2009

ANNUAL REPORT

Baltic International Bank

The tree is a universal symbol found in the spiritual tradition of most cultures and has deep historical roots. In diverse traditions, the tree has many different meanings.

The tree symbolises life that expresses itself in various ways, the principles of world organisation, the unity of all life, a succession of generations, striving for human goal attainment, evolvement and prosperity, and accentuates orderliness.

Tree of Life. Work of art by Susana Trinidad, Argentina.

Content

Foreword of Chairperson of the Board

Dear Ladies and Gentlemen,

We are pleased to present to you the highlights of our 2009 performance.

Let me briefly touch upon the reporting period in which Bank was operating. As I look back on 2009, I see it as a watershed year. We had to make responsible decisions, focus on reinventing many aspects of our business, evaluate our investment policy, retain and boost our competitive edge, enhance effectiveness, and accumulate knowledge and expertise to best serve our clients.

We carried out a comprehensive analysis of long-term prospects and performed day-to-day routine tasks. The driving objective was to come up with the most right answer to the question: "What our clients really need?" This is a fundamental question and plays a system-forming role in our business.

Right now this issue has gained a culminating importance like never before, and most business people and entrepreneurs understand it clearly. Customer demands and needs have grown dramatically. Being customer centric requires that we move forward in a sky-rocket manner.

Currently, we are witnessing forward-looking trends in wealth management. From one standpoint, tight regulatory scrutiny narrows down the possibilities for legitimate tax planning (legal possibilities of minimising the tax burden). From another standpoint, internationalisation of capitals is becoming increasingly apparent: families and companies have their presence and conduct their business activities in various jurisdictions. Therefore, gaining a profound knowledge and expertise in the area of effective tax planning is a key part of our business.

The asset management industry shows interesting tendencies. Investment options more often tend to depend upon value-added to be potentially earned on an investment in a long-term perspective. Investments strategies seek to maximise financial return to the investor and at the level of the whole social community. That is why Bank concentrates on sectors such as energy, ecology, health care and pharmaceuticals.

It is of a paramount importance that the concept of the bank for managing family values be developed, not limited to financial aspects. We continue to devote special attention to developing a trustful relationship with our customers. They see that Bank proves to be as effective as desired — not only in respect of matters related to wealth preservation and growth, but also in respect of estate planning which deals with inheritance issues of wealth transfer to heirs.

We sincerely thank all our customers and partners for their continued confidence and highly appreciate mutually beneficial partnerships. We hope that our time-honoured traditions will continue to serve the purpose of enhancing your family wealth and prosperity.

Sincerely,

Ilona Gulchak
Chairperson of the Board

Foreword of Chairperson of the Council

Dear Ladies and Gentlemen,

Currently we are witnessing the restoration of genuine values to be found in the economy and the world's financial system which continues to strike the right balance between real money and virtual money.

What we see today is a distinct tendency towards investing in real assets. The reason is obvious: this investment strategy most adequately fits the needs of investors — to provide protection and ensure a safe development.

The past year's events gave us an extra incentive to evaluate and analyse Bank's development strategy. To continue to develop on a stable track, we have set our crucial priorities such as a thorough analysis and mitigation of potential risks and search for and elaboration of innovative investment strategies tailored to fully meet the individual needs of our clients.

We seek to ensure that our clients and their families they are at an optimal level of comfort in all aspects of their everyday lives as we are dedicated to best serve their private and business interests. For us, private banking is primarily associated with a high-touch approach, expertise and sincere interest in the well-being of each customer's family. Private banking strategy forms the basis for ensuring our mutual prosperity and successful partnership.

Once again, current events prove the significance of the everlasting values.

More and more often we realize that financial assets are merely a tool that can be used to better your family's life. In family wealth management, it is essential to understand that the underlying philosophy and culture really is a driving force behind preserving and promoting family well-being.

I am very grateful to our clients and partners for their trust and continued confidence in our Bank. We are proud of our staff whose commitment and effort go to the heart of our success.

Sincerely,

Leonid Kramnoy
Chairperson of the Council

I believe that every right implies a responsibility; every opportunity an obligation; every possession a duty.

*John D. Rockefeller Sr.**

* The world's first dollar billionaire, John D. Rockefeller (1839–1937) ("Senior"), started to work at the age of 16 as a clerk. After high school he took a three-month course in bookkeeping at a local commercial college. In 1863, Rockefeller and his partners built an oil refinery. In 1870, he formed Standard Oil of Ohio. By 1880, due to multiple small and average mergers, his share of world oil refining topped out above 90% and oil extraction was nearly 30%. He was a highly energetic and intensely purposeful man, and a very dedicated and thorough worker. Rockefeller had lived an almost ascetic life. He eschewed drink, smoking, gambling and other vice. In business, John D. Rockefeller was extremely self-controlled, had the ingenious intuition, was a rigid, tough man with a stern demeanour with respect to competitors, and possessed the inherent ability to find the shortest solutions to the tasks.

Overview of the Latvian Economy

In the beginning of 2009, the government of Latvia adopted a set of measures devised in liaison with the International Monetary Fund (IMF) to boost economic recovery in Latvia. The Economic Sentiment Indicator (ESI) surged at the end of 2009 and signalled an improvement in the most ESI components, including production, services and retail trade.

We witnessed positive trends in the dynamics of some main products exported by Latvia. Analysts forecast that the bettering of the world economic climate during the second half of 2009 will have a positive impact on export demand of the Latvian goods, which in turn will facilitate economic stabilisation and further growth.

Latvia's Economic Stabilisation and Growth Revival Programme

In the beginning of 2009, Latvia's government approved the Economic Stabilisation and Growth Revival Programme which set forth measures designed to improve economic situation in the country. The main tasks are: to elevate Latvia's competitiveness internationally, assess the possible liquidity events, restore long-term stability, reinforce the banking sector, and preserve effective monetary policy.

Stability of the National Currency

In 2009, Latvia maintained its national currency peg to the euro. Irrespective of the external economic influences and speculations over potential Lats devaluation, Latvia's Central Bank has maintained the stability of the national currency, hence, ensured the stability of macroeconomic indicators and predictability regarding future development.

Taking into consideration the structure of Latvia's export and import and a weak demand in export markets and in order to restore the country's international competitiveness, the Latvian government has chosen the so-called internal devaluation through salary and wage cuts and trimming of budgetary expenses, thus avoiding the devaluation of the national currency.

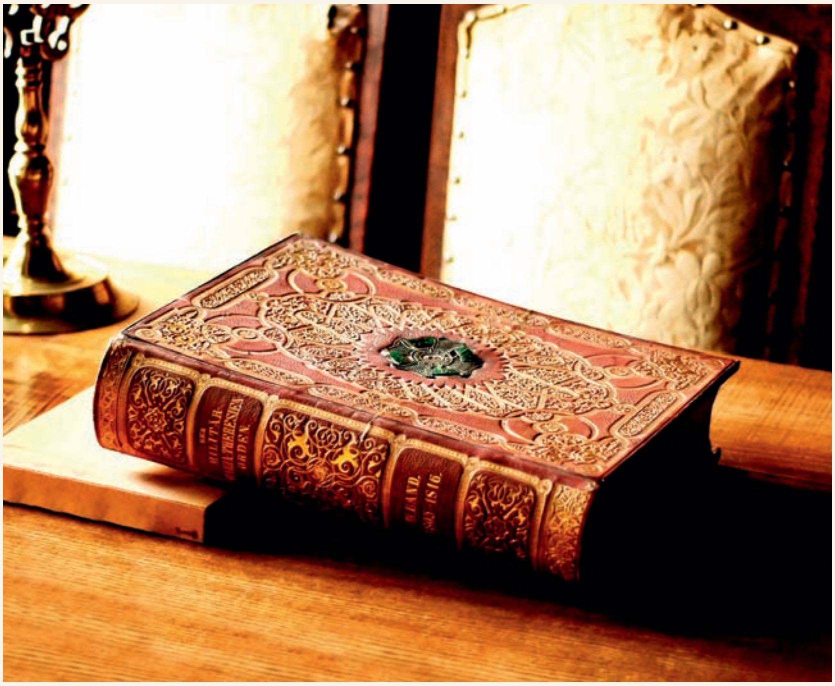
Actions to Improve Business Environment

Latvia's government announced a package of priority measures to improve business environment during 2009, such as changes to the country's tax legislation and promotion of effective tax administration; simplification of procedures for harmonisation and approval of documents related to territory planning (zoning) and construction; development of electronic services, etc.

In 2009, the government passed a number of amendments to the Commercial Law to promote business start-ups and to enhance the business environment and make it more attractive for foreign investments.

Banking Sector

The Latvian banking industry is an increasingly important sector of the economy. The robust growth of the banking sector during the recent years has slumped dramatically in response to the stressed financial markets. Just like every other industry, the financial sector is prone to cyclical swings and is sensitive to the economy's ups and downs. Nevertheless, the financial sector is picking up steam and is showing apparent signs of stability.



Overview of the Latvian Economy

During the past year, the Financial and Capital Market Commission (the statutory regulator for financial services in Latvia) has kept a close eye on key performance indicators (KPI) of the banking sector, such as liquidity ratio and capital adequacy ratio (CAR or CRAR). According to the Association of Latvian Commercial Banks, capital adequacy ratio for the sector as a whole was 14.56 as at 2009-end compared with the statutory minimum ratio of 8 percent set by the national regulator.

A 62.8-percent liquidity ratio stood sufficiently above the statutory liquidity ratio (SLR) of 30 percent. Thus, the banking sector maintained its key performance indicators at a healthy level.

During 2009, the banking sector underwent capitalisation changes to bring more stability to the market. Equity investments in Latvia's banking sector totalled nearly 728.3 million lats, of which 254 million-worth investments were made by domestic shareholders, while 474 million were invested by the respective parent companies, according to the Association of Latvian Commercial Banks.

In 2009, the Latvian banks curbed loans to the sectors associated with unbalanced growth patterns (situation where the various sectors are not growing at a rate similar to one another), such as the real estate industry and construction industry. Most market participants resorted to loan restructuring in order to stabilize the customers' payment capacity. However, this banking practice has not led to complete halt in lending by the banks.

The banks invested predominantly in the export industries, information technologies and innovative projects intended to ensure long-term sustainability of economic growth in Latvia. According to analysts, a slight rise in deposits seen in 4Q 2009 may signal economic rebound and improvement of the overall social situation in the country.

It would not be the end of the world if banks had slightly lower profits and higher-quality earnings. Less gearing and more capital would make for lower returns, but it would be a good thing for the world.

*Baron David Rene'de Rothschild**

* The current head of the Rothschild dynasty, born 1942 in New York. In 1966, he graduated from Institut d'Ètudes Politigues de Paris (Paris Institute of Political Studies) and began his business career at Sociètè minière et mètallurgique de Peñarroya, one of the family's international mining businesses headquartered in Paris. Then he began training in de Rothschild Frères bank in 1967 (de Rothschild Frères became Banque Rothschild). In 1981, Banque Rothschild was nationalised by the French government. In 1987, a successor company called Rothschild & Cie Banque was created by David de Rothschild. Capitalised at only $ 1 million and starting with just three employees, they soon built their tiny bank into a major competitor in Europe. He described this period of his career as follows: "I have spent a lot of time in the machinery space before climbing up the command deck". In 2003, the English and French firms merged to become one umbrella entity called "Group Rothschild". David de Rothschild is renowned for his ability to make subtle psychological observations and resolve all tasks in a non-conflict manner, and is absolutely dedicated to family business.

Performance Highlights

For Bank, 2009 was a year of stable development because our decisions were made to ensure an adequate and appropriate response to changes in the global economic landscape.

Our efforts were directed towards minimizing potential risks, improving already existing banking products and services and developing new ones, streamlining the IT infrastructure, and developing networking solutions designed to enlarge the network of business contacts both for Bank and its clients.

Today, we stick to the concept of designing the optimal strategies to preserve and grow personal fortunes of high net worth families and corporates. Highly personalised customer service and ability to fully satisfy financial needs of our clients is therefore central to our brand.

This gives us an impetus for further development, is the logical outcome of re-inventing the accumulated experience, and provides an area where we can avail of new opportunities.

Incomes

Proven ability to make important tactical decisions in a timely manner has enabled Bank to record higher operating income.

Bank has posted operating income of 7.139 million lats, representing a 16.1 percent increase over the same period in 2008. Bank's profit totalled 57 074 lats after paying taxes and creating provisions.

Assets

In 2009, assets edged down by 6.7 percent sector-wide to 21.7 billion lats, according to the Association of Latvian Commercial Banks (ALCB).

The chosen strategy and tactics have largely affected Bank's ability to retain its positions and to mitigate Bank's exposure to certain risks encountered by most market participants. Total assets surged 11.2 percent year-over-year to reach 186.1 million lats by the year-end.

Performance Highlights

Deposits

Preservation and growth of private fortunes and maintenance and further development of long-term partnership relations with our clients have always been our top priorities and still remain on the track.

In 2009, Bank's deposits increased 9.4 percent to end the reporting period at 165.5 million lats. We are pleased to report an enhanced maturity structure of the deposits: term deposits of 6 months to 1 year grew almost four times.

In 2009, deposits fell 2.2 percent across the entire banking sector, according to the ALCB.

Assets under Management

Understanding of the peculiar characteristics of modern financial markets enables us to deliver optimal financial solutions based on a thorough study of market conditions, detailed analysis of the individual goals and needs of our clients, their financial potential and tolerable risk levels. In doing so, we strive to offer sound wealth management strategies designed to meet each client's financial goals.

Bank's activities in the area of discretionary asset management definitely have had a positive impact on the key performance indicators: assets under management grew to 5 million lats, up 9 percent. At the end of the reporting period, Bank-administered assets totalled 60.8 million lats.

Loan Portfolio

As at the reporting date, Bank's loan portfolio totalled 38.3 million lats, a 6.5 percent decrease year-over-year due to the risk mitigation policy and a scheduled repayment of previously granted loans.

In 2009, Bank invested in processing, food and mining industries, information technologies and communications and shifted its lending activities away from consumer loans.

Performance Highlights

Bank continues to identify the economy sectors aimed at long-term sustainability and is ready to invest in real assets, commercial inventions in the energy sector, health care and pharmaceuticals as well as projects oriented towards careful and responsible use of natural resources and application of eco-friendly materials and technologies.

Securities Portfolio

During 2009, Bank succeeded in seizing new opportunities offered by the capital market (the capital market is the market for securities). Irrespective of the redemption of the bonds, the securities portfolio has remained almost unchanged and totalled 12 million lats.

Bank continues to specifically focus on key risks inherent in the securities portfolio and pursues a well-balanced investment policy. Such an approach to managing the portfolio enabled Bank to earn a net income of 0.28 million lats.

Share Capital and Capital Adequacy

To ensure a planned development in line with certain strategic goals, in August 2009 the shareholders approved a resolution to raise the share capital through issuing new shares for a total value of 7.9 million lats. Bank successfully finalised the transaction and increased the share capital to 15.5 million lats.

As at 2009-end, Bank attained a 12.72-percent capital adequacy ratio (2008: 10.4 percent). Thus, Bank complies with the statutory minimum adequacy ratio of 8 percent as set forth by the Financial and Capital Market Commission (FCMC).

Liquidity

Bank adheres to a conservative approach to managing liquidity risk, taking into account the structure of deposit operations and the volume of funds raised in the interbank market.

As at 31 December 2009, the liquidity ratio stood at 81.35 percent (2008: 76.8 percent). The ratio significantly exceeds the regulatory threshold of 30 percent set forth by the FCMC. The average liquidity ratio in the Latvian banking sector was 62.8 percent.

While the challenges are great, so are the opportunities.

*Bill Ford Jr.**

* Bill Ford Jr. serves as the Executive Chairman of the Board of Directors of Ford Motor Company. He is the great-grandson of Henry Ford, born 3 May 1957, joined Ford Motor Company in 1979 after graduating from Princeton University. Bill Ford served for many years in a score of midlevel positions and was subject to rotations after each successive 10–12 months of service. One of the pillars of Ford Motor Company's corporate culture is that top managers must have working knowledge of all aspects of running the business, including finance, production, sales, marketing and product developments.

Development Stages

The financial year 2009 was a good and fruitful one for Bank. We have attained tangible results across various functional areas, ranging from the modernisation of Bank's IT systems to the expansion of business contacts (networking).

It should be emphasized that the positive growth would not be possible without continuous and meticulous attention to the quality of our performance.

Guided by this basic principle, last year we were able to maintain mutually beneficial partnership with our existing customers and acquire new ones. The fact undoubtedly is indicative of the effectiveness of our work.

Wider spectrum of banking products and services

The array of deposit programs has widened to include a multicurrency deposit. The deposit holders may convert their funds from one currency into another, hence, to alleviate currency risks.

Bank's Gold Investment Program was expanded to include the following provision: precious metals account is used not only as a tool to preserve the value of and diversify customer assets, but also to settle payments between Bank's customers.

2009 saw Bank breaking new ground as it became a bellwether among the Baltic banks to start issuing the World Signia product. World Signia is the most exclusive, top-ranking credit card in the world issued within the MasterCard Worldwide system. The card is designed for a limited group of premium affluent customers who live active lifestyles, tend to travel a lot, appreciate the superior level service, and prefer using their time in the most efficient manner.

World Signia cardholders enjoy a wide array of financial and non-financial services, including 24-hour professional concierge service.

The marked increase in the number of our counterparties and qualitative spectrum of financial instruments has opened up significantly more opportunities for our clients to transact in the financial markets.

Development Stages

In 2009, Bank proactively developed documentary business and trade finance. We have diversified the range of our financial products and launched innovative payment schemes designed to offer enhanced security features and safeguard the interests of our customers. Also, Bank encouraged its customers to develop their businesses, by providing the customers with bid bonds (tender guarantees) required to participate in the public procurement markets.

Bank's cross-border business activities

In March 2009, Bank's representative office in Ukraine became a member of several international organisations such as the European Business Association, the American Chamber of Commerce, the British Business Club, and the Latvian Business Club. The office's constructive participation in various events arranged by the organisations promotes establishing new business contacts and obtaining information about the newest Ukrainian and international projects.

Bank's efforts to evolve its activities in the UK market have been crowned with the permission (issued in November 2009) to provide financial services in the United Kingdom of Great Britain and Northern Ireland without establishing Bank's branch therein, thus unveiling new business opportunities.

