AS Latvijas Krājbanka

Consolidated Annual Report

for the year ended
31 December 2009

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Management report

This was a year of major challenges for the whole Latvia's economy and each household individually. GDP fell dramatically, exports and imports plunged, the real estate market remained stagnant, the sharp drop was observed in construction, retail, manufacturing and other industries. All the above factors, combined with the decreasing salaries and growing unemployment, lead to the reduction in home consumption in spite of the 1.2% deflation. Consequently, the national economy sank into a deeper recession over the year and, as a result, the state became heavily dependent on international financial aid.

During this year, AS Latvijas Krājbanka (hereinafter referred to as Latvijas Krājbanka or the Bank) continued implementing its strategic aims both in business development and social responsibility spheres. In 2009, Latvijas Krājbanka, like other local enterprises, revised the efficiency of its internal processes and optimised its resources. The Bank continued offering new and modern products and ensuring the accessibility of the Bank's products and services in the cities and towns of Latvia. For the third successive year, Latvijas Krājbanka received an annual Deutsche Bank's USD STP Excellence Award from Deutsche Bank, one of the biggest European banks, which attests the processing quality of Latvijas Krājbanka outgoing USD payments.

In August, the Board Member Ivars Priedītis became the Bank's Chairman of the Board, while the former President Mārtiņš Bondars was appointed to the Council. Latvijas Krājbanka continued supporting significant cultural events also during the reporting year. By stressing the fact that the Bank has the largest network of customer service centres in Latvia as its major individual advantage, Krājbanka further supports its motto *Latvijas Krājbanka – Tava tuvākā banka* (Latvijas Krājbanka – Your closest bank).

Financial performance

In the spite of the losses of more than LVL 700 million sustained by the local banking sector, The Bank has closed the year with a loss of LVL 1,978 thousand, and the result of the Group (hereinafter – the Group) is loss of LVL 1,935 thousand. The Bank's assets as at 31 December 2009 were LVL 570 million (the Group's assets were LVL 567 million).
Efficient risk management, proper risk assessment and ongoing business control – these are the main conditions permitting to ensure the optimum balance between the risk tolerance level and the Bank's compliance with the certain risk profile and its ability to earn the projected revenue. Considering the condition of the Latvian lending market, the Bank continued adhering to the precautious lending policy, by carefully evaluating industry, return and risk indices for each loan, as well as maintained a high capital adequacy level, which was 11-12% during the reporting year (while the statutory rate is 8%). The Bank's liquidity over the year remained on the average industry level of 40-55% (while the statutory rate is 30%). As at 31 December 2009, the Bank's capital adequacy and liquidity ratios were 12.7% and 55.6% respectively.

Latvijas Krājbanka successfully retained stable market positions among Latvian commercial banks by the key bank performance indices. In December 2009, the Bank ranked 6th in terms of deposits from customers and 9th in terms of loans and assets. During 2009, deposits from private individuals grew by LVL 30 million, while the whole sector reported a decline by LVL 147 million, which is evidence of strong customer loyalty towards the Bank. As regards deposits from private individuals, Latvijas Krājbanka remained 3rd among local commercial banks.

In May 2009, Latvijas Krājbanka repaid the syndicated loan of EUR 15 million (LVL 10.54 million). The syndicated loan agreement was signed in May 2008, and the respective loan was issued for 364 days. This was the first syndicated loan received by Latvijas Krājbanka, and the respective transaction was successful and beneficial for all the parties.

Major news for the Bank's products and services

Latvijas Krājbanka continued implementing its policy aimed at achieving the best availability and convenience of the Bank's services for every resident of Latvia. Latvijas Krājbanka retained its first place among Latvian commercial banks by the number of customer service centres. As at 31 December 2009, Latvijas Krājbanka had 115 customer service centres throughout Latvia, 34 of which were mini banks. In February and April, new mini banks were opened in Lielvārde and Rēzekne, while in Brocēni the existing mini bank was replaced by a new customer service centre. In the second half of the year, 7 mini banks were closed. By the end of December 2009, the Bank had 190 ATMs, thus ranking third on the market among Latvian commercial banks.

In 2009, the range of products offered by Latvijas Krājbanka was supplemented with several new items. In February 2009, the Bank issued a new VISA D*ižkarte* card to private individuals and a VISA Business card to corporate customers, both new cards being tied to current accounts. In the second half of January 2009, the Bank continued issuing the cards of new design, i.e., VISA Business and Master Card Business for corporate customers and Visa Classic and Visa Gold for private individuals of the Aphorism cards series were launched. Moreover, the Bank updated the Business Set. Starting from the beginning of March, it consists of a current account with a Visa Business card, Online bank, code calculator, e-signature sample, and cheque book.

The aggregate market share of the payment cards issued by Krājbanka had reached 7.3% by the end of the year. According to the information supplied by the Association of Latvian Commercial Banks, the total active cards dropped by 29 thousand in the last quarter of 2009, while Latvijas Krājbanka reported the highest growth of active cards by 21%.

Since May, along with the changes in the pension payment procedure, Latvijas Krājbanka has been offering a new product set for the recipients of old-age and long-service pensions – D*zintars* Set. Meanwhile, the recipients of benefits paid by the state, municipalities, or the State Social Insurance Agency have been offered a possibility to apply for an A*tbalsts* Set since November. Both sets consist of a current account and a VISA D*ižkarte*, Online bank, and Telebank and/ or Mobile bank. The holders of VISA D*ižkarte* may obtain discounts in more than 225 stores all over Latvia. New cooperation partners are added to the list all the time.

In June 2009, the Bank continued its usual practice and organised K*rājdienas* (Savings Days), which is a special deposit campaign when people are offered term deposits at especially favourable rates. Customers accepted the offer with a keen interest and during ten days deposited more than LVL 20 million.

In 2009, the Bank continued improving the Online banking functionality. Since February, the visual layout has been changed and a demo version is now being offered for all interested customers. Starting from the previous year, the users of the Online bank have been able to sort the payments made in the Online bank, apply for the statements prepared by the State Social Insurance Agency, review their securities portfolios, and print out or save electronic copies of their bank statements. The Bank has also widened the range of its cooperation partners in the area of e-services. By using the Online bank, customers can receive e-services provided by the state institutions and Riga municipality, purchase tickets from SIA Biļešu Serviss, make transfers to Mobilly accounts to pay for a parking lot by sending SMSs, make payments for information from the Lursoft database, make payments to Latvenergo for its services, as well as pay the tuition fee to the University of Latvia.

Starting from July 21, the Bank's customers using the mobile telephone services of LMT have been offered a possibility to enter the Online bank using a convenient and modern passport - M*obilais* ID. So, customers may confirm their identity remotely using a six-digit PIN code known only to the holder. The Bank will continue developing its e-services.

In April 2009, Latvijas Krājbanka signed a cooperation agreement with the Latvian Guarantee Agency whereby Latvian entrepreneurs may obtain state support guarantees for receiving loans from the Bank if they lack sufficient security. The agreement enables Latvijas Krājbanka to offer wider financing possibilities for promising businesses and business projects which do not have sufficient funds for business development.

Performance of the Bank and Group's companies

Starting from 5 November 2009, the Bank's registered and paid-in share capital has been LVL 19,324,248 (2008: LVL 12,149 thousand). In September 2009, a public share offering was commenced whereby 6,175,000 (six million one hundred seventy-five thousand) new ordinary bearer shares would be issued. The offering was completed on November 3. All the shares so offered were sold to the shareholders during the second stage of the share subscription.

On 23 March 2009, the ordinary shareholders' meeting decided to pay dividends on Class A preferred shares of LVL 691.84 (0.023% of the audited profit), or LVL 0.24 per preferred share, while the balance of the profit for the year 2008 will be used for business development.

In the reporting year, the Bank also paid interest revenue to the holders of CA series mortgage bonds. On 29 January 2010, the CA series mortgage bonds were extinguished according to the procedure prescribed in the prospectus.

In the second half of 2009, Latvijas Krājbanka became the sole shareholder of AS IBS Renesource Capital. The Board and the Council of AS IBS Renesource Capital were changed in October. As a result of acquiring an investment brokerage company, Latvijas Krājbanka will be able to provide various newly-designed products to its customers, for instance, certain brokerage services without the Bank's mediation.

In October 2009, an agreement signed with AS Parex banka on the acquisition of the shares in AP Anlage & privatbank AG was terminated because the circumstances giving rise to the Bank's duty to carry out the actions to close the transaction had not become effective until the date of the transaction. The parties have failed to reach an agreement on the repayment of the advance of EUR 2,000,000 made by the Bank and the dispute has been referred to the London Court of International Arbitration.

In October 2009, Latvijas Krājbanka sold all its 561,076 shares in the limited liability company Center Credit and ceased being the shareholder of this company.

The Group's companies continued expanding their operations.
As at 31 December 2009, the number of pension plan customers of a Group company AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi (an asset management company) had reached 77,524 (+8.6% over the year), while the total 2nd tier state funded pension plan assets managed by LKB Krājfondi had reached LVL 37.4 million (+60% over the year). LKB Krājfondi ranks 4th in Latvia by the number of the participants in the 2nd tier pension plan. The total assets managed by LKB Krājfondi, including investment funds, 3rd tier pension plan assets and individual investment portfolios as at 31 December 2009 totalled LVL 39.4 million. The company has ended the year 2009 with a profit of LVL 247 thousand (preliminary data). The return on the 2nd tier pension plans managed by LKB Krājfondi was within the range from +11.71% to +14.94% (after commission fees), which was one of the best results in the industry.

In 2009, the insurance joint stock company LKB Life (hereinafter referred to as LKB Life) revised its strategy and developed a long-term development programme, commencing the distribution of life insurance products via the Latvijas Krājbanka customer service centre network. LKB Life reconsidered the prices and terms of the insurance products offered, adapting them to the current market demand.
In 2009, LKB Life reported a 40% decrease of the premiums paid due to the termination of insurance contracts. However, in the last quarter of 2009 LKB Life brought in new customers by 705% (or premiums by 523%) more than in the whole year 2008, so indicating a noteworthy growth of the company, which is supported by the comparison of the results for the product categories which the company has fully revised and started selling via the Bank's network, like accident insurance.
In 2009, LKB Life started working to develop brand new life insurance products, which had not been available ever before on the local market and revised the existing insurance products. This work will be continued also un 2010.

In 2009, AS Pirmais atklātais pensiju fonds managed assets of more than LVL 440 thousand. As at 31 December 2009, all the pension plans - *Saule-Sabalansētais*, *Vecumdienas*, *Jūra-aktīvais*, *Baltikums-Universālais*, and *Privātā pensija* – reported highest returns in the industry. i.e., +9.79%, +10.14%, +4.04%, +9.32%, and +9.01% since inception respectively. Following the requests of customers, *Jūra-aktīvais* has been accumulating additional pensions in EUR.

The core business activity of SIA Krājinvestīcijas is real estate development. The company has closed the year with a profit of LVL 5,786. In 2010, the company is planning to expand its business and participate in other real estate development projects as well as widen the range of services supplied to the Group's companies.

The loan portfolio of SIA LKB Līzings as at 31 December 2009 amounted to LVL 19,993 thousand, which is a 9% decrease against 1 January 2009. Currently the company is focusing on improvement of the payment discipline, debt recovery and realisation of leased items taken over from customers.

In 2009, SIA LKB Drošība started active operations, supplying collection services all over Latvia. The result of the company for the year is a profit of LVL 1,380. In 2010, the company will continue expanding its customer base.

In 2009, the limited liability company LKB Collect was established. The share capital of the company is LVL 10,000. The company solves legal issues related to loan recovery and restructuring.

All the Bank's transactions with related parties are made according to the normal rates applied to ordinary customers and are monitored according to the procedures developed under the internal control system and other regulations governing these transactions.

Public activities

As in the previous years, Latvijas Krājbanka continued its strategic contribution to the Latvian musical and cultural life. Latvijas Krājbanka responded to the Latvian TV call and decided to support the participation of Latvia in the international Eurovision Song Contest. In February, Latvijas Krājbanka also supported the 13th ceremony of the Latvian Music Record Awards in 14 categories. During the Midsummer festivities, the Bank supported the live broadcasting of the play S*kroderdienas Silmačos* by Rūdolfs Blaumanis on the 1st channel of the Latvian Television.

2009 was the year of the Bank's 85th anniversary and the celebration included various activities organised all over the year. At the beginning of June, alongside with the opening ceremony of the Bank's Yearbook, a personal exhibition of Valdis Bušs was opened in the Bank's headquarters in J. Daliņa iela. In September, the Bank supported the release of the new CD and vinyl record of Imants Kalniņš' 4th symphony.

