Riga Stock Exchange, VISA INC and shares of Latvian companies.

21 Held-to-maturity investments

	2009 '000 LVL	2008 '000 LVL
Debt and other fixed-income instruments		
- Government and municipal bonds		
Latvia	1,517	11,367
Non OECD	1,719	1,739
Total government and municipal bonds	**3,236**	**13,106**
- Corporate bonds		
Russian corporate bonds	777	787
European Union corporate bonds	2,450	6,094
Other	-	2,475
Total corporate bonds	**3,227**	**9,356**
Impairment allowance	(1,078)	(1,593)
	5,385	**20,869**

21 Held-to-maturity investments, continued

Analysis of movements in the impairment allowance

	2009 '000 LVL	2008 '000 LVL
Balance at the beginning of the year	1,593	1,238
Net charge/(recovery) for the year	(495)	327
Currency revaluation	(20)	28
Balance at the end of the year	**1,078**	**1,593**

22 Investment in associates

The Group owns a share in the following associates, both associated companies provide transportation services and their assets consists mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

Name	Country of incorpora-tion	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 December 2009		31 December 2008	
"AED Real Service" Ltd	Latvia	Information services for the rail way	43.00%	80	43.00%	50
"Dzelzcela Tranzits Ltd	Latvia	Information services for the rail way	49.12%	35	49.12%	47
"AR Entertainment" Ltd	Cyprus	Holding company	27.25%	-	-	-
Total				**115**		**97**

23 Property and equipment

Cost/Revalued amount '000 LVL	**Land and buildings**	**Construction in progress**	**Vehicles**	**Other equipment**	**Total**
1 January 2009	**28,361**	**817**	**2,040**	**11,151**	**42,369**
Additions	618	437	53	1,482	**2,590**
Disposals	(240)	(201)	(573)	(848)	**(1,862)**
Transfers	(2,186)	815	-	4	**(1,367)**
Acquisition of subsidiaries	5,442	-	-	303	**5,745**
Revaluation	(716)	-	-	-	**(716)**
FX translation	(188)	(63)	(4)	(13)	**(268)**
Transferred to investment property	(5,425)	(482)	-	-	**(5,907)**
At 31 December 2009	**25,666**	**1,323**	**1,516**	**12,079**	**40,584**
Depreciation and impairment losses					
At 1 January 2009	**62**	**-**	**1,055**	**5,633**	**6,750**
Depreciation charge	281	-	360	1,275	**1,916**
Transferred to investment property	(296)	-	-	-	**(296)**
Disposals	(16)	-	(482)	(791)	**(1,289)**
FX translation	(2)	-	(1)	(6)	**(9)**
At 31 December 2009	**29**	**-**	**932**	**6,111**	**7,072**
Carrying value					
At 31 December 2009	**25,637**	**1,323**	**584**	**5,968**	**33,512**
At 31 December 2008	**28,299**	**817**	**985**	**5,518**	**35,619**

In 2009, the Group transferred from property and equipment to investment property an office building at fair value of LVL 162 thousand that the Group ceased to use the property for own business activity and hotel property at fair value of LVL 4,669 thousand that the Group acquired under business combination and subsequently leased out. Fair value of the properties was assessed based on assumption described in Note 25 Investment property.

23 Property and equipment, continued

’000 LVL	Land and buildings	Construction in progress	Vehicles	Office equipment	Total
Cost/Revalued amount					
At 1 January 2008	7,955	20,056	2,194	8,520	38,725
Additions	425	5,894	10	1,420	7,749
Acquisition of subsidiaries	257	442	32	891	1,622
Disposals	(196)	(113)	(321)	(390)	(1,020)
Impairment losses	-	(91)	-	-	(91)
Reversal of impairment loss	6	-	-	-	6
Revaluation	(1,404)	-	-	-	(1,404)
Transferred to Investment property	(5,100)	-	-	-	(5,100)
Transfers	26,418	(25,371)	125	710	1,882
At 31 December 2008	**28,361**	**817**	**2,040**	**11,151**	**42,369**
Depreciation and impairment losses					
At 1 January 2008	152	-	935	5,105	6,192
Depreciation charge	10	-	409	905	1,324
Disposals	(100)	-	(289)	(377)	(766)
At 31 December 2008	**62**	**-**	**1,055**	**5,633**	**6,750**
Carrying value					
At 31 December 2008	**28,299**	**817**	**985**	**5,518**	**35,619**
At 31 December 2007	7,803	20,056	1,259	3,415	32,533

Analysis of movements in the impairment allowance

	2009 ’000 LVL	2008 ’000 LVL
Balance at the beginning of the year	-	97
Net charge/(recovery) for the year	-	(6)
Balance at the end of the year	**-**	**91**

