RIETUMU Banka AS

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 bank 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 Bank

	2009	2008	2007	2006
At year end (LVL'000)				
Total assets	981,645	1,117,276	1,226,059	931,214
Loans and receivables from customers	490,471	571,057	598,699	373,633
Due to customers	681,521	670,611	885,879	670,016
Total shareholder's equity	132,757	132,497	122,210	96,151
For the year (LVL'000)				
Net profit before tax	9,810	23,411	40,290	33,968
Net profit after tax	8,137	20,494	34,755	29,622
Operating income	50,716	67,750	64,565	54,387
Ratios				
Earnings per share (LVL)				
After tax	0.08	0.91	1.54	1.32
Before tax	0.10	1.04	1.79	1.51
Dividend per share (LVL)	4.59**	0.228*	0.39*	0.33*
Return on equity				
Before tax	7.39%	18.38%	36.90%	40.51%
After tax	6.13%	16.09%	31.83%	35.32%
Return on assets				
Before tax	1.00%	2.10%	3.29%	3.65%
After tax	0.83%	1.83%	2.83%	3.18%
Capital adequacy ratio	17.39%	14.72%	14.04%	14.85%
Profit margin	19%	34%	62%	62%
Number of employees	567	648	631	657

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

** - In 2009 the dividends were paid from retained earnings of previous years

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of Rietumu Bank (Bank) is responsible for the preparation of the financial statements of the Bank.

The Bank's financial statements on pages 9 to 68 are prepared in accordance with source documents and present fairly the financial position of the Bank as of 31 December 2009 and the results of its operations and cash flows for the year ended 31 December 2009.

The Banks' 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 Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. 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:

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

Riga, 22 February 2010

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

The Council of Rietumu Bank

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)

The Board of Directors

31 December 2008 – 31 December 2009

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)

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Independent Auditors' Report

To the shareholders of Rietumu Banka AS

Report on the Financial Statements

We have audited the accompanying financial statements of Rietumu Banka AS ("the Company"), which comprise the statement of financial position as at 31 December 2009, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 68.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 financial statements give a true and fair view of the financial position of Rietumu Banka AS as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards 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 Council and Management Board, as set out on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the 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 Company. In our opinion, the management report is consistent with the financial statements.

KPMG Baltics SIA
License No 55

Stephen Young
Chairman of the Board
Riga, Latvia
22 February 2010

Inga Lipšāne
Sworn Auditor
Certificate No 112

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

INCOME STATEMENT
For the year ended 31 December 2009

	Note	2009 '000 LVL	2008 '000 LVL
Interest income	6	39,838	64,686
Interest expense	6	(12,804)	(26,515)
Net interest income		**27,034**	**38,171**
Fee and commission income	7	13,258	17,576
Fee and commission expense	8	(3,100)	(4,006)
Net fee and commission income		**10,158**	**13,570**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	740	(1,996)
Net foreign exchange income	10	8,138	11,414
Net realized gain on available-for-sale assets	11	218	159
Other income	12	4,428	6,432
Operating Income		**50,716**	**67,750**
Impairment losses	13	(21,158)	(22,158)
General administrative expenses	14	(19,748)	(22,181)
Profit before income tax		**9,810**	**23,411**
Income tax expense	15	(1,673)	(2,917)
Net profit for the period		**8,137**	**20,494**

The income statement is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 14 to 68.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	Note	2009 '000 LVL	2008 '000 LVL
Profit for the period		**8,137**	**20,494**
Other comprehensive income			
Changes in fair value of available-for-sale financial assets		(1,965)	-
Change in revaluation reserve		(95)	(1,699)
Income tax related to components of other comprehensive income	15	14	267
Other comprehensive income for the period		**(2,046)**	**(1,432)**
Total comprehensive income for the period		**6,091**	**19,062**

The comprehensive income statement is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 14 to 68.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

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	38,980	45,547
Financial instruments at fair value through profit or loss	17	74,199	154,314
Loans and receivables from banks	18	299,933	237,313
Loans and receivables from customers	19	490,471	571,057
Available-for-sale assets	20	22,786	10,779
Held-to-maturity investments	21	5,385	20,869
Investments in subsidiaries	22	15,997	16,197
Property and equipment	23	5,376	5,684
Intangible assets	24	2,738	3,135
Investment property	25	5,803	5,100
Non-current assets held for sale		-	27,092
Current tax asset		1,803	3,903
Other assets	26	18,174	16,286
Total Assets		**981,645**	**1,117,276**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	17	356	511
Deposits and balances from banks	27	87,860	153,708
Current accounts and deposits from customers	28	681,521	670,611
Amounts payable under repurchase agreements	17	72,990	150,097
Provisions	35	382	387
Other borrowed funds	29	895	1,299
Deferred tax liability	31	507	595
Other liabilities	30	4,377	7,571
Total Liabilities		**848,888**	**984,779**
Share capital	32	100,000	22,500
Share premium	32	4,809	4,809
Revaluation reserve	32	1,754	1,835
Other reserves	32	20,016	16
Fair value reserve	32	(1,965)	-
Retained earnings	32	8,143	103,337
Total Shareholders' Equity		**132,757**	**132,497**
Total Liabilities and Shareholders' Equity		**981,645**	**1,117,276**
Commitments and Contingencies		55,898	71,302

The balance sheet is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 14 to 68.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

STATEMENT OF CASH FLOW **For the year ended 31 December 2009**	**2009** **'000 LVL**	**2008** **'000 LVL**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	9,810	23,411
Amortisation and depreciation	2,143	1,888
Loss on disposal of property	5	274
Impairment losses	21,158	22,158
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations	**33,116**	**47,731**
(Increase) /Decrease in loans and receivables from banks – term deposits	(80,930)	119,851
Decrease in loans and receivables from non-banking customers	48,828	17,850
Increase in assets available-for-sale investments	(13,972)	(10,545)
(Increase)/Decrease in financial instruments at fair value through profit or loss	80,115	(100,053)
Increase/(Decrease) in derivative liabilities	(155)	93
Decrease in provisions	(5)	-
(Increase)/Decrease in other assets	8,708	(1,581)
Increase/(Decrease) in deposit from banks – term deposits	(66, 734)	7,036
Increase /(Decrease) in deposits from non-banking customers	10,910	(215,268)
Increase in Investment property	(703)	-
Decrease in Non-current assets held for sale	27,092	-
Increase/(Decrease) in amounts payable under repurchase agreements	(77,107)	99,060
Increase/(Decrease) in other liabilities	(3,194)	2,563
Decrease in cash and cash equivalents from operating activities before corporate income tax	**(34,031)**	**(33,263)**
Corporate income tax paid	267	(7,543)
Net cash and cash equivalents used in operating activities	**(33,764)**	**(40,806)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,939)	(7,806)
Increase in equity investments in other entities and acquisition of subsidiaries	(300)	(1,893)
Proceeds from held-to-maturity investments	15,979	2,738
Proceeds from sale of property, plant and equipment	496	-
Cash and cash equivalents from investing activities	**14,236**	**(6,961)**
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in share capital	77,500	-
Increase in other reserves	20,000	-
(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	**(25,763)**	**(55,243)**
Cash and cash equivalents at the beginning of the year	**270,809**	**326,052**
Cash and cash equivalents at the end of the year	**245,046**	**270,809**