In August, Latvijas Krājbanka started supporting a new TV show D*ziedošās ģimenes* (Singing Families). The show received huge public response. At the end of the show Latvijas Krājbanka presented not only the main award to the winners but also a second place award.
It has already become a tradition that Latvijas Krājbanka supports Latvian music groups and the Christmas concerts organised in Latvian churches by the recording company Platforma. This year the series of eight concerts was supplemented with a CD K*arameles*. The Bank also supported the Christmas Charity campaign organised by the Latvian Children's Fund.
The long-term presence of Latvijas Krājbanka on the Latvian market, its ability to quickly overcome the external economic and financial shocks, its active public activities and participation in cultural and social processes important for the state and people – all these factors allowed achieving strong customer confidence in the Bank's brand. Keeping in line with Latvia's development and needs of the Bank's customers will remain one of the Bank's key values forming the basis for further development of the Bank.

We would like to thank the Bank's clients and cooperation partners for our successful cooperation during the year, which we hope will be continued also in the future. Wishing you every success in your business!

Yours faithfully,

Raimondas Baranauskas Chairman of the Council	Ivars Priedītis Chairman of the Board / President

Riga,
12 March 2010

COUNCIL AND BOARD OF THE BANK

As at the date of signing these financial statements, the Members of the Council of the Bank were as follows:

Council

Name, surname	***Position***	***Date of appointment\ reappointment***
Raimondas Baranauskas	Chairman of the Council	28/10/2005 \ 07/09/2009
Aleksandrs Antonovs	Deputy Chairman of the Council	28/10/2005 \ 07/09/2009
Naglis Stancikas	Council Member	28/10/2005 \ 07/09/2009
Oļegs Suhorukovs	Council Member	28/10/2005 \ 07/09/2009
Vladimirs Antonovs	Council Member	07/09/2009
Mārtiņš Bondars	Council Member	07/09/2009

On 7 September 2009, the extraordinary shareholders` meeting of AS Latvijas Krājbanka resolved to make changes in the Council. The new Council is elected for a period of three years and its term of office begins on 7 September 2009. The new Council consists of the following members: Raimondas Baranauskas, Aleksandrs Antonovs, Naglis Stancikas, Oļegs Suhorukovs, and the newly elected Council Members Vladimirs Antonovs and Mārtiņš Bondars. Maksims Ančipolovskis was not re-elected as Council Member. Raimondas Baranauskas and Aleksandrs Antonovs were elected as Chairman of the Council and Deputy Chairman of the Council respectively at the Council's meeting on 8 September 2009.

There have been no other changes in the Council from 7 September 2009 until the date of signing these financial statements.

COUNCIL AND BOARD OF THE BANK

As at the date of signing these financial statements, the Members of the Board of the Bank were as follows:

Board

Name, surname	***Position***	***Date of appointment\ reappointment***
Ivars Priedītis	Chairman of the Board / President	18/07/2007
Dzintars Pelcbergs	First Deputy Chairman of the Board / First Vice President	02/01/2006 \ 03/01/2009
Svetlana Ovčiņņikova	Board Member	19/06/2006\ 20/06/2009
Andrejs Surmačs	Board Member	28/10/2005 \ 24/10/2008

Based on the decision of the Council of AS Latvijas Krājbanka of 17 August 2009, the Board Member Ivars Priedītis was elected as Chairman of the Board. The previous Chairman of the Board Mārtiņš Bondars resigned and was elected to the Council of the Bank on 17 August 2009.

On 16 September 2009, Ilze Bagatska resigned as Board Member and was elected to the Board of a Bank's subsidiary LKB Collect.

According to the decision of the Council of AS Latvijas Krājbanka, dated 17 June 2009, Svetlana Ovčiņņikova was re-elected as Board Member for the next three-year term of office starting from 20 June 2009.

There have been no changes in the Board from 31 December 2009 until the date of signing these financial statements.

Appointment and dismissal of the Board Members can be made in accordance with the Commercial Law and the Articles of Association of the Bank. The Council has a right to appoint and dismiss the Board Members. The Board Members are elected for a three-year period and the Council elects the Chairman of the Board (President) and the First Deputy Chairman of the Board (First Vice President) from among the Board Members.

The Board manages the Bank in accordance with the laws of the Republic of Latvia, the Articles of Association and the decisions of the shareholders' meeting. The Council approval is necessary for certain Board's decisions, which refers to the approval of business principles and policies, budget and operating plan, documents governing the lending policy, remuneration of internal auditors, assigning the loan categories specified in the Bank's statutory documents as well as share capital increases following the procedure laid down in Clause 5.16 of the Articles of Association.

According to the Commercial Law, only the shareholders' meeting is competent to decide on issue and repurchase of the Bank's shares. As it is provided in Clause 5.16 of the Articles of Association, the Board will be authorised to decide on the increase of the Bank's share capital by an amount not exceeding LVL 3'900'000 (three million nine hundred thousand lats) until 1 September 2014. In the event of an increase of the share capital according to the procedure laid down in Clause 5.16 of the Articles of Association, the new share issue will be paid only in cash no later than three months from the date of the respective Board's decision.

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of AS Latvijas Krājbanka (hereinafter – the Bank) is responsible for the preparation of the financial statements of the Bank.

The financial statements set out on pages 9 to 74 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2009 and the results of its operations, changes in shareholders' equity and cash flows for the year then ended.

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

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

Raimondas Baranauskas Chairman of the Council	Ivars Priedītis Chairman of the Board / President

Riga,
12 March 2010

LVL '000	Notes	Group 2009	Group 2008	Bank 2009	Bank 2008
Interest revenue	3, 4	34,229	42,071	32,437	40,388
Interest expense	3, 4	(24,404)	(22,652)	(24,170)	(22,260)
Net interest revenue		**9,825**	**19,419**	**8,267**	**18,128**
Commission and fee revenue	5	8,247	8,467	7,866	8,258
Financial intermediation	7	5,620	-	4,920	-
Commission and fee expense	5	(2,374)	(1,921)	(2,836)	(1,913)
Net commission and fee revenue		**11,493**	**6,546**	**9,950**	**6,345**
Dividend revenue		-	-	100	30
Net result on sale of securities and foreign exchange trading and revaluation	6	8,217	6,398	8,308	6,426
Penalty income	8	2,949	711	2,949	711
Other operating revenue	9	2,110	1,138	977	605
Operating revenue		**34,594**	**34,212**	**30,551**	**32,245**
Personnel expense	10	(11,361)	(11,963)	(10,357)	(11,171)
Depreciation and amortisation expense	24, 25	(2,221)	(2,288)	(2,057)	(2,141)
Other operating expense	11	(11,546)	(11,466)	(10,359)	(10,720)
Total operating expense		**(25,128)**	**(25,717)**	**(22,773)**	**(24,032)**
Impairment losses	12	(11,345)	(5,089)	(9,753)	(4,610)
Profit before corporate income tax		**(1,879)**	**3,406**	**(1,975)**	**3,603**
Corporate income tax	13	(56)	(622)	(3)	(595)
Profit for the reporting year		**(1,935)**	**2,784**	**(1,978)**	**3,008**
Attributable to:					
Shareholders of the Bank		**(1,935)**	**2,770**	**(1,978)**	**3,008**
Non-controlling interest		**-**	**14**	**-**	**-**
Basic earnings per share (Lats per share)	14	**(0.143)**	**0.228**		
Diluted earnings per share (Lats per share)	14	**(0.143)**	**0.195**		

Statement of comprehensive income

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Profit for the reporting year	(1,935)	2,784	(1,978)	3,008
Foreign currency revaluation reserve	632	(632)	-	-
Change of the revaluation reserve	(684)	-	(684)	-
Income tax	87	12	87	12
Net change of the revaluation reserve	(597)	12	(597)	12
Total other comprehensive income/ (loss) for the year, net of taxes	35	(620)	(597)	12
Total comprehensive income/ (loss) for the reporting year	(1,900)	2,164	(2,575)	3,020
Attributable to:				
Shareholders of the Bank	(1,900)	2,460	(2,575)	3,020
Non-controlling interest	-	(296)	-	-

The accompanying notes on pages 13 to 74 form an integral part of these financial statements.

LVL '000	Notes	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Assets					
Cash and demand deposits with central banks	15	44,332	58,213	44,332	58,125
Due from credit institutions	16	102,464	221,704	102,239	220,500
Financial assets held for trading		-	297	-	-
Financial assets at fair value through profit or loss	17	5,721	6,253	5,509	6,114
Loans and advances to customers	18	361,186	338,530	368,568	341,814
Available-for-sale financial assets		-	1	-	-
Held-to-maturity investments	20	11,426	21,044	11,108	20,836
Investment properties	21	1,153	-	1,153	-
Assets held for sale	8	4,275	-	4,275	-
Investments in subsidiaries	22	-	-	4,322	4,379
Intangible assets	24	1,537	1,561	1,191	1,260
Tangible assets	25	19,537	22,374	19,313	21,877
Prepayments and accrued income		717	576	702	552
Corporate income tax receivable		689	1,281	689	1,281
Other assets	26	13,731	9,641	6,505	3,111
Total assets		**566,768**	**681,475**	**569,906**	**679,849**
Liabilities					
Due to credit institutions	27	16,431	37,787	16,431	34,695
Deposits from customers	28	476,155	581,786	480,418	584,795
Derivatives	19	172	1,057	172	1,057
Debt securities issued	29	3,546	3,604	3,546	3,604
Deferred income and accrued expense	30	1,422	1,524	1,376	1,474
Provisions for off-balance sheet commitments		-	-	902	-
Corporate income tax liability		45	517	-	500
Deferred tax liability	13	847	930	847	930
Other liabilities	31	3,496	3,662	1,115	2,034
Subordinated debt	32	15,181	9,028	15,181	9,028
Total liabilities		**517,295**	**639,895**	**519,988**	**638,117**
Equity					
Paid-in share capital	33	19,324	12,149	19,324	12,149
Share premium	33	15,887	12,300	15,887	12,300
Reserve capital and other reserves	33	626	626	626	626
Revaluation reserve	33	4,767	5,364	4,767	5,364
Foreign currency translation reserve		-	(322)	-	-
Retained earnings		8,864	10,800	9,314	11,293
Total equity attributable to equity holders		49,468	40,917	49,918	41,732
Non-controlling interest		5	663	-	-
Total shareholders' equity		**49,473**	**41,580**	**49,918**	**41,732**
Total liabilities and shareholders' equity		**566,768**	**681,475**	**569,906**	**679,849**

The accompanying notes on pages 13 to 74 form an integral part of these financial statements.

Group LVL '000	Notes	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Foreign currency translation reserve	Retained earnings	Non-controlling interest	Total equity and non-controlling interest
		Attributable to the Bank's shareholders							
Balance as at 31 December 2007		**12,149**	**12,300**	**626**	**5,352**	**-**	**10,583**	**-**	**41,010**
Profit for the period		-	-	-	-	-	2,770	14	2,784
Other comprehensive income		-	-	-	12	(322)	-	(310)	(620)
Total comprehensive income		-	-	-	12	(322)	2,770	(296)	2,164
Non controlling interest of subsidiaries acquired		-	-	-	-	-	-	959	959
Dividends paid		-	-	-	-	-	(2,553)	-	(2,553)
Balance as at 31 December 2008		**12,149**	**12,300**	**626**	**5,364**	**(322)**	**10,800**	**663**	**41,580**
Loss for the period		-	-	-	-	-	(1,935)	-	(1,935)
Other comprehensive income		-	-	-	(597)	322	-	310	35
Total comprehensive income		-	-	-	(597)	322	(1,935)	310	(1,900)
Share issue		7,175	3,587	-	-	-	-	-	10,762
Non controlling interest of subsidiaries sold		-	-	-	-	-	-	(968)	(968)
Dividends paid		-	-	-	-	-	(1)	-	(1)
Balance as at 31 December 2009	33	**19,324**	**15,887**	**626**	**4,767**	**-**	**8,864**	**5**	**49,473**

Bank LVL '000	Notes	Paid-in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2007		**12,149**	**12,300**	**626**	**5,352**	**10,838**	**41,265**
Profit for the period		-	-	-	-	3,008	3,008
Other comprehensive income		-	-	-	12	-	12
Total comprehensive income		-	-	-	12	3,008	3,020
Dividends paid		-	-	-	-	(2,553)	(2,553)
Balance as at 31 December 2008		**12,149**	**12,300**	**626**	**5,364**	**11,293**	**41,732**
Loss for the period		-	-	-	-	(1,978)	(1,978)
Other comprehensive income		-	-	-	(597)	-	(597)
Total comprehensive income		-	-	-	(597)	(1,978)	(2,575)
Share issue		7,175	3,587	-	-	-	10,762
Dividends paid		-	-	-	-	(1)	(1)
Balance as at 31 December 2009	33	**19,324**	**15,887**	**626**	**4,767**	**9,314**	**49,918**

The shareholders' meeting of Latvijas Krājbanka resolved to pay dividends of LVL 692 on preferred shares from the audited profit of 2008, while the balance will be used for further business development.

During the first half of 2009, the Bank paid dividends on preferred shares in the amount of LVL 0.244 per share.

The accompanying notes on pages 13 to 74 form an integral part of these financial statements.