24 Intangible assets

'000 LVL	**Goodwill**	**Software**	**Other**	**Total**
Cost				
At 1 January 2009	2,720	5,722	581	**9,023**
Additions	971	147	197	**1,315**
Disposals	-	(14)	(20)	**(34)**
Goodwill allocation	(1,352)	-	1,352	**-**
Transfers	-	573	(511)	**62**
At 31 December 2009	**2,339**	**6,428**	**1,599**	**10,366**
Amortisation and impairment losses				
At 1 January 2009	605	3,914	9	**4,528**
Depreciation charge	-	758	108	**866**
Impairment losses	971	-	-	**971**
Disposals		(4)	-	**(4)**
At 31 December 2009	**1,576**	**4,668**	**117**	**6,361**
Carrying value				
At 31 December 2009	**763**	**1,760**	**1,482**	**4,005**
At 31 December 2008	**2,115**	**1,814**	**571**	**4,500**

'000 LVL	**Goodwill**	**Software**	**Other**	**Total**
Cost				
At 1 January 2008	751	5,166	368	6,285
Additions	1,969	150	438	2,557
Disposals	-	412	(226)	186
At 31 December 2008	**2,720**	**5,728**	**580**	**9,028**
Amortisation and impairment losses				
At 1 January 2008	-	3,302	5	3,307
Impairment loss	605	-	-	605
Amortization charge	-	612	4	616
At 31 December 2008	**605**	**3,914**	**9**	**4,528**
Carrying value				
At 31 December 2008	**2,115**	**1,814**	**571**	**4,500**
At 31 December 2007	**751**	**1,864**	**363**	**2,978**

Goodwill of LVL 751 thousand (2008: LVL 751 thousand) originated on the acquisition of a payment card business unit in 2001.

On October 17, 2008, the Group acquired a 90% share in Elektrobizness Ltd that operates a water power station and owns a government license ensuring a guaranteed price and volume of the sale of electric energy. The fair value of the license of LVL 1,352 thousand was assessed during the measurement period of 12 months after acquisition date based on discounted estimated future cash flows from business activities of Elektrobizness Ltd taking into account the guaranteed price and volume of production. The license was recognised as other intangible asset and will be amortised over its contractual life. Accordingly the value of goodwill of LVL 1,352 thousand was allocated to the newly recognised asset.

24 Intangible assets, continued

In 2009 Group companies acquired the following subsidiaries:

	"Deviņdesmit seši" Ltd	**"Aristida Briāna 9" Ltd**	**Total**
Date of acquisition	31.03.2009	20.02.2009	
Share %	100 %	100%	

The acquisition of the subsidiaries had the following effect on the Group's assets and liabilities at the date of acquisition:

Assets	**'000 LVL**	**'000 LVL**	**'000 LVL**
Placements with banks and other financial institutions	2	-	**2**
Loans to customers	1,170	-	**1,170**
Property and equipment	5,745	-	**5,745**
Investment property	56	794	**850**
Other assets	710	34	**744**
Deposits and balances from banks and other financial institutions	(7,251)	(745)	**(7,996)**
Current accounts and deposits from customers	(302)	-	**(302)**
Other liabilities	(119)	(9)	**(128)**
Deferred tax liability	(217)	-	**(217)**
Net identifiable assets and liabilities	**(206)**	**74**	**(132)**
Goodwill	**206**	**765**	**971**
Consideration paid	**-**	**839**	**839**

In 2009, the Group acquired 100% in Deviņdesmit Seši Ltd and Aristida Briāna 9 Ltd as a result of collection of collateral from bad loans.

Deviņdesmit Seši Ltd operates a hotel and provides leisure activity services and owns property and equipment related to its business activity. The property and equipment were valued at their fair values as at the date of acquisition based on discounted estimated future cash flows of the business. The Group rented out the property and equipment of the subsidiary subsequent to the acquisition and therefore the property was reclassified to investment property. The residual value of goodwill as at the end of the reporting period was estimated to zero, and therefore the goodwill of LVL 206 thousand was written off through impairment losses in income statement.

Aristida Briana 9 Ltd owns real estate property in Riga that is not rented out. The property was valued at its fair value as at the date of acquisition based on discounted estimated future cash flows. The residual value of goodwill as at the end of the reporting period was estimated to zero, and therefore the goodwill of LVL 758 thousand was written off through impairment losses in income statement.

The contribution to total revenue and profit of the Group by the two new subsidiaries was not material.

25 Investment property

Investment property comprises office buildings and other commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy and which are leased to third parties. The Group's investment property comprises of a juice processing terminal, residential property, plots of land, and a hotel and leisure complex.

	2009 '000 LVL	**2008 '000 LVL**
Balance at 1 January	12,629	-
Transfer from property and equipment at fair value	5,611	5,100
Collateral from loans assumed	9,920	5,821
Addition	1,803	87
Sale of subsidiaries	(208)	-
Acquisition of subsidiaries	850	1,621
Revaluation of property	(464)	-
Balance at 31 December	**30,141**	**12,629**

Rental income and operating expense

	Book value '000 LVL	**Rental income '000 LVL**	**Operating expenses '000 LVL**
Investment property rented out	8,734	51	79
Investment property not rented out	21,407	-	78
Total	**30,141**	**51**	**157**

Rental income and operating expenses are presented under Other income (expenses) in the Income statement.