The statement of cash flow is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 14 to 68.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

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	Fair value reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total '000 LVL
Balance at 1 January 2008	22,500	4,809	3,284	-	16	91,601	**122,210**
Comprehensive income	-	-	(1,432)	-	-	20,494	**19,062**
Transfers	-	-	(17)	-	-	17	**-**
Dividends paid	-	-	-	-	-	(8,775)	**(8,775)**
Balance at 31 December 2008	**22,500**	**4,809**	**1,835**	**-**	**16**	**103,337**	**132,497**
Dividends paid	-	-	-	-	-	(103,331)	**(103,331)**
Increase in share capital	77,500	-	-	-	-	-	**77,500**
Increase in reserve capital	-	-	-	-	20,000	-	**20,000**
Comprehensive income	-	-	(81)	(1,965)	-	8,137	**6,091**
Balance at 31 December 2009	**100,000**	**4,809**	**1,754**	**(1,965)**	**20,016**	**8,143**	**132,757**

The 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 68.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

1 Background

Principal activities

AS "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 567 (2008: 648).

2 Basis of preparation

(a) Statement of compliance

The accompanying 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 local accounting legislation requires the Bank to prepare separate financial statements in accordance with IFRS as adopted by the European Union. The Bank also prepares consolidated financial statements for the same period in accordance with IFRS as adopted by the European Union.

The Board of Directors authorized the financial statements for issue on February 22, 2010. The shareholders may amend the financial statements.

(b) Basis of measurement

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

- financial instruments stated 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. Subsidiaries of the Bank operate in the functional currencies of LVL and USD, BYR, RUR.

3 Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between 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 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.

(b) Investment in subsidiaries

Investments in subsidiaries are valued at cost less any impairment losses.

(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) 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

3 Significant accounting policies, continued

(e) 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 Bank 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 Bank intends to sell immediately or in the near term;
- the Bank upon initial recognition designates as at fair value through profit or loss;
- the Bank upon initial recognition designates as available- for-sale; or
- the Bank 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.,

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

(ii) Recognition

The Bank 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 balance sheet on the trade date when the Bank 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.

3 Significant accounting policies, continued

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 and 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) Fair value measurement principles

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.

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in income statement depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk.

3 Significant accounting policies, continued

(e) Financial instruments, continued

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(v) 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 equity 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.

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank 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 discharge, cancelled or expire.

(vii) 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.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(viii) 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 Bank classifies all derivative financial instruments as 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 Bank 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.

(ix) 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.

(f) 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) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

3 Significant accounting policies, continued

(f) Property and equipment, continued

(iii) Revaluation

Land and buildings of the Bank 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 equity through statement of other comprehensive income, in which case it is recognised in equity through statement of other comprehensive income.

(iv) 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 become 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

(g) 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.

(h) Non-current assets held for sale

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

(i) Other assets

Under other assets is shown collateral of loans that were terminated due to default of a borrower and the Bank initiated the sales process of collateral. If the collateral is property and title has been transferred to the Bank, then assets are shown as investment property.

3 Significant accounting policies, continued

(j) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalized 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.

(k) Impairment

(i) Financial assets

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

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

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

All 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 Bank'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. According to Latvian legislation, the Bank cannot take over the 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 bank is assuming title to the asset in substance, the Bank classifies the asset as other assets.

3 Significant accounting policies, continued

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 provisions 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.

(ii) Non-financial assets

The carrying amounts of the Bank'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.

3 Significant accounting policies, continued

(l) Provisions

A provision is recognised in the balance sheet when the Bank 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.

(m) Credit related commitments

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

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

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

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

(n) 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.

3 Significant accounting policies, continued

(o) 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 Bank no longer has any liability outstanding.

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

(p) Dividends

The Bank 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.

(q) 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. The Bank 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.

3 Significant accounting policies, continued

(r) New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2009, and which the Bank 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 Bank has elected to present two statements: an income statement and a statement of comprehensive income.
  Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2009) aim at requiring enhanced disclosures about fair value measurements and liquidity risk associated with financial instruments. These amendments have been adopted by the Bank to the extent applicable to the Bank's operations. Comparative information has been re-presented so that it also is in conformity with the revised standard

(s) New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2008, and which the Bank has applied:

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

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

- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

The amendment to IAS 39 also permits an entity to transfer from the available-for-sale category to the loans and receivables category a non-derivative financial asset that otherwise would have met the definition of loans and receivables if the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

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

The Bank reclassified certain non derivative financial assets during the year. For further details see Note 17.

3 Significant accounting policies, continued

(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. Revised IAS 27 is not relevant to the Bank's financial statements.

- 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 Banks's financial statements as the Bank does not apply hedge accounting.

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

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

3 Significant accounting policies, continued

- 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 Bank's financial statements as the Bank does not provide real estate construction services or develop real estate for sale.

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

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

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

4 Risk management

The Bank has exposure to the following risks:

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

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

(a) Risk management policies and procedures

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, 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, 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 Bank 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 Bank'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.

(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 Bank'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.

4 Risk management, continued

(b) Market risk, continued

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 Bank 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 Bank 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 Bank'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 Bank 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.

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

(i) Interest rate risk

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

The Bank 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.

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 and equity as a result of changes in fair value of financial instruments at fair value though profit or loss and financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2009		31 December 2008	
	Net income	**Equity**	**Net income**	**Equity**
100 bp parallel increase	1,747	1,747	1,905	1,905
100 bp parallel decrease	(1,747)	(1,747)	(1,905)	(1,905)

(ii) Currency risk

The Bank 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 Bank's exposure to currency risk at year-end refer to Note 41 Currency analysis.

