ABLV Bank, AS

registration No.:	5 000 314 940 1
legal address:	Riga, 23 Elizabetes Street
Internet address:	**www.ablv.com**
phone:	6777 5222

Base Prospectus of the First Bond Offer Programme

Securities:	Bonds
Amount of the offer programme:	LVL 140,000,000.00 (one hundred forty million Latvian lats) or equivalent in EUR or USD
Maturity period:	from 2 to 10 years

20 October 2011

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1. Explanation of the terms and abbreviations used

Issuer – pursuant to the Financial Instrument Market Law, a person transferrable securities of which are admitted to trading on a regulated market, as well as a person which issues or plans to issue transferrable securities or other financial instruments in this person's own name.
In this Base Prospectus – ABLV Bank, AS, registration No.: 50003149401, legal address: Riga, 23 Elizabetes Street, or also **ABLV Bank**.

ABLV Group – ABLV Group consists of ABLV Bank, AS; ABLV Capital Markets, IBAS; ABLV Asset Management, IPAS; ABLV Transform Partnership, KS; ABLV Consulting Services, AS; ABLV Corporate Services, SIA; New Hanza City, SIA, and other related companies of ABLV Bank, AS.

Base Prospectus of the first bond offer programme, or the **Base Prospectus** – this prospectus, which contains detailed information on the Issuer and the Bonds that will be offered to the public under the Programme. The Base Prospectus has been produced to make a public offer of the securities and admit those to trading on a regulated market. The Issuer has not included the information on the Final Terms of offer of each particular series of the Bond issue in this Base Prospectus.

Bonds – transferrable securities issued by ABLV Bank, which enable their holders to receive Interest Income and Face Value following the procedure and within the term set in this Base Prospectus, those securities being issued in accordance with provisions of this Base Prospectus and the Final Terms.

Face Value – value of a single Bond set by the Issuer and stated in the Final Terms of each particular series of the Bond issue.

Offer Programme or the **Programme** – a set of activities intended for repeated issue of the Bonds within the period of this Base Prospectus being effective.

Final Terms – terms of offer of each particular series of the Bond issue under the Programme described in this Base Prospectus.

Bond Issue Series or the **Series** – an issue of securities of the same class, which are issued by performing at least two separate issues within 12 months after the public offer start date, where single Final Terms apply to the Series. Separate Final Terms are approved and published for each Series.

Annual Interest Rate – annual rate of the Bonds' yield in percentage terms, which the Issuer shall calculate and determine on the dates and according to the procedures set in this Base Prospectus and the Final Terms.

Interest Income – interest income under the Bonds, which the Issuer shall pay to the owner of the Bonds on the dates and according to the procedures set in the Final Terms.

Investor – an individual or a legal entity that expressed a wish or plans to acquire the Bonds in accordance with the procedures set in the Base Prospectus and the Final Terms.

Investment Company – the Bank or investment brokerage company that is duly licensed to render investment services and related services, and where the Investor has a financial instruments account opened with the same.

DVP – settlement principle *Delivery vs Payment*.

Financial Statements – ABLV Bank audited annual reports 2009 and 2010.

ISIN – International Securities Identification Number assigned to the Bonds, issued under the programme described in the Base Prospectus, by the Latvian Central Depository as a member of the Association of National Numbering Agencies.

Applicable Legal Acts – legal acts of the Republic of Latvia, regulations and instructions published by the Bank of Latvia, the Financial and Capital Market Commission, the Latvian Central Depository.
FCMC – the Financial and Capital Market Commission, registration No. 40003167049, legal address: Riga, 1 Kungu Street.

Pursuant to the Law on the Financial and Capital Market Commission, FCMC shall enjoy full rights of an independent/autonomous public institution and, in compliance with its goals and objectives, shall regulate and monitor the functioning of the financial and capital market and its participants.
Stock Exchange or **NASDAQ OMX Riga** – joint stock company NASDAQ OMX Riga, registration No.: 40003167049, legal address: Riga, Vaļņu iela 1.

LCD – joint stock company Latvian Central Depository, registration No.: 40003242879, legal address: Riga, Vaļņu iela 1.

2. Issue of the Bonds

2.1. Programme description

Under this Programme, the Issuer will perform one or several Bond Issue Series.

Issue of the Bonds shall be regulated by the Financial Instrument Market Law, the Base Prospectus, and the Final Terms.

Objective of each Bond Issue Series shall be raising of funds that the Issuer will use for financing its operating activities, including without limitation:

- improvement of the ABLV Bank assets' and liabilities' distribution into maturity bands;
- increase and maintenance of the liquidity level required for activities of ABLV Bank;

or

- raising of funds for increase of the ABLV Bank subordinated capital.

Objective of each Bond Issue Series shall be stated in the Final Terms applicable to the particular Series. For example, the Issuer, inter alia, may state that the funds raised will be used for increasing subordinated capital of ABLV Bank, in accordance with requirements of the Credit Institution Law and regulations published by the FCMC.

The Base Prospectus shall be effective for 12 months after the moment of publishing upon being registered with the FCMC.

2.2. Final Terms

Before issuing each Bond Issue Series, the Issuer shall publish the Final Terms of the respective issue, providing the following information therein:

- information on the Bonds' ISIN;
- number of issued Bonds;
- Face Value of issued Bonds;
- total value of issued Bonds;
- currency of issued Bonds;
- Annual Interest Rate;
- frequency and dates of Interest Income payments to be made within the Series;
- maturity date of the Bonds.

Information on the Annual Interest Rate of the Bond issue, provided in the Final Terms, shall contain the following data:

- rate type (fixed or floating);
  - in case of fixed rate set, the rate value;
  - in case of floating rate set, the base rate and risk premium;
- method of calculating accrued interest.

In the Final Terms, the Issuer shall also state its right of premature redemption of the Bonds issued within the Series *(call option)*.

Under this Programme, the Investor shall not be entitled to claim the Face Value and accrued interest to be repaid by the Issuer before maturity *(put option)*.

In case of issuing new Series under this Programme, the Issuer shall also include the following information in the Final Terms:

- main terms and conditions of public offering of previous Bond Issue Series performed under this Programme:
  - the Bonds' ISIN;
  - number of issued Bonds;
  - Face Value of issued Bonds;
  - total value of issued Bonds;
  - currency of issued Bonds;
  - Annual Interest Rate;
  - frequency and dates of Interest Income payments to be made within the Series;
  - maturity date of the Bonds.
- other terms and conditions, provided those do not contradict the Base Prospectus and Applicable Legal Acts.

To make a new common Series, the Issuer may produce new Final Terms and issue additional Bonds under the terms and conditions equal to those of some of the previous Bond Series issued within the Programme described in this Base Prospectus. A different ISIN code shall be assigned to such new Series.

2.3. Methods of publishing the Final Terms
The Final Terms of the Bond issues shall be published by the Issuer on its Internet home page **www.ablv.com** at least 4 (four) working days before starting the initial public offering.

3. Responsible persons

3.1. Representations of the responsible persons
We, ABLV Bank, AS,
Chairman of the Board Ernests Bernis,
Deputy Chairman of the Board Vadims Reinfelds,
Member of the Board Māris Kannenieks,
Member of the Board Edgars Pavlovičs,
Member of the Board Aleksandrs Pāže,
Member of the Board Rolands Citajevs, and
Member of the Board Romans Surnačovs,
hereby confirm the information provided in the Base Prospectus and represent that according to the data available to us the information provided in the Base Prospectus is true and there are no concealed facts that might affect meaning of the information provided in the Base Prospectus or the Investor's decision to acquire the Bonds.

3.2. Information about the responsible persons

Name, surname / identity No.	**Position held**	**Signature**
Ernests Bernis 270473-12766	Chairman of the Board, Chief Executive Officer (CEO)	
Vadims Reinfelds 010578-10501	Deputy Chairman of the Board, Deputy Chief Executive Officer (dCEO)	
Māris Kannenieks 230271-11563	Member of the Board, Chief Financial Officer (CFO)	
Edgars Pavlovičs 041273-12350	Member of the Board, Chief Risk Officer (CRO)	
Aleksandrs Pāže 301272-10118	Member of the Board, Chief Compliance Officer (CCO)	
Rolands Citajevs 030469-11859	Member of the Board, Chief Information Officer (CIO)	
Romans Surnačovs 051275-11813	Member of the Board, Chief Operating Officer (COO)	

3.3. Auditors
Consolidated financial statements of ABLV Bank, AS, and its affiliate companies for the years 2009, 2010, and the first half of the year 2011, included in this Base Prospectus, have been audited by:
SIA Ernst & Young Baltic (licence No. 17)
registration No.: 4 000 359 345 4
legal address: Riga, Muitas iela 1A

Chairperson of the Board: Diāna Krišjāne (certificate No. 124) for the year 2010 and the first half of the year 2011
LR certified auditor: Iveta Vimba (certificate No. 153) for the year 2009

4. Summary

Notice

- The summary shall be deemed the introduction of the Base Prospectus.
- Any decision on investing in the Bonds shall be based on the Investor's judgement on the whole Base Prospectus.
- Should any claim be lodged to a court regarding the information provided in the Base Prospectus, the Investor lodging the claim to a court in accordance with normative acts of the respective member state shall cover the costs of translating the Base Prospectus before starting the proceedings.
- The persons responsible for the information provided in the Base Prospectus summary, including persons that translated the same and applied for distribution of the same, may be held civilly liable only where the summary is misleading, incorrect, or inconsistent with other sections of the Base Prospectus.

4.1. Information on the Offer Programme

Issuer:	ABLV Bank, AS
Securities:	Bonds
Type of securities:	In bearer form
Class of securities:	Without restraint on alienation
Collateral:	Not secured with pledge
Total amount of the Programme:	LVL 140,000,000.00 (one hundred forty million Latvian lats) or equivalent in EUR or USD
Currency:	LVL, or EUR, or USD
Objective of the issue:	Objective of each Bond Issue Series shall be stated in the Final Terms.[1]
Maturity period:	Maturity period of each Bond Issue Series shall not exceed 10 years and shall be stated in the Final Terms of offer.
Premature redemption:	The Issuer's right to redeem the Bonds before maturity shall be stated in the Final Terms.
Depository:	Joint stock company Latvian Central Depository
Regulated market:	Joint stock company NASDAQ OMX Riga List of debt securities

[1] If objective of the Bond Issue Series is raising of funds that the Issuer will use as subordinated capital, the Investor shall be informed that in case of the Issuer's insolvency the Investor's claims to the Issuer arising out of the Bonds will be satisfied after claims of all other creditors, but before satisfying claims of the shareholders.

4.2. Risks

Risks are inherent to operations in the financial instruments market and those of the market participants. It is important for the Investor to assess both risks associated with the Issuer and risks associated with the Bonds.

Normative acts of the European Union and the Republic of Latvia provide for strong supervision of credit institutions that is performed by the FCMC and minimizes the Investor's risk compared to investing in securities issued by companies operating in other sectors. Implemented banking sector control ensures the possibility of identifying risk level changes related to performance of the banks' obligations, also with regard to payment of accrued bond interest and redemption of bonds.

In carrying out its operating activities, ABLV Bank, AS, is subject to various risks, the most significant of which are credit risk, liquidity risk, and risks associated with currency exchange and money markets, including interest rate and currency exchange rate fluctuation risks. ABLV Bank, AS, is also subject to operational risk. For the sake of risk management, ABLV Bank has developed risk management policies, providing for risk identification, assessment and control. Implementation and efficiency of the procedures is supervised by ABLV Bank, AS, Board and Chief Risk Officer (CRO), whereas applying those in practice lies with the corresponding structural units of ABLV Bank, AS, including Risk Management Division.

Major risk factors associated with the Bonds are the following:

- price risk;
- liquidity risk;
- interest rate fluctuation risk.

Since the risks mentioned in the Base Prospectus may decrease the Issuer's ability to perform the undertaken obligations, the Investor shall assess the risks independently before making a decision. Detailed description of the risks mentioned in the summary is provided in section 5 of the Base Prospectus.

4.3. Issuer

The Issuer of the Bonds:	ABLV Bank, AS
registration No.:	5 000 314 940 1
legal form:	joint stock company
legal address:	Riga, 23 Elizabetes Street
registration date:	17 September 1993

ABLV Bank, AS, carries out its operations in accordance with the Republic of Latvia normative acts and the licence issued by the Bank of Latvia, which allows rendering all financial services stated in the Credit Institution Law.

ABLV Bank, AS, major lines of business are settlement products, investment services and asset management.

ABLV Bank, AS, central office is located at 23 Elizabetes Street, Riga, phone: + 371 6777 5222, fax: +371 6777 5200, e-mail: **info@ablv.com**.

ABLV Bank, AS, has two loans centres in Riga, as well as ABLV Bank, AS, and companies constituting ABLV Group have the following representative offices:
- in Azerbaijan – Baku;
- in Belarus – Minsk;
- in Kazakhstan – Almaty;
- in Russia – Moscow, St. Petersburg, and Yekaterinburg;
- in Ukraine – Kiev, with a branch in Odessa;
- in Uzbekistan – Tashkent;
- in Tajikistan – Dushanbe.

According to the chosen strategy, services offered by ABLV Bank are intended for affluent individuals and their related companies operating in markets of the European Union and the Commonwealth of Independent States.

ABLV Bank, AS, performance indicators, according to the audited financial status report for the first half of the year 2011	**(in thousand LVL)**
ABLV Bank, AS, paid-in share capital	16,500 (sixteen million five hundred thousand)
ABLV Bank, AS, equity	83,727 (eighty-three million seven hundred twenty-seven thousand)
ABLV Bank, AS, total value of assets	1,468,060 (one billion four hundred sixty-eight million sixty thousand)

ABLV Bank, AS, Members of the Board:

Name, surname	**Position held**	**Appointment to the Board approved on**
Ernests Bernis	Chairman of the Board, Chief Executive Officer (CEO)	17 October 2011 *(reappointed)*
Vadims Reinfelds	Deputy Chairman of the Board, Deputy Chief Executive Officer (dCEO)	17 October 2011 *(reappointed)*
Māris Kannenieks	Member of the Board, Chief Financial Officer (CFO)	17 October 2011 *(reappointed)*
Edgars Pavlovičs	Member of the Board, Chief Risk Officer (CRO)	17 October 2011 *(reappointed)*
Aleksandrs Pāže	Member of the Board, Chief Compliance Officer (CCO)	17 October 2011 *(reappointed)*
Rolands Citajevs	Member of the Board, Chief Information Officer (CIO)	17 October 2011 *(reappointed)*
Romans Surnačovs	Member of the Board, Chief Operating Officer (COO)	17 October 2011

ABLV Bank, AS, majority shareholders:

Shareholder	Share
Ernests Bernis	42.01%
and	
Nika Berne	0.94%
Oļegs Fiļs	42.95%
other Bank's employees (24 in total)	7.15%

As at 30 June 2011, there are 125 shareholders of the Bank.

Consolidated financial statements of ABLV Bank, AS, and its affiliate companies for the years 2009, 2010, and the first half of the year 2011, included in this Base Prospectus, have been audited by:

	SIA Ernst & Young Baltic (licence No. 17)
registration No.:	4 000 359 345 4
legal address:	Riga, Muitas iela 1A

4.4. Financial Information

The financial information provided in the Base Prospectus completely conforms with ABLV Bank, AS, audited consolidated reports for the years 2009, 2010, and the first half of the year 2011.

4.4.1. Profit and loss account for the first half of the year 2011

	Group	Group	Bank	Bank
	30.06.2011	**30.06.2010**	**30.06.2011**	**30.06.2010**
	LVL '000	LVL '000	LVL '000	LVL '000
Interest income	18 572	18 034	18 523	18 149
Interest expense	(8 206)	(10 119)	(8 148)	(10 132)
Net interest income	**10 366**	**7 915**	**10 375**	**8 017**
Commission and fee income	12 812	9 818	11 173	8 654
Commission and fee expense	(1 549)	(1 771)	(1 346)	(1 607)
Net commission and fee income	**11 263**	**8 047**	**9 827**	**7 047**
Net gain/ (loss) from financial assets and liabilities at fair value through profit or loss	(7 415)	19 204	(7 415)	19 204
Net realised gain from available-for-sale financial assets	2 659	303	2 659	303
Net realised gain/ (loss) from financial assets at amortised cost	2	(229)	2	(229)
Net result from foreign exchange trading and revaluation	14 140	(13 710)	14 144	(14 131)
Other income	2 060	634	658	673
Income from dividends	1	3	707	51
Change in allowances for credit losses	(6 040)	(16 289)	(6 040)	(16 289)
Operating income	**27 036**	**5 878**	**24 917**	**4 646**
Administrative expense	(12 825)	(9 788)	(11 128)	(8 927)
Depreciation	(836)	(839)	(779)	(794)
Other expense	(1 524)	(578)	(1 885)	(820)
(Loss)/ gain from sale of tangible and intangible fixed assets	(14)	47	(14)	(2)
Impairment of financial instruments	(789)	-	(789)	-
Impairment of non-financial assets	-	-	(106)	-
Total operating expense	**(15 988)**	**(11 158)**	**(14 701)**	**(10 543)**
Profit/ (loss) before corporate income tax	11 048	(5 280)	10 216	(5 897)
Corporate income tax	(1 251)	669	(1 087)	741
Net profit/ (loss) for the period	**9 797**	**(4 611)**	**9 129**	**(5 156)**

4.4.2. Balance sheet for the first half of the year 2011

	Group	Group	Bank	Bank
	30.06.2011	**31.12.2010**	**30.06.2011**	**31.12.2010**
Assets	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	72 865	82 120	72 865	82 120
Balances due from credit institutions	424 297	325 352	424 251	325 326
Financial assets at fair value through profit or loss	21 658	23 372	21 658	23 372
Debt securities and other fixed income securities	19 216	19 367	19 216	19 367
Shares and other non-fixed income securities	450	674	450	674
Derivatives	1 992	3 331	1 992	3 331
Available-for-sale financial assets	199 888	168 657	199 888	168 657
Debt securities and other fixed income securities	197 848	166 431	197 848	166 431
Shares and other non-fixed income securities	2 040	2 226	2 040	2 226
Loans and receivables	494 683	528 872	496 472	528 561
Loans	494 683	517 811	496 472	517 500
Debt securities and other fixed income securities	-	11 061	-	11 061
Held-to-maturity investments	158 113	155 112	158 113	155 112
Debt securities and other fixed income securities	158 113	155 112	158 113	155 112
Prepaid expense and accrued income	397	339	274	292
Investments in subsidiaries and associates	304	-	60 963	58 661
Investment properties	20 839	20 658	16 605	16 670
Tangible fixed assets	9 951	7 954	5 142	5 253
Intangible fixed assets	3 692	3 701	3 557	3 548
Current corporate income tax receivables	143	266	62	176
Deferred corporate income tax	4 829	5 736	4 801	5 718
Other assets	49 399	45 388	3 409	5 099
TOTAL ASSETS	**1 461 058**	**1 367 527**	**1 468 060**	**1 378 565**

	Group	Group	Bank	Bank
	30.06.2011	**31.12.2010**	**30.06.2011**	**31.12.2010**
Liabilities	LVL '000	LVL '000	LVL '000	LVL '000
Demand deposits from credit institutions	2 156	1 906	2 156	1 906
Financial liabilities at fair value through profit or loss	138	226	138	226
Derivatives	138	226	138	226
Term deposits from credit institutions	2 546	3 502	-	550
Deposits	1 323 549	1 236 791	1 330 551	1 248 190
Deferred income and accrued expense	3 485	2 769	3 172	2 460
Current corporate income tax liabilities	109	150	-	-
Other liabilities	5 571	4 333	4 947	2 973
Deferred corporate income tax	21	21	-	-
Issued securities	22 458	22 921	22 458	22 921
Subordinated deposits	20 911	23 962	20 911	23 962
Total liabilities	**1 380 944**	**1 296 581**	**1 384 333**	**1 303 188**
Shareholders' equity				
Paid-in share capital	16 500	16 500	16 500	16 500
Share premium	5 255	5 255	5 255	5 255
Reserve capital and other reserves	1 500	1 500	1 500	1 500
Fair value revaluation reserve of available-for-sale financial assets	1 050	1 829	1 050	1 829
Retained earnings brought forward	45 180	52 699	50 293	57 240
Retained earnings/ (accumulated deficit) for the period	9 915	(7 519)	9 129	(6 947)
Attributable to the equity holders of the Bank	79 400	70 264	83 727	75 377
Attributable to non-controlling interests	714	682	-	-
Total shareholders' equity	**80 114**	**70 946**	**83 727**	**75 377**
Total liabilities and shareholders' equity	**1 461 058**	**1 367 527**	**1 468 060**	**1 378 565**
Memorandum items				
Funds under trust management	102 642	116 823	70 995	84 167
Contingent liabilities	19 051	21 125	19 051	21 125
Financial commitments	5 994	12 934	5 994	12 934

4.4.3. Profit and loss account for the years 2009 and 2010

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Interest income	36 431	40 118	36 375	40 909
Interest expense	(18 850)	(22 321)	(18 808)	(22 466)
Net interest income	**17 581**	**17 797**	**17 567**	**18 443**
Commission and fee income	22 876	16 072	20 146	14 901
Commission and fee expense	(3 241)	(2 867)	(2 979)	(2 696)
Net commission and fee income	**19 635**	**13 205**	**17 167**	**12 205**
Net gain/ (loss) from financial assets and liabilities at fair value through profit or loss	12 589	(1 539)	12 589	(1 539)
Net realised (loss)/ gain from available-for-sale financial assets	418	363	418	363
Net realised gain/ (loss) from financial assets at amortised cost	(1 823)	528	(1 823)	528
Net result from foreign exchange trading and revaluation	(1 153)	8 424	(1 209)	8 496
Other income	1 873	2 129	1 457	628
Income from dividends	4	62	52	261
Change in allowances for credit losses	(28 917)	(36 859)	(28 917)	(36 859)
Operating income	**20 207**	**4 110**	**17 301**	**2 526**
Administrative expense	(22 494)	(20 641)	(20 186)	(18 597)
Depreciation	(1 692)	(1 815)	(1 587)	(1 725)
Other expense	(1 672)	(1 971)	(2 499)	(1 595)
Gain/ (loss) from sale of tangible and intangible fixed assets	270	(204)	(10)	(204)
Impairment of financial instruments	(14)	(3 035)	(14)	(3 035)
Impairment of non-financial assets	(2 867)	(2 154)	(832)	(122)
Total operating expense	**(28 469)**	**(29 820)**	**(25 128)**	**(25 278)**
(Loss)/ profit before corporate income tax	(8 262)	(25 710)	(7 827)	(22 752)
Corporate income tax	703	3 541	880	3 532
NET(LOSS)/ PROFIT FOR THE PERIOD	**(7 559)**	**(22 169)**	**(6 947)**	**(19 220)**

4.4.4. Balance sheet as at 31 December 2010 and 31 December 2009

	Group	Group	Bank	Bank
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	LVL '000	LVL '000	LVL '000	LVL '000
Assets				
Cash and deposits with central banks	82 120	44 986	82 120	44 986
Balances due from credit institutions	325 352	203 569	325 326	203 537
Financial assets at fair value through profit or loss	23 372	9 499	23 372	9 499
Debt securities and other fixed income securities	19 367	12	19 367	12
Shares and other non-fixed income securities	674	52	674	52
Derivatives	3 331	9 435	3 331	9 435
Available-for-sale financial assets	168 657	104 523	168 657	104 523
Debt securities and other fixed income securities	166 431	102 376	166 431	102 376
Shares and other non-fixed income securities	2 226	2 147	2 226	2 147
Loans and receivables	528 872	550 580	528 561	553 475
Loans	517 811	531 444	517 500	534 339
Debt securities and other fixed income securities	11 061	19 136	11 061	19 136
Held-to-maturity investments	155 112	-	155 112	-
Debt securities and other fixed income securities	155 112	-	155 112	-
Prepaid expense and accrued income	339	505	292	451
Investments in subsidiaries	-	-	58 661	36 066
Investment properties	20 658	20 371	16 670	16 622
Tangible fixed assets	7 954	6 077	5 253	5 747
Intangible fixed assets	3 701	3 491	3 548	3 337
Current corporate income tax receivables	266	2 024	176	1 936
Deferred corporate income tax	5 736	5 458	5 718	5 079
Other assets	45 388	26 644	5 099	6 871
TOTAL ASSETS	**1 367 527**	**977 727**	**1 378 565**	**992 129**

	Group 31.12.2010 LVL '000	Group 31.12.2009 LVL '000	Bank 31.12.2010 LVL '000	Bank 31.12.2009 LVL '000
Liabilities				
Demand deposits from credit institutions	1 906	1 027	1 906	1 027
Financial liabilities at fair value through profit or loss	226	176	226	176
Derivatives	*226*	*176*	*226*	*176*
Term deposits from credit institutions	3 502	4 929	550	1 958
Deposits	1 236 791	858 503	1 248 190	869 017
Deferred income and accrued expense	2 769	1 816	2 460	1 749
Current corporate income tax liabilities	150	15	-	-
Deferred corporate income tax	21	22	-	-
Issued securities	22 921	12 995	22 921	12 995
Subordinated deposits	23 962	28 669	23 962	28 669
Other liabilities	4 328	589	2 973	2 455
Total liabilities	**1 296 576**	**908 741**	**1 303 188**	**918 046**
Shareholders' equity				
Paid-in share capital	16 500	15 000	16 500	15 000
Share premium	5 255	255	5 255	255
Reserve capital and other reserves	1 500	1 500	1 500	1 500
Fair value revaluation reserve of available-for-sale financial assets	1 829	88	1 829	88
Retained earnings brought forward	52 804	74 162	57 240	76 460
Retained earnings/ (accumulated deficit) for the period	(7 519)	(21 358)	(6 947)	(19 220)
Attributable to the equity holders of the Bank	70 369	69 647	75 377	74 083
ttributable to non-controlling interests	582	(661)	-	-
Total shareholders' equity	**70 951**	**68 986**	**75 377**	**74 083**
Total liabilities and shareholders' equity	**1 367 527**	**977 727**	**1 378 565**	**992 129**
Memorandum items				
Funds under trust management	116 823	71 845	84 167	55 796
Contingent liabilities	21 125	16 884	21 125	16 884
Financial commitments	12 934	10 210	12 934	10 210

5. Risk factors associated with the Issuer and the type of securities being issued

Notice
An interested Investor shall thoroughly assess risks listed in this section of the Base Prospectus. Those may decrease the Issuer's ability to perform its obligations or affect the possibility of executing transactions in the Bonds. The Base Prospectus may contain incomplete list of all possible risks that might affect the Issuer or trading of the Bonds.

Risks that might adversely affect the Issuer and cause the Issuer's insolvency at worst are mentioned and described below.

Normative acts of the European Union and the Republic of Latvia provide for strong supervision of credit institutions that minimizes the Investor's risk compared to investing in securities issued by companies operating in other sectors. In the Republic of Latvia, such supervision is performed by the FCMC. Nevertheless, before making a decision on investing in the Bonds, any Investor shall independently assess risks associated with the investment, engaging an advisor, if necessary.

5.1. Overall risk factors

5.1.1. Macroeconomic risks associated with Latvia

Rapid changes that made global corrections after the end of 2008 were concurrent with economic crisis in the Republic of Latvia. Both processes had negative effect on the banking sector, including the Issuer. Investors also became less active, due to declining availability of funds in both individual and corporate customers' sector.

As at the moment of producing this Base Prospectus, the situation in Latvian banking sector has improved significantly, the state economy has stabilized, and international rating agencies appreciated those achievements by gradually increasing the country's ratings, following their rapid drop in 2009.

- On 7 December 2010, Standard & Poor's raised Latvia's credit rating for long-term liabilities in foreign currency, setting it to be BB+. On 9 March 2011, the agency improved the rating outlook to be positive.
- On 15 March 2011, Fitch upgraded Latvia's credit rating for long-term liabilities in foreign currency to BBB-, stating that outlook is positive.
- On 6 June 2011, Moody's changed the outlook under the Latvia's country rating equal to Baa3, setting it to be positive.

Based on evaluations given by rating agencies and macroeconomic indicators, it can be said that currently the Republic of Latvia economy is growing steadily. Nevertheless, the Investors shall take into account the experience gained in previous years, which evidences that global economic processes may have considerable effect on economy of the state, including banking sector.

5.1.2. Political risks

- The Republic of Latvia is a unitary multiparty republic, placing high value on democracy principles.
- The Republic of Latvia is a member of the European Union since May 2004.
- The Republic of Latvia joined NATO in March 2004.

Based on the above facts, it can be concluded that the possibility of significant changes in political risks is relatively small. Following elections, parties present in the parliament may change, as well composition of the government, though it has no significant effect neither on operations of the banking sector set in compliance with the European Union law and banking traditions, nor on the securities market.

5.2. Risk factors associated with the Issuer

In carrying out its operating activities, ABLV Bank is subject to various risks. The Base Prospectus does not mention all of those, but lists most significant ones that may decrease the Issuer's ability to perform its obligations.

5.2.1. Credit risk

Credit risk is exposure to potential losses in case of ABLV Bank counterparty or debtor being unable to pay the contractual obligations to ABLV Bank.

Regulating requirements to credit institutions are set forth in the Credit Institution Law. For example, the law contains the following provisions:

- section 34 stipulates that a credit institution shall perform crediting in accordance with its credit policy;
- section 39 (1) stipulates that the exposure in a transaction shall be qualified as large, if the amount of the transaction is equal to or exceeds 10 per cent of the credit institution's equity. The Issuer shall inform the Investors of such transactions by making information publicly available, also by providing it in the Stock Exchange NASDAQ OMX Riga information system;

- in section 42 (1) a limit on the amount of transactions with exposure with one customer or a group of interrelated customers is set to be 25 per cent of the credit institution's equity;
- in section 43 (2) it is specifically stipulated that the amount of transactions with exposure with persons that are associated with the credit institution may not in total exceed 15 per cent of the credit institution's equity.

To acquire comprehensive understanding of regulation of the banks', including the Issuer's, operations provided for by the Credit Institution Law, we recommend the Investor to read the complete text of the law and receive legal advice, if necessary.

ABLV Bank ensures credit risk management according to its Credit Policy. Before entering into any cooperation with a prospective partner, ABLV Bank performs a comprehensive review of the customer's solvency and collateral.

For effective credit risk management, ABLV Bank has set up the permanent Asset Evaluation Committee, which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined.

5.2.2. Liquidity risk

Liquidity is ABLV Bank ability to maintain or ensure sufficient cash flow to meet the expected (everyday) or sudden (critical) need for the same in order to provide financing for asset growth or discharge the financial obligations in a due time. This means the ability to turn assets into cash with minimal loss or ensure reasonably priced credit facilities.

ABLV Bank management pays great attention to liquidity risk supervision. Owing to the adequate liquidity risk management policy and internal control and communication system, ABLV Bank managed to ensure and maintain a high liquidity ratio – as at the end of 2010 the liquidity ratio was equal to 68.10%. Currently, in accordance with the FCMC requirements, ABLV Bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the ABLV Bank total current liabilities.

5.2.3. Currency exchange rate fluctuation risk

ABLV Bank is exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. ABLV Bank has major open positions in EUR and USD. Considering that the lat is pegged to the euro, the currency risk related to the ABLV Bank open position in EUR is minimal. The ABLV Bank open position in USD is also rather small as it is hedged by using currency forwards/futures. As at the end of 2010, ABLV Bank open position in USD was 0.1% of ABLV Bank equity and, therefore, the effect of changes in the USD exchange rate is insignificant, and ABLV Bank does not conduct more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy of ABLV Bank. All the above limits are complied with on a daily basis, and it is also evidenced by audited results as at the end of the financial period.

5.2.4. Interest rate risk

Interest rate risk represents the adverse effect of the market interest rate fluctuations on ABLV Bank financial performance. ABLV Bank performs assessment of interest rate risk striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk. Interest rate risk is assessed both in terms of income and economic value. The term 'economic value' means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities.

For the purposes of hedging interest rate risk, ABLV Bank sets limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio. Derivative financial instruments are utilised to hedge interest rate risk.

5.2.5. Non-financial risks

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

Since ABLV Bank is actively engaged in rendering services to customers outside Latvia, special emphasis is placed on adherence to "Know Your Customer" principle and prevention of money-laundering attempts. More then

30 officers are directly in charge of supervising transactions, documentation of customers and prospective customers, and available information, monitoring of cash flow, and analysing possible fraud attempts. Moreover, ABLV Bank ensures regular trainings for all officers on anti-money laundering requirements and practices.

5.2.6. Competition risk

There are 22 bank operating in the Republic of Latvia, as well as 10 branches of foreign banks are registered, and most of those are actively rendering services to customers in the local market.

According to data of the Association of Latvian Commercial Banks, as at 30 June 2011, ABLV Bank, AS, is ranked 5^{th} in terms of the amount of assets, following the banks of Scandinavian origin. Therefore, ABLV Bank, AS, is the largest commercial bank with local capital.

More than 80% of deposits with ABLV Bank are placed by foreign customers. Consequently, operations of the Issuer are only partly subject to competition risk in the local market. The banks that have larger amount of assets than the Issuer are not actively offering services to foreign customers. Nevertheless, the Issuer recognizes the competition risk and is continuously improving quality of services rendered to the customers.

5.3. Risk factors associated with the type of securities being issued

5.3.1. Liquidity risk

The Bonds will be placed by means of public offering and will be included in the Stock Exchange NASDAQ OMX Riga List of Debt Securities, which is an official listing. Nevertheless, listing of the Bonds does not guarantee liquidity of the Bonds, and the Investor should assess potential risk of limited possibilities of selling the Bonds in the secondary market due to insufficient interest of other market players. If there is no sufficient interest in the secondary market (liquidity shortfall), it may be difficult for the Investor to sell the Bonds at adequate market price. At the same time, ABLV may purchase the Bonds in the secondary market. To acquire the Bonds issued for the sake of raising subordinated capital, the Issuer has to obtain consent from the FCMC.

5.3.2. Price risk

Price of the Bonds in the secondary market may fluctuate in accordance with the Investors' interest, which can be affected by macroeconomic processes, events concerning one or several Investors, and also, inter alia, events concerning the Issuer. The Investors' opportunities of gaining profit may vary accordingly from time to time.

5.3.3. Interest rate fluctuation risk

Within single Bond Issue Series, interest rate of only one type may be set. The rate may be fixed (constant until maturity of the Bonds) or floating. Where calculation of the Annual Interest Rate under the offered Bonds involves floating rate, the Investor shall take into account that the Bonds' yield will be floating, depending on changes in the base interest rate in the interbank market. Where fixed rate is applied, the Bonds' yield will remain constant, regardless fluctuations in financial markets.

5.3.4. Legislative risk

The Investor shall also take into account the risk of possible losses due to amendments in legislation, regulations and other legal acts or duet to implementation of new legal acts, which may cause additional expenses or reduce return on investment. This risk also covers possible changes in applicable tax assessment and withholding procedures.

6. Information on offered securities

This section of the Base Prospectus contains information on the Bonds that will be issued under the single Programme described in this Base Prospectus. For each Bond Issue Series performed under the Programme, there will be the Final Terms produced, providing comprehensive information on terms of issuing particular series of the Bonds.