Enhanced operational efficiency of the IT infrastructure

In May 2009, Bank succeeded in implementing the T24 core banking software. It enabled Bank to enhance functionality, provide higher quality service (since it decreases the time required for transaction processing), ensure cost reduction and significantly lower operational risks.

Social, cultural and business events

In October 2009, Bank in liaison with The British Chamber of Commerce in Latvia, organised a business conference "Latvia: More Than You Would Expect". To enhance Latvia's image abroad by providing UK opinion makers (business sector and media) with a better understanding of business environment in Latvia, Latvia's business experts familiarised the conference audience with the country's macroeconomic situation, business opportunities and investment climate in Latvia, and emphasised Latvia's role as a bridge between West and East.

Development Stages

We are keen supporters of initiatives undertaken by our clients and partners who seek to put Latvia, as EU member country, on its path to commercialisation of technological know-how and to pool the intellectual resources of scientists from all over the world. Therefore we were among the financial sponsors of the Technology Promotion and Commercialisation Workshop (1st Commercialisation Reactor).

The main goal of the project is to foster turning the CIS-created scientific ideas and technological innovations into profit to be generated by enterprises. This is a new direction for a multifaceted and mutually beneficial partnership between West and East — not only among businessmen and financiers, but also creative partnerships between scientists.

It is of great importance to support and promote arts and culture. At the end of 2009, Baltic International Bank sponsored a grand celebratory performance to honour the 90th anniversary of the Latvian National Opera. Cultural values are very significant for each generation. So we were especially delighted to contribute to preserving the cultural heritage.

It requires a great deal of boldness and a great deal of caution to make a great fortune; and when you have got it, it requires ten times as much wit to keep it.

*Nathan Mayer Rothschild**

* Nathan Mayer Rothschild (1777–1836) – a London financier and one of the founders of the international Rothschild family banking dynasty. He has entered the Guinness Book of World Records as the most brilliant financier in the history of mankind. From his father (Mayer Amschel Rothschild, the founder of the Rothschild fortune), he inherited a phenomenal capacity for work and amazing financial intuition. At the age of 21, he operated first as a textile merchant in Manchester. The British government gave Rothschild an unprecedented monopoly to deal in gold bullion and precious metals. Nathan Mayer Rothschild headed the London Branch of the House of Rothschild family, while his four brothers headed the Rothschild banking and finance houses in Paris, Vienna, Frankfurt and Naples. Acting together as a single whole, expertly assessing and diversifying risks across the political map of Europe and knowingly dealing in government bonds, the Rothschild Banking House headed by Nathan Mayer Rothschild became the most powerful financial empire of the 19th century.

Stepping into the future through combined efforts

A high level of confidence and trustworthy relations with our customers is a huge advantage of a private bank which allows encompassing a variety of aspects where Bank can get involved and be the most comprehensively useful.

We thoroughly go into details in order to pinpoint the ever-changing needs of our clients. It is our aspiration to ensure that the customers feel comfortable both with financial matters and everyday life.

Businessmen are taking a new approach to developing and organising their businesses, and the transfer of wealth to succeeding generations is becoming a more pressing concern. Their heirs need financial coaching to learn to manage the inherited wealth wisely.

Therefore, developing and supporting the optimal strategies to grow and preserve family wealth is Bank's priority for the future.

We keep in mind some important points while choosing to develop in line with the family bank concept. We make a special emphasis on socially responsible investing, also known as socially-conscious or ethical investing.

Family values and priorities that the future generations need to set for successful business development is the central issue to our business. We are ready to provide expert assistance and support in devising the business inheritance strategy by placing a particular focus on professional and personal growth of the heirs and by rendering them any aid that may be appropriate.

Tax planning services is a separate line of our business. Tax planning is one of most important components of financial strategizing and successful wealth management. In the future, we envisage boosting our potential for rendering advisory and consulting services.

Our priorities also include upgrading the remote banking system and communication. We intend to streamline our technological infrastructure in order to create maximum efficiency, productivity and convenience for our customers.

If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability.

*Henry Ford Sr.**

* Henry Ford Sr. (1863–1947) was a self-taught mechanic and machinist, billionaire, and the father of automotive assembly line. FORTUNE magazine named Henry Ford the greatest businessman of the 20th century. Born in the family of immigrants, at the young age of 16 he started to work as a machinist's apprentice. In 1893, he built his first car. In 1903, Henry Ford and others organised the Ford Motor Company. He invented the first-ever moving assembly line for automobile manufacturing which proved to be commercially successful project. Henry Ford made his biggest dream come true – he created a mass-production car that was functional and reasonably priced at the time when people viewed buying a car the same way as people in the modern world view buying a private jet.

Stepping into the future through combined efforts

In our investment policy, we are guided by the Principles of Responsible Investment (PRI). We prefer to support energy saving projects, projects using eco-friendly materials, projects applying eco-friendly methodologies and technological solutions.

We see a rationale for the emergence of ecologically clean waste treatment technologies for the disposal, recycling, storage and energy recovery from different waste types. Also, we support developments and implementation of renewable energy sources technologies.

In health care and pharmaceuticals, we believe it is crucial to develop new generation medicines that may slow the aging processes and increase human lifespan, products to fit special health needs, dietary supplements (nutraceutics) and multivitamin products.

We expect that a worldwide circle of like-minded people will potentially expand.

We firmly believe that the financial system bears a special responsibility to play a primary role in opting the most reasonable and promising scenario for the future.

JSC "Baltic International Bank"

CONSOLIDATED AND BANK FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

Content

Report of the Chairperson of the Supervisory Council and the Chairperson of the Management Board

Dear Ladies and Gentlemen,

We have pleasure in presenting the 2009 financial statements.

We think of the past year as a period in which markets started to revitalise and show signs of health, businesses worldwide could evaluate their possibilities, assess their business models and identify principally new directions for further development. The global economy is still fragile and vulnerable, therefore it is important to take a balanced approach to deliver fair risk /return solutions, to explore the key components that make a business viable, and to set innovative but practicable tasks.

The situation in the financial industry and most economy sectors continued testing our strength. We are quite satisfied with our performance, however, always strive for greater excellence.

The Bank has posted operating income of 7.1 million, representing a 16 percent increase over the same period in 2008. The decrease in certain income items (net fee and commission income and interest income) caused by a slowdown in the global markets was offset by the Bank's successful trading operations on the forex market. Income reported under this item showed a 61 percent rise. Also, a balanced approach to managing the Bank's securities portfolio enabled us not only to offset loss incurred on a plunge witnessed by most markets, but also to earn a net income of 0.28 million lats.

The decrease in net interest income was largely due to a number of factors, such as prudent lending policy, decline in the return of assets (ROA) and increase in interest expense (up 12.7 percent) which, in turn, was driven by the growth in term deposits.

As a result, Bank's profit totalled 57 074 lats after paying taxes and creating provisions.

Bank's purposeful commitment to preserving customer wealth resulted in the increase of customer funds. The amount of deposits and the concluded trust agreements totalled 226.3 million lats, a 9.3 percent increase over 2008-end. Deposits increased 9.4 percent to end the reporting year at 165.5 million lats. We are also pleased to report an enhanced maturity structure of the deposits: term deposits of 6 months to 1 year grew almost four times.

In the area of discretionary asset management, Bank's portfolio of trust agreements has achieved a tangible growth of 9 percent to reach 60.8 million lats.

Total assets grew by 11.2 percent. To a larger extent, the increase affected the interbank placement positions (18.6 percent rise), since the Bank continued - throughout the entire year of 2009 - to maintain a high level of liquidity. As of 31 December 2009, the liquidity ratio stood at 81.35 percent.

It is worth mentioning that the Bank's intangible assets surged by 77 percent, which reflects the Bank's commitment to streamline its IT solutions. The new automated banking system allows the Bank to handle transaction processing on a state-of-the-art level.

Report of the Chairperson of the Supervisory Council and the Chairperson of the Management Board

We have improved already existing banking products and services and have introduced new products specifically tailored to the needs of our customers in our effort to ensure their maximum comfort in financial matters and life. The spectrum of our products and services has widened to include multicurrency deposits, gold investment program, exclusive payment cards and concierge service. We have offered versatile opportunities for transacting in financial instruments, documentary operations and trade finance.

To sum up the 2009 results, we can say that stability can surely be attributed to the:
- approach to managing the Bank's assets portfolios;
- quality of customer service;
- value system the Bank is guided by.

But even the feeling of certainty that we have chosen the right approach does not allow us to remain unchanged. We change in response to ever changing environment to be able to withstand future challenges.

2009 has proven to be a pivotal year for our further strategy which described the priorities for the next five years, outlined the tasks and set a specific goal - to become a boutique and prominent Bank in the Baltic region to provide services to affluent families and businesses. The concerted efforts of the Bank's employees, key management personnel and shareholders are concentrated around this specific goal.

In 2009, the Bank's share capital was increased to 15.5 million lats and allowed the Bank to attain a 12.72-percent capital adequacy ratio and to plan further growth of assets. Also, Bank has made equity investments in a number of enterprises. As at 31 December 2009 among these investments were also "BIB Real Estate" LLC and "Global Investments" LLC.

We transact banking business at the time when everyone and all of us should maximally contribute to our goals, to understand the importance of our actions, responsibility and continuity. We share the difficult times that certainly help us become stronger and wiser. The difficulties can be beneficial for enabling us to change our lives for the better, hence, to best serve the interests of our clients, to boost shareholder value, to encourage our staff members to accumulate and develop their knowledge and expertise, and to enhance our financial and spiritual wellness.

25 March 2010

Leonid Kramnoy
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Supervisory Council and Management Board

Supervisory Council (as of 31 December 2009)

Name	Position held	Appointed	Re-appointed
Leonid Kramnoy	Chairperson of the Council	10/10/2003	25/03/2008
Valeri Belokon	Member of the Council	25/03/2008	-
Viacheslav Kramnoy, sr.	Member of the Council	18/07/1997	25/03/2008

Management Board (as of 31 December 2009)

Name	Position held	Appointed	Re-appointed
Ilona Gulchak	Chairperson of the Board	25/01/2008	-
Natalya Tkachenko	Member of the Board	01/08/2007	-
	Deputy Chairperson of the Board	26/02/2008	-
Alon Nodelman	Member of the Board	15/08/2003	21/05/2007
Janis Apelis	Member of the Board	15/08/2003	21/05/2007
Bogdan Andrushchenko	Member of the Board	13/09/2005	21/05/2007
Dinars Kolpakovs	Member of the Board	13/09/2005	21/05/2007
Albert Reznik	Member of the Board	26/02/2008	-
Ilze Lase	Nominee Member of the Board	13/09/2005	-

In the year ended 31 December 2009, no changes have been made in the Council or Management Board membership.

There were no changes in the Supervisory Council or the Management Board of the Bank during the period from 1 January 2010 to the date of the approval of these financial statements.

Statement of Management's Responsibilities

Riga 25 March 2010

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and give a true and fair view of the state of the Bank's affairs as at 31 December 2009, and of the results of its operations and its cash flows for the year ended 31 December 2009.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the period from 1 January 2009 to 31 December 2009 set out on pages 36 to 116. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been used in the preparation of the financial statements and that these financial statements have been prepared on a going concern basis and comply with the regulations of the Financial and Capital Market Commission of the Republic of Latvia on the Annual Reports of Credit Institutions in all material respects.

The management of Baltic International Bank is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions and other legislation of the Republic of Latvia, including regulations of the Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia.

On behalf of the Management of the Bank:

Leonid Kramnoy
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Independent Auditor's Report

KPMG Baltics SIA
Vesetas iela 7
Riga LV-1013
Latvia

Phone +371 67038000
Fax +371 67038002
www.kpmg.lv

To the shareholders of JSC "Baltic International Bank"

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of JSC "Baltic International Bank" ("the Bank"), which comprise the unconsolidated statement of financial position as at 31 December 2009, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in shareholders' equity and the unconsolidated statement of 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 36 to 116. We have also audited the accompanying consolidated financial statements of JSC "Baltic International Bank" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of 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 36 to 116.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Independent Auditor's Report

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

Opinion

In our opinion, the financial statements of JSC "Baltic International Bank" present fairly, in all material respects the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements of JSC "Baltic International Bank" present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 30 to 31, 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. In our opinion, the management report is consistent with the financial statements.

KPMG Baltics SIA
License No 55

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

Armine Movsisjana
Sworn Auditor
Certificate No 178

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

Consolidated and bank statement of comprehensive income

For the year ended 31 December 2009

	Notes	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Interest income	6	5 253 120	5 258 482	7 631 663
Interest expense	7	(3 077 987)	(3 078 181)	(2 730 735)
Net interest income		**2 175 133**	**2 180 301**	**4 900 928**
Fee and commission income	8	2 378 726	2 379 342	2 953 073
Fee and commission expense	9	(501 729)	(501 729)	(632 043)
Net fee and commission income		**1 876 997**	**1 877 613**	**2 321 030**
Dividend income		2 834	2 834	5 183
Net trading income/(loss)	10	278 671	278 671	(2 875 779)
Net foreign exchange income	10	2 739 972	2 739 649	1 698 636
Other operating income	11	60 653	59 595	100 067
Total operating income		**7 134 260**	**7 138 663**	**6 150 065**
Administrative expenses	12	(6 313 578)	(6 272 030)	(5 914 819)
Other operating expenses	13	(122 050)	(126 742)	(113 512)
Net impairment loss	14, 24	(553 646)	(491 850)	417 524
Loss on revaluation of investment property	26	(115 440)	(115 440)	(148 646)
Profit before income tax		**29 546**	**132 601**	**390 612**
Income tax expense	15	(75 527)	(75 527)	(343 176)
Profit/(loss) for the period		**(45 981)**	**57 074**	**47 436**
Other comprehensive income		-	-	-
Total comprehensive income for the period		**(45 981)**	**57 074**	**47 436**

The accompanying notes on pages 42 to 116 are an integral part of these Consolidated and Bank Financial Statements.

The Consolidated and Bank Financial Statements on pages 36 to 116 have been authorised for issue by the Council and the Board on 25 March 2010, and signed on their behalf by:

Leonid Kramnoy
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Consolidated and bank statement of financial position

ASSETS

As at 31 December 2009

	Notes	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Cash and balances with Bank of Latvia	16	10 522 477	10 522 477	8 658 964
Due from credit institutions	18	105 975 246	105 975 246	89 351 976
Financial assets held-for-trading		795 757	795 757	1 165 250
Securities held-for-trading	19	504 043	504 043	373 141
Derivative financial instruments	20	291 714	291 714	792 109
Securities available-for-sale	21	224 864	224 864	173 631
Securities held-to-maturity	22	11 301 839	11 301 839	11 832 825
Loans	23	38 044 365	38 332 743	40 980 064
Intangible assets	24	2 046 563	2 046 284	1 155 852
Property and equipment	25	10 341 020	10 340 082	10 722 908
Investment property	26	2 702 945	2 702 945	1 317 528
Investments in associates	27	429 009	429 009	429 009
Investments in subsidiaries	53	-	1 363 600	-
Current tax assets		251 493	240 708	-
Deferred expenses and accrued income	28	1 063 643	1 063 643	900 407
Other assets	29	2 307 912	752 363	635 432
Total assets		**186 007 133**	**186 091 560**	**167 323 846**

The accompanying notes on pages 42 to 116 are an integral part of these Consolidated and Bank Financial Statements.

The Consolidated and Bank Financial Statements on pages 36 to 116 have been authorised for issue by the Council and the Board on 25 March 2010, and signed on their behalf by:

Leonid Kramnoy
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Consolidated and bank statement of financial position

LIABILITIES

As at 31 December 2009

	Notes	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Liabilities				
Due to credit institutions	30	2 678 689	2 678 689	589 291
Deposits	31	165 455 383	165 455 499	151 173 224
Debt securities in issue	32	-	-	843 801
Derivative financial instruments	20	125 410	125 410	321 684
Accrued expenses, provisions and deferred income	33	525 836	524 526	597 863
Corporate income tax liabilities		-	-	32 701
Deferred tax liabilities	15	394 086	384 940	267 796
Other liabilities	34	786 146	777 858	1 195 954
Subordinated liabilities	35	20 435	20 435	24 570
Total liabilities		**169 985 985**	**169 967 357**	**155 046 884**
Shareholders' equity				
Share capital	36	15 522 105	15 522 105	7 611 285
Reserve capital	36	545 024	545 024	545 024
Retained earnings/(accumulated losses)		(45 981)	57 074	4 120 653
Retained earnings for the previous years		*-*	*-*	*4 073 217*
Profit/(loss) for the period		*(45 981)*	*57 074*	*47 436*
Total shareholders' equity		**16 021 148**	**16 124 203**	**12 276 962**
Total liabilities and shareholders' equity		**186 007 133**	**186 091 560**	**167 323 846**
OFF-BALANCE SHEET ITEMS				
Sureties (guarantees)	37	792 434	792 434	1 117 613
Commitments to customers	37	5 815 328	5 819 331	4 932 184
Total off-balance sheet items		**6 607 762**	**6 611 765**	**6 049 797**

The accompanying notes on pages 42 to 116 are an integral part of these Consolidated and Bank Financial Statements.

The Consolidated and Bank Financial Statements on pages 36 to 116 have been authorised for issue by the Council and the Board on 25 March 2010, and signed on their behalf by:

Leonid Kramnoy
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Consolidated and bank statement of changes in shareholders' equity

For the year ended 31 December 2009

Group

	Share capital LVL	Reserve capital LVL	Retained earnings LVL	TOTAL LVL
Balance as of 31 December 2007	**7 611 285**	**545 024**	**4 073 217**	**12 229 526**
Total comprehensive income	-	-	47 436	47 436
Balance as of 31 December 2008	**7 611 285**	**545 024**	**4 120 653**	**12 276 962**
Dividends paid	-	-	(4 120 653)	(4 120 653)
Increase in share capital (Note 36)	7 910 820	-	-	7 910 820
Total comprehensive income	-	-	(45 981)	(45 981)
Balance as of 31 December 2009	**15 522 105**	**545 024**	**(45 981)**	**16 021 148**

Bank

	Share capital LVL	Reserve capital LVL	Retained earnings LVL	TOTAL LVL
Balance as of 31 December 2007	**7 611 285**	545 024	4 073 217	12 229 526
Total comprehensive income	-	-	47 436	47 436
Balance as of 31 December 2008	**7 611 285**	545 024	4 120 653	12 276 962
Dividends paid	-	-	(4 120 653)	(4 120 653)
Increase in share capital (Note 36)	7 910 820	-	-	7 910 820
Total comprehensive income	-	-	57 074	57 074
Balance as of 31 December 2009	**15 522 105**	545 024	57 074	16 124 203

The accompanying notes on pages 42 to 116 are an integral part of these Consolidated and Bank Financial Statements.