4 Risk management, continued

(ii) Currency risk, continued

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a 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	**Net income**	**Equity**	**Net income**	**Equity**
5% appreciation of USD against LVL	11	11	(124)	(124)
5% depreciation of USD against LVL	(11)	(11)	124	124
5% appreciation of EUR against LVL	197	197	92	92
5% depreciation of EUR against LVL	(197)	(197)	(92)	(92)

(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 Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of the Bank'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	**Net income**	**Equity**	**Net income**	**Equity**
5% increase in securities prices	3,684	3,684	7,466	7,466
5% decrease in securities prices	(3,684)	(3,684)	(7,466)	(7,466)

(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 Bank. The Bank 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 Bank's credit risk. The Bank's credit policy is reviewed and approved by the Management Board.

The Bank'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.

4 Risk management, continued

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 Bank'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 loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division 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 Bank 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 Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

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

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

The Bank'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 Bank 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".

(d) Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank. 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 Bank 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 Bank's liquidity policy is reviewed and approved by the Management Board.

The Bank 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.

4 Risk management, continued

(d) Liquidity risk, continued

The liquidity management policy of the Bank 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 Bank 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 Bank are presented to senior management on a daily basis. Decisions on the Bank's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank'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 Bank 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

4 Risk management, continued

(e) Operational risks, continued

- 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 Bank 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 Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Bank 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 Bank.

The Bank 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 Bank was in compliance with the statutory capital ratio during the years ended 31 December 2008 and 31 December 2009.

4 Risk management, continued

(f) Capital management, continued

The following table shows the composition of the Bank'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	20,016	16
Retained earnings from prior years	6	82,843
Current year profit	8,137	20,494
Deductions from the capital base		
Intangible assets	(2,738)	(3,135)
Other deductions	(2,766)	(1,840)
Dividends declared	-	(5,130)
Total tier 1 capital	**127,464**	**120,557**
Tier 2 capital		
Asset revaluation reserve	-	57
Total tier 2 capital	**-**	**57**
Total capital	**127,464**	**120,614**
Capital requirement	**58,645**	**65,540**
Total capital adequacy ratio	**17.39%**	**14.72%**

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 exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank 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 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) Valuation of financial instruments

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

All financial instruments that are carried at fair value were valued based on their market values.

(iii) Impairment of financial instruments

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

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

5 Use of estimates and judgements, continued

(iv) 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 relies on external valuations and assesses the reliability of such valuation in light of the current market situation.

(v) Valuation of assets shown under other assets

The assets assumed as collateral are valued at lower of cost and net realisable value. When assessing the net realisable value of the assets, the management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers).

6 Net interest income

	2009 '000 LVL	2008 '000 LVL
Interest income		
Loans and advances due from customers	35,668	49,387
Loans and advances due from financial institutions	2,802	9,928
Amounts receivable under reverse repurchase agreements	79	3,917
Financial instruments at fair value through profit or loss	876	795
Held-to-maturity investments	413	659
	39,838	**64,686**
Interest expense		
Current accounts and deposits due to customers	8,011	15,167
Deposits and balances due to financial institutions	3,469	9,726
Amounts payable under repurchase agreements	356	93
Certificates of deposit and promissory notes	34	58
Other interest expense	934	1,471
	12,804	**26,515**

7 Fee and commission income

	2009 '000 LVL	2008 '000 LVL
Money transfers	6,181	9,223
Commission income from payment cards	2,885	3,125
Revenue from customer asset management and brokerage commissions	971	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	1,747
	13,258	**17,576**

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	268	480
Cash withdrawal fees	12	12
Other	345	541
	3,100	**4,006**

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

	2009 '000 LVL	2008 '000 LVL
Equity instruments	420	(227)
Debt instruments	(157)	(2,094)
Derivatives	477	325
	740	**(1,996)**

10 Net foreign exchange income/(loss)

	2009 '000 LVL	2008 '000 LVL
Gain/(loss) from revaluation of financial assets and liabilities	(21)	(496)
Gain/(loss) on conversion of foreign currency	8,159	11,910
	8,138	**11,414**

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

	2009 '000 LVL	2008 '000 LVL
Equity instruments	218	159
	218	**159**

12 Other income /(expenses)

	2009 '000 LVL	2008 '000 LVL
Dividends received	313	217
Penalties received	226	1,714
Profit from sale of property	(5)	-
Income from operating lease	225	449
Other	3,669	4,052
	4,428	**6,432**

Other income includes a release of a liability of LVL 2,283 thousand (2008: LVL 3,131 thousand) for which there is evidence that no obligation is outstanding at reporting date.

13 Impairment losses

	2009 '000 LVL	2008 '000 LVL
Impairment losses		
Loans and receivables from customers	(21,580)	(21,700)
Held-to maturity financial instruments	-	(327)
Investments in subsidiaries	(500)	-
Other assets	(1,840)	(406)
	(23,920)	**(22,433)**
Reversals of impairment losses		
Loans and receivables from customers	2,267	177
Property and equipment	-	97
Held-to-maturity investments	495	-
Other assets	-	1
	2,762	**275**
Net impairment losses	**(21,158)**	**(22,158)**

14 General administrative expenses

	2009 '000 LVL	2008 '000 LVL
Employee compensation	7,176	9,043
Depreciation and amortisation	2,143	1,888
Payroll related taxes	1,810	1,872
Rent	1,577	544
Communications and information services	805	923
Repairs and maintenance	755	1,011
Salaries to Board of Directors and Council	720	1,611
Taxes other than on corporate income and payroll	653	969
Travel expenses	458	326
Charity and sponsorship	407	763
Security	349	549
Insurance	343	411
Advertising and marketing	226	221
Professional services	217	207
Office supplies (Stationary)	41	61
Other	2,068	1,782
	19,748	**22,181**

Rent expenses relate to rent paid for Vesetas 7 building since 2009 when the building was sold to the Bank's subsidiary.

15 Income tax expense

Recognised in the income statement	**2009 '000 LVL**	**2008 '000 LVL**
Current tax expense		
Current year	1,747	3,342
	1,747	**3,342**
Deferred tax expense		
Origination and reversal of temporary differences	(74)	(425)
Total income tax expense in the income statement	**1,673**	**2,917**

The Bank's applicable tax rate for current and deferred tax is 15% (2008: 15%).

Reconciliation of effective tax rate:

	2009 '000 LVL	**%**	**2008 '000 LVL**	**%**
Income before tax	9,810	-	23,411	-
Income tax at the applicable tax rate	1,472	15.00%	3,512	15.00%
Non-deductible expenses	584	5.95%	236	1.01%
Tax exempt income	(47)	(0.48%)	(33)	(0.14%)
Reversal of previously non-recognised tax loss	-	0.00%	(113)	(0.48%)
Tax relief on donations	(336)	(3.43%)	(685)	(2.93%)
	1,673	**17.05%**	**2,917**	**12.46%**

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
Release of revaluation reserve	(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 composed of the following items:

	2009 '000 LVL	**2008 '000 LVL**
Cash	3,718	2,824
Balances due from the Bank of Latvia	35,262	42,723
	38,980	**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.