Objective of each Bond Issue Series shall be raising of funds that the Issuer will use for financing its operating activities, including without limitation:

- improvement of the ABLV Bank assets' and liabilities' distribution into maturity bands;
- increase and maintenance of the liquidity level required for activities of ABLV Bank;

or

- raising of funds for increase of the ABLV Bank subordinated capital.

Objective of each Bond Issue Series shall be stated in the Final Terms applicable to the particular Series. For example, the Issuer, inter alia, may state that the funds raised will be used for increasing subordinated capital of ABLV Bank, in accordance with requirements of the Credit Institution Law and regulations published by the FCMC.

6.1. Issue size and securities identification number
Under the Programme described in this Base Prospectus, the Issuer may issue the Bonds the total value of which is equal to LVL 140,000,000.- (one hundred forty million Latvian lats), or equivalent amount in EUR or USD.

In the Final Terms of each Bond Issue Series, the Issuer shall set forth the particular issue size and number of the Bonds. Issue size of a single Bond Issue Series may not be less than LVL 7,000,000.- (seven million lats), or equivalent amount in EUR or USD.

Before initial public offering of the respective issue is started and after the documents stipulated in the LCD rules are received from the Issuer, the LCD will register each Bond Issue Series performed under the Programme and assign ISIN to the Bonds, as well as will ensure posting and accounting of the outstanding Bonds.

For clear identification of each new Bond Issue Series, the title of the Final Terms will contain the sequence number of the Programme, as well as sequence number and currency of the Series. Under each Bond Issue Series, securities of only one class may be issued. Therefore, each Series will have one single ISIN, different from that of other Bond Issue Series.

6.2. Securities details, type and form
Under the Programme described in this Base Prospectus, the Issuer will issue the Bonds.

The Bonds are freely transferrable securities that represent the Issuer’s debt to the Bondholder without additional collateral. All Bonds issued under the Programme are supposed to be admitted to the regulated market, ensuring their public trading.
The Bonds are dematerialized bearer securities without restraint on alienation – transferrable securities.

According to the Financial Instrument Market Law, in the Republic of Latvia, posting and accounting of dematerialized securities admitted to trading on a regulated market shall be ensured by the LCD.

Pursuant to the Financial Instrument Market Law, the Bonds are held by credit institutions and investment brokerage companies. The LCD performs accounting of financial instruments, including the Bonds, owned by a credit institution or an investment brokerage company, as well as overall accounting of financial instruments owned and held by customers of the particular credit institution or investment brokerage company.

6.3. Issue currency
Under the Programme, the Bonds may be issued in LVL, EUR, or USD. Currency of each Bond Issue Series under the Programme shall be specified in the Final Terms.

6.4. Issue and single Bond face value
Size of each Bond Issue Series is equal to the total number of Bonds issued within the particular series multiplied by face value of a single Bond. The number and face value of the Bonds shall be stated in the Final Terms accordingly.

6.5. Legal acts regulating the issue
Issue of the Bonds shall be performed in accordance with the following:

- the Commercial Law;
- the Financial Instrument Market Law;
- the LCD rules;

and other effective Applicable Legal Acts.
Rights of the Investors are protected by the Civil Law and the Credit Institution Law.

6.6. Annual Interest Rate
Annual Interest Rate of each Bond Issue Series under the Programme shall be specified in the Final Terms.

The Annual Interest Rate may be fixed or floating.

In case of fixed rate set, the Interest Income shall be determined and stated in the Final Terms of each Bond Issue Series. Several fixed rates may be set within single Bond Issue Series, where each of those shall be applicable to particular period of the Bond issue.

In case of floating rate set, variable money market index (base rate) and risk premium shall be stated in the Final Terms of the Bond Issue Series. Deferred Interest Income shall be calculated in accordance with the formula provided in paragraph 6.9 of the Base Prospectus, and that shall be rounded off to 1/8 (one-eighth) of a per cent. The base rate: Rigibor (LVL), Euribor (EUR) or Libor (USD) shall be published at the Bank of Latvia home page. The Interest Income rate for the following interest income period shall be set 5 (five) working days prior to the next date of the Interest Income payment, and this rate shall be effective throughout the following Interest Income period.

In case of floating rate set, the Issuer shall publish a notice on the Interest Income rate set for the following period at the home page **www.ablv.com** at least 4 (four) working days prior to the next date of the Interest Income payment. This Interest Income rate shall also be published in the Stock Exchange NASDAQ OMX Riga information system.

6.7. Conditions of the Interest Income payment

The Investor shall be entitled to receive the Interest Income.

The dates of calculating and paying the Interest Income accrued under the Bonds shall be stated in the Final Terms of each Series. Since it may be possible that tax should be withheld from the Interest Income, the Issuer shall determine the payment date to be not earlier than the second working day and not later than the fifth working day after the calculation date.

The Issuer may issue the Bonds at a discount from the Face Value, meaning that interest income will not be paid during some period (no coupon payment).

The procedure of paying the Interest Income is stipulated by the LCD rules No. 8 On Payment of Dividends, Coupons, Principal, and Other Cash Proceeds. When paying the interest income, ABLV Bank shall credit all payable amount to the LCD cash account. The LCD shall transfer the funds to the account holders on the Interest Income payment date in accordance with the number of the Bonds present in correspondent accounts on the Interest Income payment date. The Interest Income amount shall be credited to the cash account of the Bond holder by the account holder (that the securities account of the Bond holder is opened with) within one working day after the funds are received.

Should the Interest Income payment date appear to be a holiday, the Issuer shall pay the Interest Income on the next working day following the holiday.

6.8. Redemption of the Bonds

The Investor shall be entitled to receive the Face Value of the Bonds. The Face Value of the Bonds shall be repaid at the Bonds maturity by making a lump-sum payment.

For each Bond Issue Series under the Programme, the Face Value and maturity of the Bond shall be set forth in the Final Terms, but the latter shall not exceed 10 (ten) years.

The Issuer shall pay the Face Value on the Bonds maturity date in accordance with the LCD rules No. 8 On Payment of Dividends, Coupons, Principal, and Other Cash Proceeds.

Should the Bonds maturity date appear to be a holiday, the Issuer shall pay the Face Value of the Bonds on the next working day following the holiday. Should the Issuer fail to make settlement under redemption of the Bonds on the date set forth in the Final Terms, the Investor shall be entitled to lodge a claim to the Issuer demanding payment of the Face Value not earlier than in 4 (four) working days after the set Bonds maturity date.

The Issuer shall be entitled to prematurely redeem the part of the Bond issue the initial placement of which was not performed, as well as the Bonds that the Issuer purchased in the secondary securities market or acquired otherwise in compliance with provisions of the normative acts, provided that normative acts contain no limitations with regard to such redemption.

The Issuer shall not be entitled to prematurely redeem the Bonds owned by the Investor, unless the Final Terms of the Bond Issue Series provide otherwise.

Under this Programme, the Investor shall not be entitled to claim the Face Value and accrued interest to be repaid by the Issuer before maturity.

Should the Bonds, or a part of those, be redeemed prematurely, the Issuer shall make a corresponding notice in the Stock Exchange NSADAQ OMX Riga information system, the Central Storage of Regulated Information (ORICGS), and at home page **www.ablv.com** at least 4 (four) working days in advance, stating the number of the bonds being redeemed, the amount at face value, the date of premature redemption and the issue size that remains outstanding in the secondary market.
Other rights and obligations of the Investors arising out of the bonds and not mentioned in this Base Prospectus shall be exercised in accordance with effective laws of the Republic of Latvia and subordinate legislation.

6.9. Method of calculating accrued Interest Income under interest-bearing Bonds
Interest Income under a single Bond for each interest income period is calculated considering the following:

- the Face Value of the Bond;
- the Annual Interest Rate in the corresponding interest income period;
- number of days in the Interest Income period.

It is assumed that a single interest income period consists of 180 (one hundred eighty) days, and one year consists of 360 (three hundred sixty) days (30E/360 principle, where E – number of full months).

The Interest Income amount shall be calculated as follows:
CPN = F * C / 2, where

CPN – the amount of accrued Interest Income payable in the issue currency per one Bond;
F – face value of a single Bond;
C – Annual Interest Rate.

Between the payment dates, the amount of Interest Income shall be calculated as follows:
AI = F x C / 360 x D, where

AI– accrued interest;
F – face value of a single Bond;
C – Annual Interest Rate.
D – number of days since the beginning of the interest accrual period.

6.10. Method of calculating the Bond price of the Bonds issued at a discount from the Face Value
The Bond price shall be calculated as discounted price to the Bond Face Value, using the following formula:

$$P = \frac{F}{\left(1+\frac{Y}{2}\right)^{\frac{D_1}{D_2} \cdot 2}}$$ where

P – price;
F – face value;
Y – yield expressed as interest rate p.a. till the end date of the period during which the Interest Income is not supposed to be paid;
D1 – number of days from the settlement day till the end date of the period during which the Interest Income is not supposed to be paid;
D2 – number of days in a year.

After the end of the period during which the Interest Income is not supposed to be paid, the Interest Income shall be calculated according to the formula provided in paragraph 6.9 of the Base Prospectus.

According to Day Count Convention, a year is assumed to consist of 360 days.

6.11. Decisions on the Bond issue

The Bonds are issued and public offering is performed pursuant to the following decisions of ABLV Bank:

- decision on the bond issue of the extraordinary meeting of shareholders, dated 14 December 2010 (Minutes No. 3, paragraph 5.1);
- decision of the Board, dated 15 September 2011
(Minutes No. 56, paragraph 2):
    - on the Bond issue;
    - on approval of the Base Prospectus of the First Bond Offer Programme.

The Final Terms of each Bond Issue Series shall be approved by a decision of ABLV Bank Board.

6.12. Restrictions on free transferability of the bonds
The Bonds are freely transferrable securities. Therefore, there are no restrictions on transferability of securities.

6.13. Subordination of the Bonds
Objective of each Bond Issue Series shall be stated in the Final Terms.

Only if objective of the Bond Issue Series is raising of funds that the Issuer will use as subordinated capital, the Investor shall be informed that in case of the Issuer's insolvency the Investor's claims to the Issuer arising out of the Bonds will be satisfied after claims of all other creditors, but before satisfying claims of the shareholders.

According to the FCMC Regulations on Calculating Minimum Capital Requirements, subordinated capital means funds borrowed by an institution for a period of not less than five years, where the lending agreement provides for the lender's right to demand early repayment of the loan only in case the institution is liquidated, and the lender's claim is to be satisfied after claims of all other creditors, but before satisfying claims of the shareholders. Nevertheless, the institution may perform early repayment of such loan following its own initiative, provided that after such loan repayment the institution's equity meets requirements set forth in the said Regulations and the Commission has no objections.
For the purposes of this Base Prospectus, the Issuer shall be an institution that borrows funds by issuing the Bonds. If provided for in the Final Terms of the Issue Series, the Issuer may borrow funds by issuing the Bonds for the sake of raising subordinated capital.

6.14. Representation of the Investors
This Base Prospectus programme has no provisions for, or restrictions on, rights to establish an organization of the Investors' representatives. In case of the Issuer's insolvency, each Investor shall be entitled to represent its interests at the meetings of creditors. In case of the Issuer's insolvency, any Investor's rights to get back its investment shall be equal to those of other similar creditors.

7. Taxation of income derived from the Bonds

Notice

- The information provided in this Base Prospectus section shall not be treated as legal or tax advice.
- This Base Prospectus section does not contain complete information on all taxes applicable to the Investor and investment in the Bonds.
- Tax rates and payment conditions may change during the period from approval of this Base Prospectus till maturity of the Bonds.
- Before making a decision on investing in the Bonds, the Investor should independently and, if necessary, engaging a tax advisor, estimate taxes applicable to the investment, pursuant to the provisions of both the Republic of Latvia legal acts and foreign legal acts, in case the Investor is not a resident of the Republic of Latvia.

7.1. Determination of the Investor's residence for tax purposes

For tax purposes, an individual shall be considered a resident of the Republic of Latvia where:

- it permanently resides in the Republic of Latvia, or
- it stays in the Republic of Latvia for more than 183 days within any 12-month period, or
- it is a citizen of the Republic of Latvia employed abroad by the Republic of Latvia government.

If an individual does not meet the above criteria, it shall not be considered a resident of the Republic of Latvia for tax purposes.

A legal entity shall be considered a resident of the Republic of Latvia for tax purposes where it is or should have been established and registered in the Republic of Latvia pursuant to provisions of the Republic of Latvia legal acts. Other legal entities shall be considered non-residents of the Republic of Latvia for tax purposes.

If there is a tax treaty made with the residence country of a non-resident, the tax reliefs set in the treaty shall be complied with. The procedures for application of reliefs are set in the Republic of Latvia Cabinet Regulations No. 178 Procedures for Application of Tax Relief Determined in International Agreements for Prevention of Double Taxation and Tax Evasion, adopted on 30 April 2001.

7.2. Tax amount

	Interest Income tax rate	Withholding of the tax
Residents:		
Individuals	10%	Tax on Interest Income is withheld by the payer of income.
Legal entities	15%	The Interest Income is included in the taxable income that is subject to payment of enterprise income tax.
Non-residents:		
Individuals	10%	Tax on Interest Income is withheld by the payer of income.
Legal entities	-	The Interest Income is included in the taxable income that is subject to payment of enterprise income tax.[1]

[1] Should the Issuer and the recipient of the Interest Income appear to be related companies as defined in the Republic of Latvia Law on Enterprise Income Tax, than tax of 10% (5% for legal entities registered in the European Union member states) shall be withheld by the payer of interest.
Should a legal entity be registered in a low-tax or tax-free country or territory mentioned in the Republic of Latvia Cabinet Regulations, than tax of 15% shall be withheld by the payer of interest.

7.3. Responsibility of the Issuer

The Issuer shall be responsible for withholding and payment of taxes in compliance with the procedures and amount stated in the Republic of Latvia normative acts.

8. Terms and conditions of the offer

Under the First Bond Offer Programme, the Issuer will perform one or several Bond Issue Series. The Investors are offered to acquire the Bonds denominated in LVL, EUR, or USD. The Bonds are bearer debt securities without restraint on alienation. The Face Value of a single Bond and the total face value of a single Series shall be stated in the Final Terms, whereas overall face value of the Bonds issued under the Programme described in this Base Prospectus will not exceed LVL 140,000,000.- (one hundred forty million Latvian lats) or equivalent amount in EUR or USD.

8.1. Issue size

Issue size of each Bond Issue Series shall be stated in the Final Terms. Each issue of the Bonds shall be deemed performed to the amount of the placed Bonds. Not placed Bonds will be redeemed before being admitted to trading on the regulated market. Only Bonds actually placed will be admitted to trading on the regulated market. The Issuer will inform on the total amount of actually placed Bonds by publishing this information at the home page **www.ablv.com** within 10 (ten) working days after the public offer end date.

8.2. Determination of the securities' price for initial placement transactions

During the initial placement, the Bonds will be sold at the price determined by ABLV Bank Board at least 4 (four) working days prior to the start date of the Bonds' initial placement, and this price will be stated in the Final Terms and at ABLV Bank home page **www.ablv.com**. Information on the second and each subsequent Bond Issue Series, if any, will be also included in the Central Storage of Regulated Information (ORICGS).

ABLV Bank Board will determine the Bonds' price depending on the situation in secondary market of similar securities then present, and, in particular, based on evaluation of the demand in the securities market and yield of comparable market instruments. The price determined by ABLV Bank for the Bond Issue Series will be the same for all Investors and will remain constant throughout the whole initial placement period.

ABLV Bank Board shall determine the Face Value and the price of the Bonds' initial placement expressed as percentage of the Face Value.

Purchasing the Bonds during the initial placement period, the Investor will have to transfer just set Bond sale price to the Issuer for each Bond unit being purchased.

Additional expenses under the transaction, which might include, without limitation, fees for account opening, for transaction conclusion and execution, may vary in different Investment Companies, and the Investor can find those out in the respective Investment Company engaged by the Investor in concluding the Bonds' purchase transaction as intermediary. ABLV Bank will not receive the said additional payments and shall not be responsible for those additional expenses.

8.3. Term of the public offering and application process

The public offer start date shall be the next day after receiving the FCMC permission for making public offer or the date specifically stated in the Final Terms of the Bond Issue Series under the Programme.

The public offer end date shall be stated in the Final Terms of each Bond Issue Series under the Programme. The end date of the public offer of the Bond issue Series shall be 10 (ten) days prior to the issue date and the settlement date. Initially planned public offer period is a period of time within which the Investor or the Investment Company may submit an order for purchasing the Bonds, and it will be stated in the Final Terms of the Bond Issue Series.

The Issuer shall perform initial placement of the Bonds by means of their direct sale.

8.4. Procedure of the Bonds' initial placement

Under initial placement, the Issuer sells the Bonds to the Investor, following the procedure indicated below.

- The transactions shall be executed at the price set forth in the Final Terms of the Bond Issue Series, which will be expressed as percentage of the face value.
- The transactions shall be concluded during the initial distribution period stated in the Final Terms of offer of the Bond Issue Series and within size of the Bond Issue Series.
- The Investor shall submit an order for purchasing the Bonds to the chosen Investment Company.
- Representative of the Investment Company or the Investor itself, if it has a financial instruments account opened with ABLV Bank, AS, shall contact the Issuer. The time of executing the transaction, phone number and contact person shall be stated in the Final Terms of the Bond Issue Series.
- Sale of the Bonds shall take place within 10 (ten) days after the public offer end date.
- Within 10 (ten) days after the public offer end date, ABLV Bank Board shall make a decision on concluding the transactions in accordance with the sequence in which orders have been submitted, although ABLV Bank shall

retain the right to partly execute an order or to deny conclusion of the transaction, also for the sake of limiting possible reputational risk.
- The transactions shall be concluded pursuant to the order completed by the Investor or the Investment Company. The order form will be provided as appendix to the Final Terms of the Bond Issue Series.

There are no restrictions on applying for purchase of the Bonds.
Maximum number of the Bonds that a single Investor may apply for is not set.
The only restriction shall be the remaining number of not placed Bonds (with regard to which no purchase transactions have been concluded) as at the moment of the Investor applying for purchase of the Bonds.
The Investor may not apply for purchasing less then 1 (one) Bond.

Secondary trading in the Bonds shall be allowed after the Bonds being admitted to the regulated market, which is supposed to happen not later than within 3 (three) months after completion of the initial placement.

8.5. Settlement under initial placement transactions
Settlement under the Bonds' initial placement transactions shall be performed applying the DVP principle, regulated by the corresponding LCD rules of DVP settlement, or not applying the DVP principle, if agreed so by the underwriter and the other party to the transaction. If the transaction parties agree on not applying the DVP principle, the moment of the Bonds' delivery and the moment of payment may be different, but not exceeding T+10, where 'T' stands for the day of concluding the Bond purchase transaction, and '10' is the 10^{th} (tenth) working day after the day of concluding the Bond purchase transaction.

DVP shall be executed on the T+3 day, where 'T' stands for the day of concluding the Bond purchase transaction, and '3' is the 3^{rd} (third) working day after the day of concluding the Bond purchase transaction. In case of applying the DVP principle, on the 3^{rd} (third) working day after the day of concluding the Bond purchase transaction, the Investor shall ensure funds necessary for paying for purchase of the Bonds in the Investor's account opened with the Investment Company that acted as intermediary in concluding the Bond purchase transaction. On this day, executing DVP, the purchased Bonds shall be credited to the Investor's account provided that the Investor ensured the required amount of funds for paying for the Bonds.

If the parties agree on not applying the DVP principle, the Investor shall ensure funds in the respective account on the day agreed upon by the transaction parties, whereas the Bonds shall be credited to the Investor's account on the day agreed upon by the transaction parties.

The settlement method chosen by the Issuer to be applied to initial placement transactions shall be specifically stated in the Final Terms of each Bond Issue Series.

8.6. Information on the initial placement results
The information on the initial placement results will be published at the Issuer's home page **www.ablv.com** within 10 (ten) working days after the public offer end date, stated in the Final Terms of the offer.
Information on results of the initial placement of the second and each subsequent Bond Issue Series will be also published in the Central Storage of Regulated Information (ORICGS).

8.7. Placement of the Bonds
Under the Programme, placing of the Bonds shall be performed by the Issuer in accordance with the Bonds' selling procedure during the initial placement.

8.8. Depository
Functions of the depository shall be performed by the LCD.

9. Admission to the market

9.1. Application for admitting the Bonds to the regulated market

The regulated market maker to which application for including debt securities in the official listing will be submitted is:
Stock Exchange NASDAQ OMX Riga
registration No.: 4 000 316 704 9
legal address: Riga, Vaļņu iela 1

The application shall be submitted for including respective Bonds in the NASDAQ OMX Riga List of Debt Securities, which is an official listing pursuant to the Financial Instrument Market Law. The application for admitting the Bonds to the regulated market shall be prepared in accordance with the Stock Exchange requirements and submitted not later than within 3 (three) months after completion of the initial placement, and there will be all documents and information on the Bond issue attached thereto, as set forth in the Financial Instrument Market Law.

9.2. Previous issues performed by the Issuer and admitted to the regulated market

As at the day of registering the Base Prospectus of the First Bond Offer Programme, ABLV Bank has no securities included in securities lists of the Stock Exchange NASDAQ OMX Riga or other regulated markets.

10. Basic information about the issuer

10.1. Basic information about the issuer

10.1.1. Issuer's name
ABLV Bank, AS

10.1.2. Issuer's place of registration and registration number

	ABLV Bank, AS
registration No.:	5 000 314 940 1
place of registration:	Riga, the Republic of Latvia Register of Enterprises
registration date:	17 September 1993

10.1.3. Issuer's address, type of business, country of incorporation and legal acts pursuant to which issuer operates

	ABLV Bank, AS
legal address:	Riga, 23 Elizabetes Street
type of business:	joint stock company
country of incorporation:	the Republic of Latvia

The Issuer operates pursuant to the following legal acts:

- the Credit Institution Law;
- the Commercial Law;

and other Applicable Legal Acts.

10.1.4. Issuer's history and development
The Bank was founded on 17 September 1993. In 1995, there were changes made to the Bank's shareholding structure. Ernests Bernis and Oļegs Fiļs, became the Bank's shareholders and executives and have been working solely in this field since then.

Also in 1995, the Bank started expanding its activities and founded a branch in Riga. In the following years, the Bank actively worked in the field of providing services to foreign customers, offering them various bank products, mainly related to making payments, and became a notable player in the financial market. The Bank was one of the first in Latvia to start development of different remote service channels, thus improving service level and ensuring rapid growth.

In 2004, the Bank focused on developing a second line to its primary activities – investment management. There were two subsidiary companies founded: ABLV Asset Management, IPAS, dealing with investment management, and ABLV Capital Markets, IBAS, which provided brokerage services.

In 2008, the Bank adopted new strategy, emphasizing the development of bespoke financial solutions for customers.

Since 2009, the Bank offers a third line of services – advisory.

In 2011, the Bank's name was changed to ABLV Bank, AS.

10.1.5. Recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency
Since the day of publishing the last audited financial report, the Issuer has no available information on events that might significantly affect the Issuer's solvency in the current or the following financial periods.

Nevertheless, it should be noted that on 23 May 2011 the Issuer changed its legal name and introduced a new brand. Since 23 May 2011, the name Aizkraukles Banka was substituted with a name that is more easily perceived and used by customers internationally: ABLV Bank, AS.

Alongside with the change of name and visual identity, the Issuer has completed the process of changing its business line, which is aimed at rendering tailored financial services in accordance with the highest standards.

According to the strategy adopted in 2008, ABLV Bank will become a leader in banking, wealth management, and financial advisory in the region. The new brand was intended for increasing association with the chosen lines of business, strengthening ABLV Bank reputation internationally, meanwhile retaining links to the former brand. Change of ABLV Bank legal name and brand did not entail changes in ABLV Bank holding structure. ABLV Bank management remained the same, as well as terms and conditions of cooperation with existing customers and partners.

10.2. Business overview

10.2.1. Issuer's principal activities

Alongside implementation of the new brand and change of the legal name performed on 23 May 2011, ABLV Bank focuses on the following lines of business:

- financial services;
- investments;
- advisory.

The structure of the Issuer's group is presented in paragraph 10.3.

10.2.2. Financial services

Major services related to ABLV Bank operating activities are the following:

- **Settlements**
  - ABLV Bank target is to ensure efficient settlements. Therefore, funds in major currencies are credited to a customer's account on the day of their receipt. Whereas cut-off times for receipt of outgoing payments is particularly extended, and transactions are processed as soon as possible.
  - Most customers of ABLV Bank submit payment orders using rational and convenient Internetbank solution.
  - To ensure faster processing of payments, ABLV Bank maintains well-considered wide correspondent network.
  - ABLV Bank customers are also offered regular automatic payments, which allow saving time when preparing payment orders and facilitate settlements control, enabling monitoring of execution dates and customer's account balance.
- **Currency exchange**
  - Alongside transfers in EUR and USD, ABLV Bank also offers transfers in Russian roubles and other currencies.
  - Due to continual execution of currency exchange transactions and wide partner network, ABLV Bank can ensure favourable exchange rates.
  - Dealing Department also offers customers an opportunity to conclude SWAP and Forward transactions.
- **Payment cards**
  - Wide choice of payment cards provided by the world's largest payment systems – VISA, MasterCard and American Express – enables the customer to obtain proper set of cards.
  - Besides common credit and debit cards, ABLV Bank also offers elite cards like VISA Platinum and VISA Infinite.
- **Loans**

  Depending on the customer's needs, business and income peculiarities, ABLV Bank offers suitable type of financing and corresponding repayment schedule.

  ABLV Bank offers the following:
  - overdrafts – for short-term financing, including that secured by pledge of financial instruments;
  - credit lines – for increasing current assets of the company;
  - trade finance opportunities – for export and import transactions;
  - long-term loans – for acquiring fixed assets, developing business, or for purchasing real estate.

  Already since 2008, ABLV Bank strategy does not suppose active lending to individuals for dwelling purchase.
- **Documentary operations**

  Mainly to increase safety of customers' export and import transactions, ABLV Bank offers using the following documentary operations:
  - letters of credit;
  - documentary collection;
  - bank guarantees;
  - escrow account.
- **Fiduciary transactions**

  By fiduciary transactions ABLV Bank means agreements on management of customer's funds performed by ABLV Bank pursuing the customer's interests and following the customer's instructions.
- **Safe deposit boxes**

  ABLV Bank offers individual safe deposit box rental for ensuring safe storage of important documents, jewellery, or other valuables of businessmen and wealthy persons. A safe deposit box can only be accessed after mandatory customer identification. Just one person at a time can stay in the vault. Thus, the highest level of security and confidentiality is ensured.

10.2.3. Investment services

ABLV Group companies provide services for preserving and increasing customers' capital.

- **Deposits and bonds**
  For accrual of savings and capital growth, ABLV Bank offers the following options to conservative customers:
  - savings accounts;
  - term deposits;
  - bonds.
- **Asset management**
  If customer is ready to assume reasonable risk in order to receive additional profit, ABLV Group companies offer the following:
  - investments in open-end investment funds;
  - investments in private capital of non-public companies;
  - brokerage services.

  ABLV Group companies recommend the following options:
  - investment management services, if:
    - the customer considers its background to be not sufficient for making independent decisions on purchasing and selling securities in stock markets;
    - the customer plans long-term investment of assets and is willing to delegate their management to experts;
  - brokerage services, if:
    - the customer has sufficient background for making independent decisions when operating in stock markets and is ready to assume reasonable risk;
    - the customer is able and ready to actively engage in investment management.
- **Brokerage services**
  Brokerage services ensure the following for the customer:
  - possibility to develop individual investment strategies;
  - trading in financial instruments from any place in the world;
  - submitting orders by phone, fax or Internetbank from 09:00 till 23:00 (Riga time);
  - using electronic trading platforms to independently make transactions in stock markets;
  - opportunities to receive financing secured by pledge of securities.
- **Securities custody**
  - ABLV Bank provides opportunities of safe financial instruments custody to its customers. Securities owned by the customers are kept separately from those belonging to ABLV Bank. When opening accounts with cooperation partners, ABLV Bank ensures clear identification of the accounts in which customers' securities are held.
  - For customers' convenience, they are offered to hold all types of financial instruments in a single account. Record-keeping of all financial instruments, regardless their type, currency, or country of issue, ensures that comprehensive information on investments is available at any time.
  - Besides safe and convenient custody of financial instruments, customers are also offered an opportunity to receive financing secured by pledge of securities.

10.2.4. Advisory services

Based on the experience gained from customer service in Latvia and abroad during the period since 1993, ABLV Group companies offer their customers advice on the following issues:

- **Asset protection**
  Asset protection is a complex solution primarily intended for securing family wealth against business and political risks. This kind of protection can be ensured by using special structures and solutions, alongside establishing proper accounting of assets within those structures. Customers are offered such solutions as trusts or foundations, also for the sake of investments and charity.
- **Legal advice**
  Experience of ABLV Group lawyers, as well as wide network of cooperation partners worldwide, allows offering different solutions to customers, from drawing up of simple agreements to complex project management. Availability of professional advice on international law issues together with strong confidentiality maintained ensure necessary comfort level for the customers.
- **Tax advice**
  For providing tax advice, ABLV Group recommends specialists that are experts in both local regulatory requirements as well as those of other countries. This service rendered by ABLV Group companies covers the following issues:
  - change of tax residence;
  - tax planning;

- accounting services;
- and others.

- **Administrative services**
  Business administration is a service that is interesting for customers needing a fully featured office abroad, e.g. a representative office, holding company or a support centre for company's partners.

10.2.5. Major markets

As far as local and foreign markets are concerned, the Issuer's operations are best characterized by analysis of the largest balance item – Deposits.

The information provided below completely matches that presented in ABLV Bank, AS, consolidated report for the year 2010. The table of deposits contains information provided in Note 24 of the said report.

Customer profile	Group 31.12.2010 LVL`000	Group 31.12.2009 LVL`000	Bank 31.12.2010 LVL`000	Bank 31.12.2009 LVL`000
Corporate companies	1091,402	760,573	1,102,801	771,087
Private individuals	122,476	89,283	122,476	89,283
State-owned enterprises	16,596	2,233	16,596	2,233
Financial institutions	4,417	4,723	4,417	4,723
Non-profit institutions serving private individuals	1,500	1,390	1,500	1,390
Municipalities	400	301	400	301
Total deposits	**1,236,791**	**858,503**	**1,248,190**	**869,017**

During the reporting period, the amount of deposits with the Group and the Bank has increased significantly, exceeding LVL 1 billion, for the first time in the Bank's history. The Group's/Bank's top 20 customers in terms of the deposit amount account for 20% (22%) of the total deposits.

Geographical profile of customer residence	Group 31.12.2010 LVL`000	Group 31.12.2009 LVL`000	Bank 31.12.2010 LVL`000	Bank 31.12.2009 LVL`000
Other countries	737,982	525,069	737,982	525,069
Other EU member states	222,754	113,486	222,754	113,486
Other OECD countries	125,535	100,851	125,535	100,851
EMU countries	96,802	69,857	96,802	69,857
Latvia	53,718	49,240	65,117	59,754
Total deposits	**1,236,791**	**858,503**	**1,248,190**	**869,017**

Of the total deposits placed with the Group and the Bank, 82.6% are from customers whose beneficiaries are CIS residents.

10.3. Structure of the Issuer's group

The information provided in the table below completely matches that presented in ABLV Bank, AS, interim condensed consolidated annual report for the six-month period ended 30 June 2011.

The Group comprises the following subsidiaries:

Company	Country of incorporation	Registration number	Business profile	Bank's share (% of total share capital)
ABLV Asset Management, IPAS	LV	40003814724	Financial services	100
ABLV Capital Markets, IBAS	LV	40003814705	Financial services	100
ABLV Consulting Services, AS	LV	40003540368	Consulting services	100
ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100
ABLV Transform Partnership, KS	LV	40103260921	Holding company	99.9997
AB.LV Transform Investments, SIA	LV	40103191969	Real estate transactions	100
Transform 1, SIA	LV	40103193211	Real estate transactions	100
Transform 2, SIA	LV	40103193033	Real estate transactions	100
Transform 3, SIA	LV	40103193067	Real estate transactions	100
Transform 4, SIA	LV	40103210494	Real estate transactions	100

Company	Country of incorporation	Registration number	Business profile	Bank's share (% of total share capital)
Transform 6, SIA	LV	40103237323	Real estate transactions	100
Transform 7, SIA	LV	40103237304	Real estate transactions	100
Transform 8, SIA	LV	40103240484	Real estate transactions	100
Transform 9, SIA	LV	40103241210	Real estate transactions	100
Transform 10, SIA	LV	50103247681	Real estate transactions	100
Transform 11, SIA	LV	40103258310	Real estate transactions	100
Transform 12, SIA	LV	40103290273	Real estate transactions	100
Transform 13, SIA	LV	40103300849	Real estate transactions	100
Transform 14, SIA	LV	50103313991	Real estate transactions	100
Transform 15, SIA	LV	40103344858	Real estate transactions	100
Transform 17, SIA	LV	40103424617	Real estate transactions	100
SIA Elizabetes 21a	LV	50003831571	Real estate transactions	91.6
SIA New Hanza City	LV	40103222826	Real estate transactions	100
ABLV Private Equity Fund 2010, KS	LV	40103307758	Holding company	100
ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100
SIA Gas Stream	LV	42103047436	Electricity generation	49
SIA Bio Future	LV	42103047421	Electricity generation	49

Following change of the Issuer's name on 23 May 2011, legal names of a number of the above companies comprising ABLV Group have been changed as follows:

Name before 22 May 2011	Name after 23 May 2011
AS „Aizkraukles banka"	ABLV Bank, AS
IBAS „AB.LV Capital Markets"	ABLV Capital Markets, IBAS
IPAS „AB.LV Asset Management"	ABLV Asset Management, IPAS
SIA „AB.LV Private Equity Management"	ABLV Private Equity Management, SIA
KS „AB.LV Private Equity Fund 2010"	ABLV Private Equity Fund 2010, KS
AS „AB Konsultācijas"	ABLV Consulting Services, AS
SIA „AB.LV Corporate Services"	ABLV Corporate Services, SIA
KS „AB.LV Transform Partnership"	ABLV Transform Partnership, KS
SIA „AB.LV Transform 1"	Transform 1, SIA
SIA „AB.LV Transform 2"	Transform 2, SIA
SIA „AB.LV Transform 3"	Transform 3, SIA
SIA „AB.LV Transform 4"	Transform 4, SIA
SIA „AB.LV Transform 6"	Transform 6, SIA
SIA „AB.LV Transform 7"	Transform 7, SIA
SIA „AB.LV Transform 8"	Transform 8, SIA
SIA „AB.LV Transform 9"	Transform 9, SIA
SIA „AB.LV Transform 10"	Transform 10, SIA
SIA „AB.LV Transform 11"	Transform 11, SIA
SIA „AB.LV Transform 12"	Transform 12, SIA
SIA „AB.LV Transform 13"	Transform 13, SIA
SIA „AB.LV Transform 14"	Transform 14, SIA
SIA „AB.LV Transform 15"	Transform 15, SIA

10.4. Issuer's administrative, management and supervisory bodies
The information provided below completely matches that presented in ABLV Bank, AS, quarterly report for the period ended on 31 March 2011.