The Consolidated and Bank Financial Statements on pages 36 to 116 have been authorised for issue by the Council and the Board on 25 March 2010, and signed on their behalf by:

Leonid Kramnoy
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Consolidated and bank statement of cash flows

For the year ended 31 December 2009

	Notes	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Cash flow from operating activities				
Profit before income tax	15	29 546	132 601	390 612
Amortisation and depreciation	24, 25	611 001	610 106	418 011
Increase in impairment allowance	14, 24	553 646	491 850	(417 524)
Unrealised loss on revaluation of investment property	26	115 440	115 440	148 646
Gain on disposal of property and equipment and intangible assets	24, 25	(1 054)	(1 054)	(12 045)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		**1 308 579**	**1 348 943**	**527 700**
Decrease/ (increase) in loans	23	1 175 428	687 532	(5 967 624)
(Increase)/decrease in due from credit institutions	0	(1 734 225)	(1 734 225)	124 088
Decrease in financial assets available-for-sale	21	8 052	4 052	-
Decrease in financial assets held-for-trading	19, 20	369 493	369 493	5 136 146
Increase in deferred expenses and accrued income	28	(159 805)	(159 805)	(185 816)
(Increase)/decrease in other assets	29	(1 431 626)	(185 103)	975 252
Increase/ (decrease) in due to credit institutions	0	2 467 504	2 467 504	(492 078)
Increase in deposits	31	14 282 159	14 282 275	54 247 846
Decrease in derivative liabilities	20	(196 274)	(196 274)	(418 873)
Decrease in accrued expenses, provisions and deferred income	33	(72 238)	(73 337)	(11 868)
Decrease in other liabilities	34	(944 020)	(418 096)	(673 591)
Increase in cash and cash equivalents resulting from operating activities		**15 073 027**	**16 392 959**	**53 261 182**
Corporate income tax paid		(231 792)	(231 792)	-
Increase in cash and cash equivalents from operating activities		**14 841 235**	**16 161 167**	**53 261 182**

The accompanying notes on pages 42 to 116 are an integral part of these Consolidated and Bank Financial Statements.

The Consolidated and Bank Financial Statements on pages 36 to 116 have been authorised for issue by the Council and the Board on 25 March 2010, and signed on their behalf by:

Leonid Kramnov
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

Consolidated and bank statement of cash flows

For the year ended 31 December 2009

	Notes	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Cash flow from investing activities				
Acquisition of property and equipment and intangible assets	24, 25	(1 117 786)	(1 117 786)	(4 087 051)
Proceeds from sale of property and equipment, intangible assets and investment property	24, 25	1 128	1 128	128 096
Acquisition of shares in undertakings	27	(39 668)	(1 359 600)	-
Purchase available-for-sale securities	21	(59 285)	(59 285)	-
Purchase or transfer of securities held-to-maturity	22	(9 381 668)	(9 381 668)	(7 537 301)
Redemption of held-to-maturity investments	22	9 947 908	9 947 908	-
Decrease in cash and cash equivalents as a result of investing activities		**(649 371)**	**(1 969 303)**	**(11 496 256)**
Cash flow from financing activities				
Issuance of shares	36	7 910 820	7 910 820	-
Subordinated liabilities	35	-	-	1 751
Cash paid out to repay subordinated debt	35	(4 135)	(4 135)	-
Issuance of debt securities	32	-	-	40 630
Buyback of debt securities	32	(843 801)	(843 801)	-
Dividends paid out	17	(4 120 653)	(4 120 653)	-
Decrease in cash and cash equivalents as a result of financing activities	17	**2 942 231**	**2 942 231**	**42 381**
Increase in cash and cash equivalents		**17 134 095**	**17 134 095**	**41 807 307**
Cash and cash equivalents at the beginning of the period	17	96 435 777	96 435 777	54 628 470
Cash and cash equivalents at the end of the period	17	**113 569 872**	**113 569 872**	**96 435 777**

The accompanying notes on pages 42 to 116 are an integral part of these Consolidated and Bank Financial Statements.

The Consolidated and Bank Financial Statements on pages 36 to 116 have been authorised for issue by the Council and the Board on 25 March 2010, and signed on their behalf by:

Leonid Kramnoy
Chairperson of the Council

Ilona Gulchak
Chairperson of the Board

1 GENERAL INFORMATION

These consolidated financial statements comprise the financial statements of JSC “Baltic International Bank” (the Bank) and its subsidiary undertaking SIA “BIB Real Estate” (acquired on 11 June 2009 together referred to as the “Group”), a real estate company. As the subsidiary was acquired during 2009, the Bank's figures for previous periods represent also Group's figures for prior periods.

JSC “Baltic International Bank” is a joint stock company registered in the Republic of Latvia. The registered office address is: Kalēju iela 43, Riga, LV-1050, Latvia. On 8 April 1993, the Bank of Latvia approved JSC “Baltic International Bank” as a credit institution and issued Banking Licence No. 103. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission (“FCMC”).

Established to cater to the needs of both individuals and corporate customers, JSC “Baltic International Bank” (hereinafter referred to as the Bank) provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank’s own trading purposes.

2 BASIS OF PREPARATION

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (the EU) and in accordance with the requirements of the Latvian Financial and Capital Market Commission in force as at the reporting date. The local accounting legislation requires the Group and Bank to prepare separate statements in accordance with IFRS as adopted by the European Union.

The consolidated and Bank financial statements were authorised for issue by the Management Board on 25 March 2010. The financial statements may be amended by the shareholders and re-issue of the statements may be required.

The financial statements of the Bank and for the year ended 31 December 2009 are available at the Bank’s web site (www.bib.eu).

Basis of measurement

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

- financial instruments at fair value through profit or loss are stated at fair value;
- non-hedging derivative instruments are stated at fair value;
- available-for-sale assets are stated at fair value, except for those whose fair value cannot be determined reliably;
- Investment propery is periodically revalued and measured at fair value.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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:

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 a counterparty's financial situation 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 Risk Management Department.

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.

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.

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.

Current market situation

The ongoing global liquidity crisis which commenced in the middle of 2007 resulted in, among other things, lower liquidity levels in financial and real estate markets, lower level of capital market funding and lower liquidity across the banking sector. In addition, Latvia and other economies that the Bank operates in have been experiencing an economic downturn which has affected, and may continue to affect, the activities of enterprises operating in this environment. The management is continuingly following the situation in these economies and making assessments of the impacts on the Bank. The accompanying financial statements reflect management's assessment of the impact of the Latvian and global business environment on the operations and the financial position of the Bank. The future developments in the business environment may differ from management's assessment.

Fair value of collateral

In determining the fair value of collateral, management relies on external valuations and assesses the reliability of those valuations in the light of the current market situation. To determine the fair value of the collaterals for which an observable market price is unavailable requires the use of valuation techniques as described in the accounting policy. The fair value of the collaterals 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 collateral.

Recognition of carry forward of tax losses

A deferred tax asset from carry forward of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Management has to make judgments about amounts of taxable profits in the future that will be available for asset utilization.

Faire value of assets and liabilities at acquisition

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

Functional and Presentation Currency

The financial statements are presented in Latvian lats, unless indicated otherwise. The functional currency of the Group and Bank is the Latvian lats.

Changes in accounting policies

Except as described below, the accounting policies applied by the Group and the Bank in these consolidated and Bank financial statements are the same as those applied by the Group and the Bank in its consolidated and Bank financial statements as at and for the year ended 31 December 2008.

New standards and interpretations

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

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

The Group and Bank have elected to present a combined single statement comprised of 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 standards. 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 and the Group to the extent applicable to the Bank's and the Group's operations. 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.

Other new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2009 have not been applied by the Group and Bank as they are not relevant for the Group and Bank.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

• IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group and the Bank. The Group and Bank do not have any joint ventures.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group and Bank will apply IFRS 3 (revised) to all business combinations from 1 January 2010.

• 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 income statement and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not relevant to the Bank's financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

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

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

- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009, as issued by IASB, but effective for annual periods beginning on or after 1 January 2010, as adopted by EU): IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases: the agreement meets the definition of a construction contract in accordance with IAS 11.3, the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses. In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Group's and Bank's financial statements as the Group and Bank do 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 income statement on disposal of the foreign operation. IFRIC 16 is not relevant to the Group's financial statements as the Group does not have any investments 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 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 the financial statements for periods prior to the date of adoption of the interpretation.

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

3 SIGNIFICANT ACCOUNTING POLICIES

Throughout the note on significant accounting policies the following accounting policies have been adopted by the Group and Bank (hereinafter "the Bank").

Basis of Consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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 an entity include the carrying amount of goodwill relating to the entity sold.

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency (Latvian lat) at the official Bank of Latvia exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats according to the official Bank of Latvia exchange rates prevailing at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value or cost are retranslated at the exchange rate at the date that the fair value or cost was determined.

Profit or loss relating to fluctuations in the exchange rate on monetary assets and liabilities denominated in a foreign currency is recognised in the income statement in the period in which the fluctuation occurs. Foreign currency differences arising on retranslation are recognised in the income statement, except differences arising on the retranslation of available-for-sale instruments that are recognised in other comprehensive income. The applicable rates for the principal currencies held by the Bank were as follows:

Currency name	31.12.2009.	31.12.2008.
1 BYR	LVL 0.000172	LVL 0.000225
1 EUR	LVL 0.702804	LVL 0.702804
1 GBP	LVL 0.783000	LVL 0.728000
1 RUB	LVL 0.016400	LVL 0.017100
1 USD	LVL 0.489000	LVL 0.495000

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.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

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

Dividend income is recognised in the income statement on the date that the dividend is declared.

Financial instruments

Financial instruments aquired by the Bank are categorised into portfolios in accordance with the Bank's intent at the time of the acquisition of the securities and pursuant to the Bank's investment strategy. The Bank developed a security investment strategy and, reflecting the intent of the acquisition, allocated securities to "Securities held-to-maturity", "Financial assets at fair value through profit or loss", "Securities held-for-trading" and "Securities available-for-sale".

All financial instruments held by the Bank are recognised at trade date and are initially measured at fair value plus for instruments not at fair value through profit or loss any directly attributable transaction cost. Loans, held-to-maturity investments, Balances due to banks, Deposits and balances to banks are measured at amortised cost.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are those that have been designated by the Bank at inception as at fair value through profit or loss and those classified as held-for-trading. Held-for-trading instruments are securities and shares that the Bank principally holds for the purpose of reselling and generating a profit from short-term fluctuations in the prices of the instruments.

Financial assets held-for-trading

Held-for-trading instruments are securities and shares that the Bank principally holds for the purpose of reselling and generating a profit as net trading income or net trading loss, respectively. Securities held-for-trading are subsequently re-measured to fair value based on market prices. Realised and unrealised gains or losses are recorded as net trading income or net trading loss, respectively.

Derivatives are also categorised as held-for-trading unless they are designated as hedging instruments for hedge accounting purposes. During 2008, the Bank did not apply hedge accounting.

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are subsequently recognised in the statement of financial position at their fair value. Attributable transaction costs are recognised in the income statement when incurred. Fair value is obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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 were not closely related to the economic characteristics and risks of the host contract.

Securities available-for-sale

Securities available-for-sale are acquired to be held for an indefinite period of time. Securities, whose quoted market value is not determined in an active market and whose fair value cannot be reliably measured, are carried at acquisition cost. All other securities available-for-sale are carried at fair value. Gains or losses resulting from the change in fair value of available-for-sale securities are recognised in other comprehensive income, except for impairment losses until the financial asset is derecognised; thereafter, the cumulative gain or loss previously recognised in other comprehensive income is recognised in income statement. Securities available-for-sale are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Securities held-to-maturity

Securities held-to-maturity include government securities and corporate bonds which after initial recognition at fair value are recognised at amortised cost and are securities with respect to which the Bank has a positive intent and ability to hold to maturity. Securities held-to-maturity are accounted for using a trade date basis for purchases. Subsequently the effective interest rate method is applied for amortising discounts over the term to maturity.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that the Bank upon initial recognition designates as at the fair value through income statement or as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

After initial recognition at fair value, loans are measured at amortised cost using the effective interest rate method.

When a loan is considered to be uncollectible it is written off against the related impairment allowance; subsequent recoveries are credited to the impairment loss expense in the income statement.

Reclassification of financial assets

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendments permit an entity to reclassify non-derivative financial assets, other than those designated at fair value through income statement upon initial recognition, out of the fair value through income statement (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 were effective retrospectively from 1 July 2008.

The Bank reclassified certain non derivative financial assets during the year 2008. For further details see Note 19.

Impairment

Financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through income statement 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 are impaired can include default or delinquency by a borrower or issuer, 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 from customers and held-to-maturity investment securities are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on loans and receivables from customers and held-to-maturity investment securities.

Loans and receivables are stated in the statement of financial position at amortised cost, less any impairment allowances. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are reflected in the income statement.

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 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 income statement.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised as other comprehensive income to income statement. The cumulative loss that is removed from equity and recognised in 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 income statement. Changes in impairment allowances 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 assets 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 recognised as other comprehensive income.

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.

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.

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 it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

Off-balance sheet exposures

As a part of its routine business function, the Bank engages in off-balance sheet arrangements associated with lending, issuing bank guarantees and opening letters of credit. These financial transactions are disclosed in the financial statements as at the effective date of the relevant agreement.

Intangible assets

The Bank's intangible assets comprise licences, which allow the Bank to carry on banking business, and computer software. The intangible assets are accounted for at their historical cost less amortisation and impairment, if any. The intangible asset's amortisation term of two to twenty years is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, the Bank amortises the intangible asset over a period of 5 years. The Bank applies the straight-line method of amortisation of intangible assets.

Property and equipment

Property and equipment are recorded in the Bank's financial statements at their historical cost less accumulated depreciation and impairment, if any.

Depreciation periods for individual categories of assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other tangible fixed assets	10 years
Computers	5 years

Land and assets under construction are not depreciated. Costs relating to the maintenance and repair of the Bank's property and equipment are included in the income statement when they arise. Whenever a complete repair and renovation prolong the asset's useful life (change the value of the asset), then the repair and renovation expenditure amount is added to the fixed asset's carrying amount.

Depreciation methods, useful lives and residual values are reviewed annually.

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, use in the supply of services or for administrative purposes.

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

Investment property is initially recognised in the statement of financial position at its acquisition cost. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Fair market value for land plots, buildings and other real property items is determined on the basis of annual property appraisals from certified appraisers. Gain or loss from the change in the value is recorded in the income statement and reported under the item "Gain or loss on revaluation of investment property".

Associates

Associates are those enterprises or the entity in which the Bank has significant influence, but not control, over the financial and operating policies. In the Bank's and consolidated financial statements investments in associates are accounted at cost less impairment. The investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The management assesses that accounting in accordance with equity method in the consolidated financial statements would not provide results that are materially different from accounting at cost.

Repo operations (repos)

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position 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 rate 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.

Cash and cash equivalents

Cash and cash equivalents comprises cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.

Debt securities in issue

Debt securities in issue include bills of exchange/promissory notes issued by the Bank. Debt securities are initially measured at fair value of consideration received less transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Due to credit institutions

Due to credit institutions comprise all liabilities resulting form transactions with domestic and foreign credit institutions as well as liabilities to the Bank of Latvia and other central banks, including vostro balances due to credit institutions, due to credit institutions for outstanding foreign exchange deals and interbank loans.

Due to credit institutions are initially measured at fair value and subsequently are carried at amortised cost using the effective interest rate method.

Deposits

Deposits are liabilities carried at amortised cost and include current accounts and deposits from customers and deposits and balances from credit institutions.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised as other comprehensive income, in which case it is recognised as other comprehensive income.

Corporate income tax in the Republic of Latvia is a direct tax based on the taxable profit reported for the taxation period at the rate of 15%. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax recognised is based on the expected manner of realisation as settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. The principal temporary differences arise from the differing rates and methods used for accounting and tax depreciation on property and equipment, intangible assets, accruals and investment property. Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions

A provision is recognised in the statement of financial position 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. 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.

Short-term employee benefits

Short-term employee benefits like salaries, social benefit payments, bonuses and vacation pay, and are measured on an undiscounted basis and are expensed as the related service is provided in accordance with accrual principle.

A provision is recognised for the amount expected to be paid under short-term cash bonus of profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The provision for employee holiday pay is calculated for each Bank employee based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months, to which the relevant social security expense is added.

Fair value measurement of financial assets and financial liabilities

A number of the Bank's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from other credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans to customers

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rates used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

Assumed collateral

For the Group 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).

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

Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For a non-material amount of non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount" approved for the respective year by the shareholders' meeting, that represents the price for new share allocation and participants quit price.

Derivative financial instruments

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

Due to other credit institutions and customers

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

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

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.

Dividends

The Bank receives dividends from the equity instruments which are recognised when the right to receive payment is established.

Proposed dividends are recognised in the financial statements only when approved by shareholders.

4 RISK MANAGEMENT

All aspects of the Bank's and Group risk management objectives and policies are consistent over the years ended 31 December 2009 and 31 December 2008.

The Bank's activities expose it to a variety of financial and non-financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and these risks are an inevitable consequence of being in business. The Bank's strategic aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The risk management system, being an integral part of internal control system of the Bank, is based on the principal requirements of effective supervision of banks by Financial and the Capital Market Commission and the Basel Committee on Banking Supervision.

The most important types of risk are reputational risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management in the Bank is centralised and is carried out by the Board under policies approved by Supervisory Council. Risk management polices are subject to yearly review. There are three committees in the Bank responsible for risk management - the Credit Committee, the Resources Supervision Committee and Customer Due Diligence Committee. In addition, internal audit is responsible for the independent review of risk management and control environment.

The Management Board 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 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.

The Bank's risk management policies are designed to identify, analyse and measure significant risks, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date management information system. As of 1 January 2009, the Bank has implemented the EU Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and the EU Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions relating to the improvement of the internal control system and risk management, as well as implemented Basel II Accord requirements introduced by the Basel Committee on Banking Supervision.