Valuation of investment property as at 31 December 2009

	Valued internally '000 LVL	**External valuations '000 LVL**
Land	2,423	9,648
Residential property	-	701
Commercial property	5,755	5,100
Hotels	-	4,408
Other	-	2,106
Total	**8,178**	**21,963**

The fair value of investment property was stated within 3 months before the end of reporting period.

The fair value of residential properties and office buildings is based either on completed transactions with similar properties at similar locations or a discounted cash flow model. If similar transactions did not take place the Group and external valuation companies used discounted cash flow models, the main assumptions being market rental rates of 15Euro/m2 and discount rates in the range of 7-10%.

For commercial properties other than office building and hotels the valuation is based on expected future cash flows based on contractual terms agreed with tenants or potential tenants using the same discount rates as above. Where the rental agreements are not yet in force a probability of entering into the agreement and time delay is taken into consideration in the valuation.

26 Other assets

	2009 '000 LVL	2008 '000 LVL
Collateral assumed on non performing loans	20,708	6,788
Auction deposit	1,496	6,814
Prepayments	2,941	2,276
Recoverable VAT	1,377	1,035
Tax prepayments	34	-
Other	1,358	6,678
Impairment allowance on collateral assumed	(2,947)	(612)
	24,967	**22,979**

Analysis of movements in the value of collateral assumed on non performing loans

	2009 '000 LVL	2008 '000 LVL
Balance at the beginning of the year	6,788	-
Transfer from Loans and receivables	15,221	6,788
Sale of collateral completed	(1,301)	-
Balance at the end of the year	**20,708**	**6,788**

Analysis of movements in the impairment allowance

	2009 '000 LVL	2008 '000 LVL
Balance at the beginning of the year	612	422
Net charge/(recovery) for the year	2,340	419
Write-offs	-	(231)
Currency revaluation	(5)	2
Balance at the end of the year	**2,947**	**612**

27 Deposits and balances from banks

	2009 '000 LVL	2008 '000 LVL
Vostro accounts	2,817	2,350
Term deposits	85,896	153,015
	88,713	**155,365**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2009 the Bank had no banks (2008: two), respectively, for which balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2008 was LVL 35,609 thousand.

28 Current accounts and deposits from customers

	2009 '000 LVL	2008 '000 LVL
Current accounts and demand deposits		
- State enterprises	91	44
- Private companies	15,299	29,681
- Individuals	23,487	29,622
- Private companies non-residents	330,051	406,052
- Individuals non-residents	48,673	42,744
Total current account and demand deposits	**417,601**	**508,143**
Term deposits		
- Private companies	2,382	5,409
- Individuals	23,935	30,600
- Private companies non-residents	182,649	69,694
- Individuals non-residents	37,838	38,192
Total term deposits	**246,804**	**143,895**
Total current accounts and deposits form customers	**664,405**	**652,038**

As of 31 December 2009, the Group maintained customer deposit balances of LVL 10,269 thousand (2008: LVL 12,340 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

As of 31 December 2009 and 2008, the Group had no customers whose balances exceeded 10% of total customer accounts.

29 Other borrowed funds

	31 Dec 2009 '000 LVL	31 Dec 2008 '000 LVL
Natgaz Bull Note	454	-
USD Bear Note	441	-
USD Bull Note	-	778
US Long Bond Bear Note	-	521
	895	**1,299**

One-year notes, which were issued by the Bank in January 2008, were repaid in January 2009. The average effective interest rate of the repaid notes was 5.22%.

In March 2009, the Bank issued capital protected structured notes whose income is linked to the actual natural gas price changes and the interest income on deposits made. In April 2009, the Bank issued capital protected structured notes with a guaranteed income of 2% p.a.; the actual income is linked to actual gains on the Euro/USD exchange rate futures and deposits made. All notes issued in 2009 are denominated in USD.

30 Other liabilities

	2009 '000 LVL	2008 '000 LVL
Escrow account	2,342	-
Deferred income	1,782	5,052
Estimated liability for annual leave	605	845
Estimated liability for management bonus	400	-
VAT payable	254	-
Property tax payable	23	-
Dividends payable	4	4
Other	2,458	4,040
	7,868	**9,941**

Escrow account represents liability of the Group for acquired property for which the Group already obtained a title.