16 Cash and balances with central bank, continued

In accordance with the Bank of Latvia's regulations the Bank 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**
USA government bonds	72,976	150,050
Equity investments	493	2,805
Derivative financial instruments	730	1,459
Total assets at fair value through profit or loss	**74,199**	**154,314**
Derivative financial instruments	(356)	(511)
Total liabilities at fair value through profit or loss	**(356)**	**(511)**

Amount payable under repurchase agreement, at amortised cost	72,990	150,097
Assets pledged under repurchase agreements	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	459	75,643	402	71,224
Option premium	63	63	49	49
Embedded derivatives separated from host contract	-	-	1,008	-
Swap contracts	208	208	-	-
Total derivative financial assets	**730**	**-**	**1,459**	**-**
Liabilities				
Swap contracts	4	4	-	-
Forward contracts	352	75,529	511	71,259
Total derivative liabilities	**356**	**-**	**511**	**-**

Financial instruments reclassified to loans and receivables

Pursuant to the amendments to IAS 39 and IFRS 7, as of 1 July 2008, the Bank reclassified trading assets of LVL 22,907 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	Other comprehensive income	Income statement	Other comprehensive income
Net gain / (loss) on financial instruments at fair value through profit and loss reclassified to loans and advances to customers	(351)	(351)	1,141	1,141

18 Loans and receivables from banks

	2009 '000 LVL	2008 '000 LVL
Nostro accounts		
Latvian commercial banks	22,344	20,553
OECD banks	177,254	161,240
Non-OECD banks	9,704	45,819
Total Nostro accounts	**209,302**	**227,612**
Deposit accounts		
Latvian commercial banks	10,664	6,930
OECD banks	76,832	205
Non-OECD banks	3,135	2,566
Total loans and deposits	**90,631**	**9,701**
	299,933	**237,313**

Concentration of placements with banks and other financial institutions

As at 31 December 2009 the Bank 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	463,148	518,335
Individuals	53,378	71,039
Specific impairment allowance	(25,035)	(18,317)
Collective impairment allowance	(1,020)	-
Net Loans and receivables from customers	**490,471**	**571,057**

19 Loans and receivables from customers, continued

(a) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

As at 31 Dec 2009	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms: Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying value of overdue loans
Net carrying amount	**490,471**	421,586	54,542	8,065	1,486	4,792	68,885
Out of which impaired	**52,268**	41,450	1,615	3,378	1,363	4,462	10,818
Assessed fair value of collateral	**652,871**	538,832	95,758	7,395	2,160	8,726	114,039
As at 31 Dec 2008							
Net carrying amount	**571,057**	503,928	54,561	5,133	4,973	2,462	67,129
Out of which impaired	**59,712**	44,923	3,619	4,367	4,970	1,833	14,789
Assessed fair value of collateral	**793,734**	713,888	60,358	6,961	8,000	4,527	79,846

(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	207,371	42.24	220,456	38.60
Commercial assets pledge	105,106	21.51	126,467	22.15
Land mortgage	64,039	13.04	85,265	14.93
Traded securities	33,252	6.77	35,343	6.19
Mortgage on residential properties	31,492	6.41	42,821	7.50
Bonds classified as loans and receivables	22,709	4.63	23,305	4.08
Deposit	2,359	0.48	1,949	0.34
Guarantee	1,651	0.34	13,447	2.35
Other	22,492	4.58	22,004	3.86
Total	**490,471**	**100**	**571,057**	**100**

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

19 Loans and receivables from customers, continued

(iii) Impaired loans

	2009 '000 LVL	2008 '000 LVL
Impaired loans gross	77,303	78,029
Specific impairment allowance	(25,035)	(18,317)
Net Loans and receivables from customers	**52,268**	**59,712**
Fair value of collateral related to impaired loans	**73,322**	**90,006**

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

	2009 '000 LVL Gross	Specific Impairment allowance	Collective Impairment allowance	2008 '000 LVL Gross	Specific Impairment allowance
Standard	440,136	(137)	(1,020)	512,092	-
Watch	40,621	(7,377)	-	40,184	(4,698)
Substandard	31,298	(14,385)	-	33,130	(10,431)
Doubtful	4,248	(2,913)	-	3,820	(3,040)
Lost	223	(223)	-	148	(148)
Total	**516,526**	**(25,035)**	**(1,020)**	**589,374**	**(18,317)**

(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	18,317	2,913
Charge for the year:		
Specific impairment allowance	20,560	21,700
Collective impairment allowance	1,020	-
Reversal of specific impairment allowance loss	(2,267)	(177)
Effect of foreign currency translation	(65)	(125)
Derecognition of loans and transfer to other assets	(11,510)	(5,994)
Balance at 31 December	**26,055**	**18,317**

When loans foreclose and recovery through sale of collateral commences, the Bank reclassifies the carrying value of the loan to other assets. Consequently the impairment allowance related to these loans is written off.

19 Loans and receivables from customers, continued

(v) Restructured loans

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

LVL'000	2009 '000 LVL	2008 '000 LVL
Interest 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	137,954	171,510
Financial services	167,988	168,165
Individuals	47,298	69,527
Manufacturing	35,896	40,734
Wholesale and retailing	23,792	38,750
Fin. instruments classified as loans and receivables	22,709	23,305
Food industry	17,518	23,108
Transport and communication	14,951	9,776
Tourism	1,225	616
Other	21,140	25,566
	490,471	**571,057**

(b) Geographical analysis of the loan portfolio

	2009 '000 LVL	2008 '000 LVL
Latvia	238,781	275,425
OECD countries	58,735	165,559
Non-OECD countries	192,955	130,073
	490,471	**571,057**

(c) Significant credit exposures

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

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

20 Available-for-sale assets

	2009 '000 LVL	2008 '000 LVL
Equity investments		
RB Opportunity Fund I	22,634	10,542
Corporate shares	152	237
	22,786	**10,779**

The Bank founded RB Opportunity Fund in December 2008. The net assets of the fund comprise LVL 22,634 thousand at the end of the year 2009. The assets of the Fund comprised mainly real estate, such as land and buildings. The Bank is the only owner of the fund's units as at 31 December 2009 and the units of the fund are currently available for public subscription.