LVL '000	Notes	Group 2009	Group 2008	2009	Bank 2008
Cash flows to/ from operating activities					
Profit before corporate income tax		(1,879)	3,406	(1,975)	3,603
Depreciation and amortisation expense	24,25	2,221	2,230	2,057	2,141
Increase in impairment losses		11,345	3,918	9,753	2,004
(Gain)/loss on foreign currency translation		2,847	(2,572)	2,740	(3,209)
(Gain)/loss on revaluation of investments		(515)	(11)	(499)	(26)
(Gain)on revaluation of investments property		(599)	-	(599)	-
Loss from revaluation of tangible assets		431	-	431	-
Other non-cash items included in profit before tax		(2,389)	-	(2,389)	-
(Gain) on sale of subsidiary		(336)	538	-	-
(Gain)/loss from disposal of fixed and intangible assets	11	9	63	9	(3)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities		**11,135**	**7,572**	**9,528**	**4,510**
(Increase)/ decrease in balances due from credit institutions		6,367	3,920	5,414	760
(Increase) in loans and advances to customers	18	(35,807)	(40,816)	(37,481)	(45,576)
Decrease/(increase) in financial assets at fair value through profit or loss		716	16,317	789	16,471
Decrease in financial assets held for trading		313	13	-	-
Decrease available-for-sale financial assets		1	-	-	-
(Increase)/ decrease in prepayments and accrued income		(141)	72	(150)	74
(Increase) in other assets		(4,611)	(7,968)	(2,903)	(1,775)
(Decrease)Increase in balances due to credit institutions		(13,284)	9,296	(10,192)	10,593
Increase/ (decrease) in deposits from customers		(105,631)	(4,343)	(104,377)	(1,776)
Net decrease/(increase) in derivatives	19	(570)	27	(570)	27
(Decrease)Increase in debt securities issued		(58)	11	(58)	11
Increase/(decrease) in deferred income and accrued expense		(102)	(291)	(98)	(293)
Increase/(decrease) in other liabilities		(166)	1,006	(919)	1,252
Net increase in cash and cash equivalents from operating activities		**(141,838)**	**(15,184)**	**(141,017)**	**(15,722)**
Corporate income tax paid		(45)	(1,365)	-	(1,348)
Net increase in cash and cash equivalents		(141,883)	(16,549)	(141,017)	(17,070)
Cash flows to/ from investing activities					
(Purchase) of fixed and intangible assets	24, 25	(708)	(5,189)	(563)	(5,150)
Proceeds from disposal of fixed and intangible assets		224	68	15	69
Investment in subsidiaries, net		-	(2,992)	(905)	(3,739)
(Purchase) of held to maturity investments		(2,996)	(19,074)	(2,996)	(18,866)
Proceeds from held to maturity investments		12,614	2,777	12,724	2,777
Increase in cash and cash equivalents from investing activities		**9,134**	**(24,410)**	**8,275**	**(24,909)**
Cash flows to/ from financing activities					
Issue of shares		7,175	-	7,175	-
Share premium		3,587	-	3,587	-
Dividends paid		(1)	(2,553)	(1)	(2,553)
Proceeds from issue of subordinated debt		6,091	-	6,091	-
Net cash flows to/ from financing activities		**16,852**	**(2,553)**	**16,852**	**(2,553)**
Net increase/ (decrease) in cash and cash equivalents		**(115,897)**	**(43,512)**	**(115,890)**	**(44,532)**
Cash and cash equivalents at the beginning of the year	**36**	**241,694**	**282,564**	**241,356**	**282,564**
Foreign exchange difference		(2,785)	2,642	(2,678)	3,324
Cash and cash equivalents at the end of the year	**36**	**123,012**	**241,694**	**122,788**	**241,356**

Cash flows from interest and dividends

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Interest paid	16,104	17,944	15,819	16,747
Interest received	30,067	34,960	28,227	34,700
Dividends received	-	-	100	30

The accompanying notes on pages 13 to 74 form an integral part of these financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

AS Latvijas Krājbanka (hereinafter – the Bank) was founded in 1924 as Latvijas Pasta Krājbanka (*Latvian Post Savings Bank*). In June 1940, it was reorganised and included into the structure of the USSR Savings Bank. Until 1991, the main task of the Bank was to attract financial resources and service them within the framework of the Soviet banking system.

On 3 September 1991, the Supreme Council of the Republic of Latvia decided to re-establish AS Latvijas Krājbanka. AS Latvijas Krājbanka took over all rights of the former USSR National Savings Bank and on 15 October 1992 received a licence to perform banking operations. The Bank was registered with the Enterprise Register of the Republic of Latvia on 16 October 1992 as a state owned commercial bank. On 29 March 1994, the Bank was re-registered as a state joint-stock company Latvijas Krājbanka. In accordance with the Order of the Cabinet, dated 18 January 1996, the state joint stock company Latvijas Krājbanka was included in the list of entities to be privatised. During the first phase of the privatisation process, in 1997 the Bank was acquired by Rīgas Apvienotā Baltijas banka (Union Baltic Bank in Riga). During the subsequent public offering, the shares of the Bank were purchased by residents of Latvia using privatisation certificates. On 20 September 2005, Snoras, one of the largest commercial banks in Lithuania, purchased an 83.01% shareholding and became the major shareholder of the Bank. The Bank's financial statements are consolidated in the financial statements of the Snoras Group.

As at 31 December 2009, the Bank had its customer service centres in all regions of Latvia:

Region	*Customer service centres*
Riga	43 (44)
Latgale	22 (25)
Vidzeme, except for Riga	21 (22)
Kurzeme	20 (22)
Zemgale	9 (9)
Total	**115 (122)**

The comparatives for 2008 are disclosed in brackets.

The financial statements of the Group and the Bank for the year ended 31 December 2009 were approved by a resolution of the Bank's Board on 12 March 2010. The Group's and the Bank's shareholders have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies consistently applied (unless otherwise stated) throughout the years ended 31 December 2009 and 2008 is set out below:

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Latvian Financial and Capital Market Commission's *Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Firms and Investment Management Companies.*

b) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities which are measured at fair value: derivatives, financial assets and financial liabilities at fair value through profit or loss, land and buildings as well as investment properties.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group and the Bank.

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2008, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2009:

The Group has adopted the following new and amended IFRSs and IFRIC interpretations during the year:

- Amendment to IAS 1 *Presentation of Financial Statements*;
- Amendments to IFRS 7 *Financial Instruments: Disclosures*;
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*;
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*;
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*;
- IFRIC 15 *Agreement for the Construction of Real Estate*;
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*;
- Improvements to IFRS (issued in 2008 and effective on 1 January 2009).

The principal effects of these changes are as follows:

Amendment to IAS 1 P*resentation of* F*inancial Statements*

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group has elected to present its revenue and expense items in two linked statements.

Amendments to IFRS 7 F*inancial* I*nstruments*: D*isclosures* – Improving Disclosures about Financial Instruments

With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for financial instruments recognized at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

The other standards and interpretations and their amendments adopted in 2009 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.

The Bank and the Group have adopted IFRS 8. The adoption of this standard did not have any effect on the financial performance or the position or the disclosures of the Bank and the Group.

- The principal effect of the change to IFRS 8 O*perating Segments* is that this standard requires disclosure of the information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group determined that there are no operating segments used by the management of the Group, as the management of the Group are not using disaggregated information.
- As the major part of the Group's clients during the reporting year were Latvian residents, no geographical analysis of revenues is disclosed. The majority of the Group's non-current assets other than financial instruments are located in Latvia, so no geographical analysis of non-current assets is disclosed.

The accompanying financial statements are reported in thousands of Lats (LVL 000's), unless stated otherwise.

c) Basis of consolidation

These consolidated financial statements comprise also separate financial statements of the Bank as at and for the years ended 31 December 2009 and 2008 in accordance with legal requirements. The Bank has consolidated its subsidiaries as disclosed in Note 22. Subsidiaries are consolidated from the date on which the control is transferred to the Bank. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

In preparing the consolidated financial statements, respective items have been evaluated in accordance with the uniform accounting policies and valuation principles applied by the Bank in conformity with the requirements of the Financial and Capital Market Commission and International Financial Reporting Standards as adopted by the European Union. The subsidiaries' financial statements are included in the Group's consolidated financial statements.

Non-controlling interest represents the portion of profit or loss and net assets that is not held by the Group and is presented separately in the consolidated income statement and statement of comprehensive income and under equity in the consolidated statement of financial position, separately from the parent's shareholders' equity.

All items in the Bank's and Group's financial statements have prior year comparatives. Should the difference between information on the Group and that on the Bank be insignificant, such information on the Group is not separately presented.

d) Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest revenue and expense are recognised in the income statement on an accrual basis using the effective interest rate. Interest revenue includes various fixed payments, coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted investments.

Commission and fee revenue and expense are included in the income statement over the period or at a specific time, except for commission and fee revenue and expense directly attributable to financial assets/ liabilities measured at amortised cost – for these assets/ liabilities the respective commission and fee revenue and expense form an integral part of the effective interest rate.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

e) *Foreign currency translation*

Transactions denominated in foreign currencies are translated into lats applying the official rates of exchange published by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the official rate of exchange prevailing at the year end. Any gain or loss resulting from currency rate fluctuations subsequent to the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.

The principal foreign exchange rates (LVL to 1 foreign currency unit) published by the Bank of Latvia and used in the preparation of the Group's and the Bank's statement of financial position were as follows:

Reporting date	USD	EUR
As of 31 December 2009	0.489000	0.702804
As of 31 December 2008	0.495000	0.702804

f) Corporate income tax

Corporate income tax at the rate of 15% (2008: 15%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred tax is provided for temporary differences between the tax base of an asset or liability and its carrying amount. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Reported deferred tax is based on the expected manner of realisation or settlement of the carrying amount of deferred assets and liabilities, using future tax rates enacted by the reporting date. Deferred income tax relating to items recognised directly in statement of comprehensive income is recognised in statement of comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

g) Earnings per share

Earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of shares in issue during the year.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders of the Group and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares (subordinated debt).

h) Asset impairment loss

Where the carrying amount of an asset is higher than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs (fair value less costs to sell), or the estimated future economic benefits arising from the use of the asset (value in use). The largest components of the Group's assets are periodically tested for impairment and impairments are provisioned through the profit and loss account "Impairment loss".

i) Impairment of financial assets

The Group and the Bank assess at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial assets or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets (an incurred "loss event") and the loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Where possible, the Group and the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

j) Originated loans and loan impairment

The Management of the Group have considered both individual and collective (portfolio) risks in determining the allowance for credit losses (impairment). The specific allowance is determined after individually reviewing all loans for potentially uncollectible amounts and is based on the customer's financial position, value of collateral and fulfilment of loan agreement. The collective (portfolio) allowance relates to existing credit losses, as well as to the losses 'incurred, but not yet known' to the Group. 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 or advance has been classified as non-performing, an allowance for credit losses is established for that specific loan or advance for the 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 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 advance 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, and, as adjustments become necessary, they are reported in the income statement in the reporting period in which they become known. 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 information.

When loans and advances 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.

k) *Finance lease (the Group as a lessor)*

For the purposes of these financial statements, finance lease receivables are classified as *Loans and advances to customers*.

Finance lease receivables are recognised as assets on commencement of the lease term at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

l) *Operating lease (the Group as a lessor and lessee)*

Operating lease is a lease transaction other than a finance lease. The lessor bears substantially all the risks and benefits of ownership of the asset.

Operating lease is the type of lease when, in the event of a contract made for a certain period at the client's option, the client makes lease payments every month. In the case of an operating lease, the ownership of the asset is not transferred to the lessee after the end of the lease period. Operating lease revenue is recognised on a straight-line basis over the lease term.

Where the Group is the lessee, operating lease payments are recognised on a straight-line basis over the lease term.

m) *Financial instruments*

Classification

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and the ability to hold to maturity.

Financial instruments at fair value through profit or loss: the Group/ the Bank at inception has classified these financial assets or liabilities as designated at fair value through profit or loss and trading investments. The sub-category financial assets designated at fair value through profit or loss are classified based on how the management analyses these assets that is compliant with the documented risk management approach accepted by Asset and Liability Management Committee (ALMCo). Assets are classified as designated at fair value through profit or loss when the ALMCo makes a decision about financial assets and liabilities or a group of financial assets and liabilities before the transaction is initialised, and when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets or financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative unless the embedded derivative significantly modifies the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest rate method.

Available-for-sale assets are financial assets that are not classified in any of the above mentioned categories.

Financial liabilities are classified as those at fair value through profit or loss and those at amortised cost as appropriate.

Recognition

The Group recognises a financial asset or a financial liability on its statement of financial position when and only when the Group becomes a party to the contractual provisions of the instrument.

Purchases of securities are accounted for on the settlement date.

Measurement

Held-to-maturity investments are initially recognised at cost plus transaction costs and subsequently measured at amortised cost less impairment. Amortised cost is calculated using the effective interest method. Premiums or discounts, as well as initial transaction costs, are included in the carrying amount of the related financial instrument and amortised based on the effective interest rate of the instrument.