Bank's structure

- **Council**
    - **Board**
    - **Chief Executive Officer**
        - Administrative Division

- Secretariat of the Board
- **Deputy Chief Executive Officer**
  - Corporate and Private Customers Service Division
  - Subsidiary Bank Support Division
  - Financing Division
- **Chief Operating Officer**
  - Product Development Division
- **Chief Compliance Officer**
  - Compliance Division
- **Chief Financial Officer**
  - Financial Market Division
  - Finances and Accounts Division
- **Chief Information Officer**
  - Business Technologies Division
  - Information Technologies Division
- **Chief Risk Officer**
  - Risk Management Division
  - Mortgage Loans Division

10.4.1. ABLV Bank Board:

Name, surname / identity No.	Position held
Ernests Bernis 270473-12766	Chairman of the Board, Chief Executive Officer (CEO)
Vadims Reinfelds 010578-10501	Deputy Chairman of the Board, Deputy Chief Executive Officer (dCEO)
Māris Kannenieks 230271-11563	Member of the Board, Chief Financial Officer (CFO)
Edgars Pavlovičs 041273-12350	Member of the Board, Chief Risk Officer (CRO)
Aleksandrs Pāže 301272-10118	Member of the Board, Chief Compliance Officer (CCO)
Rolands Citajevs 030469-11859	Member of the Board, Chief Information Officer (CIO)
Romans Surnačovs 051275-11813	Member of the Board, Chief Operating Officer (COO)

10.4.2. ABLV Bank Council:

Name, surname / identity No.	Position held
Oļegs Fiļs 121273-10400	Chairman of the Council
Jānis Krīgers 250255-11853	Deputy Chairman of the Council
Igors Rapoports 141245-10924	Member of the Council

The issues of admitting new members to ABLV Bank Council and distributing their functions will be resolved at meeting of ABLV Bank shareholders before the end of 2011.

10.4.3. Heads of ABLV Bank divisions:

Name, surname / identity No.	Position held
Aija Daugavvanaga 020872-10608	Head of Internal Audit Department
Oļegs Sirotiņs 170873-10504	Head of Financing Division
Sandra Korna 221061-12770	Head of Finances and Accounts Division
Aleksejs Savko 030374-11238	Head of Corporate and Private Customers Service Division
Jeļena Kasatkina 230970-10119	Head of Risk Management Division
Igors Rogovs 200152-11168	Head of Compliance Division
Jurijs Dorofejevs 130577-10517	Head of Information Technologies Division
Romans Surnačovs 051275-11813	Head of Product Development Division
Zigmārs Bērziņš 170676 -11588	Head of Mortgage Loans Division
Aleksandrs Teplihs 020854-13057	Head of Business Technologies Division
Armands Rozenbahs 200863 – 10606	Head of Administrative Division
Andris Riekstiņš 030171 -13057	Head of Subsidiary Bank Support Division

Members of ABLV Bank Council and Board, as well as heads of ABLV Bank divisions do not engage in operations outside ABLV Group that are material with relation to the Issuer.
Members of ABLV Bank Council and Board, as well as heads of ABLV Bank divisions have no conflicts of interests between their personal interests and their duties performed with relation to the Issuer.

10.5. Issuer's shareholding structure

The information provided in the table below completely matches that presented in ABLV Bank, AS, interim condensed consolidated annual report for the six-month period ended 30 June 2011.

The major shareholders of the Bank and the groups of related shareholders:

	30.06.2011		31.12.2010	
	Paid-in share capital	% of total paid-in share capital	**Paid-in share capital**	%of total paid-in share capital
	LVL'000	(%)	LVL'000	(%)
Oļegs Fiļs	**7 086**	42.95	**7 086**	42.95
Group of related shareholders				
Ernests Bernis	6 932	42.01	6 932	42.01
Nika Berne	154	0.94	154	0.94
Total group of related shareholders	**7 086**	42.95	**7 086**	42.95

The Issuer's major shareholders are Oļegs Fiļs, Ernests Bernis and Nika Berne, and they hold total of 85.90% of the Bank's share capital.
The total of 7.15% shares is held by 24 heads of the Bank's structural units and employees.
The rest of the shares are held by the Bank's long-term customers and business partners.
The total number of shares is 110,000 (one hundred ten thousand), and they constitute ABLV Bank, AS, share capital equal to LVL 16,500,000.- (sixteen million five hundred thousand Latvian lats).

10.6. Information about operations development trends

10.6.1. Significant changes in the Issuer's financial position

Since interim condensed consolidated annual report for the six-month period ended 30 June 2011 has been published, there were no significant changes in ABLV Bank financial indicators. The trend present since the beginning of the year remained unchanged. The Issuer decided not to include profit forecasts or estimates in the Base Prospectus.

10.6.2. Legal and arbitration proceedings

In the ordinary course of business, ABLV Bank is involved in a number of legal proceedings both as a claimant and a defendant, but those legal proceedings pending cannot significantly affect the Issuer's financial position and solvency.

10.6.3. Material contracts

ABLV Bank and other companies comprising ABLV Group have not entered into any material contracts stipulating such responsibilities or liabilities of ABLV Group members which might affect ABLV Bank ability to meet its liabilities to Investors under the Bond issue described in this Base Prospectus.

The Issuer is not assigned credit ratings.

10.7. Available documents of the Issuer

The following documents of the Issuer are available to the Investors:

- ABLV Bank incorporation documents and bylaws – at the Republic of Latvia Register of Enterprises, in Riga, Pērses iela 2;
- the Bank's financial information for two financial years preceding publishing of the Base Prospectus – at ABLV Bank Internet home page **www.ablv.com**.

Appendixes:
Financial information on the Issuer's assets and liabilities, financial position, profits or losses

Appendix 1:	ABLV Bank, AS, interim condensed consolidated annual report for the six-month period ended 30 June 2011 (33 pages)
Appendix 2:	AS Aizkraukles Banka consolidated annual report 2010 (76 pages)
Appendix 3:	AS Aizkraukles Banka consolidated annual report 2009 (78 pages)

BANKING / INVESTMENTS \ ADVISORY

ABLV

ABLV Bank, AS

Interim condensed consolidated annual report for the six-month period ended 30 June 2011

Riga,
12 August 2011

Contents

Ladies and Gentlemen,
Dear Shareholders, Customers and Business Partners of ABLV Bank, AS!

First half of 2011 was marked by positive atmosphere in Latvian economy and financial sector – gross domestic product continues to grow, unemployment decreases, commercial banks make profit, lending market recovers gradually, but steadily.

Signs of recovery observed in Latvian economy were also appreciated by world's leading credit rating agencies. On 15 March 2011, Fitch upgraded Latvia's rating from BB+ to BBB-, saying the country has made good progress in its recovery from a severe financial crisis. Positive tendencies prevailing in Latvia were also noticed by Standard & Poor's, which, following the decision to raise Latvia's rating from BB to BB+ taken on 7 December 2010, revised the outlook for Latvia's rating from stable to positive on 9 March 2011. Meanwhile, Moody's assessed the pace of ongoing economic recovery and changed the outlook on the Baa3 Latvia's credit rating from stable to positive on 6 June 2011.

Economic recovery has positive effect on financial markets, thus enabling the Bank to achieve and even surpass financial plans set at the beginning of the year.

Main task of the Bank's management in 2011 is to expand the Bank's and the Group's operations and to increase profitability, alongside continuing improvement of operational risks management techniques. Financial performance of first half of 2011 provides strong evidence of achieving the above mentioned targets.

Given growing amount of deposits, investment operations, and non-interest income, the Group ended first half of 2011 with profit of LVL 9.8 million, but the Bank's ended first half of 2011 with profit of LVL 9.1 million.

It should be noted that all key performance indicators of the Bank remain high, including capital adequacy and liquidity. As of 30 June 2011, the Bank's liquidity ratio reached 73.83%, whereas the Bank's capital adequacy ratio equalled 12.51%. Based on the FCMC regulations, the minimum capital requirement established for the banking industry will be revised upwards starting from January 2012. The Bank's management is sure that fulfill the above minimum capital requirements in addition.

Within the reporting period, the change of the Bank's name and implementation of the new brand was essential. The Bank's new name is ABLV Bank, AS. Having changed the Bank's name and visual identity, the process of refocusing the Bank's operations has been completed, establishing provision of tailored financial services that meet the highest standards. The names of other companies constituting the Group have been changed as well.

According to the strategy approved in 2008, ABLV Bank, AS is going to become a leader in rendering banking services, private wealth management, and financial advisory in Eastern Europe. The aim of the new brand implementation is to become more associated with the selected course of business and to strengthen the Bank's reputation internationally. Whereas the Bank's legal name and brand have been changed, the ownership structure remains the same.

Financial results

The Bank's financial indicators for first half of 2011 confirm that financial targets set at the beginning of the year have been achieved and even surpassed.

The amount of deposits with the Bank, as well as the Bank's assets continue to grow. Since the beginning of 2011, the amount of deposits has increased by LVL 82 million, i.e. 6.6%, to amount to LVL 1.3 billion. The overall increase in deposits in 2011 is planned to reach 15%.

As at 30 June 2011, the amount of the Bank's assets totalled almost LVL 1.5 billion. Since the beginning of the year, the amount of assets has grown by 6.5%. The Bank continued investing in securities. As at 30 June 2011, the total amount of the securities portfolio was equal to LVL 377 million. During the reporting period, annual yield of the securities portfolio amounted to 3.94%.

Net loan portfolio of the Bank was equal to LVL 496 million, as at the end of June.

As at 30 June 2011, the Bank's operating income, before allowances for credit losses, equalled LVL 31 million. ROE reached 22.38 %, and ROA – 1.21%, as at 30 June 2011.

For society

In H1 2011, several socially important projects have been carried out, provided support from the Bank and ABLV Charitable Foundation.

At the beginning of the year, a book V*X Latvian Architecture Since 1991 has been published. This book represents a first review of architecture that appeared during the last 20 years after Latvia regained independency. The book has been published in Latvian and English. It includes texts and photos presenting best pieces of architecture selected by five prominent Latvian architecture critics. Those pieces of architecture include buildings constructed since 1991 – from those completed in 1990s till construction boom of the new millennium and its consequences.

Also, a collection brought by world famous fashion historian Alexandre Vassiliev from Paris was exhibited in Riga Museum of Decorative Arts and Design. The exhibition was named "From mini to maxi. The fashion of 1960s" and was already a third dress exhibition presented by Alexandre Vassiliev in Riga with support of ABLV Bank, AS.

We express our gratitude to our shareholders and customers for their loyalty and to the Bank's employees for their contribution in the Bank's growth!

Chairman of the Council Aleksandrs Bergmanis

Chairman of the Board Ernests Bernis

Riga, 12 August 2011

The Council of the Bank:

Chairman of the Council:	Date of re-appointment:
Aleksandrs Bergmanis	14/12/2010
Deputy Chairman of the Council:	Date of re-appointment:
Jānis Krīgers	14/12/2010
Council Member:	Date of appointment:
Igors Rapoports	14/12/2010
Resigned as Council Member:	Date of resignation:
Vladimirs Kutovojs	13/12/2010

The Board of the Bank:

Chairman of the Board:	Date of re-appointment:
Ernests Bernis - Chief Executive Officer (CEO)	14/12/2010
Deputy Chairman of the Board:	Date of re-appointment:
Oļegs Fiļs – Deputy Chief Executive Officer (dCEO)	14/12/2010
Board Members:	Date of re-appointment:
Aleksandrs Pāže – Chief Compliance Officer (CCO)	14/12/2010
Edgars Pavlovičs – Chief Risk Officer (CRO)	14/12/2010
Māris Kannenieks – Chief Financial Officer (CFO)	14/12/2010
Rolands Citajevs – Chief IT Officer (CIO)	14/12/2010
Vadims Reinfelds – Chief Operating Officer (COO)	14/12/2010

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Chairman of the Council — Aleksandrs Bergmanis

Chairman of the Board — Ernests Bernis

Riga, 12 August 2011

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

The financial statements set out on pages 7 to 33 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 30 June 2011 and 31 December 2010, and results of their operations, changes in the shareholders' equity and cash flows for the six-month periods ended 30 June 2011 and 30 June 2010.

The aforementioned financial statements are prepared on a going concern basis in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union, as well as consistently applying accounting policies in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

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

Chairman of the Council Aleksandrs Bergmanis

Chairman of the Board Ernests Bernis

Riga, 12 August 2011

	Notes	Group 30.06.2011 LVL '000	Group 30/06/2010 LVL '000	Bank 30/06/2011 LVL '000	Bank 30/06/2010 LVL '000
Interest income	4	18,572	18,034	18,523	18,149
Interest expense	4	(8,206)	(10,119)	(8,148)	(10,132)
Net interest income		**10,366**	**7,915**	**10,375**	**8,017**
Commission and fee income		12,812	9,818	11,173	8,654
Commission and fee expense		(1,549)	(1,771)	(1,346)	(1,607)
Net commission and fee income		**11,263**	**8,047**	**9,827**	**7,047**
Net gain/ (loss) from financial assets and liabilities at fair value through profit or loss	5	(7,415)	19,204	(7,415)	19,204
Net realised gain from available-for-sale financial assets	5	2,659	303	2,659	303
Net realised gain/ (loss) from financial assets at amortised cost	5	2	(229)	2	(229)
Net result from foreign exchange trading and revaluation	5	14,140	(13,710)	14,144	(14,131)
Other income		2,060	634	658	673
Income from dividends		1	3	707	51
Change in allowances for credit losses	6	(6,040)	(16,289)	(6,040)	(16,289)
Operating income		**27,036**	**5,878**	**24,917**	**4,646**
Administrative expense		(12,825)	(9,788)	(11,128)	(8,927)
Depreciation		(836)	(839)	(779)	(794)
Other expense		(1,524)	(578)	(1,885)	(820)
(Loss)/ gain from sale of tangible and intangible fixed assets		(14)	47	(14)	(2)
Impairment of financial instruments		(789)	-	(789)	-
Impairment of non-financial assets		-	-	(106)	-
Total operating expense		**(15,988)**	**(11,158)**	**(14,701)**	**(10,543)**
Profit/ (loss) before corporate income tax		11,048	(5,280)	10,216	(5,897)
Corporate income tax	7	(1,251)	669	(1,087)	741
Net profit/ (loss) for the period		**9,797**	**(4,611)**	**9,129**	**(5,156)**
Attributable to:					
Equity holders of the Bank		9,915	(4,488)		
Non-controlling interests		(118)	(123)		
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		955	1,271	955	1,271
Charge to income statement as a result of sale of available-for-sale securities		(2,661)	(74)	(2,661)	(74)
Charge to income statement due to recognised impairment of available-for-sale securities		789	-	789	-
Change in deferred corporate income tax		138	(179)	138	(179)
Other comprehensive income, total		**(779)**	**1,018**	**(779)**	**1,018**
Total comprehensive income		**9,018**	**(3,593)**	**8,350**	**(4,138)**
Attributable to:					
Equity holders of the Bank		9,136	(3,470)		
Non-controlling interests		(118)	(123)		

Chairman of the Council Aleksandrs Bergmanis

Chairman of the Board Ernests Bernis

Riga, 12 August 2011

		Group	Group	Bank	Bank
		30/06/2011	**31/12/2010**	**30/06/2011**	**31/12/2010**
Assets	Notes	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks		72 865	82 120	72 865	82 120
Balances due from credit institutions	9	424 297	325 352	424 251	325 326
Financial assets at fair value through profit or loss		21 658	23 372	21 658	23 372
Debt securities and other fixed income securities	10	19 216	19 367	19 216	19 367
Shares and other non-fixed income securities		450	674	450	674
Derivatives		1 992	3 331	1 992	3 331
Available-for-sale financial assets		199 888	168 657	199 888	168 657
Debt securities and other fixed income securities	10	197 848	166 431	197 848	166 431
Shares and other non-fixed income securities		2 040	2 226	2 040	2 226
Loans and receivables		494 683	528 872	496 472	528 561
Loans		494 683	517 811	496 472	517 500
Debt securities and other fixed income securities	10	-	11 061	-	11 061
Held-to-maturity investments		158 113	155 112	158 113	155 112
Debt securities and other fixed income securities	10	158 113	155 112	158 113	155 112
Prepaid expense and accrued income		397	339	274	292
Investments in subsidiaries and associates		304	-	60 963	58 661
Investment properties		20 839	20 658	16 605	16 670
Tangible fixed assets		9 951	7 954	5 142	5 253
Intangible fixed assets		3 692	3 701	3 557	3 548
Current corporate income tax receivables		143	266	62	176
Deferred corporate income tax	7	4 829	5 736	4 801	5 718
Other assets		49 399	45 388	3 409	5 099
TOTAL ASSETS		**1 461 058**	**1 367 527**	**1 468 060**	**1 378 565**

Chairman of the Council Aleksandrs Bergmanis

Chairman of the Board Ernests Bernis

Riga, 12 August 2011

		Group	Group	Bank	Bank
		30/06/2011	31/12/2010	30/06/2011	31/12/2010
Liabilities	Notes	LVL '000	LVL '000	LVL '000	LVL '000
Demand deposits from credit institutions		2,156	1,906	2,156	1,906
Financial liabilities at fair value through profit or loss		138	226	138	226
Derivatives		138	226	138	226
Term deposits from credit institutions		2,546	3,502	-	550
Deposits	12	1,323,549	1,236,791	1,330,551	1,248,190
Deferred income and accrued expense		3,485	2,769	3,172	2,460
Current corporate income tax liabilities		109	150	-	-
Other liabilities	7	5,571	4,333	4,947	2,973
Deferred corporate income tax	14	21	21	-	-
Issued securities	14	22,458	22,921	22,458	22,921
Subordinated deposits		20,911	23,962	20,911	23,962
Other liabilities		**1,380,944**	**1,296,581**	**1,384,333**	**1,303,188**
Shareholders' equity					
Paid-in share capital	15	16,500	16,500	16,500	16,500
Share premium		5,255	5,255	5,255	5,255
Reserve capital and other reserves		1,500	1,500	1,500	1,500
Fair value revaluation reserve of available-for-sale financial assets		1,050	1,829	1,050	1,829
Retained earnings brought forward		45,180	52,699	50,293	57,240
Retained earnings/ (accumulated deficit) for the period		9,915	(7,519)	9,129	(6,947)
Attributable to the equity holders of the Bank		79,400	70,264	83,727	75,377
Attributable to non-controlling interests		714	682	-	-
Total shareholders' equity		**80,114**	**70,946**	**83,727**	**75,377**
Total liabilities and shareholders' equity		**1,461,058**	**1,367,527**	**1,468,060**	**1,378,565**

Memorandum items				
Funds under trust management	102,642	116,823	70,995	84,167
Contingent liabilities	19,051	21,125	19,051	21,125
Financial commitments	5,994	12,934	5,994	12,934

Chairman of the Council — Aleksandrs Bergmanis

Chairman of the Board — Ernests Bernis

Riga, 12 August 2011

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Attributable to the equity holders of the Bank	Non-controlling interests	Total shareholders' equity
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
As at 1 January 2010	**15,000**	**255**	**1,500**	**88**	**52,804**	**69,647**	**(661)**	**68,986**
Total comprehensive income for the six-month period ended 30 June 2010	-	-	-	1,018	(4,488)	(3,470)	(123)	(3,593)
Issue of shares	1,500	5,000	-	-	-	6,500	-	6,500
As at 30 June 2010	**16,500**	**5,255**	**1,500**	**1,106**	**48,316**	**72,677**	**(784)**	**71,893**
As at 1 January 2011	**16,500**	**5,255**	**1,500**	**1,829**	**45,180**	**70,264**	**682**	**70,946**
Total comprehensive income for the six-month period ended 30 June 2011	-	-	-	(779)	9,915	9,136	(118)	9,018
Decrease of non-controlling interests	-	-	-	-	-	-	150	150
As at 30 June 2011	**16,500**	**5,255**	**1,500**	**1,050**	**55,095**	**79,400**	**714**	**80,114**

	Paid-in share capital	Share premium	Reserve capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
As at 1 January 2010	**15,000**	**255**	**1,500**	**88**	**57,240**	**74,083**
Total comprehensive income for the six-month period ended 30 June 2010	-	-	-	1,018	(5,156)	(4,138)
Issue of shares	1,500	5,000	-	-	-	6,500
As at 30 June 2010	**16,500**	**5,255**	**1,500**	**1,106**	**52,084**	**76,445**
As at 1 January 2011	**16,500**	**5,255**	**1,500**	**1,829**	**50,293**	**75,377**
Total comprehensive income for the six-month period ended 30 June 2011	-	-	-	(779)	9,129	8,350
As at 30 June 2011	**16,500**	**5,255**	**1,500**	**1,050**	**59,422**	**83,727**

	Group	Group	Bank	Bank
	01/01/2011-30/06/2011	01/01/2010-30/06/2010	01/01/2011-30/06/2011	01/01/2010-30/06/2010
Cash flow from operating activities	LVL '000	LVL '000	LVL '000	LVL '000
Profit/ (loss) before corporate income tax	11,048	(5,280)	10,216	(5,897)
Amortisation and depreciation of fixed assets	836	839	779	794
Increase in allowances for credit losses	6,040	12,169	6,040	12,169
Impairment of non-financial assets	-	-	106	-
(Increase)/ decrease in financial assets at fair value through profit or loss	(656)	1,995	(656)	1,995
Recognised impairment of available-for-sale financial assets	789	-	789	-
Increase/ (decrease) of investments in other entities	151	-	-	-
Unrealised (gain)/ loss from revaluation of foreign currency positions	(7,011)	19,615	(7,008)	19,615
Net cash flow from operating activities before changes in assets and liabilities	**11,197**	**29,338**	**10,266**	**28,676**
(Increase)/ decrease in balances due from credit institutions	(121)	25,681	(427)	25,680
Decrease/ (increase) in loans	17,246	(14,576)	15,146	(14,780)
Decrease in financial assets at fair value through profit or loss	2,370	2,798	2,370	2,798
(Increase)/ decrease in prepaid expense and accrued income	(58)	196	18	193
(Increase)/ decrease in other assets	(4,098)	(9,298)	1,755	2,942
(Decrease) in balances due to credit institutions	(406)	(1,059)	-	(1,958)
Increase in deposits	86,758	155,631	82,361	155,532
(Decrease)/ increase in financial liabilities at fair value through profit or loss	(88)	2,592	(88)	2,592
Increase in deferred income and accrued expense	716	685	712	688
Increase/ (decrease) in other liabilities	1,237	1,981	1,974	(599)
Net cash flow from operating activities before corporate income tax	**114,753**	**193,969**	**114,087**	**201,764**
Corporate income tax (paid)	(54)	(254)	-	(250)
Net cash flow from operating activities	**114,699**	**193,715**	**114,087**	**201,514**
Cash flow from investing activities				
(Purchase) of held-to-maturity investments	(606)	(69,559)	(606)	(69,559)
(Purchase) of available-for-sale financial assets	(132,468)	(43,025)	(132,468)	(43,025)
Sale of available-for-sale financial assets	108,056	24,673	108,056	24,673
(Purchase) of intangible and tangible fixed assets and investment properties	(3,066)	(1,872)	(673)	(637)
Sale of intangible and tangible fixed assets	61	2	61	2
(Purchase) of investments in other entities	(304)	-	(2,408)	(9,643)
Decrease in investments in other entities	-	-	-	600
Net cash flow from investing activities	**(28,327)**	**(89,781)**	**(28,038)**	**(97,589)**
Cash flow from financing activities				
Proceeds from (repayment) of subordinated liabilities	(3,051)	(4,132)	(3,051)	(4,132)
Issue of securities	(463)	1,874	(463)	1,874
Issue of shares	-	6,500	-	6,500
Net cash flow from financing activities	**(3,514)**	**4,242**	**(3,514)**	**4,242**
Net cash flow	**82,858**	**108,176**	**82,535**	**108,167**
Cash and cash equivalents at the beginning of the period	**391,251**	**210,926**	**391,225**	**210,895**
Gain/ (loss) from revaluation of foreign currency positions	7,011	(19,615)	7,008	(19,615)
Cash and cash equivalents at the end of the period	**481,120**	**299,487**	**480,768**	**299,447**

	Group	Group	Bank	Bank
	01/01/2011-30/06/2011	01/01/2010-30/06/2010	01/01/2011-30/06/2011	01/01/2010-30/06/2010
Operational cash flows from interest and dividends	LVL '000	LVL '000	LVL '000	LVL '000
Interest received	17,114	15,542	17,401	15,542
Interest paid	(6,900)	(8,939)	(6,908)	(9,012)
Dividends received	1	3	707	51
Dividends paid	-	-	-	-

	Group	Group	Bank	Bank
	30/06/2011	30/06/2010	30/06/2011	30/06/2010
Cash and cash equivalents	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with the Bank of Latvia	72,865	59,571	72,865	59,571
Balances due from credit institutions	410,411	242,730	410,059	242,690
Balances due to credit institutions	(2,156)	(2,814)	(2,156)	(2,814)
Total cash and cash equivalents	**481,120**	**299,487**	**480,768**	**299,447**

Note 1

General information

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

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

The Group's and Bank's main scope of activity is investment services, settlement products, asset management, financial consultations, and real estate management.

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

These consolidated and separate financial statements contain the financial information about the Bank and its subsidiaries (jointly – the Group), as well as separately about the Bank. The Bank's separate financial statements are included in these consolidated financial statements to comply with legal requirements. The Bank is the parent of the Group.

The Group and the Bank operate the central office and two lending centres in Riga, as well as foreign representation offices in Azerbaijan – Baku, in Belarus - Minsk, in Kazakhstan - Almaty, in Russia – Moscow, St. Petersburg and Yekaterinburg, in Ukraine – Kyiv with its branch in Odessa, in Uzbekistan - Tashkent and Tajikistan – Dushanbe.

The consolidated financial statements of the Group and the separate financial statements of the Bank for the six-month periods ended 30 June 2011 and 2010 were approved by the Bank's Board on 12 August 2011.

The Group comprises the following subsidiaries:

Company	Country of incorporation	Registration number	Business profile	Bank's share (% of total share capital)
ABLV Asset Management, IPAS	LV	40003814724	Financial services	100
ABLV Capital Markets, IBAS	LV	40003814705	Financial services	100
ABLV Consulting Services, AS	LV	40003540368	Consulting services	100
ABLV Corporate Services, SIA	LV	40103283479	Consulting services	100
ABLV Transform Partnership, KS	LV	40103260921	Holding company	99.9997
AB.LV Transform Investments, SIA	LV	40103191969	Real estate transactions	100
Transform 1, SIA	LV	40103193211	Real estate transactions	100
Transform 2, SIA	LV	40103193033	Real estate transactions	100
Transform 3, SIA	LV	40103193067	Real estate transactions	100
Transform 4, SIA	LV	40103210494	Real estate transactions	100
Transform 6, SIA	LV	40103237323	Real estate transactions	100
Transform 7, SIA	LV	40103237304	Real estate transactions	100
Transform 8, SIA	LV	40103240484	Real estate transactions	100
Transform 9, SIA	LV	40103241210	Real estate transactions	100
Transform 10, SIA	LV	50103247681	Real estate transactions	100
Transform 11, SIA	LV	40103258310	Real estate transactions	100
Transform 12, SIA	LV	40103290273	Real estate transactions	100
Transform 13, SIA	LV	40103300849	Real estate transactions	100
Transform 14, SIA	LV	50103313991	Real estate transactions	100
Transform 15, SIA	LV	40103344858	Real estate transactions	100
Transform 17, SIA	LV	40103424617	Real estate transactions	100
SIA Elizabetes 21a	LV	50003831571	Real estate transactions	91.6
SIA New Hanza City	LV	40103222826	Real estate transactions	100
ABLV Private Equity Fund 2010, KS	LV	40103307758	Holding company	100
ABLV Private Equity Management, SIA	LV	40103286757	Investment project management	100
SIA Gas Stream	LV	42103047436	Electricity generation	49
SIA Bio Future	LV	42103047421	Electricity generation	49

Note 2

Information on principal accounting policies

These financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. During the six-month period ended 30 June 2011, the Bank has consistently applied accounting policies, which are in accordance with IFRS as adopted by the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

a) Statement of Compliance

These consolidated and separate financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted in the EU.
The accounting policies are applied consistently by all entities of the Group.
During the six-month period ended 30 June 2011, the Group and the Bank consistently applied accounting policies in line with those disclosed in the prior-period financial statements, except for the changes listed below in adoption of new and/ or changed IFRSs and IFRIC interpretations in the reporting period.

Adoption of new and/ or changed IFRSs and IFRIC interpretations in the reporting period

In the reporting period, the Group/ Bank has adopted the following new and amended IFRS and IFRIC interpretations, which do not have a significant impact on the financial statements:

- IAS 24 *Related Party Disclosures* (Revised)
- IAS 32 *Classification on Rights Issues* (Amended)
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amended)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- Improvements to IFRSs

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group and the Bank, its impact is described below:

- in May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording;
- IFRS 3 Business Combinations;
- IFRS 7 Financial Instruments: Disclosures. This improvement gives clarifications of disclosures required by IFRS 7 and emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments;
- IAS 1 Presentation of Financial Statements;
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 34 Interim Financial Reporting. This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements;
- IFRIC 13 Customer Loyalty Programmes.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Significant accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to depreciation rates of tangible fixed assets, intangible fixed assets, and investment properties, determining the allowance for credit losses, the collateral value, the fair value of financial assets and liabilities, as well as the value of investment properties.

b) Basis of Preparation

These consolidated and separate financial statements are reported in thousands of lats (LVL'000), unless otherwise stated.

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

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

Information given herein in brackets represents comparative figures as at 31 December 2010 or for the six-month period ended 30 June 2010, unless otherwise stated.

As described in the *Report of the Council and the Board* (pages 3 to 4), given the current economic situation, the management of the Bank has a reasonable expectation that the Group and the Bank will have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, these consolidated and separate financial statements for the six-month period ended 30 June 2011 are prepared on a going concern basis, consistently applying IFRS as adopted by the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

Note 3

Risk management

Risks are inherent in the Group's and Bank's business and risk management is one of the Group's and Bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the Group and the Bank. Managing risks permits keeping the Group's and Bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the Group and the Bank are exposed to various risks, the most significant of them being credit risk (Note 16), liquidity risk, and market risks (including interest rate risk, currency risk) (Note 17), as well as operational risk (Note 18).

Risk management stands for identification, assessment and control of potential risks.

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

For the purpose of managing risks, risk management policies have been developed and approved by the Council. The introduction and efficiency of such policies are controlled by the Board and the Chief Risk Officer, while the practical implementation is provided by the respective business structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

To create a highly disciplined, conservative, and constructive risk management and control environment, training seminars for the staff are organised on a regular basis.

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

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

Note 4

Interest income and expense

	Group	Group	Bank	Bank
	01/01/2011-30/06/2011	01/01/2010-30/06/2010	01/01/2011-30/06/2011	01/01/2010-30/06/2010
Interest income	LVL '000	LVL '000	LVL '000	LVL '000
on loans and advances to customers	11,542	13,562	11,493	13,677
non-impaired	9,409	9,616	9,360	9,616
impaired	2,133	3,946	2,133	4,061
on debt securities and other fixed income securities	6,299	4,000	6,299	4,000
financial assets at fair value through profit or loss	267	-	267	-
available-for-sale financial assets	2,521	2,851	2,521	2,851
held-to-maturity investments	3,330	535	3,330	535
non-impaired	3,330	535	3,330	535
loans and receivables	181	614	181	614
non-impaired	181	614	181	614
on balances due from credit institutions and central banks	727	462	727	462
other interest income	4	10	4	10
Total interest income	**18,572**	**18,034**	**18,523**	**18,149**
Interest expense				
on deposits from non-bank customers	5,060	7,378	5,065	7,391
on subordinated deposits	715	999	715	999
on debt securities issued	939	665	939	665
on balances due to credit institutions and central banks	68	21	5	21
other interest expense	1,424	1,056	1,424	1,056
Total interest expense	**8,206**	**10,119**	**8,148**	**10,132**

Note 5

Net gains/ losses on financial assets

	Group	Group	Bank	Bank
	01/01/2011-30/06/2011	01/01/2010-30/06/2010	01/01/2011-30/06/2011	01/01/2010-30/06/2010
Financial instruments at fair value through profit or loss	LVL '000	LVL '000	LVL '000	LVL '000
Gain/ (loss) from revaluation of financial instruments at fair value through profit or loss	656	(1,995)	656	(1,995)
Derivatives	773	(2,010)	773	(2,010)
Securities	(117)	15	(117)	15
(Loss)/ gain from trading with financial instruments at fair value through profit or loss	(8,071)	21,199	(8,071)	21,199
Derivatives	(8,330)	21,011	(8,330)	21,011
Securities	259	188	259	188
Net (loss)/ gain from financial instruments at fair value through profit or loss	**(7,415)**	**19,204**	**(7,415)**	**19,204**
Available-for-sale financial instruments				
Gain from sale of available-for-sale securities	2,659	303	2,659	303
Net realised gain from available-for-sale financial instruments	**2,659**	**303**	**2,659**	**303**
Financial instruments of the loans and receivables portfolio				
Gain/ (loss) from sale of securities of the loans and receivables portfolio	2	(229)	2	(229)
Net realised gain/ (loss) from sale of securities of the loans and receivables portfolio	**2**	**(229)**	**2**	**(229)**
Foreign exchange				
Profit from foreign currency exchange	7,129	5,905	7,135	5,484
Gain/ (loss) from revaluation of foreign currency positions	7,011	(19,615)	7,009	(19,615)
Net result from foreign exchange trading and revaluation	**14,140**	**(13,710)**	**14,144**	**(14,131)**

The result of foreign exchange transactions mainly represents currency exchange loss or gain. The significant differences observed between the results for the reporting period and the first half of 2010 are due to considerable fluctuations of the USD exchange rate. In the first half of 2010 the USD exchange rate grew by 17%, while in the reporting period it declined by 9%.

The procedure for managing currency risk is disclosed in Note 17. To hedge its exposure to currency risk, the Group/ Bank enters into currency forwards. Therefore, to objectively assess the revaluation result of foreign currency positions, the net gain/ (loss) from revaluation of and trading with Group's/ Bank's derivatives as well as revaluation of currency positions should be analysed.

Note 6

Allowances for credit losses

The table below presents changes in allowances for credit losses of the Group and the Bank during the six-month period ended 30 June 2011:

	Mortgage loans	Business loans	Consumer loans	Other loans	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Other assets	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Individual allowances	2,417	17,842	26	-	64	78	1,202	605	22,234
Portfolio allowances	44,242	129	210	568	-	-	-	-	45,149
Total allowances at the beginning of the period	**46,659**	**17,971**	**236**	**568**	**64**	**78**	**1,202**	**605**	**67,383**
Increase/ (decrease) in allowances for the period	5,336	147	87	312	78	64	-	16	6,040
Recovery of write-offs/ asset write-off (expense) for the period	-	-	-	-	-	-	-	27	27
Increase in allowances for the period due to currency fluctuations	(15)	(55)	-	-	(5)	(7)	-	-	(82)
(Elimination) of allowances for the period due to write-offs	(8,825)	(2,649)	(210)	(505)	-	-	(1,202)	(71)	(13,462)
Individual allowances	1,666	15,160	33	176	137	135	-	577	17,884
Portfolio allowances	41,489	254	80	199	-	-	-	-	42,022
Total allowances at the end of the period	**43,155**	**15,414**	**113**	**375**	**137**	**135**	**-**	**577**	**59,906**

During the first six months of 2011, Latvia showed certain signs of economic recovery, which also resulted in Moody's changing the outlook of Latvia's credit rating Baa3 from stable to positive. Latvia reported a growing number of real estate transactions. In addition, the borrowers' ability to repay their loans on a timely basis stabilised. Affected by these factors, the decline in the recoverable amount of loans decelerated and, as a result, the Group/ Bank made additional allowances for credit losses of LVL 6 (16.3) million, which is almost three times as low as the figure for the first half of 2010.