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**

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 subsidiaries

The subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	Ownership %	Cost of investment	Ownership %	Cost of invest-ment
			31 December 2009		31 December 2008	
RB Securities Ltd	Stasinou Street 1, Mitsui Bulding, 2nd floor, office 5, Plateia Eleftherias, P.C. 1060, Nicosia, Cyprus	Financial services	99.99%	7,700	99.99%	7,700
SIA “RB Investments”	Vesetas 7, Riga, Latvia	Investments	100%	5,000	100%	5,000
AS “RB Securities” IBS	Vesetas 7, Riga, Latvia	Financial services	100%	1,104	100%	804
AS “RB Asset management” IPS	Vesetas 7, Riga, Latvia	Financial services	100%	700	100%	700
SIA “RB Drošība”	Vesetas 7, Riga, Latvia	Security services	100%	50	100%	50
SIA “RB Vidzeme”	Vesetas 7, Riga, Latvia	Investments	100%	50	100%	50
SIA”RB Namu serviss”	Vesetas 7, Riga, Latvia	Real estate operating	100%	2	100%	2
“Westleasing” OOO	Fabriciusa street 8, 4th floor, office42, Minsk Belarus	Leasing company	50%	56	50%	56
“Westtransinvest” OOO	Fabriciusa street 8, 4th floor, office18, Minsk Belarus	Leasing Company	50%	169	50%	169
“Westleasing-M” OOO	Kostjakova street 10, Moscow, Russia	Leasing Company	50%	1,666	50%	1,666
Rietumu bankas Labdarības fonds	Vesetas 7, Riga, Latvia	Charity	-	-	-	-
Total				**16,497**		**16,197**
Specific allowance for AS “RB Securities” IBS				**(500)**		-
Net investment in subsidiaries				**15,997**		**16,197**

The Bank has right to appoint the majority of Board members in subsidiaries with 50% shareholding and can therefore exercise control.

23 Property and equipment

'000 LVL	Land and buildings	Const-ruction in progress	Vehicles	Office equipment	Leasehold improve-ments	Total
Cost/Revalued amount						
1 January 2009	223	-	1,981	9,600	162	**11,966**
Additions	-	201	53	1,288	-	**1,542**
Disposals	(223)	(201)	(520)	(637)	(162)	**(1,743)**
At 31 December 2009	**-**	**-**	**1,514**	**10,251**	**-**	**11,765**
Depreciation and impairment losses						
At 1 January 2009	59	-	1,052	5,009	162	**6,282**
Depreciation charge	2	-	356	1,023	-	**1,381**
Disposals	(61)	-	(469)	(582)	(162)	**(1,274)**
At 31 December 2009	**-**	**-**	**939**	**5,450**	**-**	**6,389**
Carrying value						
At 31 December 2009	**-**	**-**	**575**	**4,801**	**-**	**5,376**
At 31 December 2008	164	-	929	4,591	-	5,684

23 Property and equipment, continued

'000 LVL	Land and buildings	Const-ruction in progress	Vehicles	Office equipment	Leasehold improve-ments	Total
Cost/Revalued amount						
At 1 January 2008	7,955	19,583	2,176	7,915	162	37,791
Additions	30	5,802	1	1,385	-	7,218
Disposals	(196)	(113)	(321)	(410)	-	(1,040)
Reversal of impairment loss	97	-	-	-	-	97
Revaluation	(1,699)	-	-	-	-	(1,699)
Transferred to Assets held for sale	(864)	(26,228)	-	-	-	(27,092)
Transferred to Investment property	(5,100)	-	-	-	-	(5,100)
Transfers	-	956	125	710	-	1,791
At 31 December 2008	**223**	**-**	**1,981**	**9,600**	**162**	**11,966**
Depreciation and impairment losses						
At 1 January 2008	152	-	937	4,525	162	5,776
Depreciation charge	7	-	404	861	-	1,272
Disposals	(100)	-	(289)	(377)	-	(766)
At 31 December 2008	**59**	**-**	**1,052**	**5,009**	**162**	**6,282**
Carrying value						
At 31 December 2008	**164**	**-**	**929**	**4,591**	**-**	**5,684**
At 31 December 2007	7,803	19,583	1,239	3,390	-	32,015

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	-	(97)
Balance at the end of the year	**-**	**-**

24 Intangible assets

’000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2009	751	5,725	580	**7,056**
Additions	-	202	195	**397**
Disposals	-	(14)	(20)	**(34)**
At 31 December 2009	**751**	**5,913**	**755**	**7,419**
Amortisation and impairment losses				
At 1 January 2009	-	3,912	9	**3,921**
Depreciation charge	-	758	4	**762**
Disposals		(2)	-	**(2)**
At 31 December 2009	**-**	**4,668**	**13**	**4,681**
Carrying value				
At 31 December 2009	**751**	**1,245**	**742**	**2,738**
At 31 December 2008	**751**	**1,813**	**571**	**3,135**

’000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2008	751	5,163	368	6,282
Additions	-	150	438	588
Disposals	-	412	(226)	186
At 31 December 2008	**751**	**5,725**	**580**	**7,056**
Amortisation and impairment losses				
At 1 January 2008	-	3,300	5	3,305
Depreciation charge	-	612	4	616
At 31 December 2008	**-**	**3,912**	**9**	**3,921**
Carrying value				
At 31 December 2008	**751**	**1,813**	**571**	**3,135**
At 31 December 2007	**751**	**1,863**	**363**	**2,977**

Goodwill originated on the acquisition of a payment card business unit in 2001.

25 Investment property

	2009 '000 LVL	2008 '000 LVL
Balance at 1 January	5,100	-
Transfer in of property Brivibas 54, Riga, at fair value	-	5,100
Addition	703	-
Balance at 31 December	**5,803**	**5,100**

26 Other assets

	2009 '000 LVL	2008 '000 LVL
Collateral assumed on non performing loans	17,942	11,176
Prepayments	2,303	1,479
Recoverable VAT	151	1,035
Other	211	3,194
Impairment allowance on collateral assumed	(2,433)	(598)
	18, 174	**16,286**

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	11,176	-
Transfer from Loans and receivables	12,445	11,176
Sale of collateral completed	(5,679)	-
Balance at the end of the year	**17,942**	**11,176**

Analysis of movements in the impairment allowance

	2009 '000 LVL	2008 '000 LVL
Balance at the beginning of the year	598	292
Net charge/(recovery) for the year	1,840	406
Write-offs	(5)	(103)
Currency revaluation	-	3
Balance at the end of the year	**2,433**	**598**

27 Deposits and balances from banks

	2009 '000 LVL	2008 '000 LVL
Vostro accounts	3,236	2,350
Term deposits	84,624	151,358
	87,860	**153,708**