Revaluation of financial assets at fair value through profit or loss, financial assets held for trading and available-for-sale assets is based on quoted market prices. When the fair value of securities cannot be determined, the Group and the Bank applies alternative methods to define the fair value, using pricing models or discounted cash flow analysis.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Management's best estimates and the discount rate is a market rate at the reporting date for an instrument with similar terms and conditions and risk. Where pricing models are used, the information is based on the market valuation at the reporting date. There are no assets having no market price available.

Revaluation of financial assets and financial liabilities at fair value through profit or loss and financial assets held for trading is recognised directly in the income statement.

Loans and receivables are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities accounted for at amortised cost are initially measured at fair value less any transaction costs that are directly attributable to the issue of the respective liability. Subsequently, they are measured at amortised cost using the effective interest method. The components of compound financial instruments such as convertible bonds that contain both liability and equity elements are accounted for separately. The equity component, representing the conversion feature of the bond, is measured at the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component at the date of issue. The fair value of the liability component at the date of issue is determined as the fair value of a bond with similar terms and conditions but without a conversion feature.

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group and the Bank have transferred their rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group and the Bank either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group and the Bank have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

n) Investments in privatisation certificates

Investments in privatisation certificates are stated at their market value determined in accordance with instructions of the Bank of Latvia.

Unrealized profits or losses arising as a result of stating privatisation certificates at market value are respectively credited or charged to the statement of income as profit or loss from the revaluation of securities.

o) Derivatives

In the normal course of business, the Group and the Bank is a party to contracts for forward foreign exchange rate and currency swap instruments. Financial assets and financial liabilities arising from recognising derivatives at their fair value are recognised in the statement of financial position as the assets or liabilities of these agreements. Foreign exchange instruments are valued according to the present value of the difference between the current forward rate at the reporting date for the remaining maturity of the contract, based on rates set by the Bank of Latvia, and the contractual rate. The revaluation result is disclosed as profit or loss from currency exchange trading.

p) Intangible assets

Intangible assets are recognised when it is probable that the asset will generate future economic benefits and their cost can be measured reliably. Intangible assets are amortised over their useful life on a straight-line basis. Computer software is treated as an intangible asset only when it is not an integral part of the related hardware. The amortisation rates in the range from 12.5% to 20% are applied to intangible assets.

q) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

r) Investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are stated in the Bank's separate financial statements at cost, including transaction costs. In the event that the investment's carrying amount exceeds its recoverable amount it is reduced to its recoverable amount. That reduction is recognized as an impairment loss in the profit and loss statement.
The dividends received from those investments are included in the Bank's profit and loss statement.

s) Tangible assets

Tangible assets are recorded at historical cost or their revalued amount, less accumulated depreciation. If the recoverable amount of a tangible asset is lower than its carrying amount, the tangible asset is written down to its recoverable amount.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction and preparation are not depreciated. The following depreciation rates have been applied:

Type of tangible assets	*Annual rate*
Buildings	2%-6.667%
EDP equipment	25%
Equipment and fixtures	10%-33.33%
Vehicles	20%

Tangible asset maintenance and running repair costs are charged to the income statement as incurred.

Leasehold improvements and overhaul costs are capitalised and depreciated over the shorter of the useful life and the remaining lease period on a straight-line basis.

Land and buildings are revaluated periodically.

Depreciation methods, useful lives and recoverable amounts are reassessed annually.

t) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they rise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

u) Assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

If assets that are classified as held for sale are not sold, the Group and the Bank ceases recognising such assets as held for sale. Non-current assets are classified as held for sale if there is evidence that the sale is highly probable.

v) Sale and repurchase agreements

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's statement of financial position and are subject to the Group's usual accounting policies, with the purchase price received stated as a liability to the transferee.

Where the Group is the transferee, the assets are not recognised in the Group's statement of financial position, but the purchase price paid to the transferor is included as a receivable from the transferor. Interest revenue or expense arising from outstanding sale and repurchase agreements is recognised in the income statement over the term of the agreement.

w) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with the original maturity of three months or less. Cash and cash equivalents are short-term, highly liquid assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

x) Provisions

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

y) Vacation pay reserve

The vacation pay reserve is calculated for each employee of the Group based on the total number of vacation days earned but not taken multiplied by the average daily remuneration expense for the last six months of the year plus relevant statutory social insurance contributions, which in essence represent the expected cash flows.

z) Other off-balance sheet financial instruments

In the ordinary course of business, the Group is involved with commitments to extend loans and advances, set limits for credit cards accounts, issue overdrafts and financial guarantees, as well as commercial letters of credit. Such financial instruments are recorded in the financial statements as follows:

- Commitment to extend loans and advances, credit card and overdraft facilities are recognised on drawdown;
- Financial guarantees and letters of credit are recognised when the related fee received as consideration is recognised.

aa) Assets and liabilities under management

Assets and liabilities managed by the Group on behalf of its customers, trusts and other institutions are not regarded as assets or liabilities of the Group and, therefore, are not included in its statement of financial position. The Group assumes no control, no risk and no rights for assets and liabilities under management.

bb) Fair value of financial assets and liabilities

The fair value of financial assets and liabilities represent the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If the Group's Management consider that the fair value of financial assets and liabilities is different from their carrying amounts, the fair value of financial assets and liabilities is disclosed in the notes to the financial statements.

cc) Significant accounting judgements and estimates

In the process of applying the Group's and the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgements and estimates are as follows:

Going concern

The Group's and the Bank's management has made assessment of the Group's and the Bank's ability to continue as going concern and is satisfied that the Group and the Bank has the resources to continue in business for the foreseeable future. Futhermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's and Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. The assessment of ability to continue as going concern is described in more detail in Note 48.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgements include considerations of liquidity and model inputs. The valuation of financial instruments is described in more detail in Note 37.

Impairment losses on loans and advances

The Group and the Bank review its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgement but management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group and the Bank makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios etc), concentration of risks and economic data (real estate prices indices, average level to settle consumer obligations and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 12 and 18.

Revaluation of tangible assets and investment property

The Group and the Bank carried its investment properties at fair value, with changes in fair value being recognized in the income statement. In addition, it measures land and buildings at revaluated amounts with changes in fair value being recognized in other comprehensive income. The Group and the Bank engaged independent valuation specialists to determine fair value as at 31 December 2009. The valuator used a valuation techniques based on comparable market data and discounted future income. More details on values of investment properties are disclosed in Note 21 and on land and buildings in 25.

dd) Adoption of new and revised IFRSs

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

- 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, as the Group does not have such instruments.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for financial years beginning on or after 1 July 2009). The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. 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 the 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.

3. INTEREST REVENUE AND EXPENSE

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Interest revenue				
Loans and advances to customers	30,393	33,205	28,642	31,580
Incl. impaired	972	185	972	185
Securities	2,386	2,116	2,377	2,104
Incl. held-to-maturity investments	1,850	1,125	1,850	1,116
Incl. financial assets held for trading	11	10	2	7
Incl. financial assets at fair value through profit or loss	525	981	525	981
Balances due from credit institutions	1,450	6,750	1,418	6,704
Total interest revenue	**34,229**	**42,071**	**32,437**	**40,388**
Interest expense:				
Deposits from customers	(21,504)	(19,641)	(21,669)	(19,666)
Balances due to credit institutions	(914)	(1,150)	(515)	(733)
Debt securities issued	(107)	(199)	(107)	(199)
Contributions to the deposit guarantee fund	(858)	(930)	(858)	(930)
Subordinated debt	(1,021)	(732)	(1,021)	(732)
Total interest expense	**(24,404)**	**(22,652)**	**(24,170)**	**(22,260)**
Net interest revenue	**9,825**	**19,419**	**8,267**	**18,128**

4. INTEREST PRODUCTIVITY OF THE BANK'S STATEMENT OF FINANCIAL POSITION

		2009			2008		
	LVL '000	Average monthly balance	Interest	Effective interest rate	Average monthly balance	Interest	Effective interest rate
	Assets						
	Cash and deposits with central banks	35,805	356	0.99	54,139	1,111	2.05
	Due from credit institutions	96,604	1,062	1.10	170,702	5,593	3.28
	Financial investments	16,638	2,377	14.29	27,526	2,104	7.64
	Derivative assets	873	-	-	995	-	-
	Loans and advances to customers	354,333	28,642	8.08	326,935	31,580	9.66
	Other assets	46,692	-	-	43,267	-	-
A	**Total assets**	**550,945**	**32,437**	**5.89**	**623,564**	**40,388**	**6.48**
	Liabilities						
	Deposits from customers	450,296	22,527	5.00	530,257	20,596	3.88
	Due to credit institutions	17,399	515	2.96	16,947	733	4.33
	Derivatives liabilities	683	-	-	1,584	-	-
	Subordinated debt	10,920	1,021	9.35	8,855	732	8.27
	Debt securities issued	3,514	107	3.04	3,514	199	5.66
	Other liabilities	25,856	-	-	20,277	-	-
B	**Total liabilities**	**508,668**	**24,170**	**4.75**	**581,434**	**22,260**	**3.83**
	Shareholders' equity	42,277			42,130	-	-
C	**Total liabilities and shareholders' equity**	**550,945**	**24,170**	**4.39**	**623,564**	**22,260**	**3.57**

Net interest revenue		**8,267**			**18,128**	
***Investment spread* % (A-C)**			**1.50%**			**2.91%**

There is no significant difference in productivity between the Bank and the Group.

5. COMMISSION AND FEE REVENUE AND EXPENSE

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Commission and fee revenue:				
Payment cards	3,688	3,667	3,688	3,667
Money transfers	2,099	2,284	2,099	2,284
Maintenance fee	487	491	487	491
Cash services	378	383	378	383
Transactions with privatisation certificates	241	496	241	496
Trust operations	155	217	155	217
Brokerage fee	147	87	147	87
Other	1,052	842	671	633
Total commission and fee revenue	**8,247**	**8,467**	**7,866**	**8,258**
Commission and fee expense:				
Payment cards	(1,789)	(1,374)	(1,789)	(1,374)
Settlements	(148)	(177)	(148)	(177)
Other	(437)	(370)	(899)	(362)
Total commission and fee expense	**(2,374)**	**(1,921)**	**(2,836)**	**(1,913)**
Net commission and fee revenue	**5,873**	**6,546**	**5,030**	**6,345**

6. NET RESULT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING AND REVALUATION

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Net result from trading with foreign currency	10,247	4,652	10,247	4,028
Net result on sale of financial assets at fair value through profit or loss	302	(952)	302	(952)
Incl. financial assets at fair value through profit or loss	299	(973)	299	(973)
Incl. from credit institutions	157	-	157	-
Incl. from securities	-	(1,438)	-	(1,438)
Incl. from privatization certificates	142	465	142	465
Incl . financial assets held for trading	3	21	3	21
Net result from revaluation of financial assets	515	11	499	26
Incl. financial assets at fair value through profit or loss	499	22	499	22
Incl. from central government	114	-	114	-
Incl. from securities	(218)	(244)	(218)	(244)
Incl. from privatization certificates	523	353	523	353
Incl. from shares	80	(87)	80	(87)
Incl. financial assets held for trading	16	(11)	-	4
Net result from revaluation of foreign currency positions	(2,847)	2,687	(2,740)	3,324
Total net result on sale of securities and foreign exchange trading and revaluation	**8,217**	**6,398**	**8,308**	**6,426**

The gain from trading with foreign currency grew substantially due to the market frenzy (affected by the concerns about the lat devaluation). Large exchange transactions were carried out.

The loss from revaluation of foreign currency positions was caused by large USD exchange transactions performed at the beginning of the year. The USD exchange rate fixed by the Bank of Latvia was extremely volatile, which also affected the revaluation position.

7. FINANCIAL INTERMEDIATION

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Fee for financial services*	4,920	-	4,920	-
Gain on sale of shares and options**	700	-	-	-
Total other operating revenue	**5,620**	**-**	**4,920**	**-**

*At the beginning of September 2009, the Bank was approached by a customer (hereinafter – the Customer) which offered participation in a purchase of shares in a foreign company. The Bank analysed the prior positive cooperation with the Customer and the transaction and supported conceptually its potential involvement in the Customer's transaction with the aim to benefit from the significant compensation in case of Customer's success in the purchase of shares, provided that the Bank would act solely on behalf of the Customer and using the Customer's funds (trust) and any shares that would be acquired would be deemed to have been transferred into trust with the Bank.

On 29 December 2009, the Bank signed a cooperation agreement with the Customer whereby the Bank was engaged to participate in the above share purchase transaction jointly with the Customer, using the Customer's funds, and in the Customer's best interests, and signed a purchase agreement with the seller. Any shares that would be registered in the Bank's name as a result of the transaction would be deemed to have been transferred into trust with the Bank and would be acquired at Customer's expense. On the date of the report legal ownership of respective shares has not been transferred to the Bank.

The Bank's involvement was critical as the Customer alone would not be able to make the transaction because the Customer's status did not comply with the regulations approved by the seller (business activity of the participant of at least 5 years, or an annual turnover amounted to EUR 10 million in the last business year before participation in the transaction and to have generated profit in the past 3 business years, showing profit for each year separately). Owing to the trust service provided by the Bank, the Customer was able to acquire the shares for EUR 2.2 million - rather a low price in comparison to the market value of these shares as established by licensed valuators.