31 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2009 and 2008.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		**Liabilities**		**Net**	
'000 LVL	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Financial instruments at fair value through profit or loss	90	165	-	-	90	165
Loans and advances to customers	255	-	(692)	-	(437)	-
Property and equipment	215	291	(1,090)	(921)	(875)	(630)
Investment property	-	-	(1,020)	(417)	(1,020)	(417)
Other assets	853	56	-	-	853	56
Due to financial institutions	-	-	(22)	-	(22)	-
Other liabilities	153	122	(14)	-	139	122
Total recognised deferred tax assets/(liabilities)	**1,566**	**634**	**(2,838)**	**(1,338)**	**(1,272)**	**(704)**

The tax rate applicable in countries in which group entities operate:	2009 '000 LVL	2008 '000 LVL
Latvia	15.00%	15.00%
Belarus	26.28%	26.28%
Cyprus	10.00%	10.00%
Russia	20.00%	24.00%

31 Deferred tax asset and liability, continued

Movement in temporary differences during the year ended 31 December 2009

	'000 LVL
Balance at 1 January 2009 – deferred tax liability	(756)
Balance at 1 January 2009 – deferred tax asset	52
Purchase of subsidiaries	(217)
Charge in income statement	(364)
Release in other comprehensive income	14
Currency revaluation	(1)
Balance at 31 December 2009	**(1,272)**
Deferred tax asset	**151**
Deferred tax liability	**(1,423)**

32 Share capital and Shareholder's Equity

(a) Issued capital and share premium

The authorised and issued share capital comprises 100,000,000 ordinary shares (2008: 22,500,000). All shares have a par value of LVL 1. All issued shares are fully paid.

In December 2009 the general meeting of shareholders decided on the issuance of 77,500,000 ordinary shares at a price of LVL 1 that equals their par value.

The largest shareholders of the Bank as of December 31, 2009 and December 31, 2008 are as follows:

	2009 '000 LVL	%	2008 '000 LVL	%
Companies non-residents, total	**33,110**		**7,450**	
Boswell (International) Consulting Limited	33,110	33.11%	7,450	33.11%
Private persons, total	**66,890**		**15,050**	
Leonid Esterkin	33,110	33.11%	8,838	39.28%
Arkady Suharenko	17,330	17.33%	4,594	20.42%
Others	16,450	16.45%	1,618	7.19%
Issued capital	**100,000**	**100%**	**22,500**	**100%**
Share premium	**4,809**		**4,809**	

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

32 Share capital and Shareholder’s Equity, continued

(c) Revaluation reserve

The revaluation reserve comprises the accumulated revaluation recognised on property as follows:

	2009 ’000 LVL	**2008 ’000 LVL**
Revaluation reserve as at 1 January	1,977	3,284
Revaluation of property and equipment	(716)	(1,557)
Release of revaluation reserve due to sale of investment property	(95)	-
Deferred tax on release of revaluation reserve	14	267
Minority interest share on change in revaluation reserve	132	-
Transfer to other reserves	-	(17)
	1,312	**1,977**

The revaluation reserve for available for sale financial assets was zero as at 31 December 2009 and 2008.

(d) Foreign currency translation reserve

	2009 ’000 LVL	**2008 ’000 LVL**
Revaluation reserve as at 1 January	(179)	-
Revaluation of foreign operations	(397)	(179)
Minority interest share on change in revaluation reserve	99	-
	(477)	**(179)**

(e) Other reserves

The reserve of the Bank has been increased by LVL 20,000 thousand based on a shareholders decision on December 15, 2009.

(f) Retained earnings

The Directors have proposed the following dividends as at the reporting date:	**2009 ’000 LVL**	**2008 ’000 LVL**
Per ordinary share (2008 0.228 LVL)	-	5,130

Dividends of LVL 103,331 thousand were approved and paid out to shareholders on March 23, 2009 and December 15, 2009, LVL 5,175 thousand and LVL 98,156 thousand, respectively. In 2009 the dividends were paid from retained earnings of previous years.

33 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2009 ’000 LVL	**2008 ’000 LVL**
Cash	3,727	2,824
Balances due from the Bank of Latvia	35,262	42,723
Demand Loans and receivables from banks	209,990	228,185
Demand deposits from banks	(2,817)	(2,350)
Total	**246,162**	**271,382**

34 Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and 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 Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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 credit exposure that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2009 '000 LVL	2008 '000 LVL
Contracted amount		
Loan and credit line commitments	40,834	48,588
Credit card commitments	2,566	2,880
Undrawn overdraft facilities	4,783	5,975
Guarantees and letters of credit	4,644	8,112
Total	**52,827**	**65,555**

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.

35 Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. A provision of LVL 382 thousand (2008: LVL 387 thousand) or 50% of the amount disputed denominated in USD was made in 2007 for claims where management based on professional advice to the Group, considered it was likely that a loss could eventuate. The increase in provision in the year 2008 and decrease in 2009 is due to foreign exchange rate movements. No other amounts have been provided for.

36 Trust and custody activities

(a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such securities. The Group is not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers.

As at 31 December 2009 the total assets held by the Group on behalf of customers and assets under management were 149,989 LVL thousand (2008: LVL 161,075 thousand).

(b) Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the balance sheet.