Reputational risk

Banks are inherently at risk for potential money laundering and the financing of terrorism, and this factor poses a serious threat to corporate reputation, unless banks ensure an adequate level of due diligence to be able to identify, monitor and avoid reputational risk. The Bank therefore develops and consequently implements its internal policies and procedures in order to comply with the guidelines and requirements outlined in international and domestic regulatory documents:

1. Valid laws and legislative decrees of the Republic of Latvia
2. Guidelines and recommended standards adopted by the Financial and Capital Market Commission and the Association of Latvian Commercial Banks
3. Global Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) policies and regulations
4. International best practices.

The Bank's AML/CFT and Know Your Customer (KYC) policies and procedures provide guidelines for:

1. Performing customer due diligence (CDD) through identification and verification processes
2. On-going supervision and monitoring of customer's business activities
3. Carrying out customer's business process analysis (BPA)
4. Identifying suspicious and unusual financial transactions; filing suspicious activity reports (SARs) to investigative, law enforcement and judicial authorities
5. Retaining of the information concerning Bank's customers and their business and financial activity
6. Employee training sessions.

Credit risk

The Bank takes on exposures to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation. Credit risk is the most significant risk for the Bank's business and therefore exposures to credit risk are subject to careful management.

Sources of credit risk

Credit risk of the Bank arises principally from the placements with credit institutions as well from lending activities and transactions in derivative financial instruments. There is also credit risk in off-balance sheet financial instruments such as letters of credit, guarantees and payment cards' overdraft commitments. There is a delivery risk in relation to foreign exchange transactions.

For the Bank as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with principal correspondents to provide necessary customers' payments, which sometimes causes significant concentrations with particular counterparties.

Management and control of credit exposures

The Bank manages, limits and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to geographical and industry segments. Such limits are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to credit risk are managed through regular analysis of the ability of the existing and potential borrowers and counterparties to meet interest and principal repayment obligations and by changing lending limits where appropriate. The financial analysis, the analysis of external ratings and analysis of business environment of borrowers and counterparties is taken into consideration for such decision-making.

The Bank uses different credit risk management techniques for credit institutions and non-banks, but techniques are applied consistently to all financial instruments used, including both statement of financial position and off-balance sheet exposures with particular counterparty or group of related counterparties, as well as delivery risk in relation to foreign exchange transactions.

Limits on exposures to credit institutions are set by Resources Supervision Committee and approved by the Management Board. Limits on exposures to non-banks are considered by Credit Committee and approved by the Management Board or Supervisory Council according to the approval authorities.

Exposures to related groups of counterparties and counterparties related to the Bank are also subject to regulatory requirements.

According to regulations, any credit risk exposure to a non-related counterparty may not exceed 25% of the Bank's equity. Regulation states though that some exposures, such as due from credit institutions with maturity up to 1 year, are not considered to be credit risk exposures for regulatory requirements noted above.

According to regulations the total credit risk exposures to parties related to Bank shall not exceed 15% of the Bank's equity.

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation techniques. The most traditional of these is taking security for funds disbursements, which is common practice. The bank implements guidelines on the criteria for specific classes of collateral taken.

The amount of collateral required may vary depending on the type of exposure but usually it is set at least to cover principal amount of the outstanding debt.

The Bank's exposures to credit institutions are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Note 50.

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.

Liquidity risk management process

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

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.

The Bank's liquidity policy is reviewed and approved by the Management Board. The policy states that the Bank is obliged to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 30% of the Bank's total current liabilities.

The Bank calculates the mandatory liquidity ratio on a daily basis in accordance with the requirements of the Financial and Capital Market Commission. The Bank was in compliance with the ratio during the twelve-month period ended 31 December 2009.

The Bank's liquidity ratio as at 31 December 2009 was 81.35%, compared to 76.87% as at 31 December 2008.

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 statement of financial position liquidity ratios against regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

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 to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Daily projections are based on assets and liabilities contractual maturities monitoring and analysis of information concerning customers' incoming and outgoing payments. Monthly projections are based on assets and liabilities term structure analysis.

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 the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Treasury Committee and implemented by the Treasury Department.

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Note 43.

Currency (foreign exchange) risk

Foreign exchange risk relates to the effects of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows.

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 Notes 45 and 46.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 10% drop in the value of the Latvian lats versus other currencies is shown in Note 46.

Foreign exchange risk management process

Currency risk management policy determines and regulates risk control and regulatory principles related to the currency exchange transactions that help the Bank in controlling its foreign currency open positions.

Limits on open foreign currency positions in a single currency and aggregate open foreign currency position are set for both overnight and intra-day positions, which are monitored daily.

The Credit Institution Law states that the open position in each separate currency must not exceed 10% of the Bank's equity and the aggregate open position in all foreign currencies must not exceed 20% of the Bank's equity.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 45 and Note 46.

Interest rate risk

Interest rate risk represents the risk that there may be changes in the future cash flows connected with financial instruments (cash flow interest rate risk) or fair value of financial instruments (fair value interest rate risk) resulting from changes in the interest rates on the market. The period when interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk.

Sources of interest rate risk

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Bank is exposed to the cash flow interest rate risk which represents the effect of changes in the interest rates on the Bank's net interest margin and the amount of net interest income due to an inadequate term structure of interest rate sensitive assets and liabilities. The Bank is not exposed to significant interest rate risk of the fair value of financial instruments.

Interest risk management process

Interest rate risk management policy states the management principles, methodology and types of interest rate risk management.

Quantitative disclosures

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 income statement 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 shown in Note 47.

Market risk

The Bank focuses a lot of attention on the monitoring and analysis of market risk. The Bank has adopted its Trading Portfolio Policy designed to define the structure of the Bank's trading portfolio and to set out the maximum effective open position transacted with an individual issuer and the limits by the maturity profile of the securities. The Resources Supervision Committee is charged with the responsibility of implementing the Trading Portfolio Policy. The Internal Audit Department is charged with a continuing control function.

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 simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2009 LVL	Equity 31.12.2009 LVL	Net income 31.12.2008 LVL	Equity 31.12.2008 LVL
5% increase in securities prices	25 202	0,18%	18 657	0,18%
5% decrease in securities prices	(25 202)	-0,18%	(18 657)	-0,18%

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events - various types of human (staff members) or technical (software and hardware failures) errors, contingencies, fire and other factors of this sort. To prevent losses caused by operational risk, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to ensure the implementation of the regulatory requirements set forth in the aforesaid internal guidance documents.

5 CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must 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% (2008: 8%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2009 and 31 December 2008.

The Bank's risk based capital adequacy ratio, as at 31 December 2009, was 12.72% (31 December 2008: 10.42%).

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- To comply with the capital regulatory requirements.
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders.
- To maintain the strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community directives, as implemented by the Financial and Capital Market Commission. The required information is filed with the Financial and Capital Market Commission on a monthly basis.

The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for the application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., the Bank's capital ratio against the risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items. The sum of notional risk weighted assets and memorandum items is determined as the sum of capital requirements of market risks, multiplied by 12.5.

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy basically agree with the recommendations under the Basle Capital Accord and amendments thereto. According to the Basle Capital Accord, the capital adequacy ratio should be at least 8%.

Quantitative disclosures

Further quantitative disclosures in respect of capital management are presented in Note 42.

6 INTEREST INCOME

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Loans	3 276 332	3 281 694	3 883 201
Loans	3 250 996	3 256 358	3 848 727
Payment cards	25 336	25 336	34 474
Due from Bank of Latvia	107 267	107 267	307 486
Due from credit institutions	883 952	883 952	2 138 285
Securities held-to-maturity	900 534	900 534	653 717
Securities held-for-trading	85 035	85 035	648 974
	5 253 120	**5 258 482**	**7 631 663**

7 INTEREST EXPENSE

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Liabilities at amortised cost	2 779 139	2 779 333	2 440 115
Deposits	2 706 850	2 707 044	2 321 497
Due to credit institutions	42 169	42 169	78 291
Debt securities	28 530	28 530	39 630
Subordinated liabilities	1 590	1 590	697
Other interest expense	298 848	298 848	290 620
Ценные бумаги, предназначенные для торговли	3 077 987	3 078 181	2 730 735
	5 253 120	**5 258 482**	**7 631 663**

8 FEE AND COMMISSION INCOME

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Servicing of transactions	1 715 729	1 716 345	2 342 787
Forex transactions	155 456	155 456	181 899
Fees and commissions from banks	146 658	146 658	131 729
Payment cards	129 640	129 640	117 206
Trust operations	97 031	97 031	65 705
Securities accounts administration charges	80 170	80 170	45 633
Letters of credit	13 965	13 965	11 615
Guarantees	11 789	11 789	28 012
Cash operations	8 133	8 133	28 487
Other	20 155	20 155	-
	2 378 726	**2 379 342**	**2 953 073**

9 FEE AND COMMISSION EXPENSE

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Services of correspondent banks	335 242	335 242	501 573
Payment cards	117 880	117 880	68 058
Securities-based transactions	31 536	31 536	36 957
Services of agents and brokers	8 674	8 674	18 349
Other	8 397	8 397	7 106
	501 729	**501 729**	**632 043**

10 NET TRADING INCOME/(LOSS)

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Gain on foreign exchange operations	2 743 634	2 743 634	2 440 792
Loss on revaluation of positions in foreign currency	(3 662)	(3 985)	(742 156)
	2 739 972	**2 739 649**	**1 698 636**
Loss on trading in financial instruments	(212 668)	(212 668)	(2 429 464)
Gain/ (loss) on revaluation of financial instruments	491 339	491 339	(446 315)
	278 671	**278 671**	**(2 875 779)**
	3 018 643	**3 018 320**	**(1 177 143)**

11 OTHER OPERATING INCOME

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Securities-based transactions	22 005	22 005	-
Rent of premises	14 809	13 751	-
Gain on sale of property and equipment and investment property	1 054	1 054	12 045
Penalty amounts received	589	589	71 376
Other	22 196	22 196	16 646
	60 653	**59 595**	**100 067**

12 ADMINISTRATIVE EXPENSES

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Staff salaries	2 648 428	2 643 651	2 505 034
Amortisation and depreciation (Notes 24, 25)	611 001	610 106	418 011
Social insurance payments	594 695	593 357	499 297
Professional services	559 253	553 705	494 257
Representation expenses	339 407	339 407	409 145
Lease, renovation and maintenance of property and equipment	226 806	226 806	261 485
Business trips	198 183	198 183	243 380
Non-deductible input VAT	179 984	179 984	276 035
Taxes paid overseas	176 910	176 910	95 086
Communication	135 461	135 325	215 317
Charity and sponsorship	130 156	130 156	35 213
Stationary goods and household equipment	81 523	81 523	134 481
Motor vehicles	46 176	46 105	50 883
Advertising and publicity	45 606	45 606	-
Others taxes	51 533	22 750	7 991
Security	16 290	16 290	8 007
Insurance	9 019	9 019	11 485
Payment cards-related expenses	-	-	18 245
Other	263 147	263 147	231 467
	6 313 578	**6 272 030**	**5 914 819**

13 OTHER OPERATING EXPENSES

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Association membership fees	110 356	110 356	75 310
Penalties paid	442	442	166
Advertising and publicity	-	-	29 674
Other	11 252	15 944	8 362
	122 050	**126 742**	**113 512**

14 ANALYSIS OF CHANGES IN IMPAIRMENT LOSS ALLOWANCE FOR ASSETS EXPOSURES

				Group
	Allowances for securities held to maturity LVL	Allowances for loans LVL	Allowances for other assets LVL	Total LVL
Allowances as of 31 December 2007	**-**	**1 300 785**	**14 986**	**1 315 771**
Amounts written-off	-	(136 723)	(8 380)	(145 103)
Increase in allowances	36 592	599 775	1 406	637 773
Release from allowances	-	(45 557)	(1 433)	(46 990)
Sales of loans	-	(1 008 307)	-	(1 008 307)
Difference due to fluctuations in foreign currency exchange rates	-	32 724	-	32 724
Allowances as of 31 December 2008	**36 592**	**742 697**	**6 579**	**785 868**
Amounts written-off	-	(137 110)	(966)	(138 076)
Increase in allowances	-	896 822	68 172	964 994
Release from allowances	(35 254)	(128 165)	-	(163 419)
Sales of loans	-	(509 243)	-	(509 243)
Difference due to fluctuations in foreign currency exchange rates	(1 338)	(7 856)	555	(8 639)
Allowances as of 31 December 2009	**-**	**857 145**	**74 340**	**931 485**

				Bank
	Allowances for securities held to maturity LVL	Allowances for loans LVL	Allowances for other assets LVL	Total LVL
Allowances as of 31 December 2007	**-**	**1 300 785**	**14 986**	**1 315 771**
Amounts written-off	-	(136 723)	(8 380)	(145 103)
Increase in allowances	36 592	599 775	1 406	637 773
Release from allowances	-	(45 557)	(1 433)	(46 990)
Sales of loans	-	(1 008 307)	-	(1 008 307)
Difference due to fluctuations in foreign currency exchange rates	-	32 724	-	32 724
Allowances as of 31 December 2008	**36 592**	**742 697**	**6 579**	**785 868**
Amounts written-off	-	(137 110)	(966)	(138 076)
Increase in allowances	-	1 096 340	68 172	1 164 512
Release from allowances	(35 254)	(128 165)	-	(163 419)
Sales of loans	-	(509 243)	-	(509 243)
Difference due to fluctuations in foreign currency exchange rates	(1 338)	(7 856)	555	(8 639)
Allowances as of 31 December 2009	**-**	**1 056 663**	**74 340**	**1 131 003**

15 CORPORATE INCOME TAX

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Corporate income tax expense	-	-	329 761
Prior year tax adjustment for income tax paid abroad	(41 617)	(41 617)	(21 901)
Deferred income tax expense	117 144	117 144	35 316
	75 527	**75 527**	**343 176**

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

b) Reconciliation between tax expense and accounting profit

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Profit before income tax	29 546	132 601	390 612
Theoretically calculated tax at tax rate of 15%	4 432	19 890	58 592
Non-deductible expenses/(non-taxable income)	112 712	97 254	306 485
Prior year tax adjustment for income tax paid abroad	(41 617)	(41 617)	(21 901)
Income tax expense	**75 527**	**75 527**	**343 176**

c) Deferred taxes

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

						Group
	Assets 31.12.2009 LVL	Assets 31.12.2008 LVL	Liabilities 31.12.2009 LVL	Liabilities 31.12.2008 LVL	Net 31.12.2009 LVL	Net 31.12.2008 LVL
Financial instruments at fair value through profit or loss	44 967	113 459	-	-	44 967	113 459
Property and equipment	6 014	-	(639 665)	(318 348)	(633 651)	(318 348)
Investment property	-	-	(59 921)	(101 861)	(59 921)	(101 861)
Other assets	-	-	(917)	(152)	(917)	(152)
Other liabilities	24 218	39 106	-	-	24 218	39 106
Tax loss carry-forwards	246 378	-	(15 160)	-	231 218	-
Recognised net deferred tax assets/(liabilities)	**321 577**	**152 565**	**(715 663)**	**(420 361)**	**(394 086)**	**(267 796)**

The Group acquired LVL 9 146 of deferred tax liability through acquisition of subsidiary.

						Bank
	Assets 31.12.2009 LVL	**Assets 31.12.2008 LVL**	**Liabilities 31.12.2009 LVL**	**Liabilities 31.12.2008 LVL**	**Net 31.12.2009 LVL**	**Net 31.12.2008 LVL**
Financial instruments at fair value through profit or loss	44 967	113 459	-	-	44 967	113 459
Property and equipment	-	-	(639 665)	(318 348)	(639 665)	(318 348)
Investment property	-	-	(59 921)	(101 861)	(59 921)	(101 861)
Other assets	-	-	(917)	(152)	(917)	(152)
Other liabilities	24 218	39 106	-	-	24 218	39 106
Tax loss carry-forwards	246 378	-	-	-	246 378	-
Recognised net deferred tax assets/(liabilities)	**315 563**	**152 565**	**(700 503)**	**(420 361)**	**(384 940)**	**(267 796)**

d) Movement in temporary differences

	Balance 31.12.2008 LVL	**Recognised in income statement LVL**	**Balance 31.12.2009 LVL**
Financial instruments at fair value through profit or loss	113 459	(68 492)	44 967
Property and equipment	(318 348)	(321 317)	(639 665)
Investment property	(101 861)	41 940	(59 921)
Other assets	(152)	(765)	(917)
Other liabilities	39 106	(14 888)	24 218
Tax loss carry-forwards	-	246 378	246 378
	(267 796)	**(117 144)**	**(384 940)**

16 CASH AND BALANCES WITH BANK OF LATVIA

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Cash	1 773 384	860 206
Balance with the Bank of Latvia	8 747 277	7 793 511
Accrued income on balance with Bank of Latvia	1 816	5 247
	10 522 477	**8 658 964**

The Bank is required to ensure that the monthly average balance (in lats) with the Bank of Latvia exceeds the statutory reserve requirement ratio for commercial banks. As at the reporting date the Bank has complied with the reserve requirements of the Bank of Latvia.

The monthly average reserve requirement for period from 24 December 2009 to 23 January 2010 amounted to LVL 8 172 077 (2008: LVL 7 869 993). The reserve requirement is compared to the Bank's average monthly correspondent account balance in LVL.

17 CASH AND CASH EQUIVALENTS

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Cash	1 773 384	860 206
Balance with the Bank of Latvia	8 747 277	7 793 511
	10 520 661	**8 653 717**
Due from other credit institutions with up to 3 months remaining maturity	103 250 404	88 361 359
Due to other credit institutions with up to 3 months remaining maturity	(201 193)	(579 299)
	113 569 872	**96 435 777**

18 DUE FROM CREDIT INSTITUTIONS

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Repayable on demand	84 675 299	45 159 037
Other deposits	21 299 947	44 192 939
	105 975 246	**89 351 976**

The table below shows the geographical concentration of claims on credit institutions:

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Due from credit institutions incorporated in the Republic of Latvia	9 080 545	354 759
Due from credit institutions incorporated in EU countries	84 510 181	79 572 383
Due from credit institutions incorporated in OECD countries	12 507	14 596
Due from credit institutions incorporated in other countries	12 372 013	9 410 238
	105 975 246	**89 351 976**

Concentration of placements with banks and other financial institutions

As at 31 December 2009 and 31 December 2008, the Bank had three and one banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2009 and 31 December 2008 were LVL 67 468 599 and LVL 71 752 151.