The table below presents changes in allowances for credit losses of the Group and the Bank during the six-month period ended 30 June 2010:

	Mortgage loans	Business loans	Consumer loans	Other loans	Securities at fair value	Available-for-sale securities	Loans and receivables	Other assets	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Individual allowances	920	11,028	30	594	2	191	4,013	338	17,116
Portfolio allowances	31,960	-	230	1,674	-	-	-	-	33,864
Total allowances at the beginning of the period	**32,880**	**11,028**	**260**	**2,268**	**2**	**191**	**4,013**	**338**	**50,980**
Increase/ (decrease) in allowances for the period	6,620	8,856	64	985	-	(28)	(477)	269	16,289
Recovery of write-offs/ asset write-off (expense)	-	-	-	-	-	-	-	7	7
Increase in allowances due to currency fluctuations	-	-	-	-	1	32	495	-	528
(Elimination) of allowances for the period due to write-offs	(557)	(1,417)	-	(1,529)	-	-	(1,153)	-	(4,656)
Individual allowances	2,395	18,467	-	246	3	195	2,878	614	24,798
Portfolio allowances	36,548	-	324	1,478	-	-	-	-	38,350
Total allowances at the end of the period	**38,943**	**18,467**	**324**	**1,724**	**3**	**195**	**2,878**	**614**	**63,148**

Note 7

Deferred corporate income tax

	Group 01/01/2011-30/06/2011	Group 01/01/2010-30/06/2010	Bank 01/01/2011-30/06/2011	Bank 01/01/2010-30/06/2010
	LVL'000	LVL'000	LVL'000	LVL'000
Profit/ (loss) before corporate income tax	11,048	(5,280)	10,216	(5,897)
Theoretical corporate income tax	**1,657**	**(792)**	**1,532**	**(885)**
Permanent differences	(477)	84	(516)	105
Actual corporate income tax expense for the reporting period	**1,180**	**(708)**	**1,016**	**(780)**
Adjustments to prior-year deferred tax	38	31	38	31
Tax paid abroad	33	8	33	8
Total corporate income tax expense	**1,251**	**(669)**	**1,087**	**(741)**

Deferred corporate income tax calculation:

	Group 30.06.2011	Group 31.12.2010	Bank 30.06.2011	Bank 31.12.2010
	Amounts subject to temporary differences	Amounts subject to temporary differences	Amounts subject to temporary differences	Amounts subject to temporary differences
	LVL'000	LVL'000	LVL'000	LVL'000
Accumulated excess of tax depreciation over accounting depreciation	2,688	4,674	2,511	4,497
Fair value revaluation reserve of available-for-sale financial	1,223	2,135	1,223	2,135
Collective (portfolio) allowances and other accrued liabilities	(2,301)	(2,925)	(1,504)	(2,127)
Revaluation of assets, net	(1,998)	1,023	(1,998)	1,023
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	-	-
Tax losses	(29,428)	(40,766)	(32,234)	(43,646)
Basis for calculation of deferred corporate income tax	**(32,051)**	**(38,094)**	**(32,002)**	**(38,118)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/	**(4,829)**	**(5,736)**	**(4,801)**	**(5,718)**
liability at the end of the period	**21**	**21**	**-**	**-**

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

	Group 01/01/2011-30/06/2011	Group 01/01/2010-30/06/2010	Bank 01/01/2011-30/06/2011	Bank 01/01/2010-30/06/2010
	LVL'000	LVL'000	LVL'000	LVL'000
Deferred corporate income tax at the beginning	**(5,736)**	**(5,458)**	**(5,718)**	**(5,079)**
of the period	**21**	**22**	**-**	**-**
Increase/ (decrease) charged to the statement of comprehensive income for the period	1,016	(782)	1,016	(814)
(Decrease)/ increase attributable to fair value revaluation reserve under equity	(138)	179	(138)	179
Adjustment for the previous periods	29	31	39	31
Deferred corporate income tax (asset)/	**(4,829)**	**(6,030)**	**(4,801)**	**(5,683)**
liability at the end of the period	**21**	**22**	**-**	**-**

Note 8

Financial assets by risk ratings

The tables below demonstrate the Group's and Bank's financial assets in breakdown by risk rating groups.
Loans to customers are assigned internal ratings where higher-rating assets are standard assets with a sound credit standing, while lower-rating assets are those assets which have doubtful credit quality and require close monitoring by the Group and the Bank.

Balances due from credit institutions and securities are granted credit ratings assigned by rating agencies (see Note 16). Higher-rating assets represent investment-grade assets, i.e., assets having a rating of no lower than BBB-, while lower-rating assets represent assets rated below investment grade.

Financial assets of the Group by risk rating:

	30.06.2011					31.12.2010				
	Higher rating	Lower rating	**Gross financial assets**	Allowance for credit losses	**Net financial assets**	Higher rating	Lower rating	**Gross financial assets**	Allowance for credit losses	**Net financial assets**
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	72,865	-	**72,865**	-	**72,865**	82,120	-	**82,120**	-	**82,120**
Balances due from credit institutions	391,777	32,520	**424,297**	-	**424,297**	305,988	19,364	**325,352**	-	**325,352**
Financial assets at fair value through profit or loss	21,208	450	**21,658**	-	**21,658**	22,693	679	**23,372**	-	**23,372**
Available-for-sale financial assets	164,555	35,470	**200,025**	(137)	**199,888**	130,298	38,423	**168,721**	(64)	**168,657**
Held-to-maturity investments	134,989	23,259	**158,248**	(135)	**158,113**	139,252	15,938	**155,190**	(78)	**155,112**
Loans and receivables	436,859	116,881	**553,740**	(59,057)	**494,683**	458,632	136,876	**595,508**	(66,636)	**528,872**
Incl. debt securities	-	-	-	-	-	606	11,657	12,263	(1,202)	11,061
Loans to customers	436,859	116,881	553,740	(59,057)	494,683	458,026	125,219	583,245	(65,434)	517,811
Mortgage loans	293,586	94,624	388,210	(43,156)	345,054	304,892	103,163	408,055	(46,659)	361,396
Business loans	124,416	21,808	146,224	(15,413)	130,811	134,186	21,298	155,484	(17,971)	137,513
Consumer loans	1,065	142	1,207	(113)	1,094	1,067	258	1,325	(236)	1,089
Other loans	17,792	307	18,099	(375)	17,724	17,881	500	18,381	(568)	17,813
Total financial assets	**1,222,253**	**208,580**	**1,430,833**	**(59,329)**	**1,371,504**	**1,138,983**	**211,280**	**1,350,263**	**(66,778)**	**1,283,485**

Financial assets of the Bank by risk rating:

	30.06.2011					31.12.2010				
	Higher rating	Lower rating	**Gross financial assets**	Allowance for credit losses	**Net financial assets**	Higher rating	Lower rating	**Gross financial assets**	Allowance for credit losses	**Net financial assets**
Financial assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and deposits with central banks	72,865	-	**72,865**	-	**72,865**	82,120	-	**82,120**	-	**82,120**
Balances due from credit institutions	391,777	32,474	**424,251**	-	**424,251**	305,988	19,338	**325,326**	-	**325,326**
Financial assets at fair value through profit or loss	21,208	450	**21,658**	-	**21,658**	22,693	679	**23,372**	-	**23,372**
Available-for-sale financial assets	164,555	35,470	**200,025**	(137)	**199,888**	130,298	38,423	**168,721**	(64)	**168,657**
Held-to-maturity investments	134,989	23,259	**158,248**	(135)	**158,113**	139,252	15,938	**155,190**	(78)	**155,112**
Loans and receivables	438,648	116,881	**555,529**	(59,057)	**496,472**	458,321	136,876	**595,197**	(66,636)	**528,561**
Incl. debt securities	-	-	-	-	-	606	11,657	12,263	(1,202)	11,061
Loans to customers	438,648	116,881	555,529	(59,057)	496,472	457,715	125,219	582,934	(65,434)	517,500
Mortgage loans	293,586	94,624	388,210	(43,156)	345,054	304,892	103,163	408,055	(46,659)	361,396
Business loans	126,205	21,808	148,013	(15,413)	132,600	133,913	21,298	155,211	(17,971)	137,240
Consumer loans	1,065	142	1,207	(113)	1,094	1,067	258	1,325	(236)	1,089
Other loans	17,792	307	18,099	(375)	17,724	17,843	500	18,343	(568)	17,775
Total financial assets	**1,224,042**	**208,534**	**1,432,576**	**(59,329)**	**1,373,247**	**1,138,672**	**211,254**	**1,349,926**	**(66,778)**	**1,283,148**

Note 9

Balances due from credit institutions

As at 30 June 2011, the Bank had established correspondent relationships with 28 (29) credit institutions registered in the OECD area (including EMU and EU countries), 7 (6) credit institutions registered in Latvia, and 20 (20) credit institutions incorporated in other countries.

Balances due from credit institutions to the Group by geographical area and structure as at 30 June 2011:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	**Total**
Demand deposits with credit institutions	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Correspondent account balances	797	23,016	1,787	19,567	21,422	66,589
Overnight deposits	-	193,031	82,563	41,565	600	317,759
Total demand deposits with credit institutions	**797**	**216,047**	**84,350**	**61,132**	**22,022**	**384,348**
Other balances due from credit institutions						
Security deposits	-	11,139	3,049	-	-	14,188
Term deposits	-	7,337	-	-	-	7,337
Other balances	-	-	-	-	18,424	18,424
Total other balances due from credit institutions	**-**	**18,476**	**3,049**	**-**	**18,424**	**39,949**
Total balances due from credit institutions	**797**	**234,523**	**87,399**	**61,132**	**40,446**	**424,297**

Balances due from credit institutions to the Group by geographical area and structure as at 31 December 2010:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Demand deposits with credit institutions	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Correspondent account balances	295	18,386	1,475	41,027	14,049	75,232
Overnight deposits	-	72,433	-	107,001	28	179,462
Total demand deposits with credit institutions	**295**	**90,819**	**1,475**	**148,028**	**14,077**	**254,694**
Other balances due from credit institutions						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
Total other balances due from credit institutions	**-**	**13,901**	**44,484**	**-**	**12,273**	**70,658**
Total balances due from credit institutions	**295**	**104,720**	**45,959**	**148,028**	**26,350**	**325,352**

Balances due from credit institutions to the Bank by geographical area and structure as at 30 June 2011:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Demand deposits with credit institutions	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Correspondent account balances	786	23,016	1,787	19,567	21,387	66,543
Overnight deposits	-	193,031	82,563	41,565	600	317,759
Total demand deposits with credit institutions	**786**	**216,047**	**84,350**	**61,132**	**21,987**	**384,302**
Other balances due from credit institutions						
Security deposits	-	11,139	3,049	-	-	14,188
Term deposits	-	7,337	-	-	-	7,337
Other balances	-	-	-	-	18,424	18,424
Total other balances due from credit institutions	**-**	**18,476**	**3,049**	**-**	**18,424**	**39,949**
Total balances due from credit institutions	**786**	**234,523**	**87,399**	**61,132**	**40,411**	**424,251**

Balances due from credit institutions to the Bank by geographical area and structure as at 31 December 2010:

	Latvia	EMU countries	Other EU Member States	Other OECD countries	Other countries	Total
Demand deposits with credit institutions	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Correspondent account balances	283	18,386	1,475	41,027	14,035	75,206
Overnight deposits	-	72,433	-	107,001	28	179,462
Total demand deposits with credit institutions	**283**	**90,819**	**1,475**	**148,028**	**14,063**	**254,668**
Other balances due from credit institutions						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
Total other balances due from credit institutions	**-**	**13,901**	**44,484**	**-**	**12,273**	**70,658**
Total balances due from credit institutions	**283**	**104,720**	**45,959**	**148,028**	**26,336**	**325,326**

As at 30 June 2011, the Group's and Bank's major balances due from credit institutions registered in the EU and OECD area were as follows: LVL 54 (138) million due from JP Morgan Chase Bank NA, LVL 49 (27) million due from DZ bank, LVL 49 million due from Landesbank Berlin AG, LVL 49 million due from Clydesdale bank PLC, and LVL 44 (61) million due from Commerzbank AG.

Note 10

Debt securities and other fixed income securities

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

	Group/ Bank 30.06.2011			Group/ Bank 31.12.2010			
Issuer	At fair value LVL'000	Available-for-sale LVL'000	Held-to-maturity LVL'000	At fair value LVL'000	Available-for-sale LVL'000	Held-to-maturity LVL'000	Loans and receivables LVL'000
Latvia							
Central governments	-	3,505	961	-	-	-	3,406
Credit institutions	-	15	176	-	15	-	176
International organisations	-	3,273	2,124	-	2,373	2,204	-
EU Member States							
Central governments	8,308	1,536	3,885	8,134	1,429	3,351	-
Credit institutions	5,242	717	169	5,755	755	164	-
Corporate companies	-	-	-	-	-	-	267
Other OECD countries							
Central governments	645	147,573	98,000	-	106,985	107,185	-
Credit institutions	2,520	-	-	2,743	-	-	-
Corporate companies	-	6	-	-	13	-	-
Other countries							
Central governments and central banks	-	4,860	4,656	-	5,461	3,423	247
Municipalities	-	898	473	-	457	516	501
Financial auxiliary	-	117	-				
Credit institutions	2,501	24,502	21,784	2,735	33,682	17,313	5,010
Corporate companies	-	10,846	25,885	-	15,261	20,956	1,454
Total fixed income securities, net	**19,216**	**197,848**	**158,113**	**19,367**	**166,431**	**155,112**	**11,061**

The Group's/ Bank's fixed income securities totalled LVL 375 (352) million as at 30 June 2011. Most of these assets (84.4%) have been invested by the Bank in investment-grade securities (see Note 16). The Bank has no investments in securities issued by the central governments of the European countries that are still struggling to solve their financial and budget problems, such as Greece, Ireland, Spain, and Italy.

In the reporting period, impairment was recognised for an available-for-sale securities of other countries' credit institutions totalling LVL 789 thousand. Given the above, in the reporting period the annual yield of the Bank's securities portfolio was 3.94%, while the income earned from the securities portfolio totalled LVL 7.8 million.

Note 11

Investments in subsidiaries

As at 30 June 2011, the Bank held shares in the following subsidiaries:

Company	Country of incorporation	30.06.2011 Share capital LVL'000	30.06.2011 Equity LVL'000	30.06.2011 Bank's share (% of total share capital) (%)	31.12.2010 Share capital LVL'000	31.12.2010 Equity LVL'000	31.12.2010 Bank's share (% of total share capital) (%)
ABLV Transform Partnership, KS	LV	51,305	50,973	99.9997	49,196	45,345	99.9997
ABLV Private Equity Fund 2010, KS	LV	3,514	3,605	100	3,514	3,574	100
SIA New Hanza City	LV	2,900	2,874	100	2,900	2,884	100
SIA Elizabetes 21a	LV	2,500	1,755	91.6	2,500	1,828	91.6
ABLV Asset Management, IPAS	LV	400	552	100	400	447	100
ABLV Capital Markets, IBAS	LV	400	767	100	400	1,060	100
ABLV Consulting Services, AS	LV	375	391	100	375	385	100
Transform 1, SIA	LV	500	196	100	200	(7)	100
ABLV Private Equity Mangement, SIA	LV	120	153	100	120	148	100
ABLV Corporate Services, SIA	LV	20	20	100	20	40	100
	Total, gross	**62,034**	**61,286**		**59,625**	**55,704**	
	Impairment expense	(860)			(754)		
	Total, net	**61,174**			**58,871**		

During the reporting period, the Bank increased its investment in the share capital of ABLV Transform Partnership, KS by EUR 3 million. The Bank also increased the share capital of Transform 1, SIA by LVL 300 thousand. The above capital increases were aimed at ensuring expansion of the subsidiaries' business and their successful development.

As at 30 June 2011, funds of the customers of ABLV Asset Management, IPAS managed by the said company based on the customers' authorisation amounted to LVL 31,647 (32,619) thousand. The value of financial instruments of the ABLV Capital Markets, IBAS customers as at 30 June 2011 was LVL 226,845 (280,021) thousand.

In the reporting period, the investment fund ABLV Private Equity Fund 2010, KS acquired 40% shares of SIA ORTO.

Note 12

Deposits

Customer profile	Group 30/06/2011 LVL'000	Group 31/12/2010 LVL'000	Bank 30/06/2011 LVL'000	Bank 31/12/2010 LVL'000
Corporate companies	1,167,050	1,091,402	1,174,052	1,102,801
Private individuals	137,266	122,476	137,266	122,476
State-owned enterprises	10,516	16,596	10,516	16,596
Financial institutions	6,854	4,417	6,854	4,417
Non-profit institutions serving private individuals	1,556	1,500	1,556	1,500
Municipalities	307	400	307	400
Total deposits	**1,323,549**	**1,236,791**	**1,330,551**	**1,248,190**

The deposits with the Group and the Bank grew rapidly during the reporting period. The Group's/ Bank's top 20 customers in terms of the deposit amount account for 19% (20%) of the total deposits.

Geographical profile of customer residence	Group 30/06/2011 LVL'000	Group 31/12/2010 LVL'000	Bank 30/06/2011 LVL'000	Bank 31/12/2010 LVL'000
Other countries	826,456	737,982	826,456	737,982
Other EU Member States	227,512	222,754	227,512	222,754
Other OECD countries	115,883	125,535	115,883	125,535
EMU countries	77,819	96,802	77,819	96,802
Latvia	75,879	53,718	82,881	65,117
Total deposits	**1,323,549**	**1,236,791**	**1,330,551**	**1,248,190**

Of the total deposits placed with the Group and the Bank, 83.1% (82.6%) are from customers whose beneficiaries are CIS residents.

Note 13

Related party disclosures

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

	Group 30.06.2011		Group 31.12.2010	
	Amount	Terms	Amount	Terms
Loans issued to related parties	LVL'000		LVL'000	
Management	136	0%-15%	136	0%-24%
Related legal entities	1,904	6%-24%	1,930	0%-24%
Other related private individuals	831	2%-22%	514	2%-22%
Total loans issued to related parties	**2,871**		**2,580**	
Loan commitments and other memorandum items	317		610	
Impairment expense	-		-	
Total loans and memorandum items, net	**3,188**		**3,190**	

	Bank		Bank	
	30.06.2011		31.12.2010	
	Amount	Terms	Amount	Terms
Loans issued to related parties	LVL'000		LVL'000	
Management	165	0%-15%	136	0%-24%
Related legal entities	1,904	6%-24%	1,930	0%-24%
Other related private individuals	488	2%-22%	514	2%-22%
Subsidiaries	11,133	2%-24%	8,764	6%-24%
Total loans issued to related parties	**13,690**		**11,344**	
Loan commitments and other memorandum items	889		2,850	
Impairment expense	(183)		-	
Total loans and memorandum items, net	**14,396**		**14,194**	

According to the FCMC regulations, the credit exposure to a party other than a credit institution or a group of non-related entities (other than credit institutions) may not exceed 25% of Bank's equity. The credit exposure to a credit institution may not exceed 25% of Bank's equity or EUR 100 million, whichever is the highest, if Bank's equity exceeds EUR 100 million. Meanwhile, the total credit exposure to all related parties may not exceed 15% of Bank's equity. As at 30 June 2011, the Bank was in compliance with the above requirements.

As at 30 June 2011, the deposits of related parties with the Group amounted to LVL 4,141 (4,735) thousand, while those with the Bank amounted to LVL 13,019 (16,371) thousand, including subordinated deposits of LVL 49 (54) thousand with the Group and the Bank. All related party deposits bear standard interest rates offered by the Bank. As at 30 June 2011, related parties held subordinated bonds of the Bank totalling LVL 182 (187) thousand and LVL 81 (86) thousand with the Group and the Bank respectively.

Administrative and other expense from transactions with related parties for the reporting period were LVL 1,200 (523) thousand.

Interest income and expense from transactions with related parties:

	Group	Group	Bank	Bank
	01/01/2011 - 30/06/2011	01/01/2010 - 30/06/2010	01/01/2011 - 30/06/2011	01/01/2010 - 30/06/2010
	LVL'000	LVL'000	LVL'000	LVL'000
Interest income	77	70	364	70
Interest expense	(16)	(34)	(24)	(107)

Note 14

Subordinated liabilities

As at 30 June 2011, the Group's and Bank's subordinated liabilities of LVL 43,369 (46,883) thousand comprised subordinated bonds amounting to LVL 22,458 (22,921) thousand and subordinated loans amounting to LVL 20,911 (23,962) thousand.

In 2008, the Bank initiated two subordinated bond issues - in US dollars and euro – with the original issue amount of USD 20 million (issuing 200,000 subordinated bonds, each having the par value of USD 100) and EUR 12.5 million (issuing 125,000 subordinated bonds, each having the par value of EUR 100) respectively. All the bonds issued in 2008 mature on 1 October 2018. Starting from 1 October 2013, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 13% will be paid from 1 October 2013.

In 2010, the Bank issued new subordinated bonds totalling USD 20 million, i.e., 200,000 subordinated bonds, each having the par value of USD 100. The bonds mature on 15 September 2020. Starting from 15 September 2015, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 8% will be paid from 16 September 2015.

As at 30 June 2011, the carrying amount of all the subordinated bonds was USD 27,1 (27,1) million and EUR 7,7 (7,7) million. The issues of the subordinated bonds were closed and these bonds are not registered with Riga Stock Exchange.

The Bank also received subordinated loans for the total amount of USD 41 (43) million and EUR 1,1 (1,2) million. Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the Bank's share capital.

In the reporting period, the Bank repaid the subordinated loans of LVL 1,3 (7,7) million before the contractual maturity dates.

The analysis of subordinated loans as at 30 June 2011:

Subordinated deposits	Loan amount	Accumulated interest	% of total subordinated capital	Interest rate	Currency	Date of the agreement	Date of maturity
	LVL'000	LVL'000	(%)				
Major lenders							
Harpic Group LTD	7,335	31	18.59	5.05	USD	14.08.2008	19.08.2018
Multicross LLC	4,890	29	12.39	7.15	USD	19.03.2007	02.04.2017
Euro swiss LLC	4,890	29	12.39	7.15	USD	19.03.2007	02.04.2017
Major lenders in total	**17,115**	**89**					
Other lenders							
residents	171	-	0.43	8.13	USD		
non-residents	2,783	14	7.05	2.83 - 8.39	USD		
non-residents	738	1	1.87	3.53-3.76	EUR		
Other lenders in total	**3,692**	**15**					
Total subordinated deposits	**20,807**	**104**					

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. Their weighted average maturity is 3.18 (3.06) years.

Note 15

Paid-in share capital

As at 30 June 2011, the paid-in share capital of the Bank amounted to LVL 16,5 million (16,5 million). The share capital consists of ordinary shares with voting rights only. All the shares have the par value of LVL 150 (150) each.
As at 30 June 2011, the Bank had 125 (128) shareholders, including 12 (11) legal entities and 113 (117) private individuals, holding the total of 110,000 (110,000) shares.

The members of the Board directly hold 86.16% (86.16%) of the share capital, while the members of the Council – 5.69% (5.69%) of the share capital.

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

	30/06/2011		31/12/2010	
	Paid-in share capital	% of total paid in share capital	**Paid-in share capital**	% of total paid in share capital
	LVL'000	(%)	LVL'000	(%)
Olegs Fils	**7,086**	42.95	**7,086**	42.95
Group of related shareholders				
Ernests Bernis	6,932	42.01	6,932	42.01
Nika Berne	154	0.94	154	0.94
Total group of related shareholders	**7,086**	42.95	**7,086**	42.95

Note 16

Credit risk

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

Credit risk management framework

Credit risk is managed according to the credit policy. Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral.

To assess solvency of private individuals, the Bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories.

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

Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the Bank considers such reduced value. As collateral, the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, factoring receivables, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

For effective credit risk management, the Bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The Bank analyses the quality of the loan portfolio on a regular basis. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc.

The Group and the Bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

Before entering into any cooperation with financial institutions, the Bank assesses each potential counterparty, analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date.

The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis. Regular stress tests of the Bank's loan portfolio are performed to assess the credit risk exposure and identify potential critical situations.

Credit risk concentration

To mitigate concentration risk, the Group and the Bank apply diversification and a system of limits. The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located. The credit risk inherent in the Group's and Bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers.

The credit risk concentration is also analysed by estimating the credit exposure ratio to equity.
According to the Law on Credit Institutions, the Group and the Bank treat as high the credit exposure exceeding 10% of equity.
Ten major exposures as at 31 June 2011 amounted to 13.4% (14.2%) of the total Group's and Bank's net loan portfolio.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.
The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank review this part of the loan portfolio on a regular basis. Although the 1H2011 there is observed of the real estate market activity improved, the potential for development can not be assessed precisely which affected customer financing in this sector. No financing options for new real estate development projects are being considered at present.

Apart from the effective management of credit risk concentration, the Bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits.
The Group's and Bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities.

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

			Group/ Bank						Group/ Bank
			30/06/2011						31/12/2010
Credit ratings	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity	Loans and receivables
	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
AAA to AA-	19,216	147,572	2,766	102,487	19,362	106,985	2,840	111,604	-
A+ to A-	-	-	-	-	-	-	-	164	-
BBB+ to BBB-	-	-	14,216	32,501	-	-	20,590	27,484	606
BB+ to BB-	-	-	16,224	11,341	-	-	18,447	6,795	3,652
B+ to B-	-	-	15,439	10,660	5	-	16,325	9,003	4,451
Below B-	-	-	740	948	-	-	784	62	2,133
No rating	-	-	891	176	-	-	460	-	219
Shares and investments in funds	450	-	2,040	-	674	-	2,226	-	-
Securities portfolio, net	**19,666**	**147,572**	**52,316**	**158,113**	**20,041**	**106,985**	**61,672**	**155,112**	**11,061**

Note 17

Financial risks

a) Liquidity risk

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

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

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

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

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

To timely identify the potential deterioration in the liquidity position, an early warning indicators system has been designed:

- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of “Less than 30 days”;
- simultaneous decrease of the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease of the proportion of liquid assets in the total assets of the Bank;
- negative information reported in the mass media about the Bank or its related parties that may harm the Bank's reputation;
- the increasingly reported instances of limits reduced or annulled by counterparties.

Contingency liquidity risk

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

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed which, if observed, also require certain actions to enhance liquidity.

The Bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the Bank's liquidity management documents need to be revised.

The management of the Group and the Bank continued to focus specifically on liquidity issues. Owing to the adequate liquidity risk management policy and internal control and communication system, the Bank managed to ensure and maintain a high liquidity ratio - as at 30 June 2011 the liquidity ratio reached 73.83% (68.10%). The FCMC stipulates that the Bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank's total current liabilities.

Liquidity ratios of the Group and the Bank:

	Group/ Bank			Group/ Bank		
	01/01/2011- 30/06/2011			01/01/2010- 30/06/2010		
	Highest	Lowest	Average	Highest	Lowest	Average
Liquidity ratio	%	%	%	%	%	%
on demand	46.8	21.0	41.6	43.7	17.7	37.2
less than 30 days (as required by the FCMC)	76.0	68.2	72.6	66.6	56.8	61.4
less than 90 days	76.8	68.9	72.4	67.0	55.0	60.8

Market risks

Market risk is exposure to potential losses due to the revaluation of assets and liabilities and memorandum items caused by changes in the market prices of financial instruments resulting from the fluctuations of currency exchange rates, interest rates and other factors. Market risk identification, assessment and management are prescribed by several regulations, i.e., the Interest Rate Risk Management Policy, the Derivative Financial Instrument Policy, and the Bank’s Securities Portfolio Policy.

The “loss” indicator is used by the Bank as one of the instruments to manage market risk inherent in the securities portfolio in order to identify any reductions in the securities prices below the mandatory level in a timely fashion. Based on the above, the heads of responsible structural units may decide whether the affected securities should be sold or kept in the portfolio.

The exposure of the trading portfolio to market risk and the capital charge for market risk is determined according to the standardised approach described in the FCMC Regulations for Calculation of Minimum Capital Requirement, calculating the general position risk of debt securities under the maturity method.

Currency risk

The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The Bank has major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Bank’s open position in EUR is minimal. The Bank’s open currency position in USD is hedged by using currency forwards/ futures. As at 30 June 2011, the Bank’s open currency position in USD was 2.66% of Bank’s equity. The Bank controls this risk by applying the limits specified in the Limits Policy. As at 30 June 2011, all the above limits were met.

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

The Law on Credit Institutions requires that Bank’s open positions in each foreign currency may not exceed 10% of equity and that the total Bank’s foreign currency open position may not exceed 20% of equity.
As at 30 June 2011, the Bank was in compliance with the above requirements of the Law on Credit Institutions.

Interest rate risk

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank’s financial performance.
The Risk Management Division ensures interest rate risk assessment and control for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk.
Interest rate risk is assessed both in terms of income and economic value. The term *economic value* means the shareholders’ equity’s economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:

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

Derivatives are presented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.
The effect of interest rate risk on the economic value is calculated according to the duration method, i.e., the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit/loss is analysed applying the gap analysis, i.e., analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The Bank performs regular interest rate stress tests aimed at assessing the effect of adverse changes in interest rates on the Bank's income and economic value in the event of a tough market situation.

The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in the six-month periods ended 30 June 2011 and 2010:

		Group/ Bank		Group/ Bank	
		01/01/2011-30/06/2011		01/01/2010-30/06/2010	
		+100bps	-100bps	+100bps	-100bps
		LVL'000	LVL'000	LVL'000	LVL'000
Total for all currencies	**Effect of changes on equity**	**(1,076)**	**1,076**	**(1,304)**	**1,304**
	Effect of changes on profit/ loss	**3,020**	**(3,020)**	**4,382**	**(4,382)**
USD	Effect of changes on equity	(1,023)	1,023	(1,302)	1,302
	Effect of changes on profit/ loss	829	(829)	1,983	(1,983)
EUR	Effect of changes on equity	-	-	(2)	2
	Effect of changes on profit/ loss	1,677	(1,677)	2,005	(2,005)
LVL	Effect of changes on equity	(53)	53	-	-
	Effect of changes on profit/ loss	514	(514)	394	(394)

Note 18

Non-financial risks

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

Operational risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.

Operational risk is inherent in all products, activities, processes, and systems of the Group and the Bank.

The operational risk management policy is approved by the Council of the Bank. The Board of the Bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the Group and the Bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations.

The key principles allowing efficient operational risk management are as follows:
- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

To manage the Group's and Bank's exposure to operational risk, in September 2008 an operational risk event database was established. The key objectives of the database are as follows:
- collection of data about operational risk events and losses of the Group and the Bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the Bank to identify potential losses and take all required measures to prevent such losses.

In the reporting period, an operational risk stress test was carried out to assess the related potential loss. The test was based on external and internal events registered in the risk event database. Individual risk assessment models were designed for low-risk events and low-probability (rare) events having a significant effect (potential losses). The scenarios included changes in the Bank's operational environment affected by both internal and external factors and the Bank assessed a potential effect on its income and ability to continue as a going concern in the event of any material deterioration of circumstances in the sectors having the highest operational risk concentration for the Bank's risk profile.

During the reporting period, approximately 489 (739) events were registered in the database, of which only 39 (52) events were those which resulted in actual losses amounting to LVL 11 (17) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the Group's and Bank's employees in the operational risk management and to the effectiveness of the control environment.

Information system risk

The Bank has formulated the Information Technology Security Policy , the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the Bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital charge for operational risk. The Bank analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital charge for information system risk.

Note 19

Litigation and claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The Management believe that any legal proceedings pending as at 30 June 2011 will not result in material losses for the Bank and/ or the Group.

Note 20

Events after reporting date

Except as disclosed below, as of the last day of the reporting period until the date of signing these interim condensed consolidated financial statements there have been no events requiring adjustment of or disclosure in these interim condensed consolidated financial statements or notes thereto.
In July 2011, the Bank established its subsidiary ABLV Luxembourg S.A. to research the financial market and business opportunities in Luxembourg. In august 2011, the Bank has made decision to significantly reduce their investment in U.S. Treasuries notes.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of ABLV Bank AS

Report on the Financial Statements

We have audited the interim condensed consolidated financial statements of ABLV Bank AS and its subsidiaries (hereinafter – the Group) and the accompanying interim condensed financial statements of ABLV Bank AS (hereinafter - the Bank), which are set out on pages 7 through 33 and which comprise the statements of financial position as at 30 June 2011, the statements of comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2011, and explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of interim condensed financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the interim condensed financial statements of the Group and the Bank have been prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the EU.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the board
Latvian Sworn Auditor
Certificate No. 124

Riga, 12 August 2011

ABLV

BANKING / INVESTMENTS \ ADVISORY

Annual Report 2010

Contents

Report of the Council and the Board

Ladies and Gentlemen,

Dear Shareholders, Customers and Business Partners of Aizkraukles Banka,

The Group's and the Bank's management is highly satisfied with the results for the year 2010. The Group's and the Bank's financial performance has improved significantly, in line with fully restored investor confidence the deposit growth has been outstanding, and high level of liquidity and a solid capital adequacy ratio have been maintained all through 2010. The Group and the Bank have overfulfilled the financial objectives set for the reporting period.

Over the year 2010, the volumes in all the Group's core business segments have enlarged substantially: tailor-made services to affluent individuals and their businesses, asset management, and investment operations. We are proud to announce that the Bank has become the largest privately-owned bank in Latvia.

Global economy still was on the track of recovery in 2010. However, growth rates varied considerably across the globe. Most rapid growth was observed in developing countries of Asia, whereas the economic development in USA and Japan decelerated, whilst European countries, especially, Germany, performed unexpectedly well. Nevertheless, several European Union member states, Greece, Ireland, Portugal and Spain in particular, found themselves in financial struggles.

In Latvia, the lowest point of economic downturn passed in 2009 and macroeconomic indicators were on the upward trend since the very beginning of 2010. On a quarterly basis the seasonally adjusted GDP growth ranged between 0.3 – 1.4% in 2010. In the third quarter of 2010, an increase of GDP on the annual basis was recorded as well, reaching a 3.7% figure at the year-end. Over the first three quarters of 2010, the production output increased by 13% and volume of exports by 29%. Retail indicators have also improved. The decline in unemployment rate is gradual, but consistent. The government of Latvia foresees a 3.3% and 4.0% GDP growth in 2011 and 2012, respectively.

One more positive sign appeared at the end of 2010, when international rating agency Standard & Poor's raised the Republic of Latvia's foreign and local currency long-term sovereign credit rating to 'BB+' from 'BB'. The outlook is stable. The rating changes state that the Latvian economy is rebalancing quickly, though public debt remains at moderate levels. We estimate the rating action to be a material appraise of the country's creditworthiness, as well as a signal for investors confirming that past economic imbalances have rapidly unwound.