As a result, the fee due to the Bank for the organisation and servicing of the above trust was rather high - the Customer agreed to pay to the Bank the remuneration in the amount of EUR 7 million, where EUR 6,987 million are to be paid as the remuneration for the provided financial services attributed to the acquisition and EUR 13 thousand – for the provided trust services. The total fee amount was recorded in revenue at the date of the agreement.

Within the scope of described transaction The Bank has provided loans to the Customer in the amount of EUR 2.5 million (for the financing of share acquisition) and in the amount of EUR 7 million (for the financing of above mentioned remunerations). The collateral for above mentioned loans serves shares of purchased company, in value, as estimated by independent valuations, more than twice exceeding total Bank's exposure as of balances sheet date.

** At the end of December 2009, the Bank and its subsidiary SIA Krājinvestīcijas (hereinafter – Krājinvestīcijas) were approached by the shareholders of a company incorporated in the Republic of Latvia (hereinafter – the Company) seeking an investment into the Company's share capital by acquiring 67% of its total shares for LVL 696,130. Such kind of an investment was dissimilar to the Bank's core business; however, the Bank suggested another customer (hereinafter – the Investor) willing to acquire the shares. Additionally to the share purchase agreement former shareholders purchased a call option on the shares sold to Krājinvestīcijas. The share purchase price at which the call option can be realized is LVL 40,000,000. Due to the fact that the shares were sold to the Investor, the fulfilment obligations of the call option (actual delivery of the shares to the person asking for the fulfilment of call option) have also subsequently been transferred to the Investor and Krājinvestīcijas have been waived from any liability whatsoever in that regard. In this financial deal were not involved related persons or companies to the Bank. For the mediation the Group earned fee of LVL 700,000.

8. PENALTY INCOME

A major part of penalties received represents penalties for non-compliance with contract terms and conditions on card transactions and penalty charged for the loan transaction in the amount of LVL 2,389 thousand (for details see below).

On 1 July 2008, a customer was issued a loan of LVL 2,528 thousand having a yacht pledged as collateral for the loan. In 2009, the customer began to default on the loan payments. On 14 August 2009, an agreement was signed with the customer on additional penalties to be applied. A penalty of LVL 1,195 thousand was fixed for any delay exceeding 30 calendar days. The parties agreed that in the event of a repeated delay in loan principal/ interest payments for more than 30 calendar days, the Bank will be entitled to exercise its contractual rights to impose the penalty repeatedly. In addition, the Bank may take over the abode yacht, with the borrower compensating all expenses and costs related to the collateral takeover. The customer delayed the loan principal/ interest payments repeatedly and, therefore, the procedures stipulated by the agreement became applicable. According to the agreement, the customer was given a possibility to sell the yacht and so repay the loan balance/ accrued interest due. After the customer's failure to do this, the yacht was taken over by and registered in the Bank's name on 27 December 2009. The yacht takeover was carried out pursuant to the conditions agreed on with the customer in writing. To estimate the recoverable amount of the yacht, the valuation of the yacht was performed by international valuation company, which arrived at an estimated fair value of USD 9,500,000 (LVL 4,645 thousand). In accordance with IFRS 5 the asset should be recognised at the lower of cost and fair value where cost represents the total amount of the customer's liabilities against the Bank. The yacht has been accounted at cost, i.e. LVL 4,275 thousand. By taking over the collateral, the Bank has settled the customer's loan liabilities and interest accrued by the date of the takeover in the amount of LVL 1,845 thousand and penalty of LVL 2,389 thousand as well as the expenses related to the collateral takeover by the Bank of LVL 40 thousand.

According to the Bank's strategy, holding of such an asset is dissimilar to the Bank's core business and, therefore, the Bank is planning to sell this asset in the nearest future.

9. OTHER OPERATING REVENUE

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Gain from fair value adjustment of investment property (see note 21)	599	-	599	-
Rental revenue	156	169	156	157
Lease services	113	-	-	-
Insurance premiums	80	-	-	-
Gain on sale of subsidiaries (see note 22)	762	-	-	-
Gain on sale of tangible assets	12	177	12	3
Other operating revenue	388	792	210	445
Total other operating revenue	**2,110**	**1,138**	**977**	**605**

10. PERSONNEL EXPENSE

Personnel expense includes remuneration to the Council, the Board and other employees of the Bank as well as related statutory social insurance contributions and costs of other benefits.

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Remuneration to the Council	495	681	491	622
Remuneration to the Board	755	688	581	642
Remuneration to other personnel	7,907	8,432	7,283	7,925
Statutory social insurance contributions	2,204	2,162	2,002	1,982
Total remuneration and related statutory social insurance contributions	**11,361**	**11,963**	**10,357**	**11,171**

The total number of personnel employed by the Bank and the Group is specified as follows:

	Group 2009	Group 2008	Bank 2009	Bank 2008
Board Members	22	22	4	6
Other management personnel	40	68	35	35
Other personnel	879	1,035	856	920
Total number of personnel employed	**941**	**1,125**	**895**	**961**

The Bank has entered into employment agreements with three Board Members granting the six-month average salary in case of their dismissal.

11. OTHER OPERATING EXPENSE

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Rent of premises and land	2,141	2,416	2,141	2,393
Non-refundable value added tax	1,445	1,409	1,424	1,400
Consulting and professional fees	1,187	776	710	708
Advertising and marketing	735	869	646	868
Repairs and maintenance of premises and buildings	690	750	645	750
Communications	601	566	592	566
EDP maintenance	551	551	549	539
Training and other personnel expense	529	202	523	198
Car maintenance	430	412	323	391
Insurance	427	357	266	355
Security	379	301	374	301
Participation fees and payments to funds	199	190	199	190
Office expense	107	196	104	189
Audit fees	88	75	75	56
Property and real estate tax	42	33	38	33
Loss on disposal of tangible assets	29	240	29	230
Other operating expense	1,966	2,123	1,721	1,553
Total operating expense	**11,546**	**11,466**	**10,359**	**10,720**

In 2007, the Bank concluded an operating lease contract for the usage of real estate and land. The building at 15 Jāņa Daliņa iela is being used as an administrative office. The term of the lease contract is 20 years, ending 31 March 2027. The total expected minimum lease payment amounts to LVL 24,620 thousand. That includes payments up to one year of LVL 1,355 thousand, payments from one to five years – LVL 5,421 thousand, and LVL 17,844 thousand for payments over five years.

Since 2006, the Bank has concluded operating lease contracts with SIA SEB līzings and SIA LKB Lizings for the periods from one to five years for the lease of 59 cars. According to those contracts, the operating lease payment per year is LVL 49 thousand. The total amount of operating lease payments throughout the period is LVL 189 thousand. The payments up to one year amount to LVL 49 thousand, from one up five years – LVL 140 thousand.

12. IMPAIRMENT LOSSES

The analysis of impairment losses for the Bank and the Group is presented as follows:

Group **LVL`000**	**Impairment losses for loans**	**Other impairment losses**	**Off-balance sheet provisions**	**Total**
Impairment losses as at 31 December 2007	**2,245**	**181**	**-**	**2,426**
Impairment losses	5,636	43	-	5,679
Reversal of impairment losses	(346)	(4)	-	(350)
Recovery of assets previously written off	(240)	-	-	(240)
Net charge to the income statement	**5,050**	**39**	**-**	**5,089**
Foreign exchange movements	(101)	-	-	(101)
Subsidiary's impairment losses upon acquisition of subsidiary (non-controlling interest)	1,541	-	-	1,541
Net charge to statement of comprehensive income	**1,440**	**-**	**-**	**1,440**
Net write-offs and recovery of assets written down in off-balance sheet	(2,567)	(44)	-	(2,611)
Impairment losses as at 31 December 2008	**6,168**	**176**	**-**	**6,344**
Impairment losses	13,240	80	-	13,320
Reversal of impairment losses	(1,743)	-	-	(1,743)
Recovery of assets previously written off	(232)	-	-	(232)
Net charge to the income statement	**11,265**	**80**	**-**	**11,345**
Foreign exchange movements	(430)	-	-	(430)
Subsidiary's impairment losses upon sale of subsidiary (non-controlling interest)	(2,943)	-	-	(2,943)
Net charge to statement of comprehensive income	**(3,373)**	**-**	**-**	**(3,373)**
Net write-offs and recovery of assets written down in off-balance sheet	(1,938)	(16)	-	(1,954)
Impairment losses as at 31 December 2009	**12,122**	**240**	**-**	**12,362**

Bank **LVL`000**	**Impairment losses for loans**	**Other impairment losses**	**Off-balance sheet provisions***	**Total**
Impairment losses as at 31 December 2007	**2,245**	**181**	**-**	**2,426**
Impairment losses	5,157	43	-	5,200
Reversal of impairment losses	(346)	(4)	-	(350)
Recovery of assets previously written off	(240)	-	-	(240)
Net charge to the income statement	**4,571**	**39**	**-**	**4,610**
Foreign exchange movements	1	-	-	1
Net charge to the statement of comprehensive income	**1**	**-**	**-**	**1**
Net write-offs and recovery of assets written down in off-balance sheet	(2,563)	(44)	-	(2,607)
Impairment losses as at 31 December 2008	**4,254**	**176**	**-**	**4,430**
Impairment losses	10,730	10	902	11,642
Reversal of impairment losses	(1,657)	-	-	(1,657)
Recovery of assets previously written off	(232)	-	-	(232)
Net charge to the income statement	**8,841**	**10**	**902**	**9,753**
Foreign exchange movements	1	-	-	1
Net charge to the statement of comprehensive income	**1**	**-**	**-**	**1**
Net write-offs and recovery of assets written down in off-balance sheet	(1,876)	(16)	-	(1,892)
Impairment losses as at 31 December 2009	**11,220**	**170**	**902**	**12,292**

*On 29 December 2009, a guarantee agreement was signed with a subsidiary LKB Līzings. According to the agreement, the Bank as the guarantor will be responsible for settling the debts of the subsidiary's customers as soon as LKB Līzings issues a written notice to the Bank stating any customer's default by more than 90 days. The related impairment loss is based on the customer default information supplied by LKB Līzings. Impairment losses for off-balance sheet commitments amount to LVL 902 thousand (2008: 0). The impairment losses were calculated as collective impairment based on same principles which are applied for Bank's impairment calculation.

13. CORPORATE INCOME TAX

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Deferred tax income	3	94	3	94
Corporate income tax	53	528	-	501
Corporate income tax for the reporting year	**56**	**622**	**3**	**595**

The reconciliation of corporate income tax at the statutory rate of 15% (2008: 15%) and the actual corporate income tax expense is as follows:

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Profit before corporate income tax	(1,879)	3,406	(1,975)	3,603
Tax at the applicable rate of 15% (2008: 15%)	(282)	511	(296)	540
Non-deductible expenses, net	338	229	243	172
Tax rebate on donations	-	(118)	-	(117)
Corporate income tax for the reporting year	**56**	**622**	**(53)**	**595**

Changes in the deferred tax liability during the current year can be specified as follows:

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Deferred tax liability at the beginning of the reporting year	930	848	930	848
Deferred tax charged to the income statement	3	94	3	94
Deferred tax charged to statement of comprehensive income	(86)	(12)	(86)	(12)
Deferred tax liability at the end of the reporting year	**847**	**930**	**847**	**930**

The deferred tax assets and liabilities relate to the following items:

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Deferred tax liability:				
- temporary difference on the depreciation of tangible assets for financial and taxation purposes	1,140	1,237	1,140	1,237
Deferred tax asset:				
- loan commissions	(172)	(220)	(172)	(220)
- other provisions	(121)	(87)	(121)	(87)
Deferred tax liability	**847**	**930**	**847**	**930**

14. EARNINGS PER SHARE

Earnings per share are calculated based upon the profit after taxation and the average number of shares in issue during the year.

	Group 2009	Group 2008
Profit after taxation (LVL'000)	(1,935)	2,770
Average number of shares in issue (thousand)	13,519	12,149
Earnings per share	**(0.143)**	**0.228**

Preference shares have not been included.

Diluted earnings per share are calculated based on the agreements, which in future might impact the number of shares in issue, as well as leave an impact on the current year income statement. Thus the diluted earnings per share are calculated by dividing profit or loss after taxation adjusted for the interest paid on subordinated debt, by the average number of shares in issue during the year adjusted for the effects of the amount of shares, which might be issued by converting subordinated debt from Convers Group Management Company at the ratio of LVL 1.15 of subordinated debt per one share (see Note 32).

	Group 2009	Group 2008
Profit after taxation (LVL'000)	(1,935)	2,770
Interest for subordinated debt, net of income tax (LVL'000)	-	250
	(1,935)	**3,020**
Average number of shares in issue (thousand)	13,519	12,149
Potential shares as a result of conversion of subordinated debt (thousand)	-	3,361
	13,519	**15,510**
Diluted earnings per share (LVL)	**(0.143)**	**0.195**

The potential shares as a result of conversion of subordinated debt were not included in the calculation of diluted earnings per share because they were anti-dilutive for the year 2009.