19 SECURITIES-HELD-FOR TRADING

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Debt securities	27 302	33 177
Shares and other variable income securities	476 741	339 964
	504 043	**373 141**

The table below shows the securities recorded by issuer profile:

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Debt securities of financial institutions	17 820	23 202
Debt securities of credit institutions	9 482	9 975
Total debt securities	**27 302**	**33 177**
Shares of private enterprises	318 091	250 622
Shares of credit institutions	150 687	86 359
Shares of financial institutions	7 963	2 983
Total shares	**476 741**	**339 964**
	504 043	**373 141**

The table below shows the geographical concentration of securities:

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Debt securities of OECD countries	27 302	33 177
Total debt securities	**27 302**	**33 177**
Shares of Republic of Latvia	48 508	62 647
Shares of other EU countries	8 988	-
Shares of OECD countries	786	48 094
Shares of other countries	418 459	229 223
Total shares	**476 741**	**339 964**
	504 043	**373 141**

As of 31 December 2009, the Bank did not possess any debt securities serving as collateral for repo loans.

As of 31 December 2008, debt securities with a total book value of LVL 454 912 were pledged as collateral for repo loans totaling LVL 383 973.

Reclassification out of held-for-trading financial instruments

During 2009, the Bank did not reclassify any held-for-trading financial instruments.

Pursuant to the amendments to IAS 39 and IFRS 7 (described in Note 2), the Bank reclassified certain trading assets to held-to-maturity financial instruments during 2008. The Bank identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. The Bank had the intention and ability to hold them for the foreseeable future or until maturity. For the trading assets identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

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

	31.12.2009 Carrying value LVL	31.12.2009 Fair value LVL	31.12.2008 Carrying value LVL	31.12.2008 Fair value LVL
Trading financial instruments reclassified to held-to-maturity financial instruments	437 864	417 157	6 073 642	5 513 709
	437 864	**417 157**	**6 073 642**	**5 513 709**

The fair value of the financial instruments reclassified to held-to-maturity financial instruments is measured at quoted market price as at 31 December 2009 and as at 31 December 2008.

The table below sets out the amounts that would have been recognised in the periods following reclassification during 2008 if the reclassifications had not been made:

	31.12.2009 Profit LVL	31.12.2008 Loss LVL
Period after reclassification		
Net profit/loss on financial instruments reclassified to held-to-maturity financial instruments	539 226	(1 241 300)
	539 226	**(1 241 300)**

20 DERIVATIVE CONTRACTS

The table below summarises the contractual amounts of the Bank's and Group's forward exchange contracts outstanding at 31 December 2009 and 31 December 2008. The foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the income statement and in financial instruments at fair value through profit or loss, as appropriate.

	Group and Bank		Bank	
	31.12.2009 Assets LVL	31.12.2009 Liabilities LVL	31.12.2008 Assets LVL	31.12.2008 Liabilities LVL
Notional amount				
Foreign currency exchange SWAP transactions	64 866 580	64 706 955	83 120 051	82 646 906
FUTURES contracts	**106 809**	**-**	**-**	**-**
	64 973 389	**64 706 955**	**83 120 051**	**82 646 906**
Fair value				
Foreign currency exchange SWAP transactions	**284 701**	**125 410**	**792 109**	**321 684**
FUTURES contracts	**7 013**	**-**	**-**	**-**
	291 714	**125 410**	**792 109**	**321 684**

The table below shows the geographical concentration of foreign currency exchange SWAP transactions:

	Group and Bank			Bank
	31.12.2009 Assets LVL	31.12.2009 Liabilities LVL	31.12.2008 Assets LVL	31.12.2008 Liabilities LVL
Foreign currency exchange SWAP transactions with Latvian banks	28 418 296	28 457 835	49 758 251	49 742 028
Foreign currency exchange SWAP transactions with other countries banks	10 198 974	10 088 199	12 799 570	12 836 950
Foreign currency exchange SWAP transactions with other customers	26 249 310	26 160 921	20 562 230	20 067 928
	64 866 580	**64 706 955**	**83 120 051**	**82 646 906**

The table below summarises, by major currency, the contracted average exchange rates applied to the Bank's forward exchange contracts unsettled at 31 December 2009:

EUR/LVL	0,7080
USD/LVL	0,4916
USD/CHF	1,0403
USD/CAD	1,0504
USD/AUD	0,8900
USD/EUR	1,4375
USD/GBP	1,5850

21 SECURITIES AVAILABLE-FOR-SALE

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Ukrainian Government treasury bills	59 285	-
Shares and other variable income securities	165 579	173 631
JSC "Capital"	*127 111*	*127 111*
S.W.I.F.T. SCRL	*38 468*	*42 520*
"BIB REAL ESTATE" LLC	-	4 000
	224 864	**173 631**

Investment JSC "Capital" is recognised based on cost method as the Bank believes there is no readily available active market to detemine the fair value. Discounted cash flows analysis shows that the investment in JSC "Capital" is not impaired.

The fair value of S.W.I.F.T. SCRL is reported according to a certain withdrawal price as of 31 December 2009 and 31 December 2008.

22 SECURITIES HELD-TO-MATURITY

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Bonds and other fixed-income securities	11 301 839	11 869 417
	11 301 839	**11 869 417**
Allowances (Note 14)	-	(36 592)
	11 301 839	**11 832 825**

During the year, two bonds have been restructured. The Bank's and Group's investment in these bonds amounts to LVL 295 238 as at 31 December 2009 (2008: LVL 366 669). The management has followed the restructuring process closely and determined that no impairment allowances need to be created.

The following table shows the distribution of securities held-to-maturity by issuer profile:

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Debt securities of credit institutions	4 330 055	7 136 885
Debt securities of financial institutions	3 870 866	1 585 527
Debt securities of private enterprises	3 100 918	3 147 005
	11 301 839	11 869 417
Allowances (Note 14)	-	(36 592)
	11 301 839	11 832 825

23 LOANS

(a) Loans by type

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Mortgage loans	17 359 057	17 846 953	19 365 025
Commercial loans	11 023 931	11 023 931	13 838 160
Industrial loans	6 321 782	6 321 782	4 432 843
Overdrafts	1 938 037	1 938 037	1 425 544
Consumer loans	517 405	517 405	759 086
Trade finance	390 067	390 067	328 356
Reverse repos	357 826	357 826	808 066
Payment cards	96 243	96 243	107 320
Financial intermediation	-	-	383 446
Finance leasing	-	-	4 892
Other	897 162	897 162	270 023
	38 901 510	**39 389 406**	**41 722 761**
Allowances (Note 14)	(857 145)	(1 056 663)	(742 697)
	38 044 365	**38 332 743**	**40 980 064**

(b) Loan profile by geographic location

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Residents of the Republic of Latvia	21 200 128	21 688 024	26 471 037
Residents of EU countries	5 213 293	5 213 293	4 367 198
Residents of other OECD countries	6 032 017	6 032 017	6 095 916
Residents of CIS countries	758 292	758 292	2 949 176
Residents of other countries	5 697 780	5 697 780	1 839 434
	38 901 510	**39 389 406**	**41 722 761**
Allowances (Note 14)	(857 145)	(1 056 663)	(742 697)
	38 044 365	**38 332 743**	**40 980 064**

(c) Loans by customer profile

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Loans to corporates	32 933 637	33 421 533	35 161 049
Loans to individuals	2 690 890	2 690 890	4 413 937
Loans to financial institutions	2 207 497	2 207 497	1 006 046
Loans to senior management and staff members of the Bank	1 069 486	1 069 486	1 141 729
	38 901 510	**39 389 406**	**41 722 761**
Allowances (Note 14)	(857 145)	(1 056 663)	(742 697)
	38 044 365	**38 332 743**	**40 980 064**

(d) Industry analysis of the loan portfolio

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Real estate	13 953 276	14 441 172	15 121 717
Trade	12 218 602	12 218 602	11 066 468
Information and communication services	4 661 463	4 661 463	2 538 217
Manufacturing	2 319 700	2 319 700	3 718 602
Finance	1 908 950	1 908 950	2 573 912
Agriculture, forestry and timber	4 242	4 242	1 124
Mining/metallurgy	34	34	141 865
Other	74 867	74 867	1 005 190
Loans to individuals	3 760 376	3 760 376	5 555 666
	38 901 510	**39 389 406**	**41 722 761**
Allowances (Note 14)	(857 145)	(1 056 663)	(742 697)
	38 044 365	**38 332 743**	**40 980 064**

(e) Breakdown of loans by groups of delayed payments and non-delinquent loans

The following table provides information on the credit quality of the loan portfolio:

			Group
	Gross Loans 31.12.2009 LVL	Allowances 31.12.2009 LVL	Net loans 31.12.2009 LVL
Non-delinquent loans	24 215 768	(347 535)	23 868 233
Up to 1 month (inclusive)	4 752 811	(95 243)	4 657 568
1 to 3 months	1 161 931	(75 482)	1 086 449
3 to 6 months	6 447 503	(67 021)	6 380 482
More than 6 months	2 323 497	(271 864)	2 051 633
	38 901 510	**(857 145)**	**38 044 365**

			Bank
	Gross Loans 31.12.2009 LVL	Allowances 31.12.2009 LVL	Net loans 31.12.2009 LVL
Non-delinquent loans	24 703 664	(547 053)	24 156 611
Up to 1 month (inclusive)	4 752 811	(95 243)	4 657 568
1 to 3 months	1 161 931	(75 482)	1 086 449
3 to 6 months	6 447 503	(67 021)	6 380 482
More than 6 months	2 323 497	(271 864)	2 051 633
	39 389 406	**(1 056 663)**	**38 332 743**

			Bank
	Gross Loans 31.12.2008 LVL	Allowances 31.12.2008 LVL	Net loans 31.12.2008 LVL
Non-delinquent loans	30 282 822	(155 915)	30 126 907
Up to 1 month (inclusive)	4 666 551	-	4 666 551
1 to 3 months	2 305 214	-	2 305 214
3 to 6 months	642 569	(58 316)	584 253
More than 6 months	3 825 605	(528 466)	3 297 139
	41 722 761	**(742 697)**	**40 980 064**

Movements in the loan impairment allowance for the years ended 31 December 2009 and 31 December 2008 are disclosed in Note 14.

(f) Restructured loans:

During the year ended 31 December 2009, the Bank restructured loans in the total amount of:

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Interest waiver	922 885	-
Interest capitalised	18 955 522	550 820
	19 878 407	550 820

(g) Analysis of collateral

The following table provides the analysis by collateral type of the loan portfolio:

	Группа		Bank		Bank	
	Net loans 31.12.2009 LVL	% of loan portfolio 31.12.2009 %	Net loans 31.12.2009 LVL	% of loan portfolio 31.12.2009 %	Net loans 31.12.2008 LVL	% of loan portfolio 31.12.2008 %
Real estate	18 384 247	48,33%	18 672 625	48,71%	29 973 696	73,15%
Commercial pledge	11 861 497	31,18%	11 861 497	30,94%	5 385 038	13,14%
Deposits	2 735 143	7,19%	2 735 143	7,14%	1 610 382	3,93%
Traded securities	662 238	1,74%	662 238	1,73%	808 066	1,97%
Motor vehicles	346 876	0,91%	346 876	0,90%	772 012	1,88%
Other collateral	225 108	0,58%	225 108	0,59%	104 043	0,25%
No collateral	3 829 256	10,07%	3 829 256	9,99%	2 326 827	5,68%
	38 044 365	**100%**	**38 332 743**	**100%**	**40 980 064**	**100%**

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

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by underlying vehicle. Credit card overdrafts are secured by deposits and guarantees. Consumer loans are secured by other types of collateral.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

During the year ended 31 December 2009, the Bank has assumed a plot of land, having acquired control over the mortgaged property accepted as security for a commercial loan granted by the Bank. During the year ended 31 December 2008 the Bank did not obtain any assets by taking control of collateral accepted as security for commercial loans.

During the year ended 31 December 2009, the Group has obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans.

	Group LVL	Bank LVL
Apartments	603 832	-
Plots of land	2 432 582	1 500 857
	3 036 414	**1 500 857**

(h) Significant credit exposures

As at 31 December 2009 and 31 December 2008 the Bank had no borrowers or Banks acting as borrowers or the Bank-related parties whose outstanding loan balances would exceed 10% of loans to customers.

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

24 INTANGIBLE ASSETS

			Group
	Software LVL	Goodwill LVL	Total LVL
Acquisition cost			
As of 31 December 2007	**864 276**	**-**	**864 276**
Additions	613 478	-	613 478
Disposals	(83 111)	-	(83 111)
Reclassification	(180 269)	-	(180 269)
As of 31 December 2008	**1 214 374**	**-**	**1 214 374**
Additions	947 604	-	947 604
Acquisition of subsidiary	378	261 314	261 692
Impairment	-	(261 314)	(261 314)
Disposals	(5 355)	-	(5 355)
As of 31 December 2009	**2 157 001**	**-**	**2 157 001**
Amortisation			
As of 31 December 2007	**(99 035)**	**-**	**(99 035)**
Amortisation	(42 598)	-	(42 598)
Disposals	83 111	-	83 111
As of 31 December 2008	**(58 522)**	**-**	**(58 522)**
Amortisation	(57 271)	-	(57 271)
Disposals	5 355	-	5 355
As of 31 December 2009	**(110 438)**	**-**	**(110 438)**
Net book value			
As of 31 December 2007	**765 241**	**-**	**765 241**
As of 31 December 2008	**1 155 852**	**-**	**1 155 852**
As of 31 December 2009	**2 046 563**	**-**	**2 046 563**

	Bank
	Software LVL
Acquisition cost	
As of 31 December 2007	**864 276**
Additions	613 478
Disposals	(83 111)
Reclassification	(180 269)
As of 31 December 2008	**1 214 374**
Additions	947 604
Disposals	(5 355)
As of 31 December 2009	**2 156 623**
Amortisation	
As of 31 December 2007	**(99 035)**
Amortisation	(42 598)
Disposals	83 111
As of 31 December 2008	**(58 522)**
Amortisation	(57 172)
Disposals	5 355
As of 31 December 2009	**(110 339)**
Net book value	
As of 31 December 2007	**765 241**
As of 31 December 2008	**1 155 852**
As of 31 December 2009	**2 046 284**

25 PROPERTY AND EQUIPMENT

						Group
	Buildings and land (in own use) LVL	Leasehold improvements LVL	Motor vehicles LVL	Office equipment LVL	Construction in progress LVL	Total LVL
Acquisition cost						
As of 31 December 2007	**2 565 508**	**482 134**	**167 321**	**1 813 096**	**3 558 288**	**8 586 347**
Additions	1 541 751	-	67 674	603 885	1 257 756	3 471 066
Disposals	-	(256 249)	(41 512)	(271 305)	-	(569 066)
Reclassification	4 905 240	(225 885)	46 163	33 781	(4 759 299)	-
Adjustments	-	-	-	-	(3 123)	(3 123)
As of 31 December 2008	**9 012 499**	**-**	**239 646**	**2 179 457**	**53 622**	**11 485 224**
Additions	-	-	13 783	143 596	12 803	170 182
Acquisition of subsidiary	-	-	-	1 734	-	1 734
Disposals	-	-	(12 510)	(86 175)	-	(98 685)
Reclassification	22 645	-	-	(22 645)	-	-
As of 31 December 2009	**9 035 144**	**-**	**240 919**	**2 215 967**	**66 425**	**11 558 455**
Depreciation						
As of 31 December 2007	**(75 519)**	**(241 067)**	**(88 237)**	**(545 366)**	**-**	**(950 189)**
Depreciation	(64 642)	(15 182)	(45 172)	(250 417)	-	(375 413)
Disposals	-	256 249	38 083	268 954	-	563 286
As of 31 December 2008	**(140 161)**	**-**	**(95 326)**	**(526 829)**	**-**	**(762 316)**
Depreciation	(158 345)	-	(47 725)	(347 660)	-	(553 730)
Disposals	-	-	12 510	86 101	-	98 611
As of 31 December 2009	**(298 506)**	**-**	**(130 541)**	**(788 388)**	**-**	**(1 217 435)**
Net book value						
As of 31 December 2007	**2 489 989**	**241 067**	**79 084**	**1 267 730**	**3 558 288**	**7 636 158**
As of 31 December 2008	**8 872 338**	**-**	**144 320**	**1 652 628**	**53 622**	**10 722 908**
As of 31 December 2009	**8 736 638**	**-**	**110 378**	**1 427 579**	**66 425**	**10 341 020**

Bank

	Buildings and land (in own use) LVL	Leasehold improve-ments LVL	Motor ve-hicles LVL	Office equip-ment LVL	Construc-tion in progress LVL	Total LVL
Acquisition cost						
As of 31 December 2007	**2 565 508**	**482 134**	**167 321**	**1 813 096**	**3 558 288**	**8 586 347**
Additions	1 541 751	-	67 674	603 885	1 257 756	3 471 066
Disposals	-	(256 249)	(41 512)	(271 305)	-	(569 066)
Reclassification	4 905 240	(225 885)	46 163	33 781	(4 759 299)	-
Adjustments	-	-	-	-	(3 123)	(3 123)
As of 31 December 2008	**9 012 499**	**-**	**239 646**	**2 179 457**	**53 622**	**11 485 224**
Additions	-	-	13 783	143 596	12 803	170 182
Disposals	-	-	(12 510)	(86 175)	-	(98 685)
Reclassification	22 645	-	-	(22 645)	-	-
As of 31 December 2009	**9 035 144**	**-**	**240 919**	**2 214 233**	**66 425**	**11 556 721**
Depreciation						
As of 31 December 2007	**(75 519)**	**(241 067)**	**(88 237)**	**(545 366)**	**-**	**(950 189)**
Depreciation	(64 642)	(15 182)	(45 172)	(250 417)	-	(375 413)
Disposals	-	256 249	38 083	268 954	-	563 286
As of 31 December 2008	**(140 161)**	**-**	**(95 326)**	**(526 829)**	**-**	**(762 316)**
Depreciation	(158 345)	-	(47 725)	(346 864)	-	(552 934)
Disposals	-	-	12 510	86 101	-	98 611
As of 31 December 2009	**(298 506)**	**-**	**(130 541)**	**(787 592)**	**-**	**(1 216 639)**
Net book value						
As of 31 December 2007	**2 489 989**	**241 067**	**79 084**	**1 267 730**	**3 558 288**	**7 636 158**
As of 31 December 2008	**8 872 338**	**-**	**144 320**	**1 652 628**	**53 622**	**10 722 908**
As of 31 December 2009	**8 736 638**	**-**	**110 378**	**1 426 641**	**66 425**	**10 340 082**

26 INVESTMENT PROPERTY

As for investment property, Bank applies a fair-value-based accounting model. The fair value of the investment property item (as assessed or disclosed in the financial statements) is based on the appraisal from an independent appraiser possessing recognised, relevant and professional qualifications and has recent experience in appraising the same category investment property located at the same territory as the item being valuated.