Due to consistent implementation of a deliberative business strategy, performance of all the scheduled tasks and operational optimisation processes, the financial performance of the Group and the Bank was enhanced in 2010:

- The amount of customer deposits rose at an exceptional pace (a 43.6% increase for the Bank). Aizkraukles Banka contributed one fourth or 25.5% of the total deposit growth within the Latvian banking industry in the year of 2010.
- Operating efficiency of the Bank was boosted (operating profit before allowances for credit losses equalled

LVL 46.2 million, which is 17% above that in 2009);
- The Bank ensured high liquidity ratio of 68.1% and capital adequacy ratio of 12.45%, as at 31 December 2010;
- The Bank's share capital was increased by LVL 6.5 million.

The major event of 2010 was the issue of the Bank's ordinary shares, which was completed in July 2010. There were 10 000 shares, issued in addition to those 100 000 that constituted the Bank's share capital until then. Afterwards, the new shares represent 9.09% of the total Bank's share capital. The shares were sold at the price of LVL 650. Two thirds of the new issue were obtained by the current shareholders, the Bank's management and employees as well as those private banking customers, who are Latvian residents. The rest of the shares were obtained by non-resident customers, mainly private individuals. Although this was a private issue targeted at narrow circle of participants, the total volume of paid-up applications surpassed LVL 9 million – it was a 40% oversubscription, therefore several bids were satisfied partially. As a result of the issuance, the Bank obtained 30 new shareholders. Both the successful share issuance and non-resident deposit growth in 2010 show customer reliance on the Aizkraukles Banka and the Latvian financial system in general.

Considering the course of events in Latvia and across the globe, the management of the Group and the Bank is confident that Aizkraukles Banka is in a strong position to continue successfully in operational existence and fully meet its obligations in the foreseeable future.

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and give a true and fair view of the assets, liabilities, and financial position of the Bank and the Group as of 31 December 2010 and 31 December 2009, and results of their operations, changes in the shareholders' equity and cash flows for the years 2010 and 2009.

As of the end of 2010, the following subsidiaries of the Bank constituted the Group: brokerage joint stock company "AB.LV Capital Markets", investment management joint stock company "AB.LV Asset Management", SIA "AB.LV Private Equity Management", KS "AB.LV Private Equity Fund 2010", SIA "AB.LV Corporate Services", KS "AB.LV Transform Partnership", SIA "AB.LV Transform 1", AS "AB Konsultācijas", SIA "New Hanza City", and SIA "Elizabetes 21a".

Financial results

As at 31 December 2010, total assets of the Bank amounted to LVL 1.38 billion.

Substantial deposit increase was observed all through 2010. Over the year deposits grew by LVL 379 million or 43.6%, thus reaching the total volume of LVL 1.25 billion. This figure significantly exceeds the ambitious sales targets set in the beginning of year 2010. For the second consecutive year the Bank ranks number one in the Latvian banking industry in terms of corporate deposit amount.

Following the strategic goals, the Bank continued reduction of its mortgage loan portfolio. In the course of 2010, the mortgage loan portfolio was decreased by LVL 18.3 million and amounted to LVL 408 million at the year-end.

With an average balance being LVL 217 million, the Bank's debt securities portfolio earned a solid annual yield of 5.53% in 2010. The Bank's securities portfolio is mainly composed of debt securities issued by central governments of OECD countries, credit institutions and corporate companies of other countries.

The share of non-interest income in the total operating income before allowances for credit losses enlarged notably from 50% to 55% during the

As at 31 December 2010, total assets of the Bank amounted to LVL 1.38 billion. As of 31 December 2010, the Bank's shareholders equity amounted to LVL 75.4 million.

reporting period. In monetary terms, non-interest income increased by 27% in 2010. Such a remarkable outcome resulted from heightened customer activity, primarily in the areas being commission and fee based. In 2010, an all-time high was observed in terms of number of commission related transactions, which means the Bank has not only regained the level of its pre-crisis operations, but even exceeded it.

The Bank's operating income before allowances for credit losses comprised LVL 46.2 million for the year 2010. Having a prudent and conservative approach to loan portfolio quality assessment in place, the Bank proceeded with additional allowances for credit losses. As at 31 December 2010, total allowances for credit losses equalled LVL 65.4 million. In the period from 2007 to 2010, the Bank has provided allowance in the amount of LVL 86.2 million in the aggregate. Given consistent implementation of the above allowance policy, the Bank recorded a loss of LVL 6.9 million in 2010.

As of 31 December 2010, the Bank's shareholders equity amounted to LVL 75.4 million.

Improvement of services

During the reporting period in line with the aforeset course of action the Bank established a subsidiary company for risk capital investment fund management – SIA "AB.LV Private Equity Management". Accordingly for private capital investment there was created a fund, hence named AB.LV Private Equity Fund 2010.

The fund has been started at the time when economy of the country has insufficient capacity to attract investment capital and funding provided by banks remains suspended. Thus the Bank emphasizes the inclination to trigger financing of entrepreneurs in Latvia. The venture will foster the businesses to switch the direction of the development curve upwards and help the economy to regain the sustainable permanent growth.

Last year AB.LV Private Equity Fund 2010 obtained 60% of the share capital in limited liability companies "Bio Future" and "Gas Stream". In the neighbourhood of Vaiņode the companies have made arrangements to build two biogas plants with the total electricity production capacity of 2MW.

Moreover, at the end of 2010, in a form of a structured deal AB.LV Private Equity Fund financed an acquisition of 11.38% stake into the leading Latvian pharmaceutical company AS "Grindeks".

In the reporting period, the Bank continued to issue subordinated bonds according to the programme implemented back in 2008. The Bank's third issue of subordinated bonds was successfully completed in September 2010.

In 2011 Aizkraukles Banka will run at a profit and will be successful at broadening its business and boosting its efficiency. Return on equity (ROE) is anticipated to advance to a 15% level.

The deal closed with a 16% oversubscription. The bank issued 200 000 bonds in total, with each bond's par value being equal to USD 100. The overall amount of the bond issue totalled USD 20 million. The initial two subordinated bond issues of the Bank took place in 2008. The bonds were denominated in US dollars and euros, the total amount being equal to USD 20 million and EUR 12.5 million accordingly. Considering great interest of the Bank's customers in acquiring the bonds, it is planned to continue issuing subordinated bonds in future.

Pursuant to amendments to the Republic of Latvia Immigration Law, starting from 1 July 2010, the Bank's foreign customers are offered new service – assistance in receiving Latvian residence permit. The residence permit allows non-EU citizens to reside in the Republic of Latvia pro tempore or permanently. The aforementioned service has already become rather popular, and it is rendered by the Bank's subsidiary SIA "AB.LV Corporate Services".

In 2010, the network of the Group's representative offices abroad expanded. In December, a new AS "AB Konsultācijas" representative office was registered in Russia, in Yekaterinburg. The representative office will begin its operations in this important region of Russia in 2011.

Currently, the Group has representative offices in Azerbaijan (Baku), Belarus (Minsk), Kazakhstan (Almaty), Russia (Moscow, St. Petersburg, and Yekaterinburg), Tajikistan (Dushanbe), Uzbekistan (Tashkent), and Ukraine (Kiev, with its branch in Odessa). The main task of the representative offices is to provide information about the Group and the Bank and their services, thus promoting international economic cooperation in various areas of business. In the coming years the Group will continue to broaden its network of representative offices overseas.

The Group's and the Bank's plans and intentions for 2011

The core objectives for 2011, likewise in the reporting period, will be to ensure uttermore expansion of the Group's and the Bank's business and boost profitability, whilst developing and enhancing operational risk management framework.

On the ground of pace of economic recovery found at the Group's and the Bank's target markets and limited need for additional allowances, the Bank is in a position to increase the issuance of commercial loans in 2011.

In 2011, the Group's and the Bank's management will also focus on restructuring of the loans issued under the Bank's mortgage lending programmes and loan portfolio quality.

Deposits are expected to grow by 15% in 2011.

Taking into account the foreseen increment in commercial loan portfolio, deposits and commission and fee income, the Group and the Bank Management is confident that in 2011 Aizkraukles Banka will run at a profit and will be successful at broadening its business and boosting its efficiency. Return on equity (ROE) is anticipated to advance to a 15% level.

Bank for society

In 2010, Aizkraukles Banka continued supporting various socially important projects.

Aizkraukles Banka provided financial assistance to "Art Deco – the fashion style" of interwar period exhibition opened in Riga Museum of Decorative Arts and Design, where dress collection of famous fashion historian Alexandre Vassiliev was presented. It was the second time Alexandre Vassiliev's dress collection has been exhibited in Riga. The first exhibition, "Victorian Fashion", took place in 2009 and was exceptionally popular among visitors. That exhibition has also been funded by our Bank.

Aizkraukles Banka continued its tradition to provide support to the Republic of Latvia Embassies abroad in arranging the commemoration of Proclamation Day of the Republic of Latvia. This year, the Bank sponsored celebration events in the Republic of Latvia Embassies in Russia, Kazakhstan, and Azerbaijan.

AB.LV Sabiedriskā labuma fonds contributed to nine contemporary art exhibitions in Latvia that had different concepts, but were equally outstanding events. The Fund has been supporting contemporary art exhibitions since 2007. During the last four years, the Fund allocated more than LVL 100 000 to arranging contemporary art exhibitions.

In the last year, the holdings of the Latvian Contemporary Art Museum, which are compiled with the Bank's assistance, have been supplemented. Two new paintings by Imants Lancmanis were purchased. Therefore, the holdings now comprise 10 pictures by Imants Lancmanis, and the total number of the works of art is 96. The Bank's total input in supplementing and popularizing the contemporary art collection exceeds LVL 230 000.

In August 2010, the Bank held AB.LV Charity Golf Tournament 2010 for the Bank's customers, inviting them to participate in "Skolas soma" fund drive, making donations for buying school goods for junior schoolchildren from low-income families. The funds raised during the tournament were used to equip 52 schoolchildren.

At the end of the year, the Bank together with AB.LV Sabiedriskā labuma fonds held a traditional fund drive "Palīdzēsim bērniem dzirdēt!". The funds raised during this campaign will be used to supply children with necessary hearing devices.

We express our gratitude to the Bank's shareholders and customers for their loyalty and confidence and to the Bank's employees for their contribution to the Bank's development!

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

The Council and the Board

The Council of the Bank:

Chairman of the Council: Aleksandrs Bergmanis	Date of re-appointment: 14/12/2010
Deputy Chairman of the Council: Jānis Krīgers	Date of re-appointment: 14/12/2010
Council Member: Igors Rapoports	Date of appointment: 14/12/2010
Resigned as Council Member: Vladimirs Kutovojs	Date of resignation: 13/12/2010

The Board of the Bank:

Chairman of the Board: Ernests Bernis – Chief Executive Officer (CEO)	Date of re-appointment: 14/12/2010
Deputy Chairman of the Board: Oļegs Fiļs – Deputy Chief Executive Officer (dCEO)	Date of re-appointment: 14/12/2010
Board Members:	Date of re-appointment:
Aleksandrs Pāže – Chief Compliance Officer (CCO)	14/12/2010
Edgars Pavlovičs – Chief Risk Officer (CRO)	14/12/2010
Māris Kannenieks – Chief Financial Officer (CFO)	14/12/2010
Rolands Citajevs – Chief IT Officer (CIO)	14/12/2010
Vadims Reinfelds – Chief Operating Officer (COO)	14/12/2010

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

Statement of Responsibility of the Council and the Board

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

The financial statements set out on pages 9 to 85 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2010 and 2009, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

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

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

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

The core objectives for 2011, likewise in the reporting period, will be to ensure uttermore expansion of the Group's and the Bank's business and boost profitability, whilst developing and enhancing operational risk management framework.

Income statements and other comprehensive income statements for the years ended 31 December 2010 and 2009

	Notes	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Interest income	4	36,431	40,118	36,375	40,909
Interest expense	4	(18,850)	(22,321)	(18,808)	(22,466)
Net interest income		**17,581**	**17,797**	**17,567**	**18,443**
Commission and fee income	5	22,876	16,072	20,146	14,901
Commission and fee expense	5	(3,241)	(2,867)	(2,979)	(2,696)
Net commission and fee income		**19,635**	**13,205**	**17,167**	**12,205**
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	6	12,589	(1,539)	12,589	(1,539)
Net realised (loss)/gain from available-for-sale financial assets	6	418	363	418	363
Net realised gain/(loss) from financial assets at amortised cost	6	(1,823)	528	(1,823)	528
Net result from foreign exchange trading and revaluation	6	(1,153)	8,424	(1,209)	8,496
Other income		1,873	2,129	1,457	628
Income from dividends		4	62	52	261
Change in allowances for credit losses	7	(28,917)	(36,859)	(28,917)	(36,859)
Operating income		**20,207**	**4,110**	**17,301**	**2,526**
Administrative expense	9	(22,494)	(20,641)	(20,186)	(18,597)
Depreciation		(1,692)	(1,815)	(1,587)	(1,725)
Other expense		(1,672)	(1,971)	(2,499)	(1,595)
Gain/(loss) from sale of tangible and intangible fixed assets		270	(204)	(10)	(204)
Impairment of financial instruments	15	(14)	(3,035)	(14)	(3,035)
Impairment of non-financial assets	8	(2,867)	(2,154)	(832)	(122)
Total operating expense		**(28,469)**	**(29,820)**	**(25,128)**	**(25,278)**
(Loss) before corporate income tax		(8,262)	(25,710)	(7,827)	(22,752)
Corporate income tax	10	703	3,541	880	3,532
Net loss for the year		**(7,559)**	**(22,169)**	**(6,947)**	**(19,220)**
Attributable to:					
Equity holders of the Bank		(7 519)	(21 358)		
Non-controlling interests		(40)	(811)		
Other comprehensive income:					
Changes in fair value revaluation reserve of available-for-sale financial assets		31	16,178	31	16,178
Charge to income statement as a result of sale of available-for-sale securities		1,405	(891)	1,405	(891)
Change in deferred corporate income tax		305	(2,267)	305	(2,267)
Other comprehensive income, total		**1,741**	**13,020**	**1,741**	**13,020**
Total comprehensive income:		**(5,818)**	**(9,149)**	**(5,206)**	**(6,200)**
Attributable to:					
Equity holders of the Bank		(5,778)	(8,338)		
Non-controlling interests		(40)	(811)		

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

Statements of financial position as at 31 December 2010 and 2009

Assets	Notes	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Cash and deposits with central banks	13	82,120	44,986	82,120	44,986
Balances due from credit institutions	14	325,352	203,569	325,326	203,537
Financial assets at fair value through profit or loss		23,372	9,499	23,372	9,499
Debt securities and other fixed income securities	*15*	*19,367*	*12*	*19,367*	*12*
Shares and other non-fixed income securities	*17*	*674*	*52*	*674*	*52*
Derivatives	*16*	*3,331*	*9,435*	*3,331*	*9,435*
Available-for-sale financial assets		168,657	104,523	168,657	104,523
Debt securities and other fixed income securities	*15*	*166,431*	*102,376*	*166,431*	*102,376*
Shares and other non-fixed income securities	*17*	*2,226*	*2,147*	*2,226*	*2,147*
Loans and receivables		528,872	550,580	528,561	553,475
Loans	*18*	*517,811*	*531,444*	*517,500*	*534,339*
Debt securities and other fixed income securities	*15*	*11,061*	*19,136*	*11,061*	*19,136*
Held-to-maturity investments		155,112	-	155,112	-
Debt securities and other fixed income securities	*15*	*155,112*	-	*155,112*	-
Prepaid expense and accrued income		339	505	292	451
Investments in subsidiaries	19	-	-	58,661	36,066
Investment properties	20	20,658	20,371	16,670	16,622
Tangible fixed assets	21	7,954	6,077	5,253	5,747
Intangible fixed assets	21	3,701	3,491	3,548	3,337
Current corporate income tax receivables		266	2,024	176	1,936
Deferred corporate income tax	10	5,736	5,458	5,718	5,079
Other assets	22	45,388	26,644	5,099	6,871
Total assets		**1,367,527**	**977,727**	**1,378,565**	**992,129**

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

Statements of financial position as at 31 December 2010 and 2009

Liabilities	Notes	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Demand deposits from credit institutions	23	1,906	1,027	1,906	1,027
Financial liabilities at fair value through profit or loss		226	176	226	176
Derivatives	*16*	*226*	*176*	*226*	*176*
Term deposits from credit institutions	23	3,502	4,929	550	1,958
Deposits	24	1,236,791	858,503	1,248,190	869,017
Deferred income and accrued expense		2,769	1,816	2,460	1,749
Current corporate income tax liabilities		150	15	-	-
Deferred corporate income tax	10	21	22	-	-
Issued securities	26	22,921	12,995	22,921	12,995
Subordinated deposits	26	23,962	28,669	23,962	28,669
Other liabilities		4,328	589	2,973	2,455
Total liabilities		**1,296,576**	**908,741**	**1,303,188**	**918,046**
Shareholders' equity					
Paid-in share capital	27	16,500	15,000	16,500	15,000
Share premium		5,255	255	5,255	255
Reserve capital and other reserves		1,500	1,500	1,500	1,500
Fair value revaluation reserve of available-for-sale financial assets		1,829	88	1,829	88
Retained earnings brought forward		52,804	74,162	57,240	76,460
Retained earnings for the period		(7,519)	(21,358)	(6,947)	(19,220)
Attributable to the equity holders of the Bank		70,369	69,647	75,377	74,083
Attributable to non-controlling interests		582	(661)	-	-
Total shareholders' equity		**70,951**	**68,986**	**75,377**	**74,083**
Total liabilities and shareholders' equity		**1,367,527**	**977,727**	**1,378,565**	**992,129**
Memorandum items					
Funds under trust management	29	116,823	71,845	84,167	55,796
Contingent liabilities	29	21,125	16,884	21,125	16,884
Financial commitments	29	12,934	10,210	12,934	10,210

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 23 February 2011

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

Statements of changes in shareholders' equity of the Group for the years ended 31 December 2010 and 2009

	Paid-in share capital LVL '000	Share premium LVL '000	Reserve capital LVL '000	Fair value revaluation reserve LVL '000	Retained earnings LVL '000	*Attributable to the equity holders of the Bank LVL '000*	*Non-controlling interests LVL '000*	Total shareholders' equity LVL '000
As at 1 January 2009	**15,000**	**255**	**1,500**	**(12,933)**	**74,162**	***77,984***	***184***	**78,168**
Total comprehensive income for the year 2009	-	-	-	13,021	(21,358)	*(8,337)*	*(811)*	(9,148)
Decrease of non-controlling interests	-	-	-	-	-	-	*(34)*	(34)
As at 31 December 2009	**15,000**	**255**	**1,500**	**88**	**52,804**	***69,647***	***(661)***	**68,986**
Total comprehensive income for the year 2010	-	-	-	1,741	(7,519)	*(5,778)*	*(40)*	(5,818)
Issue of shares	1,500	5,000	-	-	-	*6,500*	-	6,500
Increase of non-controlling interests	-	-	-	-	-	-	*1,283*	1,283
As at 31 December 2010	**16,500**	**5,255**	**1,500**	**1,829**	**45,285**	***70,369***	***582***	**70,951**

Statements of changes in shareholders' equity of the Bank for the years ended 31 December 2010 and 2009

	Paid-in share capital LVL '000	Share premium LVL '000	Reserve capital LVL '000	Fair value revaluation reserve LVL '000	Retained earnings LVL '000	Total shareholders' equity LVL '000
As at 1 January 2009	**15,000**	**255**	**1,500**	**(12,933)**	**76,460**	**80,282**
Total comprehensive income for the year 2009	-	-	-	13,021	(19,220)	(6,199)
As at 31 December 2009	**15,000**	**255**	**1,500**	**88**	**57,240**	**74,083**
Total comprehensive income for the year 2010	-	-	-	1,741	(6,947)	(5,206)
Issue of shares	1,500	5,000	-	-	-	6,500
As at 31 December 2010	**16,500**	**5,255**	**1,500**	**1,829**	**50,293**	**75,377**

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

Cash flow statements of the Group and the Bank for the years ended 31 December 2010 and 2009

Cash flow from operating activities	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
(Loss) before corporate income tax	(8,262)	(25,710)	(7,827)	(22,752)
Amortisation and depreciation of fixed assets	1,692	1,815	1,587	1,725
Increase in allowances for credit losses	28,917	36,859	28,917	36,859
Decrease in non-financial assets	2,867	2,154	832	122
(Increase) in financial assets at fair value through profit or loss	(1,029)	(6,679)	(1,029)	(6,679)
(Decrease)/increase of investments in other entities	2,125	(34)	-	-
Unrealised loss/(gain) from revaluation of foreign currency positions	9,377	(798)	9,377	(798)
Net cash flow from operating activities before changes in assets and liabilities	**35,687**	**7,607**	**31,857**	**8,477**
Decrease in balances due from credit institutions	22,836	4,175	22,836	4,176
(Increase)/decrease in loans	(15,244)	63,067	(12,038)	60,170
(Increase)/decrease in financial assets at fair value through profit or loss	(12,842)	1,777	(12,842)	1,777
Decrease/(increase) in prepaid expense and accrued income	166	(169)	159	(177)
(Increase) in other assets	(19,266)	(23,764)	3,375	(3,646)
(Decrease)/increase in balances due to credit institutions	(1,977)	3,776	(1,958)	3,761
Increase in deposits	378,288	146,188	379,173	155,010
Increase/(decrease) in financial liabilities at fair value through profit or loss	50	(19,062)	50	(19,062)
Increase/(decrease) in deferred income and accrued expense	953	(312)	711	(329)
Increase/(decrease) in other liabilities	3,739	(452)	518	862
Net cash flow from operating activities before corporate income tax	**392,390**	**182,831**	**411,841**	**211,019**
Corporate income tax (paid)	(262)	(1,478)	(250)	(1,444)
Net cash flow from operating activities	**392,128**	**181,353**	**411,591**	**209,575**

Cash flow from investing activities				
(Purchase) of held-to-maturity investments	(146,302)	-	(146,302)	-
(Purchase) of available-for-sale financial assets	(202,624)	(150,887)	(202,624)	(150,887)
Sale of available-for-sale financial assets	140,024	116,410	140,024	116,410
(Purchase) of intangible and tangible fixed assets and investment properties	(4,621)	(2,594)	(1,380)	(1,772)
Sale of intangible and tangible fixed assets	220	425	28	3,614
(Purchase) of investments in other entities	(842)	-	(23,949)	(32,236)
Decrease in investments in other entities	-	-	600	-
Net cash flow from investing activities	**(214,145)**	**(36,646)**	**(233,603)**	**(64,871)**

Cash flow from financing activities				
Proceeds from (repayment)/issuance of subordinated liabilities	(4,707)	728	(4,707)	728
Issue of shares	6,500	-	6,500	-
Issue of debt securities	9,926	-	9,926	-
Syndicated loan (repaid)	-	(111,364)	-	(111,364)
Net cash flow from financing activities	**11,719**	**(110,636)**	**11,719**	**(110,636)**
Net cash flow	**189,702**	**34,071**	**189,707**	**34,068**
Cash and cash equivalents at the beginning of the year	**210,926**	**176,057**	**210,895**	**176,029**
Gain/(loss) from revaluation of foreign currency positions	(9,377)	798	(9,377)	798
Cash and cash equivalents at the end of the year	**391,251**	**210,926**	**391,225**	**210,895**

Cash flow statements of the Group and the Bank for the years ended 31 December 2010 and 2009

Operational cash flows from interest and dividends	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Interest received	27,853	31,164	27,853	31,955
Interest paid	(15,694)	(20,271)	(15,694)	(20,416)
Dividends received	3	18	52	217
Dividends paid	-	-	-	-

Cash and cash equivalents	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Cash and deposits with the Bank of Latvia	82,120	44,986	82,120	44,986
Balances due from credit institutions	311,587	166,967	311,561	166,936
Balances due to credit institutions	(2,456)	(1,027)	(2,456)	(1,027)
Total cash and cash equivalents	**391,251**	**210,926**	**391,225**	**210,895**

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

Notes to the financial statements for the year ended 31 December 2010

Note 1

General information

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

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

The Group's and Bank's main scope of activity is investment services, settlement products, asset management, financial consultations, and real estate management.

The Group and the Bank operate the central office and two lending centres in Riga, as well as foreign representation offices in Azerbaijan – Baku, in Belarus – Minsk, in Kazakhstan – Almaty, in Russia – Moscow, St. Petersburg and Yekaterinburg, in Ukraine – Kyiv with its branch in Odessa, in Uzbekistan – Tashkent and Tajikistan – Dushanbe.

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

These consolidated and separate financial statements contain the financial information about the Bank and its subsidiaries (jointly – the Group), as well as separately about the Bank. The Bank's separate financial statements are included in these financial statements in compliance with legal requirements. The Bank is the parent of the Group.

The consolidated financial statements of the Group and the separate financial statements of the Bank for the year 2010 were approved by the Bank's Board on 23 February 2011.

The Group comprises the following subsidiaries:

Company	Registration number	Registered office	Business profile	Bank's equity share (%)
IPAS ″AB.LV Asset Management“	40003814724	23 Elizabetes Street, Riga, LV-1010	Financial services	100
IBAS ″AB.LV Capital Market“	40003814705	23 Elizabetes Street, Riga, LV-1010	Financial services	100
AS ″AB Konsultācijas“	40003540368	23 Elizabetes Street, Riga, LV-1010	Consulting services	100
SIA ″AB.LV Corporate Services“	40103283479	23 Elizabetes Street, Riga, LV-1010	Consulting services	100
KS ″AB.LV Transform Partnership“	40103260921	23 Elizabetes Street, Riga, LV-1010	Holding company	99,9997
SIA ″AB.LV Transform Investments“	40103191969	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 1“	40103193211	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 2“	40103193033	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 3“	40103193067	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 4“	40103210494	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 6“	40103237323	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 7“	40103237304	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 8“	40103240484	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 9“	40103241210	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 10“	50103247681	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 11“	40103258310	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 12“	40103290273	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 13“	40103300849	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 14“	50103313991	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″AB.LV Transform 15“	40103344858	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
SIA ″Elizabetes 21a“	50003831571	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	91,6
SIA ″New Hanza City“	40103222826	23 Elizabetes Street, Riga, LV-1010	Real estate transactions	100
KS ″AB.LV Private Equity Fund 2010“	40103307758	23 Elizabetes Street, Riga, LV-1010	Holding company	100
SIA ″AB.LV Private Equity Management“	40103286757	23 Elizabetes Street, Riga, LV-1010	Investment project management	100
SIA ″Gas Stream“	42103047436	23 Elizabetes Street, Riga, LV-1010	Electricity generation	60
SIA ″Bio Future“	42103047421	23 Elizabetes Street, Riga, LV-1010	Electricity generation	60

Note 2

Information on principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2010 and 2009, is set out below.

a) Statement of compliance

These consolidated and separate financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted in the EU.

The accounting policies are applied consistently by all entities of the Group.

During the year ended 31 December 2010, the Group and the Bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in adoption of new and/or changed IFRSs and IFRIC interpretations in the reporting year.

Adoption of new and/or changed IFRSs and IFRIC interpretations in the reporting year

The Group/Bank has adopted the following new and amended IFRS and IFRIC interpretations during the year:

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

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations and IAS 27 Consolidated and Separate Financial Statements*
- Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- IFRIC *12 Service Concession Arrangements*
- IFRIC *17 Distributions of Non-cash Assets to Owners*
- IFRIC *18 Transfers of Assets from Customers*
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

The principal effects of these changes are as follows:

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after coming into force. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes to IFRS 3 and IAS 27 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

Standards and interpretations that have been issued but are not yet effective

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

Amendments to IFRS 7 Financial instruments: Disclosures (effective for financial years beginning on or after 1 July 2011, once adopted by the EU) The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Group does not have these kinds of transfers.

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

Amendments to IAS 12 Income Taxes (effective for financial years beginning on or after 1 January 2012, once adopted by the EU). The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Group has not estimated yet the impact of the implementation of these changes.

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

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010). The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

Improvements to IFRSs

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- IFRS 3 *Business Combinations;*
- IFRS 7 *Financial instruments: Disclosures;*
- IAS 1 *Presentation of Financial Statements;*
- IAS 27 *Consolidated and Separate Financial Statements;*

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

- IFRIC 13 *Customer Loyalty Programmes.*

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

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

Significant accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to depreciation rates of tangible fixed assets *(paragraph (r))* and intangible fixed assets *(paragraph (q))*, valuation and depreciation rates of investment properties *(paragraph (s))*, calculation of deferred corporate income tax *(paragraph (u))*, determining the allowance for credit losses and the collateral value *(paragraph (p))*, and the fair value of financial assets and liabilities *(paragraph (e))*.

b) Basis of Preparation

These consolidated and separate financial statements are reported in thousands of lats (LVL'000), unless otherwise stated.

These consolidated and separate financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value (see Note 31).

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

Information given herein in brackets represents comparative figures for the year ended 31 December 2009, unless otherwise stated.

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

Reporting date	USD	EUR	RUB
31 December 2010	0,535	0,7028	0,0176
31 December 2009	0,489	0,7028	0,0164

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As described in the Report of the Council and the Board (pages 1 to 5), given the current economic situation, the management of the Bank has a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, these consolidated and separate financial statements for the year ended 31 December 2010 are prepared on a going concern basis, consistently applying IFRS as adopted in the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

c) Basis of Consolidation
Consolidated financial statements include all subsidiaries controlled by the parent. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases.

Control is presumed to exist when the parent controls more than half of the voting power of the subsidiary, or owns the power to govern the financial and operating policies of the subsidiary or the power to appoint or remove the majority of the members of the board of the subsidiary.

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

The Bank's subsidiaries comply with the Bank's policies and risk management methods.

Investments in subsidiaries are presented in the Bank's separate financial statements in accordance with the cost method.

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

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

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

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

The Group recognises financial assets and liabilities in its statement of financial position when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Group and the Bank have transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.
A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

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

e) Fair Value of Financial Assets and Liabilities
Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the Group's and Bank's financial assets and liabilities is presented in Note 31.

f) Income and Expense Recognition
All major income and expense items are recognised on an accrual basis. Interest income/expense is recognised in the statement of comprehensive income for financial assets/liabilities measured at amortised cost using the effective interest method.
Commission and fee income and expense are included in the statement of comprehensive income over the period or at a specific time, except for commission and fee income/expense directly attributable to financial assets/liabilities measured at amortised cost – for these assets/liabilities the respective commission and fee income/expense form an integral part of the effective interest rate.

Commission and fee income received once in a year for the whole reporting period is recognised in the statement of comprehensive income systematically on a straight-line basis during the period.

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

h) Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
- those that the Group and the Bank intend to sell immediately or in the near term and those that the Group and the Bank upon initial recognition designate as at fair value through profit or loss;
- those that the Group and the Bank, upon initial recognition, designate as available for sale; or
- those for which the Group and the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment) as presented in Note 7. Gains or losses are recognised in the statement of comprehensive income upon recognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the statement of comprehensive income as interest income/expense when the liabilities are derecognised through the amortisation process. Loans and receivables include loans and fixed income securities. Fixed income securities to be included in the respective portfolio are defined by a separate policy of the Bank.

For the purposes of these financial statements, finance lease receivables are classified as loans.
Securities included in the loans and receivables portfolio are held for the foreseeable future or to maturity with the purpose of generating profit from coupon and principal payments.

i) Held-to-maturity Portfolio
Held-to-maturity portfolio represents non-derivative financial assets with fixed or determinable payments and fixed maturities that are quoted in an active market. The Group/Bank has the intention to hold the financial assets included in the held-to-maturity portfolio to maturity with the purpose of generating profit from coupon and principal payments.

The financial assets of the held-to-maturity portfolio are initially recognised at cost and subsequently measured at amortised cost using the effective interest method, less impairment loss. Gains or losses are recognised in the statement of comprehensive income upon derecognition or impairment of these assets, as well as through the amortisation process. Gains and losses are recognised in the statement of comprehensive income as interest income/expense when the liabilities are derecognised through the amortisation process.

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

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

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

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

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

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

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the statement of comprehensive income under "Net gain/(loss) from financial assets at fair value through profit or loss". Meanwhile, interest income earned and/or accrued is charged to the statement of comprehensive income as interest income from debt securities using the effective interest rate method (EIR) while dividend income is recorded as income from dividends if the right to the payment is established.

l) Assets taken over for sale
Assets taken over for sale represent real estate taken over by the Group/Bank for the purpose of selling as collateral for the outstanding loans. Such assets are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

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

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

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

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

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

p) Allowances
Allowances are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, allowances are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

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

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the asset and is taken into account when determining expected cash flows and accordingly the allowance.

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

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

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

The Group/Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired. Based on the estimates of the Management of the Group/Bank, a decline in the fair value of the instrument by more than 20% below its cost or for more than one financial year is treated as objective evidence of significant and prolonged impairment of available-for-sale financial instruments. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

q) Intangible Fixed Assets
Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.

The Group and the Bank have applied the annual rate of 20% to amortise their intangible assets.

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

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

Category	Annual rate
Buildings and property improvements	5,5%
Vehicles	20%
EDP equipment and software	16–33%
Office equipment	10–33%

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

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

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

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

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

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

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

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

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase amount constitutes reversal of impairment losses.

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

Note 3

Risk managment

Risks are inherent in the Group's and Bank's business and risk management is one of the Group's and Bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the Group and the Bank. Managing risks permits keeping the Group's and Bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the Group and the Bank are exposed to various risks, the most significant of them being credit risk, liquidity risk, and market risks (including interest rate risk, currency risk), as well as operational risk. Risk management stands for identification, assessment and control of potential risks.

The risk management process includes the following:
- identification, assessment and measurement of significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance

with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the Group and the Bank;
- regular revision and enhancement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the Council. The introduction and efficiency of such policies are controlled by the Board and the Chief Risk Officer, while the practical implementation is provided by the respective business structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

To create a highly disciplined, conservative, and constructive risk management and control environment, training seminars for the staff are organised on a regular basis.

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

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

Note 4

Interest income and expense

Interest income	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
on loans and advances to customers	26,243	32,110	26,187	32,901
non-impaired	*18,923*	*27,863*	*18,867*	*27,863*
impaired	*7,320*	*4,247*	*7,320*	*5,038*
on debt securities and other fixed income securities	9,087	6,912	9,087	6,912
financial assets at fair value through profit or loss	*18*	*91*	*18*	*91*
available-for-sale financial assets	*5,204*	*4,338*	*5,204*	*4,338*
held-to-maturity investments	*2,865*	-	*2,865*	-
non-impaired	*2,865*	-	*2,865*	-
loans and receivables	*1,000*	*2,483*	*1,000*	*2,483*
non-impaired	*963*	*2,220*	*963*	*2,220*
impaired	*37*	*263*	*37*	*263*
on balances due from credit institutions and central banks	1,034	998	1,034	998
other interest income	67	98	67	98
Total interest income	**36,431**	**40,118**	**36,375**	**40,909**
Interest expense				
on deposits from non-bank customers	13,400	15,360	13,400	15,591
on subordined deposits	1,759	2,103	1,759	2,103
on long-term debt securities issued	1,501	1,198	1,501	1,198
on balances due to credit institutions and central banks	67	2,152	25	2,066
other interest expense	2,123	1,508	2,123	1,508
Total interest expense	**18,850**	**22,321**	**18,808**	**22,466**

The decrease in the interest income is mainly due to the continuing drop in the base interest rates during the reporting year. In 2010, the base interest rates applied dropped by 1.69 (3) per cent, or 169 (300) basis points, on average against the previous year.