As of the reporting date until the date of preparing these financial statements there have been no any transactions made with ordinary shares or potential ordinary shares, which could require revision of earnings per share.

15. CASH AND DEMAND DEPOSITS WITH CENTRAL BANKS

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Cash	10,563	17,169	10,563	17,081
Deposits with the Bank of Latvia	33,769	41,044	33,769	41,044
Total cash and demand deposits with central banks	**44,332**	**58,213**	**44,332**	**58,125**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement. As at 31 December 2009, the compulsory reserves were LVL 23,695 thousand (2008: LVL 24,553 thousand). In the reporting year, the Bank complied with the compulsory reserve requirement.

16. BALANCES DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Demand deposits	92,994	126,624	92,860	126,622
Term deposits	9,470	95,080	9,379	93,878
Total balances due from credit institutions	**102,464**	**221,704**	**102,239**	**220,500**

Balances due from credit institutions by geographical profile:

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Placements with Latvian commercial banks	40,533	19,989	40,308	19,740
Placements with OECD banks	24,926	72,296	24,926	72,296
Placements with other banks	37,005	129,419	37,005	128,464
Total balances due from credit institutions	**102,464**	**221,704**	**102,239**	**220,500**

On 24 April 2008, AS Latvijas Krājbanka signed an agreement with AS Parex banka on the acquisition of the shares in AP Anlage & privatbank AG. Considering that the circumstances giving rise to the Bank's duty to carry out the actions to close the transaction had not become effective until the date of the transaction, on 23 October 2009 the Bank filed to AS Parex banka a notice of dispute demanding repayment of the amount of EUR 5,000,000 paid. Based on the above notice, AS Parex banka has repaid part of the advance payment so made in the amount of EUR 3,000,000 plus interest accrued thereon. AS Parex banka has not repaid the balance of EUR 2,000,000 and sent the Bank a notice announcing its unilateral withdrawal from the agreement. The parties have failed to reach an agreement on the repayment of the above balance and the Bank has filed to the London Court of International Arbitration an arbitration application to consider the dispute between the Bank and AS Parex banka regarding the repayment of EUR 2,000,000 and the payment of interest charged pursuant to the escrow account agreement in the amount of EUR 139,761. The above amounts have not been impaired on 31 December 2009.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Financial assets at fair value through profit or loss				
Government bonds	2,518	2,556	2,402	2,536
Credit and other financial institutions bonds	2,273	2,459	1,893	2,232
Corporate bonds	198	-	134	-
Shares	172	331	520	439
Privatisation certificates	10	42	10	42
Financial assets at fair value through profit or loss, excluding derivatives	**5,171**	**5,388**	**4,959**	**5,249**
Derivatives (Note 19)	**550**	**865**	**550**	**865**
Total financial assets at fair value through profit or loss	**5,721**	**6,253**	**5,509**	**6,114**

18. LOANS AND ADVANCES TO CUSTOMERS

The analysis of loan loss impairment per categories for the Bank and the Group is as follows:

LVL'000	Group 2009	Group 2008	Bank 2009	Bank 2008
Business loans	198,126	153,809	200,405	153,809
Accumulated loan loss impairment at the beginning of the reporting year	(734)	(393)	(734)	(393)
Charge for the year	(3,380)	(579)	(3,380)	(579)
Recoveries	418	238	418	238
Accumulated loan loss impairment at the end of the reporting year	(3,696)	(734)	(3,696)	(734)
Utilised credit lines	32,392	48,037	56,586	48,037
Accumulated loan loss impairment at the beginning of the reporting year	(220)	(669)	(220)	(669)
Charge for the year	(341)	(201)	(341)	(201)
Recoveries	-	650	-	650
Accumulated loan loss impairment at the end of the reporting year	(561)	(220)	(561)	(220)
Mortgage loans	61,398	65,632	61,398	65,632
Accumulated loan loss impairment at the beginning of the reporting year	(858)	(238)	(858)	(238)
Charge for the year	(1,178)	(796)	(1,178)	(796)
Recoveries	225	176	225	176
Accumulated loan loss impairment at the end of the reporting year	(1,811)	(858)	(1,811)	(858)
Consumer loans	17,254	28,564	17,254	28,501
Accumulated loan loss impairment at the beginning of the reporting year	(2,987)	(2,730)	(1,159)	(794)
Charge for the year	(1,460)	(1,975)	(1,460)	(1,982)
Recoveries	2,544	1,718	716	1,617
Accumulated loan loss impairment at the end of the reporting year	(1,903)	(2,987)	(1,903)	(1,159)
Debit balance of settlement cards and overdrafts	5,460	6,080	5,460	6,080
Accumulated loan loss impairment at the beginning of the reporting year	(602)	(99)	(602)	(99)
Charge for the year	(879)	(667)	(879)	(667)
Recoveries	130	164	130	164
Accumulated loan loss impairment at the end of the reporting year	(1,351)	(602)	(1,351)	(602)
Other loans	38,685	20,504	38,685	44,009
Accumulated loan loss impairment at the beginning of the reporting year	(681)	(52)	(681)	(52)
Charge for the year	(1,437)	(730)	(1,437)	(730)
Recoveries	220	101	220	101
Accumulated loan loss impairment at the end of the reporting year	(1,898)	(681)	(1,898)	(681)
Finance lease	19,993	22,072	-	-
Accumulated loan loss impairment at the beginning of the reporting year	(86)	-	-	-
Charge for the year	(902)	(86)	-	-
Recoveries	86	-	-	-
Accumulated loan loss impairment at the end of the reporting year	(902)	(86)	-	-
Net loans	**361,186**	**338,530**	**368,568**	**341,814**

The analysis of loan loss impairment in breakdown by impairment categories for the Bank and the Group is as follows:

LVL'000	Group 2009	Group 2008	Bank 2009	Bank 2008
Individual impairment	6,956	5,956	6,054	4,042
Impairment of homogeneous loan pools	3,982	-	3,982	-
Outstanding interest	1,184	212	1,184	212
Accumulated loan loss impairment at the end of the reporting year	**12,122**	**6,168**	**11,220**	**4,254**

Loans and advances to customers before impairment losses by industry:

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Private individuals	127,637	157,225	123,066	145,177
Real estate management	62,157	54,917	61,539	54,321
Transport, warehousing and communications	42,080	27,163	40,661	25,238
Manufacturing	27,674	14,283	26,340	13,655
Financial intermediaries	25,824	10,204	45,810	34,550
Construction	16,096	14,666	13,045	11,412
Hotels and restaurants	16,375	10,603	15,976	10,074
Retail and wholesale	14,591	20,621	10,857	15,883
Debt collection	12,941	2,314	12,941	2,314
Other service industries	9,047	3,155	6,257	5,996
Sports and leisure activities	7,798	8,512	7,798	8,512
Agriculture and forestry	6,433	8,069	4,788	6,132
Investment companies	1,861	7,936	8,144	7,936
Postal services	-	2,109	-	2,109
State administration and healthcare	1,239	1,481	1,216	1,448
Electricity, gas and water utilities	1,058	921	853	792
Computer services	497	519	497	519
Total loans and advances to customers, gross	**373,308**	**344,698**	**379,788**	**346,068**

Loans issued to corporate customers specifically for the purpose of constructing buildings or other constructions have been classified in the above industry profile as loans and advances to the construction industry.

As at 31 December 2009 and 2008, the interest accrued on individually impaired loans was LVL 1,425 thousand and LVL 185 thousand respectively.

The Bank does not have any significant concentrations of credit risk.

During the reporting year, the Bank took over several immovable properties having the total carrying amount of LVL 1,503 thousand (the amounts of LVL 1,153 thousand carried at fair value and classified as investment property (see note 21) and LVL 350 thousand carried at cost and classified under other assets). Additionally there was taken over yacht with the book value of LVL 4,725 thousand which is classified under assets held for sale (see note 8). During the year, a Bank's subsidiary LKB līzings took over vehicles intended for resale totalling LVL 1,002 thousand.

Finance lease

The present value of minimum lease payments by maturity:

LVL '000	2008			2009			Future payments			
Maturity	**Issued**	**Repaid**	**31/12**	**Issued**	**Repaid**	**31/12**	**Within one year**	**Between 1 - 5 years**	**More than 5 years**	**Total**
Within one year	402	338	83	23	89	17	17	-	-	17
Between 1 and 5 years	4,627	1,810	4,110	3,774	4,315	3,569	3,397	6,914	-	10,311
More than 5 years	16,102	6,516	17,221	869	3,708	14,382	1,599	5,366	675	7,640
Total finance lease portfolio (A)	**21,131**	**8,664**	**21,414**	**4,666**	**8,112**	**17,968**	**5,013**	**12,280**	**675**	**17,968**

Future interest revenue by maturity:

LVL '000	2008			2009			Future payments			
Maturity	Calculated	Received	31/12	Calculated	Received	31/12	Within one year	Between 1 - 5 years	More than 5 years	Total
Within one year	12	12	12	1	1	13	-	-	-	-
Between 1 and 5 years	226	220	256	536	527	792	352	447	-	799
More than 5 years	986	957	1,132	381	375	1,513	233	454	29	716
Total future interest revenue (B)	**1,224**	**1,189**	**1,400**	**918**	**903**	**2,318**	**585**	**901**	**29**	**1,515**

Minimum finance lease payments by maturity:

LVL '000	2008			2009			Future payments			
Maturity	Calculated	Received	31/12	Calculated	Received	31/12	Within one year	Between 1 - 5 years	More than 5 years	Total
Within one year	414	350	6,175	24	6,169	30	17	-	-	17
Between 1 and 5 years	4,853	2,030	16,331	4,310	16,280	4,361	3,749	7,361	-	11,110
More than 5 years	17,088	7,473	1,859	18,143	4,107	15,895	1,832	5,820	704	8,356
Total investments, gross (A+B)	**22,355**	**9,853**	**24,365**	**22,477**	**26,556**	**20,286**	**5,598**	**13,181**	**704**	**19,483**

The lease maturities do not exceed five years.

19. DERIVATIVES (GROUP AND BANK)

	Notional amount		Fair value			
			Assets		Liabilities	
LVL`000	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Currency derivatives	101,053	204,184	550	865	172	1,057
Total derivatives	**101,053**	**204,184**	**550**	**865**	**172**	**1,057**

20. HELD-TO-MATURITY INVESTMENTS

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Government bonds	6,167	10,200	5,849	9,992
Credit and other financial institutions bonds	3,671	3,873	3,671	3,873
Municipal bonds	243	237	243	237
Corporate bonds	1,345	6,734	1,345	6,734
Total held-to-maturity investments	**11,426**	**21,044**	**11,108**	**20,836**

21. INVESTMENT PROPERTIES

Investment properties represent properties that are held to earn rentals or for capital appreciation. The investment properties comprise two properties taken over by the Bank in 2007 that previously had been pledged as collateral. Previously these assets were classified as other assets, but in 2009, the Bank, having assessed a possibility of gaining profits from capital appreciation and rentals from these collaterals, reclassified two properties as investment properties.

LVL '000	Bank 31/12/2009	Bank 31/12/2008
Opening balance as at January 1	-	-
Transferred from other assets	554	-
Gain from fair value adjustment (see note 9)	599	-
Closing balance as at December 31	**1,153**	**-**

Investment properties are stated at fair value, which has been determined based on the valuation performed by SIA Biznesa konsultantu grupa in the end of 2009. The methods employed included cost, comparable transaction and income approaches.
Investment properties have been handed over to third persons for management. All expenses relating to property management are covered by the revenues of third persons. In the near future, profit-generating revenues are expected.

22. INVESTMENT IN SUBSIDIARIES

LVL '000	Business profile	Historical cost 31/12/2009	Share (%)	Historical cost 31/12/2008	Share (%)
AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi (till 06/11/2008 - AS Ieguldījumu pārvaldes sabiedrība Astra Krājfondi)	Investment fund management	361	100	361	100
AS Ieguldījumu pārvaldes sabiedrība LKB Asset Management	Investment fund management	120	100	120	100
SIA LKB līzings	Lease company	120	100	120	100
AS Pirmais atklātais pensiju fonds	Investment fund management	253	100	85	100
SIA Krājinvestīcijas	Real estate management	532	100	5	100
SIA Baltic Property project	Real estate management	2	100	2	100
SIA LKB Drošība	Security services	10	100	10	100
AAS LKB LIFE (till 14/11/2008 - AAS Baltikums dzīvība)	Insurance services	2,714	99.79	2,714	99.79
SIA Center Credit	Financial services	-	-	962	51
AS IBS Renesource Capital	Investment brokerage company	200	100	-	-
SIA LKB Collect		10	100	-	-
Total investments in subsidiaries		**4,322**	**-**	**4,379**	**-**

In May 2009, the share capital of SIA Krājinvestīcijas was increased by LVL 527,100, or 5,271 shares having the par value of LVL 1,000 (one thousand lats) each.

In August 2009, AS Pirmais atklātais pensiju fonds issued additional shares for LVL 168,000, thus increasing the share capital to LVL 250,000. AS Latvijas Krājbanka purchased all the above mentioned shares at a par value of LVL 1 (one lat) each.