During 2008, Bank sold real estate property objects in Riga: buildings and plots of land at Ieriķu iela 15. The sale profit totalled LVL 9 429.

	Группа и Банк LVL
As of 31 December 2007	**1 573 938**
Additions	2 507
Revaluation	(148 646)
Sale	(110 271)
As of 31 December 2008	**1 317 528**
Additions	1 500 857
Revaluation	(115 440)
As of 31 December 2009	**2 702 945**

Additions to investment property relate to assumed collateral in the form of a land plot.

Amounts recognised in the financial statements:	**Group and Bank LVL**
Rental income earned on investment property	681
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has earned a rental income during the reporting year	(6 529)
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has not earned a rental income during the reporting year	(681)

27 INVESTMENTS IN ASSOCIATES

	Ownership	Country of incorporation	Purpose	Group and Bank 31.12.2009	Bank 31.12.2008
	%			LVL	LVL
LLC "Komunikācijas un projekti"	25	Latvia	Investments	429 009	429 009
				429 009	**429 009**

As at 31 December 2009 SIA "Komunikācijas un projekti" assets amounted to LVL 23 639, liabilities amounted to LVL 22 677, and losses for 2009 comprised LVL 4 407. The management assesses that the fair value of assets in the associate is higher than the recognised amount for Statutory accounting purposes and therefore no need for an impairment allowance identified.

The management assesses that accounting in accordance with equity method would not provide results that are materially different from accounting at cost.

28 DEFERRED EXPENSES AND ACCRUED INCOME

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Deferred expenses	993 719	744 678
Other accrued interest and other income	69 924	155 729
	1 063 643	**900 407**

29 OTHER ASSETS

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Assumed collateral	1 535 557	-	-
Unsettled spot forex transactions	337 490	337 490	340 227
Other accounts receivable	210 848	190 856	89 701
Precious metals	106 646	106 646	3 996
VAT pre-payments	102 182	102 182	149 034
Other prepaid taxes	66 172	66 172	24 356
Money in transit (replenishment of a correspondent account)	16 160	16 160	25 043
Funds placed in guarantee funds	7 197	7 197	9 654
Allowances (Note 14)	(74 340)	(74 340)	(6 579)
	2 307 912	**752 363**	**635 432**

30 DUE TO CREDIT INSTITUTIONS

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Repayable on demand	201 477	579 307
Term balances	2 477 212	9 984
	2 678 689	**589 291**

The table below shows geographical concentration:

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Credit institutions incorporated in the Republic of Latvia	12 840	3 352
Credit institutions incorporated in non-OECD countries	2 665 849	585 939
	2 678 689	**589 291**

Concentration of due to credit institutions

As at 31 December 2009 and 31 December 2008, the Bank had one and two banks and financial institutions, respectively, whose balances exceeded 10% of total placements by banks and other financial institutions. The gross value of these balances as of 31 December 2009 and 31 December 2008 were LVL 2 463 094 and LVL 534 384.

31 DEPOSITS

Repayable at call	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Corporates	97 349 087	97 349 203	87 557 076
Municipalities	55 315	55 315	-
Financial institutions	6 439 028	6 439 028	4 144 480
State-owned companies	2 118 314	2 118 314	-
Central governments	58 785	58 785	49 166
Public organisations	371 558	371 558	604 996
Individuals	8 841	8 841	871
	106 400 928	**106 401 044**	**92 356 589**
Term deposits			
Corporates	44 811 389	44 811 389	53 485 573
Individuals	14 243 066	14 243 066	5 218 513
Financial institutions	-	-	112 549
	59 054 455	**59 054 455**	**58 816 635**
Total deposits	**165 455 383**	**165 455 499**	**151 173 224**

Blocked accounts

As at 31 December 2009, the Bank maintained customer deposit balances of LVL 2 910 249 (as at 31 December 2008: LVL 1 740 757) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2009, the Bank had one client whose account balance exceeded 10% of the total of all customer account balances (as of 31 December 2008: 1). As at 31 December 2009, these balances totalled LVL 52 719 213 (as of 31 December 2008: LVL 52 128 792).

32 DEBT SECURITIES IN ISSUE

	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Bills of exchange	-	842 774
Certificates of deposit	-	1 027
	-	**843 801**

During the year ended 31 December 2009, two issued unlisted debt securities were redeemed.

33 ACCRUED EXPENSES, PROVISIONS AND DEFERRED INCOME

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Provision for unused vacation	162 245	161 451	260 707
Accruals for other payments	114 896	114 380	121 945
Other accrued expense	131 069	131 069	80 628
Accrued interest payable to the Deposit Guarantee Scheme (DGS)	78 800	78 800	80 526
Deferred income	38 826	38 826	54 057
	525 836	**524 526**	**597 863**

34 OTHER LIABILITIES

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Money in transit	346 557	346 557	461 981
Unsettled spot forex transactions	284 442	284 442	637 058
Other accounts payable	155 147	146 859	96 915
	786 146	**777 858**	**1 195 954**

35 SUBORDINATED LIABILITIES

Subordinated deposits have a fixed term of seven years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims.

					Group and Bank	Bank
Depositor	Currency	Amount in currency	Interest rate	Repayment date	Amount	Amount
					31.12.2009 LVL	31.12.2008 LVL
Belokon Holdings	EUR	19 074	8,00%	2015.10.20	13 405	13 350
Валерий Белоконь	EUR	10 002	8,00%	2016.03.05	7 030	-
Валерий Белоконь	LVL	11 220	7,00%	2009.02.26	-	11 220
					20 435	**24 570**

36 SHAREHOLDERS' EQUITY

On 14 August 2009, the shareholders approved a resolution to raise the share capital of JSC "Baltic International Bank" by LVL 7 910 820 through issuing 1 582 164 registered and dematerialised ordinary shares, each share having a face value of LVL 5. Shares are fully paid up. The Bank's share capital increased to LVL 15 522 105 by 3 104 421 ordinary voting shares.

These are registered shares. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Each share has a par value of LVL 5 (five lats). Of the Bank's 98 shareholders, 28 are legal entities and 70 are individuals.

Also, the 14 August 2009 meeting approved a resolution to distribute the retained earnings (LVL 4 120 653, for years 2006, 2007 and 2008) as dividends to the Bank's shareholders. To do so, the Bank obtained prior approval from the Financial and Capital Market Commission.

"Reserve capital totalling LVL 545 thousand is formed from the contributions made by the Bank's shareholders. The Bank's General Meeting of Shareholders makes the decision concerning further usage of reserve capital. Reserve capital can be used to:
- cover losses;
- increase the share capital;
- pay dividends."

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

	31.12.2009	31.12.2008
Valeri Belokon	49,10%	42,67%
Viacheslav Kramnoy	22,88%	27,97%
Vilori Belokon	14,09%	12,25%

37 OFF-BALANCE SHEET ITEMS

Sureties and guarantees, which represent irrevocable assurances and promise that the Bank will make payments to the beneficiary (third party) in the event that the obligor (customer) fails to honor his/her obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit and liabilities for credit cards represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

	Group 31.12.2009 LVL	Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Sureties and guarantees	**792 434**	**792 434**	**1 117 613**
Commitments to customers	**5 815 328**	**5 819 331**	**4 932 184**
Commitments to extend credit	5 250 792	5 254 795	4 523 776
Unused creditcard limits	472 800	472 800	408 408
Other	91 736	91 736	-
	6 607 762	**6 611 765**	**6 049 797**

38 TRUST AGREEMENTS

The Bank enters into trust agreements with private individuals and legal entities, residents and non-residents of the Republic of Latvia. The Bank accepts no risk for its trust operations; all risk is retained by its clients. As of 31 December 2009, the Bank's administered assets totaled LVL 60 844 374. As of 31 December 2008, the Bank's administered assets stood at LVL 55 807 525.

39 LITIGATION

As of 31 December 2009, lawsuits are filed against the Bank to settle two claims in respect of which the Bank is named as a defendant or a third party (as at 31 December 2008: 2). Based on professional advice, the Bank's management considered it unlikely that a loss material to these Financial Statements could eventuate. No claims loss provision was made.

40 INFORMATION ON BANK'S STAFF AND REMUNERATION OF THE MANAGEMENT

In 2008, the Bank's average staff count increased to 211 (2008: 206). Remuneration to the Bank's Council and Board members amounted to:

	31.12.2009 LVL	31.12.2008 LVL
Council members	129 163	138 451
Board members	332 470	328 273
	461 633	466 724

41 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.

The outstanding balances and the related average interest rates as of 31 December 2009 and related income statement amounts of transactions for the year ended 31 December 2009 with other related parties are as follows:

				Group and Bank	Bank
Assets	**Average interest rate**	**Amount LVL**	**Off-balance sheet items LVL**	**Total 31.12.2009 LVL**	**Total 31.12.2008 LVL**
Loans, net	-	1 996 419	99 537	2 095 956	1 684 630
Bank-related undertakings and individuals	*6,18%*	*1 832 788*	*12 462*	*1 845 250*	*1 337 269*
Council and Board	*5,15%*	*427 273*	*78 439*	*505 712*	*471 084*
Other senior executives	*10,00%*	*1 553*	*8 636*	*10 189*	*3 193*
Allowances for losses on loans and advances	*0,00%*	*(265 195)*	-	*(265 195)*	*(126 916)*
Securities available-for-sale	0,00%	-	-	-	4 000
Investments in associates	0,00%	429 009	-	429 009	429 009
Investments in subsidiaries	0,00%	1 363 600	-	1 363 600	-
Other assets	0,00%	37 474	-	37 474	37 474
Sureties (guarantees)	0,00%	-	10 591	10 591	-
Total assets and off-balance sheet liabilities	**-**	**3 826 502**	**110 128**	**3 936 630**	**2 155 113**
Liabilities					
Deposits deposited by related parties	4,60%	1 431 012	-	1 431 012	1 968 155
Due to credit institutions	0,19%	145 847	-	145 847	283 187
Subordinated liabilities	8,00%	20 435	-	20 435	24 570
Total liabilities	**-**	**1 597 294**	**-**	**1 597 294**	**2 275 912**

Income	Group and Bank 31.12.2009 LVL	Bank 31.12.2008 LVL
Interest income	85 769	95 679
Interest expense	(71 106)	(81 504)
Net interest income	**14 663**	**14 175**
Expense related to allowances for doubtful debts	(227 120)	-
Result income	**(212 457)**	**14 175**

All related party transactions are at arm's length.

42 CAPITAL ADEQUACY CALCULATION

The Finance and Capital Market Commission sets forth capital requirements for the Bank as a whole and supervises the adherence to the requirements.

The Bank's capital adequacy ratio reflects the capital level required for hedging against credit risk and market risk which the Bank's assets and off-balance sheet liabilities are exposed to. Therefore, to comply with the Financial and Capital Market Commission's regulatory requirements, the capital adequacy ratio may not be less than 8 percent.

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the New Basel Capital Accord, commonly known as Basel II.

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

Total equity capital	**Group LVL**	**Bank LVL**
Paid-in share capital	15 522 105	15 522 105
Reserve capital and other reserves	545 024	545 024
Profit for the current year	(45 981)	57 074
Intangible assets	(2 046 563)	(2 046 284)
Less revaluation of investment property	(399 476)	(399 476)
Tier 1 Core Capital	**13 575 109**	**13 678 443**
Subordinated liabilities	20 170	20 170
Tier 2 Supplementary Capital	**20 170**	**20 170**
The capital charge for credit risk inherent in the Bank's portfolio	7 464 074	7 512 230
The total capital charge for market risks	120 205	120 205
Capital charge for operational risk	984 300	984 300
Total capital charge	**8 568 579**	**8 616 735**
CAPITAL ADEQUACY RATIOS		
31 December 2009	**12,69%**	**12,72%**
CAPITAL ADEQUACY RATIOS		
31 December 2008	**10,42%**	**10,42%**

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 is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank. The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2009 and 31 December 2008.

43 STRUCTURE OF ASSETS AND LIABILITIES

The following tables are based on regulatory instructions of the Financial and Capital Market Commission and show the term structure of assets and liabilities. This term structure will not necessarily coincide with discounted cash flows.

As of 31 December 2009

ASSETS	Demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Cash and balances with bank of Latvia	10 520 661	1 816	-	-	-
Due from credit institutions	84 675 301	14 513 621	4 166 755	-	2 229 513
Financial assets held-for-trading	455 535	284 207	7 507	-	-
Securities held-for-trading	*455 535*	-	-	-	-
Derivative financial instruments	-	*284 207*	*7 507*	-	-
Securities available-for-sale	-	-	59 285	-	-
Securities held-to-maturity	-	54 849	2 016 791	690 965	1 939 907
Loans	2 068 385	2 128 968	5 918 940	4 569 411	9 063 844
Intangible assets	-	-	-	-	-
Property and equipment	-	-	-	-	-
Investment property	-	-	-	-	-
Investments in associates	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-
Current tax assets	-	2 650	238 058	-	-
Deferred expenses and accrued income	-	93 832	34 669	60 800	702 736
Other assets	353 650	-	-	-	-
Total assets	**98 073 532**	**17 079 943**	**12 442 005**	**5 321 176**	**13 936 000**
LIABILITIES					
Due to credit institutions	201 477	-	-	2 463 094	14 118
Deposits	105 650 511	22 053 140	6 331 875	10 527 122	18 051 873
Debt securities in issue		-	-	-	-
Derivative financial instruments	-	124 609	801	-	-
Accrued expenses, provisions and deferred income	279 663	206 419	3 582	447	10 485
Corporate income tax liabilities	-	-	-	-	-
Deferred tax liabilities	384 940	-	-	-	-
Other liabilities	777 858	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Shareholders' equity	-	-	-	-	-
Total liabilities	**107 294 449**	**22 384 168**	**6 336 258**	**12 990 663**	**18 076 476**
Off-balance sheet liabilities *	6 138 579	-	-	-	-
Maturity gap	**(15 359 496)**	**(5 304 225)**	**6 105 747**	**(7 669 487)**	**(4 140 476)**

*** Off- balance sheet liabilities are diminished by the amount of the issued guarantees which are secured by the deposits deposited with the Bank and totalling LVL 473 186.**

As of 31 December 2008					
Assets	57 004 528	46 715 206	4 530 551	4 175 369	16 653 876
Liabilities	95 013 688	26 527 516	17 871 104	9 110 219	5 689 267
Off-balance sheet liabilities *	4 968 169	-	-	-	-
Maturity gap	**(42 977 329)**	**20 187 690**	**(13 340 553)**	**(4 934 850)**	**10 964 609**

ASSETS	1 to 5 years	5 years and more	Overdue	No maturity date	TOTAL
Cash and balances with bank of Latvia	-	-	-	-	**10 522 477**
Due from credit institutions	390 056	-	-	-	**105 975 246**
Financial assets held-for-trading	-	48 508	-	-	**795 757**
Securities held-for-trading	-	*48 508*	-	-	**504 043**
Derivative financial instruments	-	-	-	-	**291 714**
Securities available-for-sale	-	165 579	-	-	**224 864**
Securities held-to-maturity	6 548 751	50 576	-	-	**11 301 839**
Loans	10 613 139	633 967	1 700 820	1 635 269	**38 332 743**
Intangible assets	-	-	-	2 046 284	**2 046 284**
Property and equipment	-	-	-	10 340 082	**10 340 082**
Investment property	-	-	-	2 702 945	**2 702 945**
Investments in associates	-	-	-	429 009	**429 009**
Investments in subsidiaries	-	-	-	1 363 600	**1 363 600**
Current tax assets	-	-	-	-	**240 708**
Deferred expenses and accrued income	171 606	-	-	-	**1 063 643**
Other assets	-	-	-	398 713	**752 363**
Total assets	**17 723 552**	**898 630**	**1 700 820**	**18 915 902**	**186 091 560**
LIABILITIES					
Due to credit institutions	-	-	-	-	**2 678 689**
Deposits	2 839 411	1 567	-	-	**165 455 499**
Debt securities in issue	-	-	-	-	**-**
Derivative financial instruments	-	-	-	-	**125 410**
Accrued expenses, provisions and deferred income	23 930	-	-	-	**524 526**
Corporate income tax liabilities	-	-	-	-	**-**
Deferred tax liabilities	-	-	-	-	**384 940**
Other liabilities	-	-	-	-	**777 858**
Subordinated liabilities	-	20 435	-	-	**20 435**
Shareholders' equity	-	-	-	16 124 203	**16 124 203**
Total liabilities	**2 863 341**	**22 002**	**-**	**16 124 203**	**186 091 560**
Off-balance sheet liabilities *	-	-	-	-	**6 138 579**
Maturity gap	**14 860 211**	**876 628**	**x**	**x**	**x**

*** Off- balance sheet liabilities are diminished by the amount of the issued guarantees which are secured by the deposits deposited with the Bank and totalling LVL 473 186.**

As of 31 December 2008					
Assets	20 038 255	4 036 925	1 392 753	12 776 383	**167 323 846**
Liabilities	820 707	14 383	-	12 276 962	**167 323 846**
Off-balance sheet liabilities *	-	-	-	-	**4 968 169**
Maturity gap	**19 217 548**	**4 022 542**	**x**	**x**	**x**

44 CONTRACTUAL CASH FLOW

Residual contractual maturities of financial assets and liabilities as of 31 December 2009:

As of 31 December 2009	Demand and less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	More than 1 year LVL	Total gross amount outflow/ (inflow) LVL	Carrying amount LVL
Non-derivative liabilities							
Deposits and balances due to financial institutions	201 477	-	2 534 428	14 243	-	2 750 148	2 678 689
Current accounts and deposits due to customers	128 333 630	6 519 128	10 838 442	18 585 723	2 924 994	167 201 917	165 455 499
Other borrowed funds	-	-	-	-	29 491	29 491	20 435
Other liabilities	1 648 880	3 582	447	10 485	23 930	1 687 324	1 687 324
Derivative liabilities							
- Inflow	(28 338 155)	(44 645)	-	-	-	(28 382 800)	-
- Outflow	28 462 764	45 446	-	-	-	28 508 210	125 410
Total	**130 308 596**	**6 523 511**	**13 373 317**	**18 610 451**	**2 978 415**	**171 794 290**	**169 967 357**
Credit related commitments	6 611 765	-	-	-	-	-	-