Note 5

Commission and fee income and expense

Commission and fee income	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
commission on payment transfer handling on behalf of customers	12,221	9,191	12,221	9,191
commission on handling of settlement cards	3,195	2,341	3,195	2,341
service fees	2,468	2,245	2,468	2,023
commission on brokerage operations	2,175	821	310	103
commission on trust transactions	926	547	397	316
commission on documentary transactions	401	299	401	299
other commission and fee income	1,490	628	1,154	628
Total commission and fee income	**22,876**	**16,072**	**20,146**	**14,901**
Commission and fee expense				
correspondent bank service charges	2,085	1,671	2,085	1,671
commission on transactions with settlement cards	888	859	888	859
other commission and fee expense	268	337	6	166
Total commission and fee expense	**3,241**	**2,867**	**2,979**	**2,696**

Note 6

Net gains/losses on financial assets

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Gain from revaluation of financial assets and liabilities at fair value through profit or loss	1,029	6,679	1,029	6,679
Derivatives	*1,008*	*6,674*	*1,008*	*6,674*
Securities	*21*	*5*	*21*	*5*
Gain/(loss) from trading with financial assets and liabilities at fair value through profit or loss	11,560	(8,218)	11,560	(8,218)
Derivatives	*11,044*	*(9,397)*	*11,044*	*(9,397)*
Debt securities	*516*	*1,179*	*516*	*1,179*
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	**12,589**	**(1,539)**	**12,589**	**(1,539)**
Gain from sale of available-for-sale securities	418	363	418	363
Net realised gain from available-for-sale financial assets	**418**	**363**	**418**	**363**
(Loss)/gain from sale of securities of the loans and receivables portfolio	(1,823)	528	(1,823)	528
Net realised (loss)/gain from sale of securities of the loans and receivables portfolio	**(1,823)**	**528**	**(1,823)**	**528**
Profit from foreign currency exchange	8,224	7,626	8,168	7,698
(Loss)/gain from revaluation of foreign currency positions	(9,377)	798	(9,377)	798
Net result from foreign exchange trading and revaluation	**(1,153)**	**8,424**	**(1,209)**	**8,496**

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

The result of foreign exchange transactions mainly represents currency exchange loss or gain. The procedure for managing currency risk is disclosed in Note 33. To hedge its exposure to currency risk, the Group/Bank enters into currency forwards. Therefore, to objectively assess the revaluation result of foreign currency positions, the net gain/(loss) from revaluation of and trading with Group's/Bank's derivatives as well as revaluation of currency positions should be analysed.

Note 7

Allowances for credit losses

The table below presents changes in allowances for credit losses of the Group and the Bank in 2010:

	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Securities at fair value LVL '000	Available for sale securities LVL '000	Held to maturity securities LVL '000	Loans and receivables LVL '000	Other assets LVL '000	Total LVL '000
Individual allowances at the beginning of the year	*920*	*11,028*	*30*	*594*	*2*	*191*	-	*4,013*	*338*	*17,116*
Collective allowances at the beginning of the year	*31,960*	-	*230*	*1,674*	-	-	-	-	-	*33,864*
Total allowances at the beginning of the year	**32,880**	**11,028**	**260**	**2,268**	**2**	**191**	**-**	**4,013**	**338**	**50,980**
Increase/(decrease) in allowances for the year	14,824	13,035	200	818	(2)	(150)	78	(120)	234	28,917
Recovery of write-offs/asset write-off (expense)	-	-	-	-	-	-	-	-	33	33
Increase in allowances due to currency fluctuations	34	-	-	-	-	23	-	73	-	130
(Reversal) of allowances due to write-offs for the year	(1,079)	(6,092)	(224)	(2,518)	-	-	-	(2,764)	-	(12,677)
Individual allowances at the end of the year	*2,417*	*17,842*	*26*	-	-	*64*	*78*	*1,202*	*605*	*22,234*
Collective allowances at the end of the year	*44,242*	*129*	*210*	*568*	-	-	-	-	-	*45,149*
Total allowances at the end of the year	**46,659**	**17,971**	**236**	**568**	**-**	**64**	**78**	**1,202**	**605**	**67,383**

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

	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Securities at fair value LVL '000	Available for sale securities LVL '000	Held to maturity securities LVL '000	Loans and receivables LVL '000	Other assets LVL '000	Total LVL '000
Individual allowances at the beginning of the year	*825*	*5,107*	*77*	*50*	-	*17*	-	-	*72*	*6,148*
Collective allowances at the beginning of the year	*13,630*	*461*	*464*	*414*	-	-	-	-	-	*14,969*
Total allowances at the beginning of the year	**14,455**	**5,568**	**541**	**464**	**-**	**17**	**-**	**-**	**72**	**21,117**
Increase in allowances for the year	18,458	11,104	216	2,627	2	172	-	3,970	310	36,859
Recovery of write-offs/asset write-off (expense)	-	-	-	-	-	-	-	-	(44)	(44)
Increase in allowances due to currency fluctuations	-	30	-	-	-	2	-	43	-	75
(Reversal) of allowances due to write-offs for the year	(33)	(5,674)	(497)	(823)	-	-	-	-	-	(7,027)
Individual allowances at the end of the year	*920*	*11,028*	*30*	*594*	*2*	*191*	-	*4,013*	*338*	*17,116*
Collective allowances at the end of the year	*31,960*	-	*230*	*1,674*	-	-	-	-	-	*33,864*
Total allowances at the end of the year	**32,880**	**11,028**	**260**	**2,268**	**2**	**191**	**-**	**4,013**	**338**	**50,980**

As at 31 December 2010 and 2009, the Group's and Bank's financial assets and liabilities were not past due, except for loans and one coupon payment from the security totalling LVL 149 (340) thousand.

Although the economic situation in Latvia showed signs of stabilisation at the end of 2009 and in 2010, the high unemployment rate and inactive real estate market where mainly forced realisation of real estate takes place – both these factors affected the collateral value and the borrowers' ability to perform timely repayment of their loans. These factors lead to the loan impairment and, as a result, the Group/Bank made additional allowances for credit losses of LVL 29 million.

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

Note 8

Impairment of other assets

The Group's and Bank's management have determined the fair value of the immovable properties taken over by the Bank for sale on the basis of the expected discounted future cash flow from the sale of the above properties. Based on the analysis carried out, in 2010 and 2009 the Group and the Bank recognised the impairment of non-financial assets.

The table below presents changes in impairment for non-financial assets of the Group and the Bank in 2010 and 2009:

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Non-financial assets taken over for sale	2,532	2,057	78	122
Prepayments for investment properties	335	-	-	-
Investments in subsidiaries	-	97	754	-
Total	**2,867**	**2,154**	**832**	**122**

Note 9

Administrative expense

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Remuneration to personnel	13,112	11,014	12,163	10,196
Statutory social insurance contributions	3,141	2,793	2,918	2,601
Rent of premises, repairs and maintenance costs	1,498	1,328	1,224	1,256
IT system maintenance expense	1,222	1,472	1,213	1,299
Remuneration to the Council and the Board *(incl. taxes)*	778	818	593	617
Other personnel expense	505	393	440	391
Communication expense	486	490	418	533
Advertising and marketing expense	476	533	452	490
Investment property maintenance costs	302	194	110	194
Donations	-	138	-	-
Other administrative expense	974	1,468	655	1,020
Total administrative expense	**22,494**	**20,641**	**20,186**	**18,597**

In 2010, the Group and the Bank employed an average of 514 (542) and 473 (507) persons.

The following table specifies employees of the Group and the Bank as at 31 December 2010 and 2009:

	Group 31/12/2010 number	Group 31/12/2009 number	Bank 31/12/2010 number	Bank 31/12/2009 number
Management	15	15	10	10
Heads of divisions and departments	96	90	85	82
Other personnel	427	428	397	404
Total	**538**	**533**	**492**	**496**

Note 10

Taxation

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Loss before corporate income tax	(8,262)	(25,710)	(7,827)	(22,752)
Group's profit adjustments for corporate income tax	(1,565)	187	-	-
Theoretical corporate income tax	**(1,474)**	**(3,828)**	**(1,174)**	**(3,413)**
Permanent differences	537	323	67	(83)
Actual corporate income tax expense for the reporting year	**(937)**	**(3,505)**	**(1,107)**	**(3,496)**
Adjustments to prior year corporate income tax	65	(66)	65	(66)
Adjustments to prior year deferred tax	139	-	132	-
Tax paid abroad	30	30	30	30
Total corporate income tax expense/(income) for the reporting year	**(703)**	**(3,541)**	**(880)**	**(3,532)**

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

Deferred corporate income tax calculation:

	Group 31/12/2010 Amounts subject to temporary differences LVL '000	Group 31/12/2009 Amounts subject to temporary differences LVL '000	Bank 31/12/2010 Amounts subject to temporary differences LVL '000	Bank 31/12/2009 Amounts subject to temporary differences LVL '000
Accumulated excess of tax depreciation over accounting depreciation	4,674	3,260	4,497	3,084
Fair value revaluation reserve of available-for-sale financial assets	2,135	(103)	2,135	(103)
Collective (portfolio) allowances and other accrued liabilities	(2,925)	(1,879)	(2,127)	(1,783)
Revaluation of assets, net	1,023	6,685	1,023	6,685
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	-	-
Tax losses	(40,766)	(41,969)	(43,646)	(41,744)
Basis for calculation of deferred corporate income tax	**(38,094)**	**(36,241)**	**(38,118)**	**(33,861)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/ liability at the end of the year	**(5,736) 21**	**(5,458) 22**	**(5,718) -**	**(5,079) -**

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Deferred corporate income tax at the beginning of the year	**(5,458) 22**	**(4,185) 5**	**(5,079) -**	**(3,850) -**
Deferred corporate income tax asset increase charged to the statement of comprehensive income during the year	(754)	(3,523)	(1,107)	(3,496)
Prior-period change	139	-	132	-
Deferred corporate income tax liability increase attributable to fair value revaluation reserve under equity	305	2,267	305	2,267
Prior-period change	31	-	31	-
Deferred corporate income tax asset/ liability at the end of the year	**(5,736) 21**	**(5,458) 22**	**(5,718) -**	**(5,079) -**

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

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The Group's and Bank's tax paid:

Taxes	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Corporate income tax	262	1,472	250	1,444
Personal income tax	3,042	2,500	2,873	2,367
Statutory social insurance contributions	3,937	3,686	3,694	3,494
Real estate tax	197	111	126	97
Value added tax	27	-	17	-
Unemployment risk duty	1	1	1	1

In 2010, other taxes of LVL 1.600 (1.700) thousand and LVL 550 (0) thousand were included in statutory social insurance contributions and personal income tax of the Group and the Bank respectively.

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

Note 11

Classification of financial and non-financial instruments

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2010:

Assets	At fair value through profit or loss LVL `000	Available for sale LVL `000	Held to maturity LVL `000	Loans and receivables/at amortised cost LVL `000	Total LVL `000
Cash and deposits with central banks	-	-	-	82,120	82,120
Balances due from credit institutions	-	-	-	325,352	325,352
Fixed income securities	19,367	166,431	155,112	11,061	351,971
Shares and other non-fixed income securities	674	2,226	-	-	2,900
Derivatives	3,331	-	-	-	3,331
Loans and receivables	-	-	-	517,811	517,811
Total financial assets	**23,372**	**168,657**	**155,112**	**936,344**	**1,283,485**
Non-financial assets	-	-	-	-	84,042
Total assets	**23,372**	**168,657**	**155,112**	**936,344**	**1,367,527**
Liabilities					
Balances due to credit institutions	-	-	-	5,408	5,408
Derivatives	226	-	-	-	226
Deposits	-	-	-	1,236,791	1,236,791
Issued securities	-	-	-	22,921	22,921
Subordinated deposits	-	-	-	23,962	23,962
Total financial liabilities	**226**	**-**	**-**	**1,289,082**	**1,289,308**
Non-financial liabilities	-	-	-	-	7,268
Shareholders' equity	-	-	-	-	70,951
Total liabilities and shareholders' equity	**226**	**-**	**-**	**1,289,082**	**1,367,527**

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

Assets	At fair value through profit or loss LVL `000	Available for sale LVL `000	Loans and receivables/at amortised cost LVL `000	Total LVL `000
Cash and deposits with central banks	-	-	44,986	44,986
Balances due from credit institutions	-	-	203,569	203,569
Fixed income securities	12	102,376	19,136	121,524
Shares and other non-fixed income securities	52	2,147	-	2,199
Derivatives	9,435	-	-	9,435
Loans and receivables	-	-	531,444	531,444
Total financial assets	**9,499**	**104,523**	**799,135**	**913,157**
Non-financial assets	-	-	-	64,570
Total assets	**9,499**	**104,523**	**799,135**	**977,727**
Liabilities				
Balances due to credit institutions	-	-	5,956	5,956
Derivatives	176	-	-	176
Deposits	-	-	858,503	858,503
Issued securities	-	-	12,995	12,995
Subordinated deposits	-	-	28,669	28,669
Total financial liabilities	**176**	**-**	**906,123**	**906,299**
Non-financial liabilities	-	-	-	2,442
Shareholders' equity	-	-	-	68,986
Total liabilities and shareholders' equity	**176**	**-**	**906,123**	**977,727**

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

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2010:

Assets	At fair value through profit or loss LVL `000	Available for sale LVL `000	Held to maturity LVL `000	Loans and receivables/at amortised cost LVL `000	Total LVL `000
Cash and deposits with central banks	-	-	-	82,120	82,120
Balances due from credit institutions	-	-	-	325,326	325,326
Fixed income securities	19,367	166,431	155,112	11,061	351,971
Shares and other non-fixed income securities	674	2,226	-	-	2,900
Derivatives	3,331	-	-	-	3,331
Loans and receivables	-	-	-	517,500	517,500
Total financial assets	**23,372**	**168,657**	**155,112**	**936,007**	**1,283,148**
Non-financial assets	-	-	-	-	95,417
Total assets	**23,372**	**168,657**	**155,112**	**936,007**	**1,378,565**
Liabilities					
Balances due to credit institutions	-	-	-	2,456	2,456
Derivatives	226	-	-	-	226
Deposits	-	-	-	1,248,190	1,248,190
Issued securities	-	-	-	22,921	22,921
Subordinated deposits	-	-	-	23,962	23,962
Total financial liabilities	**226**	**-**	**-**	**1,297,529**	**1,297,755**
Non-financial liabilities	-	-	-	-	5,433
Shareholders' equity	-	-	-	-	75,377
Total liabilities and shareholders' equity	**226**	**-**	**-**	**1,297,529**	**1,378,565**

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

Assets	At fair value through profit or loss LVL `000	Available for sale LVL `000	Loans and receivables/at amortised cost LVL `000	Total LVL `000
Cash and deposits with central banks	-	-	44,986	44,986
Balances due from credit institutions	-	-	203,537	203,537
Fixed income securities	12	102,376	19,136	121,524
Shares and other non-fixed income securities	52	2,147	-	2,199
Derivatives	9,435	-	-	9,435
Loans and receivables	-	-	534,339	534,339
Total financial assets	**9,499**	**104,523**	**801,998**	**916,020**
Non-financial assets	-	-	-	76,109
Total assets	**9,499**	**104,523**	**801,998**	**992,129**
Liabilities				
Balances due to credit institutions	-	-	2,985	2,985
Derivatives	176	-	-	176
Deposits	-	-	869,017	869,017
Issued securities	-	-	12,995	12,995
Subordinated deposits	-	-	28,669	28,669
Total financial liabilities	**176**	**-**	**913,666**	**913,842**
Non-financial liabilities	-	-	-	4,204
Shareholders' equity	-	-	-	74,083
Total liabilities and shareholders' equity	**176**	**-**	**913,666**	**992,129**

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

Note 12

Financial assets by risk ratings

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

Financial assets of the Group by risk rating:

	31/12/2010					31/12/2009				
Financial assets	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**
Cash and deposits with central banks	82,120	-	**82,120**	-	**82,120**	44,986	-	**44,986**	-	**44,986**
Balances due from credit institutions	325,352	-	**325,352**	-	**325,352**	203,569	-	**203,537**	-	**203,537**
Financial assets at fair value through profit or loss	23,372	-	**23,372**	-	**23,372**	9,487	14	**9,501**	(2)	**9,499**
Available for sale financial assets	168,584	137	**168,721**	(64)	**168,657**	104,098	616	**104,714**	(191)	**104,523**
Held to maturity investments	155,050	140	**155,190**	(78)	**155,112**	-	-	**-**	-	**-**
Loans and receivables	468,608	126,900	**595,508**	(66,636)	**528,872**	519,796	81,221	**601,017**	(50,437)	**550,580**
Incl. debt securites	*10,582*	*1,681*	***12,263***	*(1,202)*	***11,061***	*17,881*	*5,268*	***23,149***	*(4,013)*	***19,136***
Loans to customers	*458,026*	*125,219*	***583,245***	*(65,434)*	***517,811***	*501,915*	*75,953*	***577,868***	*(46,424)*	***531,444***
Mortgage loans	*304,892*	*103,163*	***408,055***	*(46,659)*	***361,396***	*376,264*	*50,060*	***426,324***	*(32,880)*	***393,444***
Business loans	*134,186*	*21,298*	***155,484***	*(17,971)*	***137,513***	*116,039*	*23,072*	***139,111***	*(11,019)*	***128,092***
Consumer loans	*1,067*	*258*	***1,325***	*(236)*	***1,089***	*1,060*	*229*	***1,289***	*(259)*	***1,030***
Other loans	*17,881*	*500*	***18,381***	*(568)*	***17,813***	*8,552*	*2,592*	***11,144***	*(2,266)*	***8,878***
Total financial assets	**1,223,086**	**127,177**	**1,350,263**	**(66,778)**	**1,283,485**	**881,936**	**81,851**	**963,787**	**(50,630)**	**913,157**

Financial assets of the Bank by risk rating:

	31/12/2010					31/12/2009				
Financial assets	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**
Cash and deposits with central banks	82,120	-	**82,120**	-	**82,120**	44,986	-	**44,986**	-	**44,986**
Balances due from credit institutions	325,326	-	**325,326**	-	**325,326**	203,537	-	**203,537**	-	**203,537**
Financial assets at fair value through profit or loss	23,372	-	**23,372**	-	**23,372**	9,487	14	**9,501**	(2)	**9,499**
Available for sale financial assets	168,584	137	**168,721**	(64)	**168,657**	104,098	616	**104,714**	(191)	**104,523**
Held to maturity investments	155,050	140	**155,190**	(78)	**155,112**	-	-	**-**	-	**-**
Loans and receivables	468,297	126,900	**595,197**	(66,636)	**528,561**	522,691	81,221	**603,912**	(50,437)	**553,475**
Incl. debt securites	*10,582*	*1,681*	***12,263***	*(1,202)*	***11,061***	*17,881*	*5,268*	***23,149***	*(4,013)*	***19,136***
Loans to customers	*457,715*	*125,219*	***582,934***	*(65,434)*	***517,500***	*504,810*	*75,953*	***580,763***	*(46,424)*	***534,339***
Mortgage loans	*304,892*	*103,163*	***408,055***	*(46,659)*	***361,396***	*376,264*	*50,060*	***426,324***	*(32,880)*	***393,444***
Business loans	*133,913*	*21,298*	***155,211***	*(17,971)*	***137,240***	*118,954*	*23,072*	***142,026***	*(11,019)*	***131,007***
Consumer loans	*1,067*	*258*	***1,325***	*(236)*	***1,089***	*1,060*	*229*	***1,289***	*(259)*	***1,030***
Other loans	*17,843*	*500*	***18,343***	*(568)*	***17,775***	*8,532*	*2,592*	***11,124***	*(2,266)*	***8,858***
Total financial assets	**1,222,749**	**127,177**	**1,349,926**	**(66,778)**	**1,283,148**	**884,799**	**81,851**	**966,650**	**(50,630)**	**916,020**

Note 13

Cash and deposits with central banks

	Group/Bank 31/12/2010 LVL '000	Group/Bank 31/12/2009 LVL '000
Cash	3,551	3,880
Deposits with the Bank of Latvia	78,569	41,106
Total cash and deposits with central banks	**82,120**	**44,986**

In accordance with the resolution of the Council of the Bank of Latvia, credit institutions have to comply with the obligatory reserve requirement. As at 31 December 2010, the obligatory reserve requirement for liabilities with the original maturity above two years was 3% (3%), while for other liabilities included in the reserve basis it was 5% (5%). The Group and the Bank were in compliance with this requirement as at 31 December 2010.

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

Note 14

Balances due from credit institutions

As at 31 December 2010, the Bank had established correspondent relationships with 29 (25) credit institutions registered in the OECD area (including EMU and EU countries), 6 (5) credit institutions registered in Latvia, and 20 (22) credit institutions incorporated in other countries.

Balances due from credit institutions to the Group by geographical area and structure in 2010:

Demand deposits with credit institutions	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Correspondent account balances	295	18,386	1,475	41,027	14,049	75,232
Overnight deposits	-	72,433	-	107,001	28	179,462
Total demand deposits with credit institutions	**295**	**90,819**	**1,475**	**148,028**	**14,077**	**254,694**
Other balances due from credit institutions						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
Total other balances due from credit institutions	**-**	**13,901**	**44,484**	**-**	**12,273**	**70,658**
Total balances due from credit institutions	**295**	**104,720**	**45,959**	**148,028**	**14,077**	**325,352**

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

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

Balances due from credit institutions to the Bank by geographical area and structure in 2010:

Demand deposits with credit institutions	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Correspondent account balances	283	18,386	1,475	41,027	14,035	75,206
Overnight deposits	-	72,433	-	107,001	28	179,462
Total demand deposits with credit institutions	**283**	**90,819**	**1,475**	**148,028**	**14,063**	**254,668**
Other balances due from credit institutions						
Security deposits	-	13,901	3,042	-	-	16,943
Term deposits	-	-	41,442	-	-	41,442
Other balances	-	-	-	-	12,273	12,273
Total other balances due from credit institutions	**-**	**13,901**	**44,484**	**-**	**12,273**	**70,658**
Total balances due from credit institutions	**283**	**104,720**	**45,959**	**148,028**	**14,063**	**325,326**

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

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

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

Concentration of balances due from credit institutions by geographical area:

Geographical area	Group 31/12/2010 number	Group 31/12/2009 number	Bank 31/12/2010 number	Bank 31/12/2009 number
Balances over LVL 15,000,000				
EU Member States	3	2	3	2
other OECD countries	1	1	1	1
Balances from LVL 5,000,000 to LVL 15,000,000				
EU Member States	2	3	2	3
other countries	2	1	2	1
other OECD countries	1	-	1	-
Balances up to LVL 5,000,000				
EU Member States	20	20	20	20
other countries	16	18	16	18
other OECD countries	7	8	7	8
Latvia	4	4	4	4
Total				
EU Member States	25	25	25	25
other countries	18	19	18	19
other OECD countries	9	9	9	9
Latvia	4	4	4	4

As at 31 December 2010, the Group's and the Bank's major balances due from credit institutions registered in the EU and OECD area were as follows: LVL 138 (90) million due from *JP Morgan Chase Bank NA,* LVL 61 (32) million due from *Commerzbank AG,* LVL 29 (22) million due from *the Bank of Montreal,* and LVL 27 million due from *DZ bank.*

Note 15

Debt securities and other fixed income securities

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

	Group/Bank 31/12/2010				Group/Bank 31/12/2009		
Issuer	At fair value LVL '000	Available for sale LVL '000	Held to maturity LVL '000	Loans and receivables LVL '000	At fair value LVL '000	Available for sale LVL '000	Loans and receivables LVL '000
Latvia							
Central governments	-	-	-	3,406	-	1,984	3,376
Credit institutions	-	15	-	176	-	2,621	175
International organisations	**-**	**2,373**	**2,204**	**-**	**-**	**535**	**-**
EU Member States							
Central governments	8,134	1,429	3,351	-	-	1,259	-
Credit institutions	5,755	755	164	-	-	2,522	-
Corporate companies	-	-	-	267	-	-	253
Other OECD countries							
Central governments	-	106,985	107,185	-	-	48,715	-
Municipalities	-	-	-	-	-	-	765
Credit institutions	2,743	-	-	-	-	19,314	8,262
Financial institutions	-	-	-	-	-	449	-
Corporate companies	-	13	-	-	-	12,783	199
Other countries							
Central governments and central banks	-	5,461	3,423	247	-	4,482	1,427
Municipalities	-	457	516	501	-	692	-
Credit institutions	2,735	33,682	17,313	5,010	12	3,430	1,091
Financial institutions	-	-	-	-	-	-	243
Corporate companies	-	15,261	20,956	1,454	-	3,590	3,345
Total debt securities and other fixed income securities, net	**19,367**	**166,431**	**155,112**	**11,061**	**12**	**102,376**	**19,136**

The Group's/Bank's management decided to acquire fixed income securities to be included in the held-to-maturity portfolio. As a result, the amount of the Group's/ Bank's fixed income securities grew substantially over 2010. The Group's/ Bank's fixed income securities totalled LVL 352 (121) million as at 31 December 2010.

The major part of the held-to-maturity portfolio are investments in US Treasury notes amounting to LVL 107.185 thousand, Sberbank corporate bonds amounting to LVL 4.143 thousand and Germany government bonds amounting to LVL 3.351 thousand.

As at 31 December 2010, the Group's/ Bank's management recognised impairment of available-for-sale securities amounting to LVL 14 (3.035) thousand.

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

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

Issuer	Group/Bank 31/12/2010 Liquidity portfolio LVL '000	Group/Bank 31/12/2010 Investments held for undefined period portfolio LVL '000	Group/Bank 31/12/2009 Liquidity portfolio LVL '000	Group/Bank 31/12/2009 Investments held for undefined period portfolio LVL '000
Latvia				
Central governments	-	-	1,984	-
Credit institutions	-	15	-	2,621
International organisations	**-**	**2,373**	**-**	**535**
EU Member States				
Central governments	-	1,429	-	1,259
Credit institutions	-	755	-	2,522
Other OECD countries				
Central governments	106,985	-	48,710	5
Credit institutions	-	-	-	19,314
Financial institutions	-	-	-	449
Corporate companies	-	13	-	12,783
Other countries				
Central governments and central banks	-	5,461	-	4,482
Municipalities	-	457	-	692
Credit institutions	-	33,682	-	3,430
Corporate companies	-	15,261	-	3,590
Total available-for-sale securities, net	**106,985**	**59,446**	**50,694**	**51,682**

As at 31 December 2010, the following available-for-sale securities of the Bank were not listed on stock exchanges:

- LVL 6 (1.360) thousand – debt securities issued by companies of other countries;
- LVL 106.985 (0) thousand – debt securities issued by central governments of OECD countries.

As at 31 December 2010, the following held-to-maturity securities of the Bank were not listed on stock exchanges:

- LVL 62 (0) thousand – debt securities issued by companies of other countries;
- LVL 107.185 (0) thousand – debt securities issued by central governments of OECD countries.

Note 16

Derivatives

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

	Group/Bank 31/12/2010	Group/Bank 31/12/2009	Group/Bank 31/12/2010		Group/Bank 31/12/2009	
	Notional amount		Fair value		Fair value	
Foreign currency exchange contracts	LVL '000	LVL '000	Assets LVL '000	Liabilities LVL '000	Assets LVL '000	Liabilities LVL '000
Gold futures	289	-	-	15	-	-
Forwards	5,984	4,398	858	96	703	39
Swaps	73,508	107,863	1,451	115	2,058	137
Futures	88,770	135,133	1,022	-	6,605	-
Total foreign currency exchange contracts	**168,551**	**247,394**	**3,331**	**226**	**9,366**	**176**
Interest rate derivatives						
Futures	-	2,891	-	-	69	-
Total interest rate derivatives	**-**	**2,891**	**-**	**-**	**69**	**-**
Options						
Options	-	185	-	-	-	-
Total options	**-**	**185**	**-**	**-**	**-**	**-**
Total derivatives	**168,551**	**250,470**	**3,331**	**226**	**9,435**	**176**

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

Note 17

Shares and other non-fixed income securities

As at 31 December 2010 and 2009, all the Group's and Bank's investments in shares and investment funds are classified as follows:

	Group/Bank 31/12/2010			Group/Bank 31/12/2009		
At fair value	Listed LVL '000	Non-listed LVL '000	Total LVL '000	Listed LVL '000	Non-listed LVL '000	Total LVL '000
Investments in funds registered in Latvia	324	-	324	-	-	-
Equity shares in Latvian corporate entities	40	-	40	28	-	28
Equity shares in foreign corporate entities	82	-	82	24	-	24
Equity shares in foreign credit institutions	66	162	228	-	-	-
Total shares and other non-fixed income securities included at fair value throught profit or loss	**512**	**162**	**674**	**52**	**-**	**52**
Available-for-sale						
Investments in foreign funds	-	2,165	2,165	-	2,086	2,086
Equity shares in foreign financial institutions	-	61	61	-	61	61
Total shares and other non-fixed income securities included in the available-for-sale portfolio	-	**2,226**	**2,226**	-	**2,147**	**2,147**
Total shares and other non-fixed income securities	**512**	**2,388**	**2,900**	**52**	**2,147**	**2,199**

In 2010 and 2009, the Group's and Bank's management did not recognise any impairment of shares.

Note 18

Loans

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

Customer profile	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Other private individuals	427,114	451,294	427,114	451,294
Corporate companies	122,050	112,627	121,739	115,522
Financial institutions	28,986	8,263	28,986	8,263
Bank's employees	5,096	5,684	5,096	5,684
Total loans	**583,246**	**577,868**	**582,935**	**580,763**
Less allowance for credit losses	(65,435)	(46,424)	(65,435)	(46,424)
Total loans, net	**517,811**	**531,444**	**517,500**	**534,339**

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The industry analysis of loans granted by the Group and the Bank and the maximum and minimum exposure based on the principles listed in Note 32 are provided below:

	Group 31/12/2010		Group 31/12/2009		Bank 31/12/2010		Bank 31/12/2009	
Industry profile*	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000	Maximum exposure LVL '000	Minimum exposure LVL '000
Private individuals (mortgage loans)	366,888	126,458	401,838	156,533	366,888	126,458	401,838	156,533
Real estate management	25,968	2,784	32,426	2,810	25,968	2,784	32,426	2,810
Trade	26,935	7,074	26,119	1,206	26,935	7,074	26,119	1,206
Private individuals (other loans)	9,388	2,743	15,318	3,438	9,388	2,743	15,318	3,438
Construction	6,551	76	17,055	4,828	6,551	76	17,055	4,828
Financial intermediaries	21,163	21,162	8,486	212	28,987	21,162	8,486	212
Transport and logistics	6,594	621	6,812	70	6,594	621	6,812	70
Other service industries	24,293	10,965	5,969	298	15,256	10,965	5,969	298
Manufacturing	6,139	109	2,993	16	6,139	109	2,993	16
Agriculture and forestry	36	-	67	3	36	-	67	3
Other industries	23,856	23,232	14,361	2,007	24,758	23,194	17,256	2,007
Total loans, net	**517,811**	**195,224**	**531,444**	**171,421**	**517,500**	**195,186**	**534,339**	**171,421**

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

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

Credit quality analysis for the Group is as follows:

Not individualy impaired loans	31/12/2010 Loans, total LVL '000	31/12/2010 Incl. past due payments LVL '000	31/12/2009 Loans, total LVL '000	31/12/2009 Incl. past due payments LVL '000
Mortgage loans	321,205	1,021	333,528	1,023
Business loans	112,135	932	100,350	8,736
Consumer loans	1,029	-	862	9
Other loans	17,661	-	8,408	11
Total non-impaired loans, gross	**452,030**	**1,953**	**443,148**	**9,779**
Impaired loans				
Mortgage loans	86,850	51,898	92,796	55,082
Business loans	43,349	14,021	38,761	19,237
Consumer loans	296	44	427	224
Other loans	720	190	2,736	2,685
Total impaired loans, gross	**131,215**	**66,153**	**134,720**	**77,228**
Total loans, gross	**583,245**	**68,106**	**577,868**	**87,007**
Less allowance for credit losses	(65,434)	-	(46,424)	-
Total loans, net	**517,811**	**-**	**531,444**	**-**

Credit quality analysis for the Bank is as follows:

Not individualy impaired loans	31/12/2010 Loans, total LVL '000	31/12/2010 Incl. past due payments LVL '000	31/12/2009 Loans, total LVL '000	31/12/2009 Incl. past due payments LVL '000
Mortgage loans	321,205	1,021	333,528	1,023
Business loans	111,862	932	103,265	8,736
Consumer loans	1,029	-	862	9
Other loans	17,623	-	8,388	11
Total non-impaired loans, gross	**451,719**	**1,953**	**446,043**	**9,779**
Impaired loans				
Mortgage loans	86,850	51,898	92,796	55,082
Business loans	43,349	14,021	38,761	19,237
Consumer loans	296	44	427	224
Other loans	720	190	2,736	2,685
Total impaired loans, gross	**131,215**	**66,153**	**134,720**	**77,228**
Total loans, gross	**582,934**	**68,106**	**580,763**	**87,007**
Less allowance for credit losses	(65,434)	-	(46,424)	-
Total loans, net	**517,500**	-	**534,339**	-

The table below provides the aging analysis of the Group's and Bank's past due loans that have not been impaired individually as at 31 December 2010:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	420	63	-	-	483
31–59 days	179	13	-	-	192
60–89 days	178	17	-	-	195
More than 90 days	244	839	-	-	1,083
Total past due loans	**1,021**	**932**	**-**	**-**	**1,953**

The table below provides the aging analysis of the Group's and Bank's past due loans that have not been impaired individually as at 31 December 2009:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	188	91	-	-	279
31–59 days	82	72	-	-	154
60–89 days	167	-	-	-	167
More than 90 days	586	8,573	9	11	9,179
Total past due loans	**1,023**	**8,736**	**9**	**11**	**9,779**

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

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The collateral analysis for the Group's and Bank's loans that have been impaired individually is provided below:

	31/12/2010		31/12/2009	
Loan type	Total loans LVL '000	Fair value of collateral LVL '000	Total loans LVL '000	Fair value of collateral LVL '000
Mortgage loans	86,850	42,093	92,796	46,784
Business loans	43,349	33,964	38,761	35,419
Consumer loans	296	-	427	-
Other loans	720	22	2,736	523
Total impaired loans, gross	**131,215**	**76,079**	**134,720**	**82,726**
Less allowance for credit losses	(61,066)	-	(41,182)	-
Total impaired loans, net	**70,149**	-	**93,538**	-

As at 31 December 2010, the gross amount of loans having the maturity date for principal or interest changed was LVL 123.674 (170.455) thousand. These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due.