37 Related party transactions

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

Transactions with members of the Council and the Board of Directors

Total remuneration included in employee compensation (Note 14):

	2009 '000 LVL	2008 '000 LVL
Members of the Council	127	551
Members of the Board of Directors	176	1,060
	303	**1,611**

The outstanding balances as of 31 December 2009 with members of the Council and the Board of Directors are as follows:	2009 '000 LVL	2008 '000 LVL
Balance Sheet		
Loans and receivables	620	2,910
Term deposits	2,740	9,549

38 Fair value of financial instruments

	Carrying amount 2009 '000 LVL	Fair value 2009 '000 LVL	Carrying amount 2008 '000 LVL	Fair value 2008 '000 LVL
Financial assets				
Cash and balances with central bank	38,989	38,989	45,547	45,547
Financial instruments at fair value through profit or loss	74,022	74,022	154,383	154,383
Loans and receivables from banks	301,298	301,298	238,579	238,579
Loans and receivables from customers	454,020	454,020	561,954	561,954
Available-for-sale assets	1,397	1,397	1,481	1,481
Held-to-maturity investments	5,385	5,197	20,869	20,826
Total	**875,111**	**874,923**	**1,022,813**	**1,022,770**

	Carrying amount 2009 '000 LVL	Fair value 2009 '000 LVL	Carrying amount 2008 '000 LVL	Fair value 2008 '000 LVL
Financial liabilities				
Financial instruments at fair value through profit or loss	356	356	849	849
Deposits and balances from banks	88,713	88,713	155,365	155,365
Current accounts and deposits from customers	664,405	664,405	652,038	652,038
Amounts payable under repurchase agreements	72,990	72,990	150,097	150,097
Other borrowed funds	895	895	1,299	1,299
Escrow account	2,342	2,342	-	-
Total	**829,701**	**829,701**	**959,648**	**959,648**

38 Fair value of financial instruments, continued

Fair value hierarchy

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

2009	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Available for sale assets	1,397	-	-	1,397
Financial assets at fair value through profit or loss	74,022	-	-	74,022
	75,419	**-**	**-**	**75,419**
Financial liabilities				
Financial investments at fair value through profit or loss	356	-	-	356
	356	**-**	**-**	**356**
2008				
Financial assets				
Available for sale assets	1,481	-	-	1,481
Financial assets at fair value through profit or loss	154,383	-	-	154,383
	155,864	**-**	**-**	**155,864**
Financial liabilities				
Financial investments at fair value through profit or loss	849	-	-	849
	849	**-**	**-**	**849**

(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, and assets when fair value has been stated from independent real estate valuator.

(3) Not based upon market observable input means that fair values are determined in whole or in part using a valuation technique (model) base on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

39 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 that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value '000 LVL	2009 Average Effective Interest Rate	Value '000 LVL	2008 Average Effective Interest Rate
Interest Bearing Assets				
Balance with central bank	33,953	1.37%	41,806	2.79%
Loans and receivables from banks				
Nostro accounts	184,163	1.39%	269,562	2.17%
Loans and deposits	91,308	0.81%	10,394	3.19%
Financial instruments at fair value through profit or loss	72,799	0.98%	150,050	4.21%
Loans and receivables from customers	410,599	7.77%	531,234	9.27%
Held to maturity investments	5,385	6.15%	20,869	4.00%
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions				
Vostro accounts	429	-0.17%	2,350	3.51%
Term deposits	85,896	-2.78%	150,877	5.92%
Amount payable under repurchase agreements	72,990	0.20%	150,097	1.56%
Current accounts and deposits from customers				
Current accounts and demand deposits	145,345	0.70%	346,411	1.75%
Term deposits	129,704	-4.44%	142,247	4.51%
Other borrowed funds	895	5.03%	1,299	5.22%

40 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2009.

Assets	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No contractual maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Cash and cash balances with central bank	38,989	-	-	-	-	-	-	**38,989**
Loans and receivable from banks	290,019	11,279	-	-	-	-	-	**301,298**
Financial instruments at fair value through profit or loss	73,747	210	16	49	-	-	-	**74,022**
Loans and receivables from customers	66,934	39,757	61,876	184,651	87,984	-	12,818	**454,020**
Available-for-sale assets	-	-	-	1,397	-	-	-	**1,397**
Held-to-maturity investments	-	1,517	777	-	3,091	-	-	**5,385**
Investments in associates and unconsolidated subsidiaries	-	-	-	-	-	115	-	**115**
Other	-	-	-	-	-	94,705	-	**94,705**
Total assets	**469,689**	**52,763**	**62,669**	**186,097**	**91,075**	**94,820**	**12,818**	**969,931**
Liabilities								
Financial instruments at fair value through profit or loss	334	21	1	-	-	-	-	**356**
Deposits and balances from banks	3,105	-	85,608	-	-	-	-	**88,713**
Amounts payable under repurchase agreements	72,990	-	-	-	-	-	-	**72,990**
Current accounts and deposits from customers	526,242	42,354	81,669	14,140	-	-	-	**664,405**
Other borrowed funds	895	-	-	-	-	-	-	**895**
Other	-	-	-	-	-	142,572	-	**142,572**
Total liabilities	**603,566**	**42,375**	**167,278**	**14,140**	**-**	**142,572**	**-**	**969,931**
Net position as at 31 December 2009	**(133,877)**	**10,388**	**(104,609)**	**171,957**	**91,075**	**(47,752)**	**12,818**	**-**
Net position as at 31 December 2008	**(201,778)**	**(612)**	**(16,987)**	**72,164**	**189,880**	**(61,684)**	**19,017**	**-**
Off balance sheet items	**44,415**	**268**	**7,099**	**1,045**	**-**	**-**	**-**	**52,827**