As of 31 December 2008	Demand and less than 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	More than 1 year LVL	Total gross amount outflow/ (inflow) LVL	Carrying amount LVL
Non-derivative liabilities							
Deposits and balances due to financial institutions	579 307	-	-	10 234	-	589 541	589 291
Current accounts and deposits due to customers	118 940 489	17 927 255	9 122 503	5 003 063	825 273	151 818 583	151 173 224
Other borrowed funds	-	11 351	-	864 896	31 105	907 352	868 371
Other liabilities	1 808 892	80 788	155 615	13 253	35 766	2 094 314	2 094 314
Derivative liabilities							
- Inflow	(36 058 500)	-	-	-	-	(36 058 500)	-
- Outflow	36 380 184	-	-	-	-	36 380 184	321 684
Total	**121 650 373**	**18 019 394**	**9 278 118**	**5 891 445**	**892 143**	**155 731 473**	**155 046 884**
Credit related commitments	6 049 797	-	-	-	-	-	-

45 ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE

As of 31 December 2009

Group

ASSETS	LVL	EUR	USD	RUB	GBP	Other currencies	TOTAL LVL
Cash and balances with bank of Latvia	8 571 110	1 032 009	900 171	-	5 826	13 361	10 522 477
Due from credit institutions	14 365	3 093 307	96 015 117	30 422	5 681 026	1 141 009	105 975 246
Financial assets held-for-trading	340 222	-	455 535	-	-	-	795 757
Securities held-for-trading	*48 508*	-	*455 535*	-	-	-	*504 043*
Derivative financial instruments	*291 714*	-	-	-	-	-	*291 714*
Securities available-for-sale	127 111	38 468	-	-	-	59 285	224 864
Securities held-to-maturity	1 060	-	11 300 779	-	-	-	11 301 839
Loans	558 552	20 533 308	16 904 583	7 856	39 111	955	38 044 365
Intangible assets	2 046 563	-	-	-	-	-	2 046 563
Property and equipment	10 341 020	-	-	-	-	-	10 341 020
Investment property	2 702 945	-	-	-	-	-	2 702 945
Investments in associates	429 009	-	-	-	-	-	429 009
Deferred expenses and accrued income	314 134	382 968	353 809	-	12 732	-	1 063 643
Current tax assets	251 493	-	-	-	-	-	251 493
Other assets	2 103 879	18 020	46 852	241	15 304	123 616	2 307 912
Total assets	**27 801 463**	**25 098 080**	**125 976 846**	**38 519**	**5 753 999**	**1 338 226**	**186 007 133**
LIABILITIES							
Due to credit institutions	4 056	2 465 138	208 537	25	933	-	2 678 689
Deposits	1 557 616	27 295 711	130 474 598	36 781	4 553 727	1 536 950	165 455 383
Derivative financial instruments	125 410	-	-	-	-	-	125 410
Accrued expenses, provisions and deferred income	435 992	25 113	54 412	384	9 935	-	525 836
Deferred tax liabilities	394 086	-	-	-	-	-	394 086
Other liabilities	468 325	35 262	255 951	3 917	4 659	18 032	786 146
Subordinated liabilities	-	20 435	-	-	-	-	20 435
Total liabilities	**2 985 485**	**29 841 659**	**130 993 498**	**41 107**	**4 569 254**	**1 554 982**	**169 985 985**
Shareholders' equity							
Share capital	15 522 105	-	-	-	-	-	15 522 105
Reserve capital	545 024	-	-	-	-	-	545 024
Retained earnings/(accumulated losses)	(45 981)	-	-	-	-	-	(45 981)
Total shareholders' equity	**16 021 148**	**-**	**-**	**-**	**-**	**-**	**16 021 148**
Total liabilities and shareholders' equity	**19 006 633**	**29 841 659**	**130 993 498**	**41 107**	**4 569 254**	**1 554 982**	**186 007 133**
BALANCE POSITION	**8 794 830**	**(4 743 579)**	**(5 016 652)**	**(2 588)**	**1 184 745**	**(216 756)**	
Unsettled spot forex contracts	(1 707 510)	17 553 754	(5 553 527)	(1 640 000)	(4 369 966)	(4 291 818)	
Forward contracts	(7 373 615)	(12 935 882)	10 870 790	1 654 086	3 132 800	4 811 446	
NET POSITION	**(286 295)**	**(125 707)**	**300 611**	**11 498**	**(52 421)**	**302 872**	
Ratio to the shareholders' equity (%)*		(0.92%)	2,21%	0,08%	(0.39%)		
As of 31 December 2008							
Assets	26 489 967	23 330 054	113 792 944	760 063	2 519 510	431 308	167 323 846
Liabilities	14 996 654	23 309 635	125 959 456	114 500	1 537 271	1 406 330	167 323 846
Balance position	**11 493 313**	**20 419**	**(12 166 512)**	**645 563**	**982 239**	**(975 022)**	
Net position	**88 298**	**(327 675)**	**291 517**	**12 863**	**399 839**	**288 161**	

* Equity (net worth) totalling LVL 13 595 279 (as of 31 December 2008: 10 619 545) as of 31 December 2009.

Bank

ASSETS	LVL	EUR	USD	RUB	GBP	Other currencies	TOTAL LVL
Cash and balances with bank of Latvia	8 571 110	1 032 009	900 171	-	5 826	13 361	10 522 477
Due from credit institutions	14 365	3 093 307	96 015 117	30 422	5 681 026	1 141 009	105 975 246
Financial assets held-for-trading	340 222	-	455 535	-	-	-	795 757
Securities held-for-trading	*48 508*	-	*455 535*	-	-	-	*504 043*
Derivative financial instruments	*291 714*	-	-	-	-	-	*291 714*
Securities available-for-sale	127 111	38 468	-	-	-	59 285	224 864
Securities held-to-maturity	1 060	-	11 300 779	-	-	-	11 301 839
Loans	558 552	20 821 686	16 904 583	7 856	39 111	955	38 332 743
Intangible assets	2 046 284	-	-	-	-	-	2 046 284
Property and equipment	10 340 082	-	-	-	-	-	10 340 082
Investment property	2 702 945	-	-	-	-	-	2 702 945
Investments in associates	429 009	-	-	-	-	-	429 009
Investments in subsidiaries	1 363 600	-	-	-	-	-	1 363 600
Deferred expenses and accrued income	314 134	382 968	353 809	-	12 732	-	1 063 643
Current tax assets	240 708	-	-	-	-	-	240 708
Other assets	548 330	18 020	46 852	241	15 304	123 616	752 363
Total assets	**27 597 512**	**25 386 458**	**125 976 846**	**38 519**	**5 753 999**	**1 338 226**	**186 091 560**
LIABILITIES							
Due to credit institutions	4 056	2 465 138	208 537	25	933	-	2 678 689
Deposits	1 557 729	27 295 714	130 474 598	36 781	4 553 727	1 536 950	165 455 499
Derivative financial instruments	125 410	-	-	-	-	-	125 410
Accrued expenses, provisions and deferred income	434 682	25 113	54 412	384	9 935	-	524 526
Deferred tax liabilities	384 940	-	-	-	-	-	384 940
Other liabilities	460 037	35 262	255 951	3 917	4 659	18 032	777 858
Subordinated liabilities	-	20 435	-	-	-	-	20 435
Total liabilities	**2 966 854**	**29 841 662**	**130 993 498**	**41 107**	**4 569 254**	**1 554 982**	**169 967 357**
Shareholders' equity							
Share capital	15 522 105	-	-	-	-	-	15 522 105
Reserve capital	545 024	-	-	-	-	-	545 024
Retained earnings/(accumulated losses)	57 074	-	-	-	-	-	57 074
Total shareholders' equity	**16 124 203**	**-**	**-**	**-**	**-**	**-**	**16 124 203**
Total liabilities and shareholders' equity	**19 091 057**	**29 841 662**	**130 993 498**	**41 107**	**4 569 254**	**1 554 982**	**186 091 560**
BALANCE POSITION	**8 506 455**	**(4 455 204)**	**(5 016 652)**	**(2 588)**	**1 184 745**	**(216 756)**	
Unsettled spot forex contracts	(1 707 510)	17 553 754	(5 553 527)	(1 640 000)	(4 369 966)	(4 291 818)	
Forward contracts	(7 373 615)	(12 935 882)	10 870 790	1 654 086	3 132 800	4 811 446	
NET POSITION	**(574 670)**	**162 668**	**300 611**	**11 498**	**(52 421)**	**302 872**	
Ratio to the shareholders' equity (%)*		1,19%	2,19%	0,08%	-0,38%		
As of 31 December 2008							
Assets	26 489 967	23 330 054	113 792 944	760 063	2 519 510	431 308	167 323 846
Liabilities	14 996 654	23 309 635	125 959 456	114 500	1 537 271	1 406 330	167 323 846
Balance position	**11 493 313**	**20 419**	**(12 166 512)**	**645 563**	**982 239**	**(975 022)**	
Net position	**88 298**	**(327 675)**	**291 517**	**12 863**	**399 839**	**288 161**	

* Equity (net worth) totalling LVL 13 698 613 (as of 31 December 2008: 10 619 545) as of 31 December 2009.

46 SENSITIVITIES ANALYSIS

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 5.29% of the Bank's equity as of 31 December 2009 (as of 31 December 2008: 2.48%).

Figures show that a 10 percent strengthening of the Latvian Lats against other currencies may have a material impact on the Group's profit (in LVL):

	31.12.2009 EUR	31.12.2009 USD	31.12.2009 GBP	31.12.2008 EUR	31.12.2008 USD	31.12.2008 RUB
rate valid:	0,702804	0,489	0,783	0,702804	0,495	0,017
foreign currency position (in LVL):	162 668	300 611	11 497	(327 675)	291 517	12 863
(loss)/profit (in LVL):	(11 432)	(14 730)	(897)	23 029	(14 576)	(26)

Отношение открытых позиций иностранных валют и золота к собственному капиталу Группы по состоянию на 31 декабря 2009 года составило 1.76% (31 декабря 2008 года: 2.48%)

Представленная таблица наглядно показывает, что снижение курса латвийского лата по отношению к другим валютам на 10% значительно повлияло бы на прибыль Группы (в LVL):

	31.12.2009 EUR	31.12.2009 USD	31.12.2009 GBP	31.12.2008 EUR	31.12.2008 USD	31.12.2008 RUB
rate valid:	0,702804	0,489	0,783	0,702804	0,495	0,017
foreign currency position (in LVL):	(125 707)	300 611	11 497	(327 675)	291 517	12 863
(loss)/profit (in LVL):	8 835	(14 730)	(897)	23 029	(14 576)	(26)

47 REPRICING MATURITIES OF ASSETS AND LIABILITIES

As of 31 December 2009

							Group
ASSETS	Up to 1 month (inclusive) LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	One year and more LVL	Non interest bearing LVL	TOTAL LVL
Cash and balances with Bank of Latvia	8 522 440	-	-	-	-	2 000 037	10 522 477
Due from credit institutions	97 423 901	4 156 500	-	2 200 500	390 056	1 804 289	105 975 246
Financial assets held-for-trading	-	-	17 460	-	9 482	768 815	795 757
Securities held-for-trading	-	-	*17 460*	-	*9 482*	*477 101*	*504 043*
Derivative financial instruments	-	-	-	-	-	*291 714*	*291 714*
Securities available-for-sale	-	-	-	-	-	224 864	224 864
Securities held-to-maturity	-	1 966 947	614 625	1 923 590	6 599 327	197 350	11 301 839
Loans	4 284 658	6 744 464	5 281 519	9 610 517	10 132 644	1 990 563	38 044 365
Intangible assets	-	-	-	-	-	2 046 563	2 046 563
Property and equipment	-	-	-	-	-	10 341 020	10 341 020
Investment property	-	-	-	-	-	2 702 945	2 702 945
Investments in associates	-	-	-	-	-	429 009	429 009
Deferred expenses and accrued income	-	-	-	-	-	1 063 643	1 063 643
Current tax assets	-	-	-	-	-	251 493	251 493
Other assets	-	-	-	-	-	2 307 912	2 307 912
Total assets	**110 230 999**	**12 867 911**	**5 913 604**	**13 734 607**	**17 131 509**	**26 128 503**	**186 007 133**
LIABILITIES							
Due to credit institutions	-	-	2 459 814	14 118	-	204 757	2 678 689
Deposits	108 201 998	6 322 899	10 518 292	18 035 224	2 840 681	19 536 289	165 455 383
Derivative financial instruments	-	-	-	-	-	125 410	125 410
Accrued expenses, provisions and deferred income	-	-	-	-	-	525 836	525 836
Deferred tax liabilities	-	-	-	-	-	394 086	394 086
Other liabilities	-	-	-	-	-	786 146	786 146
Subordinated liabilities	-	-	-	-	20 170	265	20 435
Shareholders' equity	-	-	-	-	-	16 021 148	16 021 148
Total liabilities and shareholders' equity	**108 201 998**	**6 322 899**	**12 978 106**	**18 049 342**	**2 860 851**	**37 593 937**	**186 007 133**
Net position sensitive to interest rate risk	**2 029 001**	**6 545 012**	**(7 064 502)**	**(4 314 735)**	**14 270 658**	**(11 465 434)**	
Effect on annual net interest income *	**19 443**	**54 542**	**(44 153)**	**(10 787)**			**19 045**

*** A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's annual net interest income to the amoun t of 19 045 LVL (as of 31 December 2008: LVL 159 760).**

As of 31 December 2008							
Assets	99 067 654	4 673 376	4 959 167	18 091 924	18 241 982	22 289 743	167 323 846
Liabilities	105 222 774	17 605 808	8 854 679	5 555 365	772 696	29 312 524	167 323 846
Net position sensitive to interest rate risk	**(6 155 120)**	**(12 932 432)**	**(3 895 512)**	**12 536 559**	**17 469 286**	**(7 022 781)**	

Bank

ASSETS	Up to 1 month (inclusive) LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	One year and more LVL	Non interest bearing LVL	TOTAL LVL
Cash and balances with Bank of Latvia	8 522 440	-	-	-	-	2 000 037	10 522 477
Due from credit institutions	97 423 901	4 156 500	-	2 200 500	390 056	1 804 289	105 975 246
Financial assets held-for-trading	-	-	17 460	-	9 482	768 815	795 757
Securities held-for-trading	-	-	17 460	-	9 482	477 101	504 043
Derivative financial instruments	-	-	-	-	-	291 714	291 714
Securities available-for-sale	-	-	-	-	-	224 864	224 864
Securities held-to-maturity	-	1 966 947	614 625	1 923 590	6 599 327	197 350	11 301 839
Loans	4 284 658	6 744 464	5 281 519	9 610 517	10 421 022	1 990 563	38 332 743
Intangible assets	-	-	-	-	-	2 046 284	2 046 284
Property and equipment	-	-	-	-	-	10 340 082	10 340 082
Investment property	-	-	-	-	-	2 702 945	2 702 945
Investments in associates	-	-	-	-	-	429 009	429 009
Investments in subsidiaries	-	-	-	-	-	1 363 600	1 363 600
Deferred expenses and accrued income	-	-	-	-	-	1 063 643	1 063 643
Current tax assets	-	-	-	-	-	240 708	240 708
Other assets	-	-	-	-	-	752 363	752 363
Total assets	110 230 999	12 867 911	5 913 604	13 734 607	17 419 887	25 924 552	186 091 560
LIABILITIES							
Due to credit institutions	-	-	2 459 814	14 118	-	204 757	2 678 689
Deposits	108 202 114	6 322 899	10 518 292	18 035 224	2 840 681	19 536 289	165 455 499
Derivative financial instruments	-	-	-	-	-	125 410	125 410
Accrued expenses, provisions and deferred income	-	-	-	-	-	524 526	524 526
Deferred tax liabilities	-	-	-	-	-	384 940	384 940
Other liabilities	-	-	-	-	-	777 858	777 858
Subordinated liabilities	-	-	-	-	20 170	265	20 435
Shareholders' equity	-	-	-	-	-	16 124 203	16 124 203
Total liabilities and shareholders' equity	108 202 114	6 322 899	12 978 106	18 049 342	2 860 851	37 678 248	186 091 560
Net position sensitive to interest rate risk	2 028 885	6 545 012	(7 064 502)	(4 314 735)	14 559 036	(11 753 696)	
Effect on annual net interest income *	19 443	54 542	(44 153)	(10 787)			19 045

*** A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's annual net interest income to the amount of 19 045 LVL (as of 31 December 2008: LVL 159 760).**

As of 31 December 2008							
Assets	99 067 654	4 673 376	4 959 167	18 091 924	18 241 982	22 289 743	167 323 846
Liabilities	105 222 774	17 605 808	8 854 679	5 555 365	772 696	29 312 524	167 323 846
Net position sensitive to interest rate risk	(6 155 120)	(12 932 432)	(3 895 512)	12 536 559	17 469 286	(7 022 781)	

48 GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

As of 31 December 2009

						Group
ASSETS	**Latvia LVL**	**Other EU Member States LVL**	**Other OECD countries LVL**	**CIS countries LVL**	**Others LVL**	**TOTAL LVL**
Cash and balances with bank of Latvia	10 522 477	-	-	-	-	10 522 477
Due from credit institutions	9 080 545	84 510 181	12 507	12 372 013	-	105 975 246
Financial assets held-for-trading	86 213	18 449	136 417	546 653	8 025	795 757
Securities held-for-trading	*48 508*	*8 988*	*28 088*	*411 662*	*6 797*	*504 043*
Derivative financial instruments	*37 705*	*9 461*	*108 329*	*134 991*	*1 228*	*291 714*
Securities available-for-sale	127 111	38 468	-	59 285	-	224 864
Securities held-to-maturity	1 060	10 785 529	-	515 250	-	11 301 839
Loans	20 477 294	5 830 303	5 280 696	2 878 125	3 577 947	38 044 365
Intangible assets	2 046 563	-	-	-	-	2 046 563
Property and equipment	10 341 020	-	-	-	-	10 341 020
Investment property	2 702 945	-	-	-	-	2 702 945
Investments in associates	429 009	-	-	-	-	429 009
Deferred expenses and accrued income	301 922	234 705	292 212	201 368	33 436	1 063 643
Current tax assets	251 493	-	-	-	-	251 493
Other assets	2 025 047	235 104	23 143	1 337	23 281	2 307 912
Total assets	**58 392 699**	**101 652 739**	**5 744 975**	**16 574 031**	**3 642 689**	**186 007 133**
LIABILITIES						
Due to credit institutions	12 840	-	-	2 617 901	47 948	2 678 689
Deposits	11 377 567	27 144 795	41 839 600	49 214 230	35 879 191	165 455 383
Derivative financial instruments	77 551	-	23 309	24 550	-	125 410
Accrued expenses, provisions and deferred income	447 920	47 804	8 751	19 859	1 502	525 836
Deferred tax liabilities	394 086	-	-	-	-	394 086
Other liabilities	456 186	180 446	25 300	23 590	100 624	786 146
Subordinated liabilities	20 435	-	-	-	-	20 435
Total liabilities	**12 786 585**	**27 373 045**	**41 896 960**	**51 900 130**	**36 029 265**	**169 985 985**
Shareholders' equity						
Share capital	14 550 655	1 955	15	969 395	85	15 522 105
Reserve capital	545 024	-	-	-	-	545 024
Retained earnings/(accumulated losses)	(45 981)	-	-	-	-	(45 981)
Total shareholders' equity	**15 049 698**	**1 955**	**15**	**969 395**	**85**	**16 021 148**
Total liabilities and shareholders' equity	**27 836 283**	**27 375 000**	**41 896 975**	**52 869 525**	**36 029 350**	**186 007 133**
OFF-BALANCE SHEET ITEMS						
Sureties (guarantees)	319 247	473 187	-	-	-	792 434
Commitments to customers	801 735	721 286	1 389 983	432 456	2 469 868	5 815 328
Total off-balance sheet items	**1 120 982**	**1 194 473**	**1 389 983**	**432 456**	**2 469 868**	**6 607 762**
As of 31 December 2008						
Total shareholders' equity	49 211 041	93 002 755	7 298 306	15 673 295	2 138 449	167 323 846
Total liabilities and shareholders' equity	18 912 098	9 974 628	47 506 072	7 300 568	83 630 480	167 323 846
Off-balance sheet liabilities	1 964 951	2 414 888	1 547 167	56 164	66 627	6 049 797

The table above represents geographical breakdown by the direct counterparty's registration country. This does not necessarily reflect the country of domicile of the ultimate counterparty.