Note 19

Investments in subsidiaries

As at 31 December 2010, the Bank held shares in the following subsidiaries:

	Country of incorporation	Share capital	Equity	Bank's share (% of total share capital)	Share capital	Equity	Bank's share (% of total share capital)
				31/12/2010			31/12/2009
Company		LVL '000	LVL '000	(%)	LVL '000	LVL '000	(%)
KS "AB.LV Transform Partnership"	LV	49,196	45,345	99,9997	31,626	28,883	99,9997
SIA "Elizabetes 21a"	LV	2,500	1,828	91,6	1,750	1,238	88
SIA "New Hanza City"	LV	2,900	2,884	100	1,100	1,148	100
IPAS "AB.LV Asset Management"	LV	400	447	100	700	588	100
IBAS "AB.LV Capital Markets"	LV	400	1,060	100	700	677	100
AS "AB Konsultācijas"	LV	375	385	100	300	303	100
SIA "AB.LV Transform 1"	LV	200	(7)	100	100	32	100
SIA "AB.LV Corporate Services"	LV	20	40	100	-	-	-
SIA "AB.LV Private Equity Management"	LV	120	148	100	-	-	-
KS "AB.LV Private Equity Fund 2010"	LV	3,514	3,574	100	-	-	-
Total, gross		**59,625**	**55,704**		**36,276**	**32,869**	
Impairment expense		(754)			-		
Total, net		**58,871**			**36,276**		

During the reporting year, the Bank increased its investment in the share capital of SIA "Elizabetes 21a" from 88% to 91.6% by additionally investing LVL 750 thousand as well as its investment in KS "AB.LV Transform Partnership" by EUR 24 million. The Bank also increased the share capital of its subsidiary AS "AB Konsultācijas" by LVL 75 thousand as well as the share capital of SIA "New Hanza City" and SIA "AB.LV Transform 1" by LVL 1.800 thousand and LVL 100 thousand respectively. The above capital increases were aimed at ensuring expansion of the subsidiaries' business and their successful development.

During the reporting year, the share capital of IPAS "AB.LV" Asset Management and IBAS "AB.LV Capital Markets" was decreased by LVL 300 thousand each.

As at 31 December 2010, funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation amounted to LVL 32.619 (16.049) thousand. The value of financial instruments of the AB.LV Capital Markets customers as at 31 December 2010 was LVL 280.021 (92.314) thousand.

In the reporting year, the Bank established SIA "AB.LV Corporate Services" to expand the range of consulting services provided to corporate clients and SIA "AB.LV Private Equity Management" to establish and manage venture capital investment funds that will make investments in promising Latvian and foreign companies, providing support for their successful development. Meanwhile, in August 2010 the Bank established an investment fund named KS "AB.LV Private Equity Fund 2010" intended for private equity investments.

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

Note 20

Investment properties

	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Investment properties	18,426	17,812	16,535	16,492
Prepayments for investment properties	2,232	2,559	135	130
Total investment properties	**20,658**	**20,371**	**16,670**	**16,622**

The movements in the Group's and Bank's investment properties in 2010 are as follows:

	Group			Bank		
	Land LVL '000	Buildings LVL '000	Total, excl. prepayments LVL '000	Land LVL '000	Buildings LVL '000	Total, excl. prepayments LVL '000
Acquisition value as at 01/01/2010	**17,654**	**198**	**17,852**	**16,334**	**198**	**16,532**
Additions	593	-	593	22	-	22
Reclassification	-	59		-	59	59
Disposals	(1)	(40)	(41)	(1)	(40)	(41)
Acquisition value as at 31/12/2010	**18,246**	**217**	**18,404**	**16,355**	**217**	**16,572**
Accumulated depreciation as at 01/01/2010	**-**	**40**	**40**	**-**	**40**	**40**
Depreciation charge	-	10	10	-	10	10
Depreciation of disposals	-	(13)	(13)	-	(13)	(13)
Accumulated depreciation as at 31/12/2010	**-**	**37**	**37**	**-**	**37**	**37**
Net carrying amount as at 01/01/2010	**17,654**	**158**	**17,812**	**16,334**	**158**	**16,492**
Net carrying amount as at 31/12/2010	**18,246**	**180**	**18,426**	**16,355**	**180**	**16,535**

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

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

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

The market value of the Group's and Bank's investment properties as at 31 December 2010 was LVL 19 (19) million.

The Management of the Bank and the Group believe that the most credible market value of investment properties was identified based on the evaluations presented by the Bank's real estate experts. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not properly developed.

Rentals from investment properties in 2010 amounted to LVL 21 (150) thousand, whereas the related property maintenance expense was LVL 110 (194) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to LVL 84 (16) thousand.

Note 21

Intangible and tangible fixed assets

	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Intangible fixed assets	3,120	1,193	2,982	1,039
Prepayments for intangible fixed assets	581	2,298	566	2,298
Total intangible fixed assets	**3,701**	**3,491**	**3,548**	**3,337**
Land	129	321	129	129
Buildings and property improvements	3,364	3,618	3,364	3,618
Leasehold improvements	190	227	190	227
Construction in progress	2,184	-	-	-
Vehicles	446	484	356	396
Office equipment	1,271	1,424	1,189	1,374
EDP equipment	*787*	*937*	*778*	*922*
Other tangible fixed assets	*484*	*487*	*411*	*452*
Prepayments for tangible fixed assets	370	3	25	3
Total tangible fixed assets	**7,954**	**6,077**	**5,253**	**5,747**

The movements in the Group's intangible and tangible fixed assets in 2010 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Construction in progress LVL '000	Vehicles LVL '000	Office equipment LVL '000	Total, less prepayments LVL '000
Acquisition value as at 01/01/2010	**3,426**	**321**	**4,921**	**666**	**-**	**921**	**6,277**	**16,532**
Additions	2,466	-	3	16	2,184	151	568	5,388
Reclassification	-	-	(59)	-	-	-	-	(59)
Disposals	(14)	(192)	-	-	-	(120)	(475)	(801)
Acquisition value as at 31/12/2010	**5,878**	**129**	**4,865**	**682**	**2,184**	**952**	**6,370**	**21,060**
Accumulated depreciation as at 01/01/2010	**2,233**	**-**	**1,303**	**439**	**-**	**437**	**4,853**	**9,265**
Depreciation charge	532	-	198	53	-	175	724	1,682
Disposals	(7)	-	-	-	-	(106)	(478)	(591)
Accumulated depreciation as at 31/12/2010	**2,758**	**-**	**1,501**	**492**	**-**	**506**	**5,099**	**10,356**
Net carrying amount as at 01/01/2010	**1,193**	**321**	**3,618**	**227**	**-**	**484**	**1,424**	**7,267**
Net carrying amount as at 31/12/2010	**3,120**	**129**	**3,364**	**190**	**2,184**	**446**	**1,271**	**10,704**

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

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

As at 31 December 2010, the Group and the Bank owned intangible and tangible fixed assets having the net carrying amount of 0 and the cost value of LVL 5.103 (4,236) thousand and LVL 5.087 (4.227) thousand.

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

The movements in the Bank's intangible and tangible fixed assets in 2010 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Vehicles LVL '000	Office equipment LVL '000	Total, less prepayments LVL '000
Acquisition value as at 01/01/2010	**3,225**	**129**	**4,921**	**666**	**749**	**6,184**	**15,874**
Additions	2,431	-	3	16	100	512	3,062
Reclassification	-	-	(59)	-	-	-	(59)
Disposals	(3)	-	-	-	(69)	(470)	(542)
Acquisition value as at 31/12/2010	**5,653**	**129**	**4,865**	**682**	**780**	**6,226**	**18,335**
Accumulated depreciation as at 01/01/2010	**2,186**	**-**	**1,303**	**439**	**353**	**4,810**	**9,091**
Depreciation charge	488	-	198	53	139	699	1,577
Disposals	(3)	-	-	-	(68)	(472)	(543)
Accumulated depreciation as at 31/12/2010	**2,671**	**-**	**1,501**	**492**	**424**	**5,037**	**10,125**
Net carrying amount as at 01/01/2010	**1,039**	**129**	**3,618**	**227**	**396**	**1,374**	**6,783**
Net carrying amount as at 31/12/2010	**2,982**	**129**	**3,364**	**190**	**356**	**1,189**	**8,210**

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

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

Information about contractual commitments on purchase of intangible and tangible fixed assets is disclosed in Note 29.

Note 22

Other assets

	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Non-financial assets taken over for sale	44,425	25,236	585	957
Other settlements with third parties	1,429	165	3,137	3,253
Tax receivables	729	894	209	471
Clearing of payment cards	335	1,300	335	1,300
Gold	309	-	309	-
Unsettled SPOT transactions	265	389	265	389
Suspense items	1	364	1	364
Other assets	427	353	336	259
Total other assets, gross	**47,920**	**28,701**	**5,177**	**6,993**
Impairment expense	(2,532)	(2,057)	(78)	(122)
Total other assets, net	**45,388**	**26,644**	**5,099**	**6,871**

Note 23

Balances due to credit institutions

	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Other term deposits	3,502	4,929	550	1,958
Demand deposits from credit institutions	1,906	1,027	1,906	1,027
Total balances due to credit institutions	**5,408**	**5,956**	**2,456**	**2,985**

Note 24

Deposits

Customer profile	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Corporate companies	1,091,402	760,573	1,102,801	771,087
Private individuals	122,476	89,283	122,476	89,283
State-owned enterprises	16,596	2,233	16,596	2,233
Financial institutions	4,417	4,723	4,417	4,723
Non-profit institutions serving private individuals	1,500	1,390	1,500	1,390
Municipalities	400	301	400	301
Total deposits from customers	**1,236,791**	**858,503**	**1,248,190**	**869,017**

During the reporting year, the deposits with the Group and the Bank grew rapidly to exceed LVL 1 billion for the first time ever. The Group's/Bank's top 20 customers in terms of the deposit amount account for 20% (22%) of the total deposits.

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

Geographical profile of customer residence	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Other countries	737,982	525,069	737,982	525,069
Other EU Member States	222,754	113,486	222,754	113,486
Other OECD countries	125,535	100,851	125,535	100,851
EMU countries	96,802	69,857	96,802	69,857
Latvia	53,718	49,240	65,117	59,754
Total deposits from customers	**1,236,791**	**858,503**	**1,248,190**	**869,017**

Of the total deposits placed with the Group and the Bank, 82.6% are from customers whose beneficiaries are CIS residents.

Note 25

Related party disclosures

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

	Group		Bank		Group		Bank	
			31/12/2010				31/12/2009	
Loans issued to related parties	Amount LVL '000	Terms	Amount LVL '000	Terms	Amount LVL '000	Terms	Amount LVL '000	Terms
Management	136	0–24%	136	0–24%	163	2–15%	148	2–15%
Related legal entities	1,930	0–24%	10,694	0–24%	1,693	6–24%	4,630	6–24%
Other related private individuals	514	2–22%	514	2–22%	656	2–15%	567	2–15%
Total loans issued to related parties	**2,580**		**11,344**		**2,512**		**5,345**	
Loan commitments and other memorandum items	610		2,850		203		343	
Less allowance for credit losses	-		-		-		(182)	
Net loans, loan commitments and other memorandum items	**3,190**		**14,194**		**2,715**		**5,506**	

The Latvian banking legislation requires that any credit exposure to a non-related entity or a group of non-related entities may not exceed 25% of credit institution's equity. The total credit exposure to all related parties may not exceed 15% of Bank's equity.

As at 31 December 2010, the Bank was in compliance with the above requirements for the non-zero risk credit exposures to related parties and non-related entities.

As at 31 December 2010, the deposits of related parties with the Group amounted to LVL 4.735 (3.752) thousand, while those with the Bank amounted to LVL 16.371 (15.179) thousand. All related party deposits bear standard interest rates offered by the Bank.

Administrative and other expense from transactions with related parties for the reporting year were LVL 1.631 (1.215) thousand.

Interest income and expense from transactions with related parties:

	Group 2010 LVL '000	Group 2009 LVL '000	Bank 2010 LVL '000	Bank 2009 LVL '000
Interest income	139	266	211	649
Interest expense	148	81	219	324

Note 26

Subordinated liabilities

As at 31 December 2010, the Group's and Bank's subordinated liabilities of LVL 46.883 (41.664) thousand comprised subordinated bonds amounting to LVL 22.921 (12.995) thousand and subordinated loans amounting to LVL 23.962 (28.669) thousand.

In 2008, the Bank initiated two subordinated bond issues – in US dollars and euro – with the issue amount of USD 20 million (issuing 200,000 subordinated bonds, each having the par value of USD 100) and EUR 12.5 million (issuing 125.000 subordinated bonds, each having the par value of EUR 100) respectively. All the bonds issued in 2008 mature on 1 October 2018. Starting from 1 October 2013, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 13% will be paid from 1 October 2013.

In the reporting year (September 2010), the Bank issued subordinated bonds totalling USD 20 million, i.e., 200.000 subordinated bonds, each having the par value of USD 100. The bonds mature on 15 September 2020. Starting from 15 September 2015, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 8% will be paid from 16 September 2015.

As at 31 December 2010, the carrying amount of all the subordinated bonds was USD 27.1 (14.1) million and EUR 7.7 (7.7) million. The issues of the subordinated bonds were closed and these bonds are not registered with Riga Stock Exchange.

The Bank received also subordinated loans for the total amount of USD 43 (53.6) million and EUR 1.2 (3.3) million. Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the Bank's share capital.

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

The analysis of subordinated loans as at 31 December 2010:

Lenders	Loan amount LVL '000	Accumulated interest LVL '000	% of total subordinated capital (%)	Interest rate	Currency	Date of the agreement	Date of maturity
Harpic Group LTD	8,025	34	33,64	5,04	USD	8/14/2008	8/19/2018
Multicross LLC	5,350	32	22,43	7,14	USD	3/19/2007	4/2/2017
Euro swiss LLC	5,350	32	22,43	7,14	USD	3/19/2007	4/2/2017
Major lenders in total	**18,725**	**98**	**78,50**				
Other lenders							
residents	241	1	1,01	8,13–8,39	USD		
non-residents	4,043	10	16,95	2,83–8,39	USD		
residents	35	-	0,15	7,14	EUR		
non-residents	808	1	3,39	3,53–7,14	EUR		
Other lenders in total	**5,127**	**12**	**21,50**				
Total	**23,852**	**110**	**100,00**				

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. Their remaining weighted average maturity is 3.06 years.

Note 27

Paid-in share capital

The Bank's 10.000 shares were issued during the reporting year in addition to the existing 100.000 shares. The share issue was aimed at ensuring sustainable development of the Group/Bank in the future. As a result, the new issue shares form 9.09% of the Bank's share capital.

As at 31 December 2010, the paid-in share capital of the Bank amounted to LVL 16.5 million (15 million).

The share capital consists of ordinary shares with voting rights only. All the shares have the par value of LVL 150 (150) each.

As at 31 December 2010, the Bank had 128 (95) shareholders, including 11 (12) legal entities and 117 (83) private individuals, holding the total of 110.000 (100.000) shares.

The members of the Board directly hold 86.16% (93.81%) of the share capital, while the members of the Council – 5.73% (3.35%) of the share capital.

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

	31/12/2010		31/12/2009	
	Paid-in share capital LVL '000	% of total paid-in share capital (%)	Paid-in share capital LVL '000	% of total paid-in share capital (%)
Oļegs Fiļs	**7,086**	**42,95**	**7,056**	**47,04**
Group of related shareholders				
Ernests Bernis	6,932	42,01	6,902	46,01
Nika Berne	154	0,94	154	1,03
Total group of related shareholders	**7,086**	**42,95**	**7,056**	**47,04**

Note 28

Dividends proposed and paid

In 2010 and 2009, there were no dividends proposed and/or paid.

Note 29

Memorandum items

Contingent liabilities	Group/Bank 31/12/2010 LVL '000	Group/Bank 31/12/2009 LVL '000
Outstanding guarantees	20,871	16,221
Letters of credit	254	663
Total contingent liabilities	**21,125**	**16,884**
Financial commitments		
Loan commitments	3,636	1,488
Unutilised credit lines	2,877	3,659
Undrawn credit facilities on settlement cards	6,224	4,935
Contractual commitments on purchase of intangible assets	171	103
Contractual commitments on purchase of other tangible assets	26	25
Total financial commitments	**12,934**	**10,210**
Total contingent liabilities and financial commitments	**34,059**	**27,094**

As at 31 December 2010, funds under trust management by the Group amounted to LVL 116.823 (71.845) thousand, while funds under trust management by the Bank amounted to LVL 84.167 (55.796) thousand. The Bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the Bank. Meanwhile, the Group's funds under trust management include also funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation.

The related credit risk and all other risks remain fully with the customer which provided these funds to the Group and/or the Bank.

Note 30

Capital management and capital adequacy

The primary objective of the Group's and Bank's capital management is to ensure that the Group and the Bank comply with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the Group and the Bank maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

The goals of the Group's and Bank's capital management are consistent with those of the previous years, while the capital management procedures and the procedure for calculating capital adequacy were materially affected by the new Basel II requirements regarding minimum capital requirements for banks. During the reporting year, the Bank continued improving its methodology for calculating the capital requirement for credit risk. According to the capital adequacy rules of Basel II, the Group and the Bank have resolved to apply the standardised approach to calculate the capital requirements for credit risk and market risks and the basic indicator approach to calculate the capital requirement for operational risk.

Capital adequacy refers to the sufficiency of the Group's and Bank's capital resources to cover credit risk, operational risk, and market risks. As at 31 December 2010, the Bank's capital adequacy ratio in accordance with the FCMC requirements was 12.45% (15.04%), while the Group's capital adequacy ratio was 11.41% (14.56%).

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

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

Tier 1	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
paid-in share capital	16,500	15,000	16,500	15,000
share premium	5,255	255	5,255	255
reserve capital	1,500	1,500	1,500	1,500
retained earnings	52,804	74,162	57,240	76,460
intangible fixed assets	(3,701)	(3,491)	(3,548)	(3,337)
non-controlling interests	582	(661)	-	-
current year's audited (loss)/profit (not subject to distribution of dividends)	(7,519)	(21,358)	(6,947)	(19,220)
decrease in Tier 1 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS *(50%)*	(144)	(715)	(144)	(715)
Total Tier 1	**65,277**	**64,691**	**69,856**	**69,943**
Tier 2				
fair value revaluation reserve of available-for-sale financial assets (45%)	823	39	823	39
decrease in Tier 2 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS *(50%)*	(144)	(715)	(144)	(715)
subordinated capital (based on the remaining maturity, with the adjustment rate of 40%-100%)	33,122	32,458	34,999	32,458
Total Tier 2	**33,801**	**31,782**	**35,678**	**31,782**
Total eligible capital	**99,078**	**96,473**	**105,534**	**101,725**
Capital charge for credit risk on banking book	57,419	43,056	58,304	44,222
Total capital charge for market risks on trading book	4,163	1,970	1,809	1,970
capital charge for foreign currency risk	*3,151*	*871*	*797*	*871*
capital charge for position risk	*904*	*989*	*904*	*989*
capital charge for counterparty risk	*108*	*110*	*108*	*110*
Capital charge for operational risk	7,889	7,980	7,678	7,922
Total capital charge 8%	69,471	53,006	67,791	54,114
Capital adequacy ratio (%)	**11,41**	**14,56**	**12,45**	**15,04**
Minimum capital adequacy ratio (%)	8,00	8,00	8,00	8,00

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

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

Exposure category	Group 31/12/2010 LVL '000	Group 31/12/2009 LVL '000	Bank 31/12/2010 LVL '000	Bank 31/12/2009 LVL '000
Central governments or central banks	1,123	1,109	1,086	1,071
Regional or local governments	118	191	118	191
Institutions	9,927	5,972	9,893	6,204
Commercial companies	12,758	11,650	17,451	11,650
Low risk portfolio	2,345	10,480	2,345	10,480
Secured by real estate	861	3,958	861	3,958
Past due exposures	3,725	5,194	3,725	5,194
High risk exposures	260	250	260	250
Other items	26,302	4,252	22,565	5,224
Total capital charge for credit risk	**57,419**	**43,056**	**58,304**	**44,222**

Note 31

Fair value of financial instruments

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

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

	31/12/2010		31/12/2009	
Financial assets	Carrying amount LVL '000	Fair value LVL '000	Carrying amount LVL '000	Fair value LVL '000
Cash and deposits with central banks	82,120	82,120	44,986	44,986
Balances due from credit institutions	325,352	325,352	203,569	203,569
Financial assets at fair value through profit or loss	23,372	23,372	9,499	9,499
Available-for-sale financial assets	168,657	168,657	104,523	104,523
Held-to-maturity investments	155,112	155,605	-	-
Loans and receivables	528,872	527,821	550,580	518,047
Total financial assets	**1,283,485**	**1,282,927**	**913,157**	**880,624**
Financial liabilities				
Demand deposits from credit institutions	1,906	1,906	1,027	1,027
Financial liabilities at fair value through profit or loss	226	226	176	176
Financial liabilities at amortised cost	1,287,176	1,292,843	905,096	909,215
Total financial liabilities	**1,289,308**	**1,294,975**	**906,299**	**910,418**

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

	31/12/2010		31/12/2009	
Financial assets	Carrying amount LVL '000	Fair value LVL '000	Carrying amount LVL '000	Fair value LVL '000
Cash and deposits with central banks	82,120	82,120	44,986	44,986
Balances due from credit institutions	325,326	325,326	203,537	203,537
Financial assets at fair value through profit or loss	23,372	23,372	9,499	9,499
Available-for-sale financial assets	168,657	168,657	104,523	104,523
Held-to-maturity investments	155,112	155,605	-	-
Loans and receivables	528,561	527,510	553,475	520,942
Total financial assets	**1,283,148**	**1,282,590**	**916,020**	**883,487**
Financial liabilities				
Demand deposits from credit institutions	1,906	1,906	1,027	1,027
Financial liabilities at fair value through profit or loss	226	226	176	176
Financial liabilities at amortised cost	1,295,623	1,301,290	912,639	916,758
Total financial liabilities	**1,297,755**	**1,303,422**	**913,842**	**917,961**

Hierarchy of input data for determining the fair value of financial assets and liabilities

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

Level 1: Quoted prices in active markets;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable.

Level 3: Other techniques which use inputs having a significant effect on the recorded fair value that are not based on observable market data.

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

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

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

	31/12/2010				31/12/2009			
Financial assets	Level 1 LVL '000	Level 2 LVL '000	Level 3 LVL '000	Total LVL '000	Level 1 LVL '000	Level 2 LVL '000	Level 3 LVL '000	Total LVL '000
Financial assets at fair value through profit or loss	20,901	2,471	-	23,372	6,669	2,830	-	9,499
Fixed income securities	*19,367*	-	-	*19,367*	*12*	-	-	*12*
Shares and other non-fixed income securities	*512*	*162*	-	*674*	*52*	-	-	*52*
Derivatives	*1,022*	*2,309*	-	*3,331*	*6,605*	*2,830*	-	*9,435*
Available-for-sale financial assets	165,722	709	2,226	168,657	98,158	4,218	2,147	104,523
Fixed income securities	*165,722*	*709*	-	*166,431*	*98,158*	*4,218*	-	*102,376*
Shares and other non-fixed income securities	-	-	*2,226*	*2,226*	-	-	*2,147*	*2,147*
Total financial assets	**186,623**	**3,180**	**2,226**	**192,029**	**104,827**	**7,048**	**2,147**	**114,022**
Financial liabilities								
Financial liabilities at fair value through profit or loss	-	226	-	226	-	176	-	176
Derivatives	-	*226*	-	*226*	-	*176*	-	*176*
Total financial liabilities	-	**226**	-	**226**	-	**176**	-	**176**

During the reporting year, no transfers of financial instruments between the levels of the fair value hierarchy took place.

In 2010 and 2009, the fair value of only one investment fund was determined by applying the terms of Level 3 of the fair value hierarchy. The analysis of the audited financial statements of the above mentioned fund did not show any impairment of the Group's and Bank's initial investment during the reporting year. Considering the positive financials reported in the audited financial statements of the closed investment fund, the value of the Group's and Bank's investment has increased. However, the Group's and Bank's management, having prudently assessed risks related to this investment, believe that the fair value of the investment corresponds to its net carrying amount.

Note 32

Credit risk

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

Credit risk management framework
Credit risk is managed according to the credit policy. Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral.

To assess solvency of private individuals, the Bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories.

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

Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the Bank considers such reduced value. As collateral, the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, factoring receivables, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

For effective credit risk management, the Bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The Bank analyses the quality of the loan portfolio on a regular basis. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/risk factors set, collateral value, etc.

The Group and the Bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

Before entering into any cooperation with financial institutions, the Bank assesses each potential counterparty, analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date. Credit risk concentration and the industry analysis of the maximum and minimum exposure are presented in Note 18.

The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis. Regular stress tests of the Bank's loan portfolio are performed to assess the credit risk exposure and identify potential critical situations.

Credit risk concentration
The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the Group and the Bank treat as high the credit exposure exceeding 10% of equity. Pursuant to the statutory requirements, the total credit exposure cannot be more than eight times as large as equity.

As at 31 December 2010 and 2009, the Group and the Bank were in compliance with this requirement. Ten major exposures as at 31 December 2010 amounted to 14.2% (7.4%) of the total Group's and Bank's gross loan portfolio.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank review this part of the loan portfolio on a regular basis. Low activity was still observed on the real estate market in 2010, which affected customer financing in this sector. No financing options for new real estate development projects are being considered at present. As at 31 December 2010, the amount of those properties which had been taken over during the loan restructuring process carried out by the Group/Bank with the purpose of selling those properties to recover the debts was LVL 41.940 (22.708) thousand.

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

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

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

The analysis of maximum geographical concentration for the Group as at 31 December 2010:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and deposits with central banks	79,182	2,284	86	568	-	82,120
Balances due from credit institutions	283	104,720	45,959	148,054	26,336	325,352
Financial assets at fair value through profit or loss	1,210	5,755	8,133	5,229	3,045	23,372
Available-for-sale financial assets	15	1,194	1,985	108,668	56,795	168,657
Held-to-maturity investments	-	7,731	-	108,254	39,127	155,112
Loans and receivables	455,406	765	8,651	19,102	44,948	528,872
Total financial assets	**536,096**	**122,449**	**64,814**	**389,875**	**170,251**	**1,283,485**
Non-financial assets	83,448	3	-	590	1	84,042
Total assets	**619,544**	**122,452**	**64,814**	**390,465**	**170,252**	**1,367,527**
Contingent liabilities	19,402	188	346	54	1,135	21,125
Financial commitments	5,400	-	410	900	6,224	12,934
Total geographical concentration of assets and memorandum items	**644,346**	**122,640**	**65,570**	**391,419**	**177,611**	**1,401,586**

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

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and demand deposits with central banks	41,945	2,321	41	679	-	44,986
Balances due from credit institutions	589	58,992	39,523	95,847	8,618	203,569
Financial assets at fair value through profit or loss	731	-	-	8,732	36	9,499
Available-for-sale financial assets	4,605	2,101	2,275	48,740	46,802	104,523
Loans and receivables	522,525	-	1,386	16,418	10,251	550,580
Total financial assets	**570,395**	**63,414**	**43,225**	**170,416**	**65,707**	**913,157**
Non-financial assets	63,562	2	41	905	60	64,570
Total assets	**633,957**	**63,416**	**43,266**	**171,321**	**65,767**	**977,727**
Contingent liabilities	15,569	207	436	93	579	16,884
Financial commitments	4,295	-	-	772	5,143	10,210
Total geographical concentration of assets and memorandum items	**653,821**	**63,623**	**43,702**	**172,186**	**71,489**	**1,004,821**

The analysis of maximum geographical concentration for the Bank as at 31 December 2010:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and deposits with central banks	79,182	2,284	86	568	-	82,120
Balances due from credit institutions	283	104,720	45,959	148,028	26,336	325,326
Financial assets at fair value through profit or loss	1,210	5,755	8,133	5,229	3,045	23,372
Available-for-sale financial assets	15	1,194	1,985	108,668	56,795	168,657
Held-to-maturity investments	-	7,731	-	108,254	39,127	155,112
Loans and receivables	455,133	765	8,651	19,064	44,948	528,561
Total financial assets	**535,823**	**122,449**	**64,814**	**389,811**	**170,251**	**1,283,148**
Non-financial assets	94,823	3	-	590	1	95,417
Total assets	**630,646**	**122,452**	**64,814**	**390,401**	**170,252**	**1,378,565**
Contingent liabilities	19,402	188	346	54	1,135	21,125
Financial commitments	5,400	-	410	900	6,224	12,934
Total geographical concentration of assets and memorandum items	**655,448**	**122,640**	**65,570**	**391,355**	**177,611**	**1,412,624**

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

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and deposits with central banks	41,945	2,321	41	679	-	44,986
Balances due from credit institutions	578	58,991	39,523	95,847	8,598	203,537
Financial assets at fair value through profit or loss	731	-	-	8,732	36	9,499
Available-for-sale financial assets	4,605	2,101	2,275	48,740	46,802	104,523
Held-to-maturity investments	525,420	-	1,386	16,418	10,251	553,475
Total financial assets	**573,279**	**63,413**	**43,225**	**170,416**	**65,687**	**916,020**
Non-financial assets	75,101	2	41	905	60	76,109
Total assets	**648,380**	**63,415**	**43,266**	**171,321**	**65,747**	**992,129**
Contingent liabilities	15,569	207	436	93	579	16,884
Financial commitments	4,295	-	-	772	5,143	10,210
Total geographical concentration of assets and memorandum items	**668,244**	**63,622**	**43,702**	**172,186**	**71,469**	**1,019,223**

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

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

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

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

Credit ratings	Group/Bank 31/12/2010 At fair value LVL `000	Liquidity portfolio LVL `000	Investments held for undefined period portfolio LVL `000	Held-to-maturity LVL `000	Loans and receivables LVL `000	Group/Bank 31/12/2009 At fair value LVL `000	Liquidity portfolio LVL `000	Investments held for undefined period portfolio LVL `000	Loans and receivables LVL `000
AAA to AA-	19,362	106,985	2,840	111,604	-	-	48,710	2,146	-
A+ to A-	-	-	-	164	-	-	-	-	-
BBB+ to BBB-	-	-	20,590	27,484	606	-	-	16,860	761
BB+ to BB-	-	-	18,447	6,795	3,652	-	1,985	12,283	4,803
B+ to B-	5	-	16,325	9,003	4,451	-	-	16,399	6,360
Below B-	-	-	784	62	2,133	12	-	2,081	5,916
No rating	-	-	460	-	219	-	-	1,912	1,293
Shares and investments in funds	674	-	2,226	-	-	52	-	2,147	-
Securities portfolio, net	**20,041**	**106,985**	**61,672**	**155,112**	**11,061**	**64**	**50,695**	**53,828**	**19,133**

Note 33

Financial risks

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

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

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

For ordinary liquidity risk management purposes, the Bank applies the following indicators having certain limits and restrictions set:
- deposit coverage ratio;
- net liquidity positions by all currencies in total and by each separate currency;
- current liquidity ratio;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

To timely identify the potential deterioration in the liquidity position, an early warning indicators system has been designed:
- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of "Less than 30 days";
- simultaneous decrease of the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease of the proportion of liquid assets in the total assets of the Bank;
- negative information reported in the mass media about the Bank or its related parties that may harm the Bank's reputation;
- the increasingly reported instances of limits reduced or annulled by counterparties.

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

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed which, if observed, also require certain actions to enhance liquidity. The Bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the Bank's liquidity management documents need to be revised. The management of the Group and the Bank continued to focus specifically on liquidity issues. Owing to the adequate liquidity risk management policy and internal control and communication system, the Bank managed to ensure and maintain high liquidity ratio – as at 31 December 2010, the liquidity ratio reached 68.10% (56.15%). The FCMC stipulates that the Bank should maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank's total current liabilities.