27 Deposits and balances from banks, continued

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	24,119	44,564
- Individuals	23,487	29,622
- Private companies non-residents	329,492	409,742
- Individuals non-residents	48,673	42,744
Total current account and demand deposits	**425,862**	**526,716**
Term deposits		
- Private companies	11,590	5,409
- Individuals	23,935	30,600
- Private companies non-residents	182,296	69,694
- Individuals non-residents	37,838	38,192
Total term deposits	**255,659**	**143,895**
Total current accounts and deposits form customers	**681,521**	**670,611**

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

As of 31 December 2009 and 2008, the Bank 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
Deferred income	1,782	5,052
Estimated liability for annual leave	597	845
Estimated liability for management bonus	400	-
Dividends payable	4	4
Other	1,594	1,670
	4,377	**7,571**

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	33	-	-	-	33	-
Investment in subsidiaries	75	-	-	-	75	-
Property and equipment	212	257	(1,060)	(834)	(848)	(577)
Investment property	-	-	(310)	(310)	(310)	(310)
Other assets	301	-	-	-	301	
Other liabilities	152	127	-	-	152	127
Total deferred tax assets/(liabilities)	**863**	**549**	**(1,370)**	**(1,144)**	**(507)**	**(595)**
Recognised net deferred tax assets/(liabilities)	**863**	**549**	**(1,370)**	**(1,144)**	**(507)**	**(595)**

The rate of tax applicable for deferred taxes was 15% (2008: 15%).

Movement in temporary differences during the year ended 31 December 2009:

	Balance 1 Jan 2009	Recognised in profit	Recognised in other compr. income	Balance 31 Dec 2009
Financial instruments at fair value through profit or loss	(165)	75	-	(90)
Loans and advances to customers	-	(33)	-	(33)
Investment in subsidiaries	-	(75)	-	(75)
Property and equipment	577	285	(14)	848
Investment property	310	-	-	310
Other assets	-	(301)	-	(301)
Other liabilities	(127)	(25)	-	(152)
	595	**(74)**	**(14)**	**507**

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	7,450
Private persons, total	**66,890**	**15,050**
Leonid Esterkin	33,110	8,838
Arkady Suharenko	17,330	4,594
Others	16,450	1,618
Issued capital	**100,000**	**22,500**
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.

(b) Revaluation reserve

The revaluation reserve relates to the revaluation recognised on property prior to its reclassification as investment property during 2008.

(c) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(d) Other reserves

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

(e) 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 in total amount 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.

33 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2009 '000 LVL	2008 '000 LVL
Cash	3,718	2,824
Balances due from the Bank of Latvia	35,262	42,723
Demand Loans and receivables from banks	209,302	227,612
Demand deposits from banks	(3,236)	(2,350)
Total	**245,046**	**270,809**

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 accounting exposure that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2009 '000 LVL	2008 '000 LVL
Contracted amount		
Loan and credit line commitments	43,905	54,335
Credit card commitments	2,566	2,880
Undrawn overdraft facilities	4,783	5,975
Guarantees and letters of credit	4,644	8,112
Total	**55,898**	**71,302**

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 Bank 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 Bank, 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 Bank on behalf of customers. The Bank earns commission income for holding such securities. The Bank is not subject to interest, credit, liquidity 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 Bank on behalf of customers and assets under management were 186,189 LVL thousand (2008: LVL 162,927 thousand).

(b) Custody activities

The Bank 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 Bank 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.

Loans and receivables from related parties:

	2009 ’000 LVL	**2008 ’000 LVL**
Loans and receivables at the beginning of the year	38,614	5,683
Loans issued during the year	107,623	224,708
Due to changes in the structure of related parties	1,604	28,325
Loan repayment during the year	(87,750)	(220,102)
Loans and receivables at the end of the year	**60,091**	**38,614**
Interest income earned	4,321	2,264

Deposits from related parties

	2009 ’000 LVL	**2008 ’000 LVL**
Deposits at the beginning of the year	11,647	12,871
Deposits received during the year	23,735	24,692
Due to changes in the structure of related parties	13	(435)
Deposits repaid during the year	(30,174)	(25,481)
Deposits at the end of the year	**5,221**	**11,647**
Interest expense on deposits	773	944

37 Related party transactions, continued

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	469	2,910
Term deposits	2,740	9,549

38 Fair value of financial instruments

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	38,980	38,980	45,547	45,547
Financial instruments at fair value through profit or loss	74,199	74,199	154,314	154,314
Loans and receivables from banks	299,933	299,933	273,313	273,313
Loans and receivables from customers	490,471	490,471	571,057	571,057
Available-for-sale assets	22,786	22,786	10,779	10,779
Held-to-maturity investments	5,385	5,197	20,869	20,826
Total	**931,754**	**931,566**	**1,075,879**	**1,075,836**

38 Fair value of financial instruments, continued

	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	511	511
Deposits and balances from banks	87,860	87,860	153,708	153,708
Current accounts and deposits from customers	681,521	681,521	670,611	670,611
Amounts payable under repurchase agreements	72,990	72,990	150,097	150,097
Other borrowed funds	895	895	1,299	1,299
Total	**843,622**	**842,622**	**976,226**	**976,226**

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	152	22,634	-	22,786
Financial assets at fair value through profit or loss	74,199	-	-	74,199
	74,351	**22,634**	**-**	**96,985**
Financial liabilities				
Financial investments at fair value through profit or loss	356	-	-	356
	356	**-**	**-**	**356**
2008				
Financial assets				
Available for sale assets	237	10,542	-	10,779
Financial assets at fair value through profit or loss	154,314	-	-	154,314
	154,551	**10,542**	**-**	**165,093**
Financial liabilities				
Financial investments at fair value through profit or loss	511	-	-	511
	511	**-**	**-**	**511**

(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.