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

40 Maturity analysis, continued

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2008

Assets	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Cash and due from Bank of Latvia	45,547	-	-	-	-	-	-	**45,547**
Loans and receivable from banks	238,579	-	-	-	-	-	-	**238,579**
Financial instruments at fair value through profit or loss	154,383	-	-	-	-	-	-	**154,383**
Loans and receivables from customers	74,024	34,617	73,321	173,295	187,680	-	19,017	**561,954**
Available-for-sale assets	-	-	-	-	-	1,481	-	**1,481**
Held-to-maturity investments	-	9,888	2,453	5,904	2,624	-	-	**20,869**
Other	-	-	-	-	-	79,779	-	**79,779**
Total assets	**512,533**	**44,505**	**75,774**	**179,199**	**190,304**	**81,260**	**19,017**	**1,102,592**
Liabilities								
Financial instruments at fair value through profit or loss	769	57	23	-	-	-	-	**849**
Deposits and balances from banks	3,910	481	58,812	91,738	424	-	-	**155,365**
Amounts payable under repurchase agreements	150,097	-	-	-	-	-	-	**150,097**
Current accounts and deposits from customers	558,236	44,579	33,926	15,297	-	-	-	**652,038**
Other borrowed funds	1,299	-	-		-	-	-	**1,299**
Other	-	-	-	-	-	142,944	-	**142,944**
Total liabilities	**714,311**	**45,117**	**92,761**	**107,035**	**424**	**142,944**	**-**	**1,102,592**
Net position as at 31 December 2008	**(201,778)**	**(612)**	**(16,987)**	**72,164**	**189,880**	**(61,684)**	**19,017**	**-**
Off balance sheet items	**65,528**	**2,319**	**2,834**	**621**	**-**	**-**	**-**	**71,302**

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

41 Currency analysis

The following table shows the currency structure of assets, liabilities and shareholder's equity at 31 December 2009:

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Assets					
Cash and balances with central bank	35,555	656	2,689	89	**38,989**
Loans and receivables from banks	10,564	203,319	65,511	21,904	**301,298**
Financial instruments at fair value through profit or loss	301	73,721	-	-	**74,022**
Loans and receivables to customers	494	164,155	287,983	1,388	**454,020**
Available-for-sale assets	875	-	522	-	**1,397**
Held-to-maturity investments	1,517	3,868	-	-	**5,385**
Investments in subsidiaries	115	-	-	-	**115**
Property and equipment	31,680	-	-	1,832	**33,512**
Intangible assets	4,001	-	-	4	**4,005**
Investment property	29,861	-	-	280	**30,141**
Other assets	8,836	896	16,430	885	**27,047**
Total assets	**123,799**	**446,615**	**373,135**	**26,382**	**969,931**
Liabilities					
Financial instruments at fair value through profit or loss	352	4	-	-	**356**
Deposits and balances from banks	237	1,917	85,592	967	**88,713**
Amounts payable under repurchase agreements	-	72,990	-	-	**72,990**
Current accounts and deposits from customers	15,332	358,861	267,445	22,767	**664,405**
Other borrowed funds	-	895	-	-	**895**
Provisions	-	382	-	-	**382**
Other liabilities	2,349	1,422	3,632	465	**7,868**
Current tax liability	78	-	-	-	**78**
Deferred tax liability	1,031	-	-	392	**1,423**
Total liabilities	**19,379**	**436,471**	**356,669**	**24,591**	**837,110**
Shareholder's equity	**132,821**	**-**	**-**	**-**	**132,821**
Net on balance sheet position as of 31 December 2009	**(28,401)**	**10,144**	**16,466**	**1,791**	**-**
Net off balance sheet position as of 31 December 2009	**8,364**	**(9,178)**	**1,127**	**(728)**	**-**
Net on and off balance sheet positions as of 31 December 2009	**(20,037)**	**966**	**17,593**	**1,063**	**-**
Net on and off balance sheet positions as of 31 December 2008	**229**	**(3,525)**	**642**	**2,654**	**-**

41 Currency analysis, continued

The following table shows the currency structure of asset, liabilities and shareholder's equity at 31 December 2008:

	LVL ’000 LVL	USD ’000 LVL	EUR ’000 LVL	Other currencies ’000 LVL	Total ’000 LVL
Assets					
Cash and balances with central bank	42,899	830	1,711	107	45,547
Financial instruments at fair value through profit or loss	88	154,295	-	-	154,383
Loans and receivables from banks	-	145,189	75,890	17,500	238,579
Loans and receivables to customers	2,676	184,625	372,686	1,967	561,954
Available-for-sale assets	743	212	526	-	1,481
Held-to-maturity investments	11,367	5,864	-	3,638	20,869
Investments in associates	97	-	-	-	97
Property and equipment	35,619	-	-	-	35,619
Intangible assets	4,500	-	-	-	4,500
Other assets	35,466	380	158	3,559	39,563
Total assets	**133,455**	**491,395**	**450,971**	**26,771**	**1,102,592**
Liabilities					
Financial instruments at fair value through profit or loss	-	849	-	-	849
Deposits and balances from banks	259	1,645	150,911	2,550	155,365
Amounts payable under repurchase agreements	-	150,097	-	-	150,097
Current accounts and deposits from customers	30,489	358,728	245,098	17,723	652,038
Other borrowed funds	-	1,299	-	-	1,299
Provisions	-	387	-	-	387
Other liabilities	3,982	3,905	1,171	883	9,941
Deferred tax liability	702	-	-	54	756
Total liabilities	**35,432**	**516,910**	**397,180**	**21,210**	**970,732**
Shareholder’s equity	**131,860**	**-**	**-**	**-**	**131,860**
Net on balance sheet position as of 31 December 2008	**(33,837)**	**(25,515)**	**53,791**	**5,561**	**-**
Net off balance sheet position as of 31 December 2008	**(15,946)**	**17,295**	**(2,221)**	**872**	**-**
Net on and off balance sheet positions as of 31 December 2008	**(49,783)**	**(8,220)**	**51,570**	**6,433**	**-**
Net on and off balance sheet positions as of 31 December 2007	**(12,251)**	**3,222**	**9,273**	**(244)**	**-**

42 Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of assets, liabilities and shareholders' equity of the Group as at December 31, 2009, based on the earlier of contractual interest rate repricing or maturity:

Assets	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	Non-interest bearing '000 LVL	Total '000 LVL
Cash and balances with central bank	33,953	-	-	-	-	5,036	**38,989**
Loans and receivables from banks	265,460	11,279	-	-	-	24,559	**301,298**
Financial instruments at fair value through profit or loss	72,799	-	-	-	-	1,223	**74,022**
Loans and receivables from customers	65,639	43,174	57,609	176,738	67,437	43,423	**454,020**
Available-for-sale assets	-	-	-	-	-	1,397	**1,397**
Held-to-maturity investments	-	1,517	777	-	3,091	-	**5,385**
Other	-	-	-	-	-	94,820	**94,820**
Total assets	**437,851**	**55,970**	**58,386**	**176,738**	**70,528**	**170,458**	**969,931**
Liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	356	**356**
Deposits and balances from banks	717	-	85,608	-	-	2,388	**88,713**
Amounts payable under repurchase agreements	72,990	-	-	-	-	-	**72,990**
Current accounts and deposits from customers	145,347	33,893	81,669	14,140	-	389,356	**664,405**
Other borrowed funds	895	-	-	-	-	-	**895**
Provisions	-	-	-	-	-	382	**382**
Other liabilities	-	-	-	-	-	7,868	**7,868**
Current tax liability	-	-	-	-	-	78	**78**
Deferred tax liability	-	-	-	-	-	1,423	**1,423**
Shareholders' equity	-	-	-	-	-	132,821	**132,821**
Total liabilities	**219,949**	**33,893**	**167,277**	**14,140**	**-**	**534,672**	**969,931**
Net position as at 31 December 2009	**217,902**	**22,077**	**(108,891)**	**162,598**	**70,528**	**(364,214)**	**-**
Net position as at 31 December 2008	**96,861**	**(555)**	**(16,964)**	**72,164**	**189,880**	**(341,386)**	**-**

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of assets, liabilities and shareholders' equity of the Group as at December 31, 2008:

Assets	**Less than 1 month ’000 LVL**	**1 to 3 months ’000 LVL**	**3 months to 1 year ’000 LVL**	**1 to 5 years ’000 LVL**	**More than 5 years ’000 LVL**	**Non-interest bearing ’000 LVL**	**Total ’000 LVL**
Cash and balances with central bank	41,806	-	-	-	-	3,741	45,547
Loans and receivables from bank	221,102	-	-	-	-	17,477	238,579
Financial instruments at fair value through profit or loss	150,050	-	-	-	-	4,333	154,383
Loans and receivables from customers	74,024	34,617	73,321	173,295	187,680	19,017	561,954
Available-for-sale assets	-	-	-	-	-	1,481	1,481
Held-to-maturity investments	-	9,888	2,453	5,904	2,624	-	20,869
Other	-		-	-	-	79,779	79,779
Total assets	**486,982**	**44,505**	**75,774**	**179,199**	**190,304**	**125,828**	**1,102,592**
Liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	849	849
Deposits and balances from banks	2,542	481	58,812	91,738	424	1,368	155,365
Amounts payable under repurchase agreements	150,097	-	-	-	-	-	150,097
Current accounts and deposits from customers	236,183	44,579	33,926	15,297	-	322,053	652,038
Other borrowed funds	1,299	-	-	-	-	-	1,299
Provisions	-	-	-	-	-	387	387
Other liabilities	-	-	-	-	-	9,941	9,941
Deferred tax liability	-	-	-	-	-	756	756
Shareholders’ equity	-	-	-	-	-	131,860	131,860
Total liabilities	**390,121**	**45,060**	**92,738**	**107,035**	**424**	**467,214**	**1,102,592**
Net position as at 31 December 2008	**96,861**	**(555)**	**(16,964)**	**72,164**	**189,880**	**(341,386)**	**-**
Net position as at 31 December 2007	**48,731**	**(16,971)**	**42,740**	**34,238**	**196,170**	**(304,908)**	**-**

43 Classification of assets and liabilities

Classification of assets, liabilities and shareholders' equity of the Group as at December 31, 2009 was as follows:

Assets	**Financial assets / liabilities at amortised cost ’000 LVL**	**Financial assets / liabilities at fair value through profit or loss ’000 LVL**	**Financial assets available for sale ’000 LVL**	**Non-financial assets / liabilities ’000 LVL**	**Total ’000 LVL**
Cash and balances with central bank	38,989	-	-	-	**38,989**
Loans and receivables from banks	301,298	-	-	-	**301,298**
Financial instruments at fair value through profit or loss	-	74,022	-	-	**74,022**
Loans and receivables from customers	454,020	-	-	-	**454,020**
Available-for-sale assets	-	-	1,397	-	**1,397**
Held-to-maturity investments	5,385	-	-	-	**5,385**
Investments in subsidiaries	-	-	-	115	**115**
Intangible assets	-	-	-	4,005	**4,005**
Property and equipment	-	-	-	33,512	**33,512**
Investment property	-	-	-	30,141	**30,141**
Deferred tax asset	-	-	-	151	**151**
Current tax asset	-	-	-	1,929	**1,929**
Other assets	-	-	-	24,967	**24,967**
Total assets	**799,692**	**74,022**	**1,397**	**94,820**	**969,931**
Liabilities					
Financial instruments at fair value through profit or loss	-	356	-	-	**356**
Deposits and balances from banks	88,713	-	-	-	**88,713**
Amounts payable under repurchase agreements	72,990	-	-	-	**72,990**
Current accounts and deposits from customers	664,405	-	-	-	**664,405**
Other borrowed funds	895	-	-	-	**895**
Provisions		-	-	382	**382**
Other liabilities	2,342	-	-	5,526	**7,868**
Current tax liability	-	-	-	78	**78**
Deferred tax liability	-	-	-	1,423	**1,423**
Shareholders' equity	-	-	-	132,821	**132,821**
Total liabilities and equity	**829,345**	**356**	**-**	**140,230**	**969,931**

43 Classification of assets and liabilities, continued

Classification of assets, liabilities and shareholders' equity of the Group as at December 31, 2008 was as follows:

Assets	**Financial assets / liabilities at amortised cost ’000 LVL**	**Financial assets / liabilities at fair value through profit or loss ’000 LVL**	**Financial assets available for sale ’000 LVL**	**Non-financial assets / liabilities ’000 LVL**	**Total ’000 LVL**
Cash and balances with central bank	45,547	-	-	-	45,547
Loans and receivables from banks	238,579	-	-	-	238,579
Financial instruments at fair value through profit or loss	-	154,383	-	-	154,383
Loans and receivables from customers	561,954	-	-	-	561,954
Available-for-sale assets	-	-	1,481	-	1,481
Held-to-maturity investments	20,869	-	-	-	20,869
Investments in subsidiaries	-	-	-	97	97
Intangible assets	-	-	-	4,500	4,500
Property and equipment	-	-	-	35,619	35,619
Investment property	-	-	-	12,629	12,629
Other assets	-		-	26,934	26,934
Total assets	**866,949**	**154,383**	**1,481**	**79,779**	**1,102,592**
Liabilities					
Financial instruments at fair value through profit or loss	-	849	-	-	849
Deposits and balances from banks	155,365	-	-	-	155,365
Amounts payable under repurchase agreements	150,097	-	-	-	150,097
Current accounts and deposits from customers	652,038	-	-	-	652,038
Other borrowed funds	1,299	-	-	-	1,299
Provisions	-	-	-	387	387
Other liabilities	-	-	-	9,941	9,941
Deferred tax liability	-	-	-	756	756
Shareholders' equity	-	-	-	131,860	131,860
Total liabilities and equity	**958,799**	**849**	**-**	**142,944**	**1,102,592**