Liquidity ratios of the Group and the Bank:

Liquidity ratio	Group/Bank 2010 Highest %	Lowest %	Average %	Group/Bank 2009 Highest %	Lowest %	Average %
on demand	46,6	32,2	38,4	40,2	26,2	32,5
less than 30 days (as required by the FCMC)	71,0	59,1	64,4	57,5	33,8	43,2
less than 90 days	70,2	58,3	64,3	53,1	39,8	45,0

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

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The distribution of the Group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2010:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and deposits with central banks	-	66,119	16,001	-	*82,120*	-	-	-	-	82,120
Balances due from credit institutions	-	267,002	37,912	20,290	*325,204*	148	-	-	*148*	325,352
Financial assets at fair value through profit or loss	-	-	4,990	18,382	*23,372*	-	-	-	-	23,372
Available-for-sale financial assets	-	206	164,192	2,019	*166,417*	2,240	-	-	*2,240*	168,657
Loans and receivables	32,131	56,415	5,656	64,702	*158,904*	148,280	221,688	-	*369,968*	528,872
Held-to-maturity	-	57	103,585	1,920	*105,562*	11,662	37,888	-	*49,550*	155,112
Other assets	-	7,935	148	6,071	*14,154*	-	-	69,888	*69,888*	84,042
Total assets	**32,131**	**397,734**	**332,484**	**113,384**	***875,733***	**162,330**	**259,576**	**69,888**	***491,794***	**1,367,527**
Liabilities		On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,906	-	-	*1,906*	-	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	-	101	125	*226*	-	-	-	-	226
Financial liabilities at amortised cost	-	774,552	146,023	300,491	*1,221,066*	24,464	41,646	-	*66,110*	1,287,176
Other liabilities	-	7,268	-	-	*7,268*	-	-	-	-	7,268
Total liabilities	**-**	**783,726**	**146,124**	**300,616**	***1,230,466***	**24,464**	**41,646**	**-**	***66,110***	**1,296,576**
Shareholders' equity	-	-	-	-	-	-	-	70,951	*70,951*	70,951
Total liabilities and shareholders' equity	**-**	**783,726**	**146,124**	**300,616**	***1,230,466***	**24,464**	**41,646**	**70,951**	***137,061***	**1,367,527**
Total memorandum items	**-**	**27,534**	**79**	**3,541**	***31,154***	**2,697**	**208**	**-**	***2,905***	**34,059**
Net liquidity position	x	(413,526)	186,281	(190,773)	*(418,018)*	135,169	217,722	(1,063)	*351,828*	x
Total liquidity position	x	(413,526)	(227,245)	(418,018)	*x*	(282,849)	(65,127)	(66,190)	*x*	x

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

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and demand deposits with central banks	-	44,986	-	-	*44,986*	-	-	-	-	44,986
Balances due from credit institutions	-	51,344	140,861	6,374	*198,579*	4,990	-	-	*4,990*	203,569
Financial assets at fair value through profit or loss	-	-	1,094	8,393	*9,487*	12	-	-	*12*	9,499
Available-for-sale financial assets	-	148	437	64,617	*65,202*	39,321	-	-	*39,321*	104,523
Loans and receivables	73,975	27,967	5,928	61,906	*169,776*	49,736	331,068	-	*380,804*	550,580
Other assets	-	26,679	470	7,482	*34,631*	-	-	29,939	*29,939*	64,570
Total assets	**73,975**	**151,124**	**148,790**	**148,772**	***522,661***	**94,059**	**331,068**	**29,939**	***455,066***	**977,727**
Liabilities		On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,027	-	-	*1,027*	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	42	134	*176*	-	-	-	-	176
Financial liabilities at amortised cost	-	421,564	138,051	293,821	*853,436*	23,003	28,657	-	*51,660*	905,096
Other liabilities	-	2,442	-	-	*2,442*	-	-	-	-	2,442
Total liabilities	**-**	**425,033**	**138,093**	**293,955**	***857,081***	**23,003**	**28,657**	**-**	***51,660***	**908,741**
Shareholders' equity	-	-	-	-	-	-	-	68,986	*68,986*	68,986
Total liabilities and shareholders' equity	**-**	**425,033**	**138,093**	**293,955**	***857,081***	**23,003**	**28,657**	**68,986**	***120,646***	**977,727**
Total memorandum items	**-**	**25,897**	**601**	**596**	***27,094***	**-**	**-**	**-**	***-***	**27,094**
Net liquidity position	x	(299,806)	10,096	(145,779)	*(435,489)*	71,056	302,411	(39,047)	*334,420*	x
Total liquidity position	x	(299,806)	(289,710)	(435,489)	*x*	(364,433)	(62,022)	(101,069)	*x*	x

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

The distribution of the Bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2010:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and deposits with central banks	-	66,119	16,001	-	*82,120*	-	-	-	-	82,120
Balances due from credit institutions	-	266,976	37,912	20,290	*325,178*	148	-	-	*148*	325,326
Financial assets at fair value through profit or loss	-	-	4,990	18,382	*23,372*	-	-	-	-	23,372
Available-for-sale financial assets	-	206	164,192	2,019	*166,417*	2,240	-	-	*2,240*	168,657
Loans and receivables	32,131	56,415	5,656	64,391	*158,593*	148,280	221,688	-	*369,968*	528,561
Held-to-maturity investments	-	57	103,585	1,920	*105,562*	11,662	37,888	-	*49,550*	155,112
Other assets	-	4,754	148	5,619	*10,521*	-	-	84,896	*84,896*	95,417
Total assets	**32,131**	**394,527**	**332,484**	**112,621**	***871,763***	**162,330**	**259,576**	**84,896**	***506,802***	**1,378,565**
Liabilities		On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,906	-	-	*1,906*	-	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	-	101	125	*226*	-	-	-	-	226
Financial liabilities at amortised cost	-	785,951	146,023	300,491	*1,232,465*	21,512	41,646	-	*63,158*	1,295,623
Other liabilities	-	5,433	-	-	*5,433*	-	-	-	-	5,433
Total liabilities	**-**	**793,290**	**146,124**	**300,616**	***1,240,030***	**21,512**	**41,646**	**-**	***63,158***	**1,303,188**
Shareholders' equity	-	-	-	-	-	-	-	75,377	*75,377*	75,377
Total liabilities and shareholders' equity	**-**	**793,290**	**146,124**	**300,616**	***1,240,030***	**21,512**	**41,646**	**75,377**	***138,535***	**1,378,565**
Total memorandum items	**-**	**27,534**	**79**	**3,541**	***31,154***	**2,697**	**208**	**-**	***2,905***	**34,059**
Net liquidity position	x	(426,297)	186,281	(191,536)	*(431,552)*	138,121	217,722	9,519	*365,362*	x
Total liquidity position	x	(426,297)	(240,016)	(431,552)	*x*	(293,431)	(75,709)	(66,190)	*x*	x

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

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and demand deposits with central banks	-	44,986	-	-	*44,986*	-	-	-	-	44,986
Balances due from credit institutions	-	51,312	140,861	6,374	*198,547*	4,990	-	-	*4,990*	203,537
Financial assets at fair value through profit or loss	-	-	1,094	8,393	*9,487*	12	-	-	*12*	9,499
Available-for-sale financial	-	148	437	64,617	*65,202*	39,321	-	-	*39,321*	104,523
Loans and receivables	73,975	27,967	5,908	61,906	*169,756*	52,651	331,068	-	*383,719*	553,475
Other assets	-	6,017	470	7,015	*13,502*	-	-	62,607	*62,607*	76,109
Total assets	**73,975**	**130,430**	**148,770**	**148,305**	***501,480***	**96,974**	**331,068**	**62,607**	***490,649***	**992,129**
Liabilities		On demand LVL '000	Up to 1 month LVL '000	1–12 month LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	-	1,027	-	-	*1,027*	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	42	134	*176*	-	-	-	-	176
Financial liabilities at amortised cost	-	421,565	148,564	290,850	*860,979*	23,003	28,657	-	*51,660*	912,639
Other liabilities	-	4,204	-	-	*4,204*	-	-	-	-	4,204
Total liabilities	**-**	**426,796**	**148,606**	**290,984**	***866,386***	**23,003**	**28,657**	**-**	***51,660***	**918,046**
Shareholders' equity	-	-	-	-	-	-	-	74,083	*74,083*	74,083
Total liabilities and shareholders' equity	**-**	**426,796**	**148,606**	**290,984**	***866,386***	**23,003**	**28,657**	**74,083**	***125,743***	**992,129**
Total memorandum items	**-**	**25,897**	**601**	**596**	***27,094***	**-**	**-**	**-**	***-***	**27,094**
Net liquidity position	x	(322,263)	(437)	(143,275)	*(465,975)*	73,971	302,411	(11,476)	*364,906*	x
Total liquidity position	x	(322,263)	(322,700)	(465,975)	*x*	(392,004)	(89,593)	(101,069)	*x*	x

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

FINANCIAL STATEMENTS

The Group and the Bank have prepared these consolidated financial statements on a going concern basis notwithstanding the fact that they have a significant negative liquidity gap in the ”on demand“ maturity range of assets and liabilities. The Group’s and Bank’s Management closely monitor and manage the Group’s and Bank’s liquidity position on a daily basis in accordance with the Group’s and Bank’s liquidity risk management framework. The negative liquidity gap in ”on demand“ assets and liabilities as at 31 December 2010 and 2009 is substantially due to significant ”on demand“ amounts due to customers. According to the past history of the Group and the Bank, customers’ deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The maturity gap analysis does not reflect the historical stability of current accounts. These balances are included in amounts due ”on demand“. The Group and the Bank have reviewed the historical stability of their current accounts and concluded that half of the balances have the ultimate maturity of more than one year.

The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group’s and Bank’s operations.

The Group’s and Bank’s ability to avoid adverse changes in their liquidity position depends on the management’s effectiveness in the continuing execution of the actions taken.

The assets, which have been impaired, are stated net of allowances.

In estimating the amount of expected financial liabilities, the Group and the Bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2010 and 2009 which is expected in the future but has not been assessed at the reporting date.

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future but has not been assessed as at 31 December 2010 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Financial liabilities	On demand LVL ‘000	Up to 1 month LVL ‘000	1–12 months LVL ‘000	*Up to 1 year, total LVL ‘000*	1–5 years LVL ‘000	More than 5 years LVL ‘000	*More than 1 year, total LVL ‘000*	Total LVL ‘000
Demand deposits from credit institutions	1,906	-	-	*1,906*	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	101	125	*226*	-	-	-	226
Financial liabilities at amortised cost	774,552	146,992	308,514	*1,230,058*	33,924	43,766	*77,690*	1,307,748
Total financial liabilities	**776,458**	**147,093**	**308,639**	***1,232,190***	**33,924**	**43,766**	***77,690***	**1,309,880**
Memorandum items	6,684	604	12,514	*19,802*	9,790	4,467	*14,257*	34,059
Total financial liabilities and memorandum items	**783,142**	**147,697**	**321,153**	***1,251,992***	**43,714**	**48,233**	***91,947***	**1,343,939**

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

Financial liabilities	On demand LVL ‘000	Up to 1 month LVL ‘000	1–12 months LVL ‘000	*Up to 1 year, total LVL ‘000*	1–5 years LVL ‘000	More than 5 years LVL ‘000	*More than 1 year, total LVL ‘000*	Total LVL ‘000
Demand deposits from credit institutions	1,027	-	-	*1,027*	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	42	134	*176*	-	-	-	176
Financial liabilities at amortised cost	409,397	148,983	299,700	*858,080*	29,689	31,943	*61,632*	919,712
Total financial liabilities	**410,424**	**149,025**	**299,834**	***859,283***	**29,689**	**31,943**	***61,632***	**920,915**
Memorandum items	11,129	623	6,818	*18,570*	8,509	15	*8,524*	27,094
Total financial liabilities and memorandum items	**421,553**	**149,648**	**306,652**	***877,853***	**38,198**	**31,958**	***70,156***	**948,009**

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2010 into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date:

Financial liabilities	On demand LVL ‘000	Up to 1 month LVL ‘000	1–12 months LVL ‘000	*Up to 1 year, total LVL ‘000*	1–5 years LVL ‘000	More than 5 years LVL ‘000	*More than 1 year, total LVL ‘000*	Total LVL ‘000
Demand deposits from credit institutions	1,906	-	-	*1,906*	-	-	-	1,906
Financial liabilities at fair value through profit or loss	-	101	125	*226*	-	-	-	226
Financial liabilities at amortised cost	785,951	146,984	308,431	*1,241,366*	33,823	43,766	*77,589*	1,318,955
Total financial liabilities	**787,857**	**147,085**	**308,556**	***1,243,498***	**33,823**	**43,766**	***77,589***	**1,321,087**
Memorandum items	6,684	604	12,514	*19,802*	9,790	4,467	*14,257*	34,059
Total financial liabilities and memorandum items	**794,541**	**147,689**	**321,070**	***1,263,300***	**43,613**	**48,233**	***91,846***	**1,355,146**

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

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

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,027	-	-	*1,027*	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	42	134	*176*	-	-	-	176
Financial liabilities at amortised cost	419,911	148,983	296,729	*865,623*	29,689	31,943	*61,632*	927,255
Total financial liabilities	**420,938**	**149,025**	**296,863**	***866,826***	**29,689**	**31,943**	***61,632***	**928,458**
Memorandum items	11,129	623	6,818	*18,570*	8,509	15	*8,524*	27,094
Total financial liabilities and memorandum items	**432,067**	**149,648**	**303,681**	***885,396***	**38,198**	**31,958**	***70,156***	**955,552**

b) Currency risk
The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The Bank has major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Bank's open position in EUR is minimal. The Bank's open currency position in USD is also rather small as it is hedged by using currency forwards/futures. As at 31 December 2010, the Bank's open currency position in USD was 0.1% (5.2%) of Bank's equity and, therefore, the effect of changes in the USD exchange rate is insignificant, and the Bank does not conduct more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the Limits Policy. As at 31 December 2010, all the above limits had been met.

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

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

The Group's currency position as at 31 December 2010:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and deposits with central banks	77,757	544	3,710	-	109	82,120
Balances due from credit institutions	28	220,502	73,012	12,039	19,771	325,352
Financial assets at fair value through profit or loss	3,371	17,067	390	3	2,541	23,372
Available-for-sale financial assets	-	163,093	169	4,899	496	168,657
Loans and receivables	4,688	73,796	445,893	1,456	3,039	528,872
Held-to-maturity investments	-	147,856	3,514	2,853	889	155,112
Other assets	77,383	348	5,410	176	725	84,042
Total assets	**163,227**	**623,206**	**532,098**	**21,426**	**27,570**	**1,367,527**
Liabilities						
Demand deposits from credit institutions	-	1,132	772	-	2	1,906
Financial liabilities at fair value through profit or loss	226	-	-	-	-	226
Financial liabilities at amortised cost	37,021	777,871	422,937	20,888	28,459	1,287,176
Other liabilities	3,750	1,627	1,628	258	5	7,268
Total liabilities	**40,997**	**780,630**	**425,337**	**21,146**	**28,466**	**1,296,576**
Shareholders' equity	70,951	-	-	-	-	70,951
Total liabilities and shareholders' equity	**111,948**	**780,630**	**425,337**	**21,146**	**28,466**	**1,367,527**
Net long/(short) balance sheet position	**51,279**	**(157,424)**	**106,761**	**280**	**(896)**	**x**
Derivatives, notional amount	(11,748)	157,675	(145,637)	1,172	1,379	x
Net open (short)/long currency position	**39,531**	**251**	**(38,876)**	**1,452**	**483**	**x**

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

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

The Bank's currency position as at 31 December 2010:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and deposits with central banks	77,757	544	3,710	-	109	82,120
Balances due from credit institutions	28	220,501	73,000	12,028	19,769	325,326
Financial assets at fair value through profit or loss	3,371	17,067	390	3	2,541	23,372
Available-for-sale financial assets	-	163,093	169	4,899	496	168,657
Loans and receivables	4,686	73,748	445,638	1,450	3,039	528,561
Held-to-maturity investments	-	147,856	3,514	2,853	889	155,112
Other assets	38,223	268	56,025	176	725	95,417
Total assets	**124,065**	**623,077**	**582,446**	**21,409**	**27,568**	**1,378,565**
Liabilities						
Demand deposits from credit institutions	-	1,132	772	-	2	1,906
Financial liabilities at fair value through profit or loss	226	-	-	-	-	226
Financial liabilities at amortised cost	40,131	777,872	428,273	20,888	28,459	1,295,623
Other liabilities	3,188	1,594	399	248	4	5,433
Total liabilities	**43,545**	**780,598**	**429,444**	**21,136**	**28,465**	**1,303,188**
Shareholders' equity	75,377	-	-	-	-	75,377
Total liabilities and shareholders' equity	**118,922**	**780,598**	**429,444**	**21,136**	**28,465**	**1,378,565**
Net long/(short) balance sheet position	**5,143**	**(157,521)**	**153,002**	**273**	**(897)**	**x**
Derivatives, notional amount	(11,748)	157,675	(145,637)	1,172	1,379	x
Net open (short)/long currency position	**(6,605)**	**154**	**7,365**	**1,445**	**482**	**x**
Percentage of shareholders' equity, (%)	**(6,3%)**	**0,1%**	**7,0%**	**1,4%**	**0,5%**	**x**

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

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and demand deposits with central banks	40,775	670	3,489	-	52	44,986
Balances due from credit institutions	1	125,525	53,896	7,552	16,563	203,537
Financial assets at fair value through profit or loss	2,788	6,709	-	2	-	9,499
Available-for-sale financial assets	1,984	96,341	4,057	2,141	-	104,523
Loans and receivables	5,536	56,023	490,900	1,006	10	553,475
Other assets	48,113	3,185	24,612	4	195	76,109
Total assets	**99,197**	**288,453**	**576,954**	**10,705**	**16,820**	**992,129**
Liabilities						
Demand deposits from credit institutions	-	831	196	-	-	1,027
Financial liabilities at fair value through profit or loss	176	-	-	-	-	176
Financial liabilities at amortised cost	19,151	535,419	331,375	10,254	16,440	912,639
Other liabilities	2,101	713	1,361	26	3	4,204
Total liabilities	**21,428**	**536,963**	**332,932**	**10,280**	**16,443**	**918,046**
Shareholders' equity	74,083	-	-	-	-	74,083
Total liabilities and shareholders' equity	**95,511**	**536,963**	**332,932**	**10,280**	**16,443**	**992,129**
Net long/(short) balance sheet position	**3,686**	**(248,510)**	**244,022**	**425**	**377**	**x**
Derivatives, notional amount	(4,900)	253,969	(239,575)	(248)	161	x
Net open (short)/long currency position	**(1,214)**	**5,459**	**4,447**	**177**	**538**	**x**
Percentage of shareholders' equity, (%)	**(1,2%)**	**5,4%**	**4,4%**	**0,2%**	**0,5%**	**x**

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

The Law on Credit Institutions requires that Bank's open positions in each foreign currency may not exceed 10% of equity and that the total Bank's foreign currency open position may not exceed 20% of equity.
As at 31 December 2010, the Bank was in compliance with the above requirements of the Law on Credit Institutions.

c) Market risk
The exposure of the trade portfolio to market risk and the capital charge for market risk is determined according to the standardised approach described in the Regulations for Calculation of Minimum Capital Requirement whereby the positions for general risk debt securities are calculated under the maturity method.

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk.
Interest rate risk is assessed both in terms of income and economic value. The term economic value means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:
- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/maturity date;
- financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date.

Derivatives are represented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.

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

The Bank performs regular interest rate stress tests aimed at assessing the effect of adverse changes in interest rates on the Bank's income and economic value in the event of a tough market situation.

The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2010 and 2009:

		Group/Bank 31/12/2010		Group/Bank 31/12/2009	
		+100 bps LVL '000	-100 bps LVL '000	+100 bps LVL '000	-100 bps LVL '000
Total for all currencies	Effect of changes on equity	(1,313)	1,313	(1,337)	1,337
	Effect of changes on profit/loss	3,788	(3,788)	(1,392)	1,392
USD	Effect of changes on equity	(1,313)	1,313	(1,261)	1,261
	Effect of changes on profit/loss	695	(695)	(2,393)	2,393
EUR	Effect of changes on equity	-	-	(76)	76
	Effect of changes on profit/loss	2,522	(2,522)	765	(765)
LVL	Effect of changes on equity	-	-	-	-
	Effect of changes on profit/loss	572	(572)	236	(236)

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2010, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and deposits with central banks	78,568	-	-	-	-	-	3,552	82,120
Balances due from credit institutions	230,074	8,240	555	11,487	41	-	74,955	325,352
Financial assets at fair value through profit or loss	674	-	-	-	19,175	5	3,518	23,372
Available-for-sale financial assets	293	2,706	33,376	46,998	77,037	4,532	3,715	168,657
Loans and receivables	250,112	116,715	126,376	13,050	16,160	854	5,605	528,872
Held-to-maturity investments	1,458	2,535	603	270	10,602	137,804	1,840	155,112
Other assets	-	-	-	-	-	-	84,042	84,042
Total assets	**561,179**	**130,196**	**160,910**	**71,805**	**123,015**	**143,195**	**177,227**	**1,367,527**
Liabilities								
Demand deposits from credit institutions	-	-	-	-	-	-	1,906	1,906
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	226	226
Financial liabilities at amortised cost	151,076	151,880	88,317	56,553	20,510	38,617	780,223	1,287,176
Other liabilities	-	-	-	-	-	-	7,268	7,268
Total liabilities	**151,076**	**151,880**	**88,317**	**56,553**	**20,510**	**38,617**	**787,717**	**1,296,576**
Shareholders' equity	-	-	-	-	-	-	70,951	70,951
Total liabilities and shareholders' equity	**151,076**	**151,880**	**88,317**	**56,553**	**20,510**	**38,617**	**858,668**	**1,367,527**
Futures, sold	2,200	(125)	-	-	-	-	-	2,075
Interest rate repricing maturity gaps	**412,303**	**(21,809)**	**72,593**	**15,252**	**102,505**	**104,578**	**(681,441)**	**x**

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

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

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	41,105	-	-	-	-	-	3,881	44,986
Balances due from credit institutions	192,308	1,100	4,160	1,107	4,743	-	151	203,569
Financial assets at fair value through profit or loss	-	-	-	-	12	-	9,487	9,499
Available-for-sale financial assets	3,811	7,355	1,945	7,503	21,193	7,905	54,811	104,523
Loans and receivables	128,464	85,348	130,756	178,419	15,531	2,356	9,706	550,580
Other assets	-	-	-	-	-	-	64,570	64,570
Total assets	**365,688**	**93,803**	**136,861**	**187,029**	**41,479**	**10,261**	**142,606**	**977,727**
Liabilities								
Demand deposits from credit institutions	1,027	-	-	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	176	176
Financial liabilities at amortised cost	549,767	165,708	49,505	66,775	25,908	28,657	18,776	905,096
Other liabilities	-	-	-	-	-	-	2,442	2,442
Total liabilities	**550,794**	**165,708**	**49,505**	**66,775**	**25,908**	**28,657**	**21,394**	**908,741**
Shareholders' equity	-	-	-	-	-	-	68,986	68,986
Total liabilities and shareholders' equity	**550,794**	**165,708**	**49,505**	**66,775**	**25,908**	**28,657**	**90,380**	**977,727**
Futures, sold	-	6,589	-	-	-	-	-	6,589
Interest rate repricing maturity gaps	**(185,106)**	**(65,316)**	**87,356**	**120,254**	**15,571**	**(18,396)**	**52,226**	**x**

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2010, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and deposits with central banks	78,568	-	-	-	-	-	3,552	82,120
Balances due from credit institutions	229,801	8,240	555	11,487	41	-	75,202	325,326
Financial assets at fair value through profit or loss	674	-	-	-	19,175	5	3,518	23,372
Available-for-sale financial assets	293	2,706	33,376	46,998	77,037	4,532	3,715	168,657
Loans and receivables	249,839	116,715	126,376	13,012	16,160	854	5,605	528,561
Held-to-maturity investments	1,458	2,535	603	270	10,602	137,804	1,840	155,112
Other assets	-	-	-	-	-	-	95,417	95,417
Total assets	**560,633**	**130,196**	**160,910**	**71,767**	**123,015**	**143,195**	**188,849**	**1,378,565**
Liabilities								
Demand deposits from credit institutions	-	-	-	-	-	-	1,906	1,906
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	226	226
Financial liabilities at amortised cost	151,076	151,880	88,317	56,553	17,558	38,617	791,622	1,295,623
Other liabiliies	-	-	-	-	-	-	5,433	5,433
Total liabilities	**151,076**	**151,880**	**88,317**	**56,553**	**17,558**	**38,617**	**797,281**	**1,303,188**
Shareholders' equity	-	-	-	-	-	-	75,377	75,377
Total liabilities and shareholders' equity	**151,076**	**151,880**	**88,317**	**56,553**	**17,558**	**38,617**	**872,658**	**1,378,565**
Futures, sold	2,200	(125)	-	-	-	-	-	2,075
Interest rate repricing maturity gaps	**411,757**	**(21,809)**	**72,593**	**15,214**	**105,457**	**104,578**	**(683,809)**	**x**

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

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

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	41,105	-	-	-	-	-	3,881	44,986
Balances due from credit institutions	192,276	1,100	4,160	1,107	4,743	-	151	203,537
Financial assets at fair value through profit or loss	-	-	-	-	12	-	9,487	9,499
Available-for-sale financial assets	3,811	7,355	1,945	7,503	21,193	7,905	54,811	104,523
Loans and receivables	128,464	88,243	130,756	178,419	15,531	2,356	9,706	553,475
Other assets	-	-	-	-	-	-	76,109	76,109
Total assets	**365,656**	**96,698**	**136,861**	**187,029**	**41,479**	**10,261**	**154,145**	**992,129**
Liabilities								
Demand deposits from credit institutions	1,027	-	-	-	-	-	-	1,027
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	176	176
Financial liabilities at amortised cost	560,281	165,708	49,505	66,775	22,937	28,657	18,776	912,639
Other liabilities	-	-	-	-	-	-	4,204	4,204
Total liabilities	**561,308**	**165,708**	**49,505**	**66,775**	**22,937**	**28,657**	**23,156**	**918,046**
Shareholders' equity	-	-	-	-	-	-	74,083	74,083
Total liabilities and shareholders' equity	**561,308**	**165,708**	**49,505**	**66,775**	**22,937**	**28,657**	**97,239**	**992,129**
Futures, sold	-	6,589	-	-	-	-	-	6,589
Interest rate repricing maturity gaps	**(195,652)**	**(62,421)**	**87,356**	**120,254**	**18,542**	**(18,396)**	**56,906**	**x**

Note 34

Non-financial risks

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

Operational risk

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

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations. The key principles allowing efficient operational risk management are as follows:

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

To manage the Group's and Bank's exposure to operational risk, in September 2008 an operational risk event database was established. The key objectives of the database are as follows:

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

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the Bank to identify potential losses and take all required measures to prevent such losses.

During the reporting year, approximately 1.499 (1.300) events were registered in the database, of which only 82 (85) events were those which resulted in actual losses amounting to LVL 32.8 (23.4) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the Group's and Bank's employees in the operational risk management and to the effectiveness of the control environment.

Note 35

Litigation and claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collateral, as well as other proceedings related to specific transactions. The Management believe that any legal proceedings pending as at 31 December 2010 will not result in material losses for the Bank and/or the Group.

Note 36

Events after reporting date

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

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

To the shareholders of AS "Aizkraukles Banka"

Report on the financial statements
We have audited the accompanying consolidated financial statements of AS "Aizkraukles Banka" and its subsidiaries (the "Group") and the accompanying financial statements of AS "Aizkraukles Banka" (the "Bank"), set out on pages 9 through 85 of the accompanying 2010 Consolidated Annual Report, which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2010 (set out on pages 1 through 7 of the accompanying 2010 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2010.

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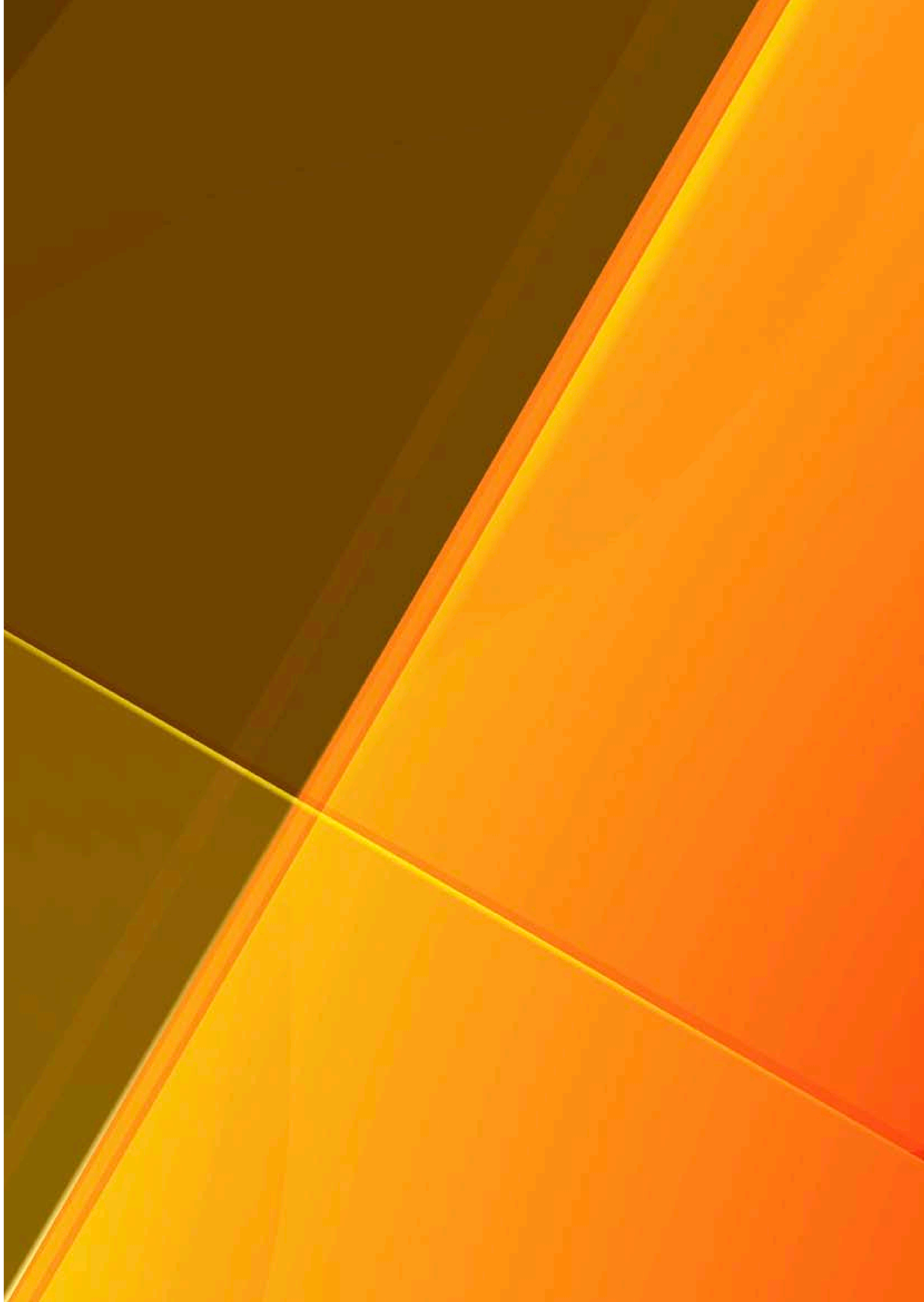
Chairperson of the Board
Latvian Certified Auditor
Certificate No 124

Riga,23 February 2011



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Consolidated Report for the Year 2009

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Report of the Council and the Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Results

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

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

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

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

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

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

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

Improvement of Services

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

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

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

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

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

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

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

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

Report of the Council and the Board

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

Aizkraukles Banka for the Society

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

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

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

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

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

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

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

The Council and the Board

The Council of the Bank:

Chairman of the Council:
Aleksandrs Bergmanis

Deputy Chairman of the Council:
Jānis Krīgers

Member of the Council:
Vladimirs Kutovojs

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

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

Statement of Responsibility of the Council and the Board

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

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

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

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

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

Income Statements and Other Comprehensive Income Statements

for the years ended 31 december 2009 and 2008

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

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

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

Statements of Financial Position

as at 31 december 2009 and 2008

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

Deputy Chairman of the Council
Jānis Krīgers

Chairman of the Board
Ernests Bernis

Riga, 23 February 2010

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

Statements of Changes in Shareholders' Equity of the Group

for the years ended 31 december 2009 and 2008

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

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

Statements of Changes in Shareholders' Equity of the Bank

for the years ended 31 december 2009 and 2008

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

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

Cash Flow Statements

for the years ended 31 december 2009 and 2008

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

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

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

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

Notes to the Financial Statements for the year 2009

1. General Information

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

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

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

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

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

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

The Group comprises the following subsidiaries:

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

2. Information on Principal Accounting Policies

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

a) Statement of Compliance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Improvements to IFRSs

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

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

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

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

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

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

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

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

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

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

Significant Accounting Estimates and Assumptions

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

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

b) Basis of Preparation

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

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

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

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

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

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

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

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

c) Basis of Consolidation

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

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

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

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

d) Recognition and Derecognition of Financial Assets and Liabilities

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

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

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

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

e) Fair Value of Financial Assets and Liabilities

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

f) Income and Expense Recognition

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

g) Foreign Currency Translation

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

h) Loans and Receivables

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

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

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

i) Available-for-Sale Portfolio

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

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

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

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

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

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

j) Financial Assets at Fair Value Through Profit or Loss

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

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

k) Finance Leases – Where the Bank is Lessor

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

l) Derivatives

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

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

m) Off-balance Sheet Instruments

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

n) Provisions

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

Allowances for Financial Assets and Financial Commitments

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

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

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

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

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

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

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

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

o) Intangible Fixed Assets

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

p) Tangible Fixed Assets

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

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

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

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

q) Investment Properties

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

r) Employee Benefits

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

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

s) Corporate Income Tax

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

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

t) Impairment of Non-financial Assets

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

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

u) Cash and Cash Equivalents

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

v) Reclassification

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

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

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

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

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

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

3. Risk Management

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

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

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

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

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

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

4. Interest Income and Expense

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

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

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

5. Commission and Fee Income and Expense

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

6. Net Gains/Losses on Financial Assets

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

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

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

7. Allowances for Credit Losses

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

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

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

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

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

8. Impairment of Other Assets

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

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

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

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

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

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

9. Administrative Expense

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

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

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

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

10. Taxation

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

Deferred corporate income tax calculation:

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

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

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

The Group's and Bank's tax paid:

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

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

11. Classification of Financial and Non-Financial Instruments

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

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

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

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

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

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

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

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

12. Financial Assets by Risk Ratings

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

Financial assets of the Group by risk rating:

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

Financial assets of the Bank by risk rating:

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

13. Cash and Demand Deposits with Central Banks

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

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

14. Balances Due from Credit Institutions

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

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

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

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

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

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

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

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

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

Concentration of balances due from credit institutions by geographical area:

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

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

15. Debt Securities and Other Fixed Income Securities

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

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

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

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

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

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

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

16. Derivatives

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

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

17. Shares and Other Non-Fixed Income Securities

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

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

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

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

18. Loans

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

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

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

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

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

Credit quality analysis for the Group is as follows:

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

Credit quality analysis for the Bank is as follows:

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

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

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

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

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

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

19. Investments in Subsidiaries

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

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

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

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

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

20. Investment Properties

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

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

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

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

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

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

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

21. Intangible and Tangible Fixed Assets

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

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

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

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

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

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

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

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

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

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

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

22. Other Assets

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

23. Balances Due to Credit Institutions

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

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

24. Deposits

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

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

25. Subordinated Liabilities

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

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

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

The analysis of subordinated loans as at 31 December 2009:

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

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

26. Paid-in Share Capital

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

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

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

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

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

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

27. Dividends Proposed and Paid

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

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

28. Memorandum Items

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

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

29. Related Party Disclosures

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

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

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

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

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

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

Interest income and expense from transactions with related parties:

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

30. Cash and Cash Equivalents

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

31. Capital Management and Capital Adequacy

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

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

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

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

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

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

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

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

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

32. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

33. Credit Risk

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

Credit Risk Management Framework

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

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

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

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

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

Credit Risk Concentration

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

34. Financial Risk

a) Liquidity Risk

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

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

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

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

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

Contingency Liquidity Risk

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

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

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

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

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

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

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

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

Liquidity ratios of the Group and the Bank:

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

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

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

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

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

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Pledged assets LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	-	57,860	-	-	*57,860*	-	-	-	-	-	57,860
Balances due from credit institutions	-	142,496	545	25,339	*168,380*	6,284	-	-	*6,284*	-	174,664
Financial assets at fair value through profit or loss	-	-	2,520	2,079	*4,599*	-	-	-	-	-	4,599
Available-for-sale financial assets	-	-	16,624	3,837	*20,461*	2,506	-	-	*2,506*	12,114	35,081
Loans and receivables	31,426	31,654	21,568	103,365	*188,013*	252,029	226,632	-	*478,661*	3,198	669,872
Other assets	-	44	-	6,612	*6,656*	-	-	33,339	*33,339*	-	39,995
Total assets	**31,426**	**232,054**	**41,257**	**141,232**	***445,969***	**260,819**	**226,632**	**33,339**	***520,790***	**15,312**	**982,071**
Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1—12 months LVL '000	*Up to 1 year, total LVL '000*	1—5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Pledged assets LVL '000	**Total** LVL '000
Demand deposits from credit institutions	-	1,087	3	-	*1,090*	-	-	-	-	14,600	15,690
Financial liabilities at fair value through profit or loss	-	-	1,731	17,507	*19,238*	-	-	-	-	-	19,238
Financial liabilities at amortised cost	-	392,580	114,154	303,024	*809,758*	27,067	28,943		*56,010*	-	865,768
Other liabilities	-	3,207	-	-	*3,207*	-	-	-	-	-	3,207
Total liabilities	**-**	**396,874**	**115,888**	**320,531**	***833,293***	**27,067**	**28,943**	**-**	***56,010***	**14,600**	**903,903**
Shareholders' equity	-	-	-	-	-	-	-	78,168	*78,168*	-	78,168
Total liabilities and shareholders' equity	**-**	**396,874**	**115,888**	**320,531**	***833,293***	**27,067**	**28,943**	**78,168**	***134,178***	**14,600**	**982,071**
Total memorandum items	**-**	**16,936**	**26**	**8,534**	***25,496***	**14,240**	**15**	**-**	***14,255***	**-**	**39,751**
Net liquidity position	x	(181,756)	(74,657)	(187,833)	*(412,820)*	219,512	197,674	(44,829)	*372,357*	x	x
Total liquidity position	x	(181,756)	(256,413)	(444,246)	*x*	(224,734)	(27,060)	(71,889)	*x*		x

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b) Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

c) Market Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

35. Non-Financial Risk

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

Operational Risk

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

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

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

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

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

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

36. Litigation and Claims

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

37. Events after Reporting Date

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

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

Independent Auditors' Report

ERNST & YOUNG
Quality In Everything We Do

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

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

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

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

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

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

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

Report on Compliance of the Management Report

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

Ernst & Young Baltic SIA
License No. 17

Diāna Krišjāne
Chairwoman of the Board

Iveta Vimba
Latvian Certified Auditor
Certificate No. 153

Riga, 23 February 2010

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