Bank

ASSETS	Latvia LVL	Other EU Member States LVL	Other OECD countries LVL	CIS countries LVL	Others LVL	TOTAL LVL
Cash and balances with bank of Latvia	10 522 477	-	-	-	-	10 522 477
Due from credit institutions	9 080 545	84 510 181	12 507	12 372 013	-	105 975 246
Financial assets held-for-trading	86 213	18 449	136 417	546 653	8 025	795 757
Securities held-for-trading	*48 508*	*8 988*	*28 088*	*411 662*	*6 797*	*504 043*
Derivative financial instruments	*37 705*	*9 461*	*108 329*	*134 991*	*1 228*	*291 714*
Securities available-for-sale	127 111	38 468	-	59 285	-	224 864
Securities held-to-maturity	1 060	10 785 529	-	515 250	-	11 301 839
Loans	20 765 672	5 830 303	5 280 696	2 878 125	3 577 947	38 332 743
Intangible assets	2 046 284	-	-	-	-	2 046 284
Property and equipment	10 340 082	-	-	-	-	10 340 082
Investment property	2 702 945	-	-	-	-	2 702 945
Investments in associates	429 009	-	-	-	-	429 009
Investments in subsidiaries	1 363 600	-	-	-	-	1 363 600
Deferred expenses and accrued income	301 922	234 705	292 212	201 368	33 436	1 063 643
Current tax assets	240 708	-	-	-	-	240 708
Other assets	469 498	235 104	23 143	1 337	23 281	752 363
Total assets	**58 477 126**	**101 652 739**	**5 744 975**	**16 574 031**	**3 642 689**	**186 091 560**
LIABILITIES						
Due to credit institutions	12 840	-	-	2 617 901	47 948	2 678 689
Deposits	11 377 683	27 144 795	41 839 600	49 214 230	35 879 191	165 455 499
Derivative financial instruments	77 551	-	23 309	24 550	-	125 410
Accrued expenses, provisions and deferred income	446 610	47 804	8 751	19 859	1 502	524 526
Deferred tax liabilities	384 940	-	-	-	-	384 940
Other liabilities	447 898	180 446	25 300	23 590	100 624	777 858
Subordinated liabilities	20 435	-	-	-	-	20 435
Total liabilities	**12 767 957**	**27 373 045**	**41 896 960**	**51 900 130**	**36 029 265**	**169 967 357**
Shareholders' equity						
Share capital	14 550 655	1 955	15	969 395	85	15 522 105
Reserve capital	545 024	-	-	-	-	545 024
Retained earnings/(accumulated losses)	57 074	-	-	-	-	57 074
Total shareholders' equity	**15 152 753**	**1 955**	**15**	**969 395**	**85**	**16 124 203**
Total liabilities and shareholders' equity	**27 920 710**	**27 375 000**	**41 896 975**	**52 869 525**	**36 029 350**	**186 091 560**
OFF-BALANCE SHEET ITEMS						
Sureties (guarantees)	319 247	473 187	-	-	-	792 434
Commitments to customers	805 738	721 286	1 389 983	432 456	2 469 868	5 819 331
Total off-balance sheet items	**1 124 985**	**1 194 473**	**1 389 983**	**432 456**	**2 469 868**	**6 611 765**
As of 31 December 2008						
Total shareholders' equity	49 211 041	93 002 755	7 298 306	15 673 295	2 138 449	167 323 846
Total liabilities and shareholders' equity	18 912 098	9 974 628	47 506 072	7 300 568	83 630 480	167 323 846
Off-balance sheet liabilities	1 964 951	2 414 888	1 547 167	56 164	66 627	6 049 797

The table above represents geographical breakdown by the direct counterparty's registration country. This does not necessarily reflect the country of domicile of the ultimate counterparty.

49 PRODUCTIVITY OF BANK'S STATEMENT OF FINANCIAL POSITION

			31.12.2009			31.12.2008
ASSETS	Average monthly balance LVL	Interest income/ expense LVL	Average interest rate %	Average monthly balance LVL	Interest income/ expense LVL	Average interest rate %
Cash	1 162 505	-	0,0%	887 298	-	0,0%
Claims on Bank of Latvia payable on demand	12 242 176	107 267	0,9%	13 768 270	307 486	2,2%
Due from credit institutions	112 450 892	883 952	0,8%	75 234 226	2 138 285	2,8%
Loans	40 566 010	3 281 694	8,1%	41 799 184	3 883 201	9,3%
Debt securities	10 194 997	985 569	9,7%	15 611 371	1 302 691	8,3%
Other assets	18 316 680	-	0,0%	17 474 332	-	0,0%
A. Total assets	**194 933 260**	**5 258 482**	**2,7%**	**164 774 681**	**7 631 663**	**4,6%**
LIABILITIES						
Due to credit institutions	26 401 717	42 169	0,2%	1 162 585	78 291	6,7%
Deposits	151 764 651	2 707 044	1,8%	144 929 710	2 612 117	1,8%
Debt securities in issue	528 623	28 530	5,4%	792 560	39 630	5,0%
Subordinated liabilities	19 596	1 590	8,1%	19 085	697	3,7%
Other liabilities	2 735 286	-	0,0%	4 201 665	-	0,0%
B. Total liabilities	**181 449 873**	**2 779 333**	**1,5%**	**151 105 605**	**2 730 735**	**1,8%**
Shareholders' equity	13 157 429	-	0,0%	12 502 984	-	0,0%
C. Total liabilities and shareholders' equity	**194 607 302**	**2 779 333**	**1,4%**	**163 608 589**	**2 730 735**	**1,7%**

Net interest income		
Interest spread % (A-B)	1,2%	2,8%
Investment spread % (A-C)	1,3%	2,9%

50 CREDIT RISK

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Exposures are based on net carrying amounts as reported in the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancement, and net, i.e. after taking into account any collateral and other credit enhancement. The details on the type and amounts of collateral held are disclosed in the respective notes.

	Gross maximum credit risk exposure 31.12.2009 LVL	Net maximum credit risk exposure 31.12.2009 LVL	Gross maximum credit risk exposure 31.12.2008 LVL	Net maximum credit risk exposure 31.12.2008 LVL
Cash and balances with Bank of Latvia	10 522 477	10 522 477	8 658 964	8 658 964
Due from credit institutions	105 975 246	105 975 246	89 351 976	89 351 976
Financial assets held-for-trading	795 757	795 757	1 165 250	1 165 250
Securities held-for-trading	*504 043*	*504 043*	*373 141*	*373 141*
Derivative financial instruments	*291 714*	*291 714*	*792 109*	*792 109*
Securities available-for-sale	224 864	224 864	173 631	173 631
Securities held-to-maturity	11 301 839	11 301 839	11 832 825	11 832 825
Loans	38 332 743	35 603 853	40 980 064	39 428 917
Intangible assets	2 046 284	2 046 284	1 155 852	1 155 852
Property and equipment	10 340 082	10 340 082	10 722 908	10 722 908
Investment property	2 702 945	2 702 945	1 317 528	1 317 528
Investments in associates	429 009	429 009	429 009	429 009
Investments in subsidiaries	1 363 600	1 363 600	-	-
Current tax assets	240 708	240 708	-	-
Deferred expenses and accrued income	1 063 643	1 063 643	900 407	900 407
Other assets	752 363	752 363	635 432	635 432
Total assets	**186 091 560**	**183 362 670**	**167 323 846**	**165 772 699**
Sureties (guarantees)	792 434	319 247	1 117 613	35 985
Commitments to customers	5 819 331	4 555 115	4 932 184	4 615 459
Total off-balance sheet items	**6 611 765**	**4 874 362**	**6 049 797**	**4 651 444**
Total maximum credit risk exposure	**192 703 325**	**188 237 032**	**173 373 643**	**170 424 143**

51 CLASSIFICATION OF ASSETS AND LIABILITIES

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of the Bank's financial assets and liabilities are as follows:

As of 31 December 2009	Financial assets / liabilities at amortised cost	Financial assets / liabilities at fair value through profit and loss	Financial assets available-for-sale	Non-financial assets / liabilities	Total	Fair value
ASSETS	**LVL**	**LVL**	**LVL**	**LVL**	**LVL**	**LVL**
Cash and balances with Bank of Latvia	10 522 477	-	-	-	10 522 477	10 522 477
Due from credit institutions	105 975 246	-	-	-	105 975 246	106 164 300
Financial assets held-for-trading	-	795 757	-	-	795 757	795 757
Securities held-for-trading	-	504 043	-	-	504 043	504 043
Derivative financial instruments	-	291 714	-	-	291 714	291 714
Securities available-for-sale	-	-	224 864	-	224 864	224 864
Securities held-to-maturity	11 301 839	-	-	-	11 301 839	10 600 847
Loans	38 332 743	-	-	-	38 332 743	39 319 389
Intangible assets	-	-	-	2 046 284	2 046 284	2 046 284
Property and equipment	-	-	-	10 340 082	10 340 082	10 340 082
Investment property	-	-	-	2 702 945	2 702 945	2 702 945
Investments in associates	-	-	429 009	-	429 009	429 009
Investments in subsidiaries	-	-	1 363 600	-	1 363 600	1 363 600
Current tax assets	240 708	-	-	-	240 708	240 708
Deferred expenses and accrued income	69 924	-	-	993 719	1 063 643	1 063 643
Other assets	536 338	-	-	216 025	752 363	752 363
Total assets	**166 738 567**	**795 757**	**653 873**	**16 299 055**	**186 091 560**	**186 325 560**
LIABILITIES						
Due to credit institutions	2 678 689	-	-	-	2 678 689	2 735 590
Deposits	165 455 499	-	-	-	165 455 499	167 201 917
Derivative financial instruments	-	125 410	-	-	125 410	125 410
Accrued expenses, provisions and deferred income	524 526	-	-	-	524 526	524 526
Deferred tax liabilities	-	-	-	384 940	384 940	384 940
Other liabilities	777 858	-	-	-	777 858	777 858
Subordinated liabilities	20 435	-	-	-	20 435	20 435
Total liabilities	**169 457 007**	**125 410**	**-**	**384 940**	**169 967 357**	**171 770 676**
Shareholders' equity						
Share capital	-	-	-	15 522 105	15 522 105	15 522 105
Reserve capital	-	-	-	545 024	545 024	545 024
Retained earnings/(accumulated losses)	-	-	-	57 074	57 074	57 074
Total shareholders' equity	**-**	**-**	**-**	**16 124 203**	**16 124 203**	**16 124 203**
Total liabilities and shareholders' equity	**169 457 007**	**125 410**	**-**	**16 509 143**	**186 091 560**	**187 894 879**

As of 31 December 2008	Financial assets / liabilities at amortised cost	Financial assets / liabilities at fair value through profit and loss	Financial assets available-for-sale	Non-financial assets / liabilities	Total	Fair value
	LVL	LVL	LVL	LVL	LVL	LVL
Cash and balances with Bank of Latvia	8 658 964	-	-	-	8 658 964	8 658 964
Due from credit institutions	89 351 976	-	-	-	89 351 976	89 369 794
Financial assets held-for-trading	-	1 165 250	-	-	1 165 250	1 165 250
Securities held-for-trading	-	*373 141*	-	-	*373 141*	*373 141*
Derivative financial instruments	-	*792 109*	-	-	*792 109*	*792 109*
Securities available-for-sale	-	-	173 631	-	173 631	173 631
Securities held-to-maturity	11 832 825	-	-	-	11 832 825	9 491 250
Loans	40 980 064	-	-	-	40 980 064	49 145 467
Intangible assets	-	-	-	1 155 852	1 155 852	1 155 852
Property and equipment	-	-	-	10 722 908	10 722 908	10 722 908
Investment property	-	-	-	1 317 528	1 317 528	1 317 528
Investments in associates	-	-	429 009	-	429 009	429 009
Deferred expenses and accrued income	155 729	-	-	744 678	900 407	900 407
Other assets	472 748	-	-	162 684	635 432	635 432
Total assets	**151 452 306**	**1 165 250**	**602 640**	**14 103 650**	**167 323 846**	**173 165 492**
LIABILITIES						
Liabilities						
Due to credit institutions	589 291	-	-	-	589 291	588 813
Deposits	151 173 224	-	-	-	151 173 224	151 828 567
Debt securities in issue	843 801	-	-	-	843 801	843 801
Derivative financial instruments	-	321 684	-	-	321 684	321 684
Accrued expenses, provisions and deferred income	597 863	-	-	-	597 863	597 863
Corporate income tax liabilities	-	-	-	32 701	32 701	32 701
Deferred tax liabilities	-	-	-	267 796	267 796	267 796
Other liabilities	1 195 954	-	-	-	1 195 954	1 195 954
Subordinated liabilities	24 570	-	-	-	24 570	24 570
Total liabilities	**154 424 703**	**321 684**	**-**	**300 497**	**155 046 884**	**155 701 749**
Shareholders' equity						
Share capital	-	-	-	7 611 285	7 611 285	7 611 285
Reserve capital	-	-	-	545 024	545 024	545 024
Retained earnings/(accumulated losses)	-	-	-	4 120 653	4 120 653	4 120 653
Retained earnings for the previous years	-	-	-	4 073 217	4 073 217	4 073 217
Profit/(loss) for the period	-	-	-	47 436	47 436	47 436
Total shareholders' equity	**-**	**-**	**-**	**12 276 962**	**12 276 962**	**12 276 962**
Total liabilities and shareholders' equity	**154 424 703**	**321 684**	**-**	**12 577 459**	**167 323 846**	**167 978 711**

52 FAIR VALUE HIERARCHY

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

As of 31 December 2009	**Published price quotations (Level 1)**	**Valuation techniques based on market observable inputs (Level 2)**	**Total**
Financial assets	LVL	LVL	LVL
Available for sale assets	-	97 753	97 753
Financial assets at fair value through profit or loss	504 043	-	504 043
Derivatives	7 013	284 701	291 714
	511 056	**382 454**	**893 510**
Financial liabilities			
Derivatives	-	125 410	125 410
	-	**125 410**	**125 410**

As of 31 December 2008	**Published price quotations (Level 1)**	**Valuation techniques based on market observable inputs (Level 2)**	**Total**
Financial assets	LVL	LVL	LVL
Available for sale assets	-	42 520	42 520
Financial assets at fair value through profit or loss	373 141	-	373 141
Derivatives	-	792 109	792 109
	373 141	834 629	1 207 770
Financial liabilities			
Derivatives	**-**	321 684	321 684
	-	**321 684**	**321 684**

Included in category "Published price quotations" 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.

53 ACQUISITION OF SUBSIDIARY

In 2009 Group companies acquired the subsidiaries.

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

Date of acquisition Share %	"BIB Real Estate" LLC 2009.06.11 100% LVL	"Global Investments" LLC 2009.10.08 100% LVL	Total LVL
Assets			
Cash and cash equivalents	226	107	333
Property and equipment	1 734	-	1 734
Intangible assets	378	-	378
Current tax assets	10 785	-	10 785
Other assets	3 026	306 000	309 026
Total assets	**16 149**	**306 107**	**322 256**
Liabilities			
Provisions	211	-	211
Other borrowed funds	37 474	488 505	525 979
Deferred tax liability	-	9 146	9 146
Other liabilities	8 233	-	8 233
Total liabilities	**45 918**	**497 651**	**543 569**
Net identifiable assets and liabilities	**(29 769)**	**(191 544)**	**(221 313)**
Goodwill on acquisition	**69 769**	**191 545**	**261 314**
Consideration paid	**40 000**	**1**	**40 001**

In 2009, the Group acquired 100% in Global Investments LLC as a result of collection of collateral from bad loans.

Global Investments LLC owns real estate property in Riga that is not rented out. The property was valued at its fair value as at the date of acquisition based on an external valuation. The residual value of goodwill for both acquired subsidiaries as at the end of the reporting period was estimated to zero, and therefore the goodwill of LVL 261 314 was written off through impairment losses in income statement.

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

On 11 June 2009, the Bank acquired all of the shares of “BIB Real Estate” LLC for LVL 36 000 and further approved resolution to increase the invested amount to LVL 1 363 600.