38 Fair value of financial instruments, continued

(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	184,743	1.40%	210,135	2.18%
Loans and deposits	90,631	0.79%	9,701	3.19%
Financial instruments at fair value through profit or loss	72,976	0.98%	150,050	4.21%
Loans and receivables from customers	445,791	6.89%	552,040	8.51%
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	848	0.17%	982	3.51%
Term deposits	84,624	2.73%	151,358	5.87%
Amount payable under repurchase agreements	72,990	0.20%	150,097	1.56%
Current accounts and deposits from customers				
Current accounts and demand deposits	153,606	0.70%	204,663	1.75%
Term deposits	138,559	4.42%	143,895	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 maturity ’000 LVL**	**Overdue ’000 LVL**	**Total ’000 LVL**
Cash and cash balances with central bank	38,980	-	-	-	-	-	-	**38,980**
Loans and receivable from banks	289,331	10,602	-	-	-	-	-	**299,933**
Financial instruments at fair value through profit or loss	73,924	210	16	49	-	-	-	**74,199**
Loans and receivables from customers	67,133	38,412	64,090	221,552	88,466	-	10,818	**490,471**
Available-for-sale assets	-	-	-	22,634	-	152	-	**22,786**
Held-to-maturity investments	-	1,517	777	-	3,091	-	-	**5,385**
Other	1,015	414	1,824	16,455	269	29,914	-	**49,891**
Total assets	**470,383**	**51,155**	**66,707**	**260,690**	**91,826**	**30,066**	**10,818**	**981,645**
Liabilities								
Financial instruments at fair value through profit or loss	334	21	1	-	-	-	-	**356**
Deposits and balances from banks	3,524	-	84,336	-	-	-	-	**87,860**
Amounts payable under repurchase agreements	72,990	-	-	-	-	-	-	**72,990**
Current accounts and deposits from customers	542,962	42,750	81,669	14,140	-	-	-	**681,521**
Other borrowed funds	895	-	-		-	-	-	**895**
Other	3,611	4	-	1,144	-	507	-	**5,266**
Total liabilities	**624,316**	**42,775**	**166,006**	**15,284**	**-**	**507**	**-**	**848,888**
Net position as at 31 December 2009	**(153,933)**	**8,380**	**(99,299)**	**245,406**	**91,826**	**29,559**	**10,818**	**132,757**
Net position as at 31 December 2008	**(220,218)**	**27,089**	**19,844**	**73,648**	**191,235**	**29,758**	**11,141**	**132,497**
Off balance sheet items	**47,485**	**268**	**7,099**	**1,046**	**-**	**-**	**-**	**55,898**

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 cash balances with central bank	45,547	-	-	-	-	-	-	**45,547**
Loans and receivable from banks	237,313	-	-	-	-	-	-	**237,313**
Financial instruments at fair value through profit or loss	154,314	-	-	-	-	-	-	**154,314**
Loans and receivables from customers	67,788	36,070	90,587	176,860	188,611	-	11,141	**571,057**
Available-for-sale assets	10,542	-	-	-	-	237	-	**10,779**
Held-to-maturity investments	-	9,888	2,453	5,904	2,624	-	-	**20,869**
Other	-	-	-	-	-	77,397	-	**77,397**
Total assets	**515,504**	**73,218**	**113,061**	**182,764**	**191,235**	**30,353**	**11,141**	**1,117,276**
Liabilities								
Financial instruments at fair value through profit or loss	431	57	23	-	-	-	-	**511**
Deposits and balances from banks	3,910	-	58,785	91,013	-	-	-	**153,708**
Amounts payable under repurchase agreements	150,097	-	-	-	-	-	-	**150,097**
Current accounts and deposits from customers	576,809	44,579	33,926	15,297	-	-	-	**670,611**
Other borrowed funds	1,299	-	-		-	-	-	**1,299**
Other	3,176	1,493	483	2,806	-	595	-	**8,553**
Total liabilities	**735,722**	**46,129**	**93,217**	**109,116**	**-**	**595**	**-**	**984,779**
Net position as at 31 December 2008	**(220,218)**	**27,089**	**19,844**	**73,648**	**191,235**	**29,758**	**11,141**	**132,497**
Net position as at 31 December 2007	**(214,549)**	**(15,870)**	**42,938**	**34,000**	**196,634**	**48,243**	**30,814**	**122,210**
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	35,546	656	2,686	89	**38,980**
Loans and receivables from banks	10,525	203,720	64,028	21,660	**299,933**
Financial instruments at fair value through profit or loss	301	73,898	-	-	**74,199**
Loans and receivables to customers	494	164,041	324,593	1,343	**490,471**
Available-for-sale assets	25	-	22,761		**22,786**
Held-to-maturity investments	1,517	3,868	-	-	**5,385**
Investments in subsidiaries	15,997	-	-	-	**15,997**
Property and equipment	5,376	-	-	-	**5,376**
Intangible assets	2,738	-	-	-	**2,738**
Investment property	5,803	-	-	-	**5,803**
Other assets	3,447	73	16,430	27	**19,977**
Total assets	**81,769**	**446,256**	**430,501**	**23,119**	**981,645**
Liabilities					
Financial instruments at fair value through profit or loss	352	4	-	-	**356**
Deposits and balances from banks	237	1,917	85,419	287	**87,860**
Amounts payable under repurchase agreements	-	72,990	-	-	**72,990**
Current accounts and deposits from customers	15,775	358,884	284,095	22,767	**681,521**
Other borrowed funds	-	895	-	-	**895**
Provisions	-	382	-	-	**382**
Other liabilities	1,853	1,402	1,121	1	**4,377**
Deferred tax liability	507	-	-	-	**507**
Total liabilities	**18,724**	**436,474**	**370,635**	**23,055**	**848,888**
Shareholder's equity	**132,757**	**-**	**-**	**-**	**-**
Net on balance sheet position as of 31 December 2009	**(69,712)**	**9,782**	**59,866**	**64**	**-**
Net off balance sheet position as of 31 December 2009	**66,439**	**(9,988)**	**(56,546)**	**95**	**-**
Net on and off balance sheet positions as of 31 December 2009	**(3,273)**	**(206)**	**3,320**	**159**	**-**
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	154,226	-	-	154,314
Loans and receivables from banks	-	145,004	75,875	16,434	237,313
Loans and receivables to customers	1,879	192,123	375,185	1,870	571,057
Available-for-sale assets	10,567	212	-	-	10,779
Held-to-maturity investments	11,367	5,864	-	3,638	20,869
Investments in subsidiaries	16,197	-	-	-	16,197
Property and equipment	5,684	-	-	-	5,684
Intangible assets	3,135	-	-	-	3,135
Other assets	52,191	32	158	-	52,381
Total assets	**144,007**	**498,291**	**452,929**	**22,049**	**1,117,276**
Liabilities					
Financial instruments at fair value through profit or loss	-	511	-	-	511
Deposits and balances from banks	259	1,185	149,926	2,338	153,708
Amounts payable under repurchase agreements	-	150,097	-	-	150,097
Current accounts and deposits from customers	31,343	361,727	259,612	17,929	670,611
Other borrowed funds	-	1,299	-	-	1,299
Provisions	-	387	-	-	387
Other liabilities	2,495	3,905	1,171	-	7,571
Deferred tax liability	595	-	-	-	595
Total liabilities	**34,692**	**519,111**	**410,709**	**20,267**	**984,779**
Shareholder's equity	**132,497**	**-**	**-**	**-**	**-**
Net on balance sheet position as of 31 December 2008	**(23,182)**	**(20,820)**	**42,220**	**1,782**	**-**
Net off balance sheet position as of 31 December 2008	**23,411**	**17,295**	**(41,578)**	**872**	**-**
Net on and off balance sheet positions as of 31 December 2008	**229**	**(3,525)**	**642**	**2,654**	**-**
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 Bank as at December 31, 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	Non-interest bearing '000 LVL	Total '000 LVL
Cash and balances with central bank	33,953	-	-	-	-	5,027	**38,980**
Loans and receivables from banks	264,772	10,602	-	-	-	24,559	**299,933**
Financial instruments at fair value through profit or loss	72,976	-	-	-	-	1,223	**74,199**
Loans and receivables from customers	65,814	41,790	59,564	210,704	67,919	44,680	**490,471**
Available-for-sale assets	-	-	-	-	-	22,786	**22,786**
Held-to-maturity investments	-	1,517	777	-	3,091	-	**5,385**
Other	-	-	-	-	-	49,891	**49,891**
Total assets	**437,515**	**53,909**	**60,341**	**210,704**	**71,010**	**148,166**	**981,645**
Liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	356	**356**
Deposits and balances from banks	1,136	-	84,336	-	-	2,388	**87,860**
Amounts payable under repurchase agreements	72,990	-	-	-	-	-	**72 990**
Current accounts and deposits from customers	153,606	42,750	81,669	14,140	-	389,356	**681,521**
Other borrowed funds	895	-	-	-	-	-	**895**
Provisions	-	-	-	-	-	382	**382**
Other liabilities	-	-	-	-	-	4,377	**4,377**
Deferred tax liability	-	-	-	-	-	507	**507**
Shareholders' equity	-	-	-	-	-	132,757	**132,757**
Total liabilities	**228,627**	**42,750**	**166,005**	**14,140**	**-**	**530,123**	**981,645**
Net position as at 31 December 2009	**208,888**	**11,159**	**(105,664)**	**196,564**	**71,010**	**(381,957)**	**-**
Net position as at 31 December 2008	**77,022**	**(74)**	**(9,918)**	**74,973**	**190,304**	**(332,307)**	**-**

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 Bank 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	219,836	-	-	-	-	17,477	237,313
Financial instruments at fair value through profit or loss	150,050	-	-	-	-	4,264	154,314
Loans and receivables from customers	74,024	34,617	80,340	175,379	187,680	19,017	571,057
Available-for-sale assets	-	-	-	-	-	10,779	10,779
Held-to-maturity investments	-	9,888	2,453	5,904	2,624	-	20,869
Other	-		-	-	-	77,397	77,397
Total assets	**485,716**	**44,505**	**82,793**	**181,283**	**190,304**	**132,675**	**1,117,276**
Liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	511	511
Deposits and balances from banks	2,542	-	58,785	91,013	-	1,368	153,708
Amounts payable under repurchase agreements	150,097	-	-	-	-	-	150,097
Current accounts and deposits from customers	254,756	44,579	33,926	15,297	-	322,053	670,611
Other borrowed funds	1,299	-	-	-	-	-	1,299
Provisions	-	-	-	-	-	387	387
Other liabilities	-	-	-	-	-	7,571	7,571
Deferred tax liability	-	-	-	-	-	595	595
Shareholders’ equity	-	-	-	-	-	132,497	132,497
Total liabilities	**408,694**	**44,579**	**92,711**	**106,310**	**-**	**464,982**	**1,117,276**
Net position as at 31 December 2008	**77,022**	**(74)**	**(9,918)**	**74,973**	**190,304**	**(332,307)**	**-**
Net position as at 31 December 2007	**37,015**	**(13,074)**	**38,843**	**34,238**	**196,170**	**(293,192)**	**-**

43 Classification of assets and liabilities

Classification of assets, liabilities and shareholders' equity of the Bank 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	38,980	-	-	-	**38,980**
Loans and receivables from banks	299,933	-	-	-	**299,933**
Financial instruments at fair value through profit or loss	-	74,199	-	-	**74,199**
Loans and receivables from customers	490,471	-	-	-	**490,471**
Available-for-sale assets	-	-	22,786	-	**22,786**
Held-to-maturity investments	5,385	-	-	-	**5,385**
Investments in subsidiaries	-	-	-	15,997	**15,997**
Intangible assets	-	-	-	2,738	**2,738**
Property and equipment	-	-	-	5,376	**5,376**
Investment property	-	-	-	5,803	**5,803**
Other assets	-	-	-	19,977	**19,977**
Total assets	**834,319**	**74,199**	**22,786**	**50,341**	**981,645**
Liabilities					
Financial instruments at fair value through profit or loss	-	356	-	-	**356**
Deposits and balances from banks	87,860	-	-	-	**87,860**
Amounts payable under repurchase agreements	72,990	-	-	-	**72,990**
Current accounts and deposits from customers	681,521	-	-	-	**681,521**
Other borrowed funds	895	-	-	-	**895**
Provisions		-	-	382	**382**
Other liabilities	-	-	-	4,377	**4,377**
Deferred tax liability	-	-	-	507	**507**
Shareholders' equity	-	-	-	132,757	**132,757**
Total liabilities and equity	**843,266**	**356**	**-**	**138,023**	**981,645**

43 Classification of assets and liabilities, continued

Classification of assets, liabilities and shareholders' equity of the Bank 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	237,313	-	-	-	237,313
Financial instruments at fair value through profit or loss	-	154,314	-	-	154,314
Loans and receivables from customers	571,057	-	-	-	571,057
Available-for-sale assets	-	-	10,779	-	10,779
Held-to-maturity investments	20,869	-	-	-	20,869
Investments in subsidiaries	-	-	-	16,197	16,197
Intangible assets	-	-	-	3,135	3,135
Property and equipment	-	-	-	5,684	5,684
Investment property	-	-	-	5,100	5,100
Non-current assets held for sale	-	-	-	27,092	27,092
Other assets	-		-	20,189	20,189
Total assets	**874,786**	**154,314**	**10,779**	**77,397**	**1,117,276**
Liabilities					
Financial instruments at fair value through profit or loss	-	511	-	-	511
Deposits and balances from banks	153,708	-	-	-	153,708
Amounts payable under repurchase agreements	150,097	-	-	-	150,097
Current accounts and deposits from customers	670,611	-	-	-	670,611
Other borrowed funds	1,299	-	-	-	1,299
Provisions	-	-	-	387	387
Other liabilities	-	-	-	7,571	7,571
Deferred tax liability	-	-	-	595	595
Shareholders' equity	-	-	-	132,497	132,497
Total liabilities and equity	**975,715**	**511**	**-**	**141,050**	**1,117,276**