In April 2009, AS Latvijas Krājbanka signed an agreement with SIA Netex Galaxy, AS IBS Renesource Capital, and Vladimirs Ostrovskis on the acquisition of the shares in the joint stock company IBS Renesource Capital (reg. No. 40003415571). The deal was closed in October 2009 and AS Latvijas Krājbanka became the owner of 553,216 shares (100% shareholding) in the investment brokerage company AS IBS Renesource Capital (see also note 23). The Board and the Council of AS IBS Renesource Capital were changed. The new Council was elected for three years.
AS IBS Renesource Capital is an investment brokerage company operating since 1998. By acquiring an investment brokerage company, AS Latvijas Krājbanka will continue developing its strategy focused on providing full spectrum financial services.

On 6 October 2009, a Bank's subsidiary LKB Collect, reg. No. 40103251717, registered office: Jāņa Daliņa iela 15, Riga, was registered with the Commercial Register. The share capital of SIA LKB Drošība is LVL 10,000. The company provides collection services.

On 29 October 2009, AS Latvijas Krājbanka sold all its 561,076 shares in SIA Center Credit to Berentel Projects Ltd., so ceasing being the shareholder of SIA Center Credit. The shares in SIA Center Credit were sold for LVL 962 thousand, therefore there was no gain from the share disposal for the Bank, but the Group has gained LVL 22 thousand on sale of this subsidiary.
At the date of the sale the Company's cash was LVL 209 thousand, loans issued totalled LVL 3,070 thousand, fixed and intangible assets amounted to LVL 154 thousand, and balances due to credit institutions totalled LVL 3,099 thousand.

SIA Baltic Property project has not commenced its operations yet, and its liquidation is under discussion.

The shares of the subsidiaries are not listed. All the subsidiaries are residents of Latvia.

23. BUSINESS ACQUISITION

On 13 July 2009 the Bank purchased 200,000 shares for LVL 200 thousand of **AS IBS Renesource Capital**, reg. No. 40003415571 and become an owner of 18.14% of total shares. On 22 September 2009 one of other shareholders took out his shares and the total share capital was decreased, therefore the Banks part in the company became 36.15%. on 6 October the Bank purchased remaining shares of the company for LVL 2 and become the owner of 553,216 shares (100% shareholding) in the investment brokerage company AS IBS Renesource Capital. As the dates within step acquisitions were close the net asset value between these transactions was not significantly different.

The fair value of the assets, liabilities and memorandum items of AS IBS Renesource Capital at the acquisition date was as follows:

	Fair value at the acquisition date	Carrying value at the acquisition date
Due from credit institutions	172	172
Intangible assets (customer portfolio)	57	-
Tangible assets	14	14
Total assets	**243**	**186**
Other liabilities	(43)	(43)
Net assets	**200**	**143**
Net assets acquired	**200**	**143**
Goodwill	-	
Cash paid	**200**	

Cash flow on acquisition	
Net cash acquired with the subsidiary	172
Cash paid	(200)
Net cash outflow	**(28)**

An intangible asset (customer portfolio) was recognised on acquisition. The customer portfolio will be amortised over 20 years.

From the acquisition date, AS IBS Renesource Capital has contributed LVL 26 thousand to the Group's loss for the year from continuing operations. If the combination had taken place at the beginning of the year, the Group's loss for the year from continuing operations would have been LVL 109 thousand and revenue from continuing operations would have been LVL 27 thousand.

24. INTANGIBLE ASSETS

Group

LVL '000	Licences, software, etc.	Other intangible assets	Advance payments	Intangible assets, total
Historical cost				
As at 31 December 2007	**3,684**	**240**	**105**	**4,029**
Additions	554	115	-	**669**
Transferred to other assets	78	-	(78)	**-**
Disposals	(146)	-	(4)	**(150)**
As at 31 December 2008	**4,170**	**355**	**23**	**4,548**
Additions	215	57	5	**277**
Exchange difference	(4)	-	-	**(4)**
Disposals	(40)	-	-	**(40)**
As at 31 December 2009	**4,341**	**412**	**28**	**4,781**
Accumulated amortisation				
As at 31 December 2007	**2,709**	**-**	**-**	**2,709**
Charge	290	-	-	**290**
Disposals	(132)	-	-	**(132)**
As at 31 December 2008	**2,867**	**-**	**-**	**2,867**
Charge	251	31	-	**282**
Exchange difference	(1)	-	-	**(1)**
Disposals	(24)	-	-	**(24)**
As at 31 December 2009	**3,093**	**31**	**-**	**3,124**
Impairment losses				
As at 31 December 2007	-	120	-	**120**
As at 31 December 2008	-	120	-	**120**
As at 31 December 2009	-	120	-	**120**
Net book value				
As at 31 December 2007	**975**	**120**	**105**	**1,200**
As at 31 December 2008	**1,303**	**235**	**23**	**1,561**
As at 31 December 2009	**1,248**	**261**	**28**	**1,537**

Bank

LVL '000	Licences, software, etc.	Advance payments	Intangible assets, total
Historical cost			
As at 31 December 2007	**3,671**	**101**	**3,772**
Additions	490	-	**490**
Transferred from advance payments	78	(78)	**-**
Disposals	(146)	-	**(146)**
As at 31 December 2008	**4,093**	**23**	**4,116**
Additions	188	5	**193**
Disposals	(14)	-	**(14)**
As at 31 December 2009	**4,267**	**28**	**4,295**
Accumulated amortisation			
As at 31 December 2007	**2,705**	**-**	**2,705**
Charge	283	-	**283**
Disposals	(132)	-	**(132)**
As at 31 December 2008	**2,856**	**-**	**2,856**
Charge	262	-	**262**
Disposals	(14)	-	**(14)**
As at 31 December 2009	**3,104**	**-**	**3,104**
Net book value			
As at 31 December 2007	**966**	**101**	**1,067**
As at 31 December 2008	**1,237**	**23**	**1,260**
As at 31 December 2009	**1,163**	**28**	**1,191**

The book value of fully amortized intangible assets on 31 December 2009 are LVL 226,025 (2008: LVL 177,215).

25. TANGIBLE ASSETS

Group

LVL '000	Land and buildings	Leasehold improvements	Vehicles	Office equipment	Advance payments	Total tangible assets
Historical cost/ Revalued amount						
As at 31 December 2007	**11,021**	**3,745**	**625**	**13,493**	**453**	**29,337**
Additions	2,858	236	12	1,623	241	**4,970**
Correction	-	-	9	-	-	**9**
Disposals	(3)	(465)	(13)	(864)	(14)	**(1,359)**
As at 31 December 2008	**13,876**	**3,516**	**633**	**14,252**	**680**	**32,957**
Additions	121	3	38	257	24	**443**
Revaluation	(1,115)	-	-	-	-	**(1,115)**
Transfer	-	-	1	156	(157)	**-**
Exchange difference	-	(1)	(1)	(38)	-	**(40)**
Disposals	-	(45)	(119)	(1,408)	-	**(1,572)**
As at 31 December 2009	**12,882**	**3,473**	**552**	**13,219**	**547**	**30,673**
Accumulated depreciation						
As at 31 December 2007	**-**	**896**	**141**	**8,839**	**-**	**9,876**
Charge	253	348	115	1,282	-	**1,998**
Correction	-	-	9	-	-	**9**
Exchange difference	-	-	-	(16)		**(16)**
Disposals	-	(465)	(3)	(816)	-	**(1,284)**
As at 31 December 2008	**253**	**779**	**262**	**9,289**	**-**	**10,583**
Charge	260	358	108	1,213	-	**1,939**
Revaluation	-	-	-	-	-	**-**
Exchange difference	-	-	-	(16)	-	**(16)**
Disposals	-	(39)	(74)	(1,257)	-	**(1,370)**
As at 31 December 2009	**513**	**1,098**	**296**	**9,229**	**-**	**11,136**
Net book value						
As at 31 December 2007	**11,021**	**2,849**	**484**	**4,654**	**453**	**19,461**
As at 31 December 2008	**13,623**	**2,737**	**371**	**4,963**	**680**	**22,374**
As at 31 December 2009	**12,369**	**2,375**	**256**	**3,990**	**547**	**19,537**

The revalued amount of the tangible assets revalued in 2009 (2008) approximates to LVL 4,357 (5,472) thousand.

Bank

LVL '000	Land and buildings	Leasehold improvements	Vehicles	Office equipment	Advance payments	Total tangible assets
Historical cost/ Revalued amount						
As at 31 December 2007	**11,021**	**3,745**	**288**	**13,469**	**453**	**28,976**
Additions	2,858	230	-	1,331	241	**4,660**
Disposals	(3)	(465)	-	(864)	-	**(1,332)**
As at 31 December 2008	**13,876**	**3,510**	**288**	**13,936**	**694**	**32,304**
Additions	121	15	8	238	-	**382**
Revaluation	(1,115)	-	-	-	-	**(1,115)**
Transfer	-	-	-	157	(157)	**-**
Disposals	-	(40)	(83)	(1,154)	-	**(1,277)**
As at 31 December 2009	**12,882**	**3,485**	**213**	**13,177**	**537**	**30,294**
Accumulated depreciation						
As at 31 December 2007	**-**	**896**	**121**	**8,832**	**-**	**9,849**
Charge	253	348	49	1,208	-	**1,858**
Disposals	-	(465)	-	(815)	-	**(1,280)**
As at 31 December 2008	**253**	**779**	**170**	**9,225**	**-**	**10,427**
Charge	260	358	48	1,129	-	**1,795**
Disposals	-	(39)	(61)	(1,141)	-	**(1,241)**
As at 31 December 2009	**513**	**1,098**	**157**	**9,213**	**-**	**10,981**
Net book value						
As at 31 December 2007	**11,021**	**2,849**	**167**	**4,637**	**453**	**19,127**
As at 31 December 2008	**13,623**	**2,731**	**118**	**4,711**	**694**	**21,877**
As at 31 December 2009	**12,369**	**2,387**	**56**	**3,964**	**537**	**19,313**

Movement of the revaluation reserve:

LVL '000	Group 2009	Group 2008
Revaluation reserve at the beginning of the year	**5,364**	**5,352**
Impairment of the previously revalued building	(684)	-
(A) *Change in the revaluation reserve due to changes in tangible asset value*	**(684)**	**-**
Deferred tax due to the asset revaluation	76	-
Change in deferred tax	11	12
Revaluation reserve at the end of the year	**4,767**	**5,364**
(B) *Decrease of the revaluation reserve charged to the income statement*	(431)	-
Total changes of the revaluation reserve for tangible assets (A+B)	**(1,115)**	**-**

The land and buildings are measured applying the revaluation method, unified for the whole category.

In June 2009, SIA Biznesa Konsultantu Grupa (BKG) performed a follow-up of the results of the previous valuation of the real estate owned by AS Latvijas Krājbanka. BKG concluded that since the previous valuation in 2008 the changes in the market value of the real estate had not exceeded 15% and the Bank decreased the revaluation reserve by LVL 765 thousand. The real estate is properly managed, and current repairs are carried out regularly. Therefore the technical condition of the premises has not deteriorated.

On 12 January 2010, SIA Aģentūra OPTIMA performed the revaluation of the real estate owned by AS Latvijas Krājbanka. The valuators concluded that the real estate value in December 2009 had not changed considerably from June 2009. Therefore no changes have been made in the revaluation reserve.

If no revaluation have been performed, in 2009 the carrying amount of these assets would have approximated to LVL 7,451 thousand.

26. OTHER ASSETS

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Receivable from remuneration for the provided financial services (see also note 7)	2,460	-	2,460	-
Unrealised gains from SPOT transactions	1,721	2,265	1,721	2,265
Receivable from sale of subsidiary (see note 22)	962	-	962	-
Settlements with Western Union	162	110	162	110
Input value added tax	99	138	99	138
Other	8,567	7,304	1,271	774
Incl. collateral taken over by SIA Krājinvestīcijas *for realisation*	5,090	6,153	-	-
Incl. customer collateral taken over for realisation	350	409	350	409
Total other assets, gross	**13,971**	**9,817**	**6,675**	**3,287**
Impairment losses (see Note 12)	**(240)**	**(176)**	**(170)**	**(176)**
Total other assets	**13,731**	**9,641**	**6,505**	**3,111**

In 2009, the Bank continued the activities related to the loan collateral realisation. Given the overall current economic situation and the stagnant real estate market, the Bank commenced and will continue exercising a flexible approach to the loan collateral realisation.

Specific activities are related to the collateral development and realisation by assessing the necessity to perform additional works which would add value to the respective real estate and enhance its competitiveness on the real estate market, as well as the inclusion of the collateral in the business and the realisation of the respective collateral as an operating business. In 2009, the Bank, having assessed a possibility of gaining profits from capital appreciation and rentals from the real estate taken over, reclassified two properties as investment properties.

27. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Correspondent accounts and demand deposits	16,017	13,646	16,017	13,646
Term deposits	414	24,141	414	21,049
Total balances due to credit institutions	**16,431**	**37,787**	**16,431**	**34,695**

Balances due to credit institutions by geographical profile:

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Placements from Latvian commercial banks	12,426	7,181	12,426	7,181
Placements from other OECD banks	-	8,474	-	8,474
Placements from other non-OECD banks	4,005	22,132	4,005	19,040
Total balances due from credit institutions	**16,431**	**37,787**	**16,431**	**34,695**

In the second quarter of 2008, Latvijas Krājbanka signed a syndicated loan agreement. The total amount of the syndicated loan is EUR 15 million (LVL 10.54 million). The loan was issued for 364 days from the signature date, and it bore an interest rate of 1.2% + 3M EURIBOR. The mandated lead arranger and agent of the syndicated loan was Bayerische Landesbank, Germany. In total five credit institutions participated in the transaction: Bayerische Landesbank, Raiffeisen Zentralbank Osterreich Aktiengesellschaft, AS Parex banka, Salzburger Landes - Hypothekenbank AG, and VAS Latvijas Hipotēku un zemes banka. This was the first and, according to the Bank's estimate, a very successful transaction on the international syndicated lending market.

On 15 May 2009, the Bank repaid the syndicated loan of EUR 15 million (LVL 10.54 million).

As at 31 December 2009, the Bank had not attracted any additional long-term financing from credit institutions.

28. DEPOSITS FROM CUSTOMERS

Deposits by customer type:

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Private individuals	310,779	281,251	310,779	281,251
State owned enterprises	64,209	52,874	64,209	52,874
Privately held companies	95,634	240,064	99,897	243,073
Non-governmental and religious institutions	1,867	2,401	1,867	2,401
Municipal authorities	3,666	5,196	3,666	5,196
Total deposits from customers	**476,155**	**581,786**	**480,418**	**584,795**

Deposits by customer residence:

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Residents	406,716	355,910	410,979	372,530
Non-residents	69,439	225,876	69,439	212,265
Total deposits from customers	**476,155**	**581,786**	**480,418**	**584,795**

Deposits had decreased by the end of 2009 due to the lower accumulated balances of short-term transactions made by several major non-resident customers of the Bank against the previous years. Meanwhile, in 2009 resident deposits grew, which shows strong customer confidence in the Bank and confirms that the Bank successfully resisted the distress faced by the Latvian banking sector at the end of 2008, which was a result of the global securities crisis as well as liquidity and credit quality problems reported by several local and foreign banks, etc. According to the information supplied by the Association of Latvian Commercial Banks, in 2009 Latvijas Krājbanka saw the largest growth of deposits placed by households among all the banks present in Latvia. In addition, it should be mentioned that the Latvian banking sector faced the noteworthy decrease of total deposits over 2009.

29. DEBT SECURITIES ISSUED

The offer of the AS Latvijas Krājbanka mortgage bonds was closed successfully on 26 January 2007. The total amount of the issue of the mortgage bonds was LVL 3,514,020 (EUR 5,000,000), the maturity period is three years, the interest rate is 6-month EUR LIBOR + 1.00%, and interest is paid twice a year. The bonds could be acquired by qualified investors, as well as those who acquired bonds for at least EUR 50,000.

After the registration of the Prospectus with the Financial and Capital Market Commission the mortgage bonds were listed on the NASDAQ OMX Riga Stock Exchange Baltic Bond List.

In 2009, AS Latvijas Krājbanka calculated interest on its CA series mortgage bonds (ISIN code: LV0000800357). The calculation date was 29 January 2009 and 31 July 2009. The interest revenue per one CA series mortgage bond issued by AS Latvijas Krājbanka for the period from 30 January 2009 to 31 July 2009 (excluding) is EUR 1.640625 (one euro and 64.0625 eurocents). The interest was paid out in accordance with the terms set out in the CA series mortgage bonds prospectus of AS Latvijas Krājbanka on 31 July 2009.

The interest revenue per one CA series mortgage bond issued by AS Latvijas Krājbanka for the period from 31 July 2009 to 31 January 2010 (excluding) is EUR 1.078125 (one euro and 7.8125 eurocents). The interest will be paid out in accordance with the terms set out in the CA series mortgage bonds prospectus of AS Latvijas Krājbanka on 29 January 2010.

The mortgage bonds are collateralized by mortgage loans, which are included in the Cover Register. The mortgage loans are secured by the pledge of the real estate (mortgage) registered in a member state of the European Union. Mortgage loans can be fully or partially replaced by loans guaranteed by the Latvian national or regional governments, by mortgage bonds issued by other issuers and admitted to trading on a regulated market in the European Union and by other cover assets specified in the Law on Mortgage Bonds. The total amount of the interest payable on the mortgage bonds is covered by the total excess amount of the interest on the assets included the Cover Register. The Cover Register is composed in accordance with the Law on Mortgage Bonds, FCMC regulations and the Issuer's Rules on the Mortgage Bond Cover Register Management.

30. DEFERRED INCOME AND ACCRUED EXPENSE

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Other accrued expense	667	774	661	724
Vacation pay reserve	368	478	368	478
Accrued remuneration and social insurance contributions	327	201	297	201
Deferred income	60	71	50	71
Total deferred income and accrued expense	**1,422**	**1,524**	**1,376**	**1,474**

31. OTHER LIABILITIES

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Unrealized losses from SPOT transactions	844	1,812	844	1,812
Technical reserve of Life insurance reserves	456	-	-	-
Payables to pension plans and investment funds	175	-	-	-
Other non-bank received loans	760	-	-	-
Payments due for the purchase of LKB Krājfondi	50	79	50	79
Other liabilities	1,211	1,771	221	143
Total other liabilities	**3,496**	**3,662**	**1,115**	**2,034**

32. SUBORDINATED DEBT

LVL '000	Bank/ Group 31/12/2009	Bank/ Group 31/12/2008
Vladimirs Antonovs	6,215	-
Akademgrupp	5,100	5,162
Convers Group Management Company	3,866	3,866
Total other liabilities	**15,181**	**9,028**

On 8 November 2005, the Bank signed a subordinated loan contract with Convers Group Management Company for the amount of EUR 5.5 million. The loan bears interest at 7% per annum and matures in seven years. On 16 October 2008, the parties agreed to extend the loan maturity to 10 years and changed the interest rate to 10% per annum starting from 17 October 2008. The lender has a right to demand conversion of the subordinated capital into ordinary shares in accordance with the procedure specified in the contract and the applicable laws. Should the subordinated capital be converted into ordinary shares, the purchase price of the ordinary shares under the contract will be LVL 1.15 per one share.

On 27 December 2006, the Bank signed a subordinated loan contract with Akademgrupp for the amount of USD 7.1 million. The loan bears interest at 8.6% per annum and matures in seven years. On 16 October 2008, the parties agreed to extend the loan maturity to nine years.

On 23 August 2007, the Bank signed a subordinated loan contract with Akademgrupp for the amount of USD 3.3 million. The loan bears interest at 9.3% per annum and matures in six years. On 16 October 2008, the parties agreed to extend the loan maturity to nine years.

On 14 July 2009, the Bank signed a subordinated loan contract with Vladimirs Antonovs for the amount of EUR 8.6 million. The loan matures in 2019 and bears interest at 9.5% per annum. In December 2009, the parties agreed on interest payment upon the loan maturity.

According to the provisions of the above-mentioned contracts, the lender has a the right to demand early repayment of the loan only upon liquidation of the Bank, and the lender's claim will be settled after the claims of all other creditors but before the claims of the Bank's shareholders.

33. SHAREHOLDERS' EQUITY AND RESERVES

As at 31 December 2009, the Bank's registered and paid-in share capital was LVL 19,324 thousand (2008: LVL 12,149 thousand). The share capital consists of 19,324,248 shares, including 19,321,414 ordinary bearer shares and 2,834 "A" category preference bearer shares. The par value of each share is LVL 1 (one).

Based on the resolution of the extraordinary shareholders' meeting of 24 October 2008, the Bank issued 5,000 thousand ordinary bearer shares. The selling price of one share was stated at LVL 3. Only 10 shares were subscribed and fully paid for under the public offering and, therefore, on 16 February 2009 the extraordinary shareholders' meeting resolved to deem the issue as void.

On 14 July 2009, a public offering of ordinary bearer shares was completed. The shareholders and investors were invited to acquire 5,000,000 shares of the new issue. Under the public offering, 1,000,002 shares have been fully paid for. According to the Bank's issue prospectus, the issue has been carried out in the amount of the shares so placed. As a result of the new share issue, the Bank's share capital has grown to LVL 13,149,248 (EUR 18,709,694).

On 3 November 2009, a public offering of ordinary bearer shares was completed. The offering was carried out according to the resolution on the Increase of the Share Capital of AS Latvijas Krājbanka approved by the extraordinary shareholders' meeting on 7 September 2009. The shareholders and investors were invited to acquire 6,175,000 shares of the new issue. The selling price of one share was stated at LVL 1.50. Under the public offering, all the newly issued shares have been fully paid for. As a result of the new share issue, the Bank's share capital has grown to LVL 19,324,248 (EUR 27,459,928).

All 19,324,248 shares of AS Latvijas Krājbanka are listed on the Baltic Second List of the NASDAQ QMX Riga Stock Exchange. There are no limitations as to the disposal of the Bank's shares.

The Bank's principal shareholders as at 31 December 2009 and 2008 were as follows:

	31/12/2009		31/12/2008	
LVL '000	**Paid-in share capital**	**% of total paid-in capital**	**Paid-in share capital**	**% of total paid-in capital**
AS Banka Snoras	10,284	53.22	9,304	76.58
Vladimir Antonov	6,175	31.96	-	-
Ratto Holdings Limited	1,213	6.28	1,213	9.98
AS West Investment	868	4.49	868	7.15
Other*	784	4.05	764	6.29
Total	**19,324**	**100.00**	**12,149**	**100.00**

* The total number of the shares held by each shareholder is less than 5% of the total number of the Bank's voting shares.

At the end of the reporting year, the Council Member Vladimirs Antonovs held 6,174,993 ordinary bearer voting shares in the Bank. The Board Members and other Council Members did not own any Bank's shares at the end of the reporting year.

During the reporting year, the Bank did not issue any employee shares. There are no shareholders with special control rights. The Bank has no information about any agreements that may prevent the shareholders from transferring their shares or voting rights to other persons.

Any decisions about changes in the Bank's Articles of Association are adopted at the shareholders' meeting by a ¾ majority vote of the shareholders having voting rights and represented at the meeting.

The Bank has not concluded any contracts, which would come into force, be terminated or altered in the case of a change of the control type.

Any shareholder's voting rights can be restricted in the instances listed in the laws of the Republic of Latvia. The Bank's Articles of Association do not envisage any shareholders' rights to the profit share other than related to their proportionate shareholdings.

Bank's reserves:

- The reserve was based on the legislation that existed from 1993 to 2001 and mainly refers to privatization, treatment of capital increases, and profit distribution. The last movement relates to the share capital increase on 21 November 2000. As at the 31 December 2009, the Bank's reserve amounted LVL 626 thousand (2008: LVL 626 thousand).
- The revaluation reserve is a reserve from revaluation of tangible assets. Based on the provisions of IAS 16, revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. In 2009, the revaluation reserve amounted to LVL 4,767 thousand (see also Note 25).
- The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. As at the 31 December 2009, the Group's reserve amounted to LVL 0 (2008: LVL 322 thousand).

Share premium relates to the share capital increase.

On 14 July 2009, a public offering of ordinary bearer shares was completed. During the offering, 1,000,002 shares were fully paid for. The share premium was set at LVL 0.50 per share, so totalling LVL 500 thousand.

On 3 November 2009, a public offering of ordinary bearer shares was completed. During the offering, 6,175,000 shares were fully paid for. The share premium was set at LVL 0.50 per share, so totalling LVL 3,087,500 thousand.

34. ASSETS AND LIABILITIES UNDER MANAGEMENT

As at 31 December 2009, the total assets under management amounted to LVL 18,507 thousand (2008: LVL 52,874 thousand). Based on the specific requests of fund owners, the Bank issues loans to non-banking customers classified as funds under trust management. Based on the trust management agreements with customers, the fund owners bear all the risks associated with these loans, and the Bank acts only as an intermediary for loan issuance.

35. ASSETS HELD IN CUSTODY

Assets held in custody reached the total value of LVL 65,995 thousand (2008: LVL 29,971 thousand) as at 31 December 2009. This includes investments in non-resident and resident financial instruments in the amount of LVL 14,531 thousand and LVL 51,464 thousand (2008: LVL 18,842 thousand and LVL 11,129 thousand) respectively.

36. CASH AND CASH EQUIVALENTS

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Cash and demand deposits with the Bank of Latvia	44,332	58,213	44,332	58,125
Balances due from credit institutions	94,710	207,583	94,486	207,333
Balances due to credit institutions	(16,030)	(24,102)	(16,030)	(24,102)
Total cash and cash equivalents	**123,012**	**241,694**	**122,788**	**241,356**

37. FINANCIAL INSTRUMENTS AT FAIR VALUE

The table represents a breakdown of differences between the carrying amount and the fair value of the Bank's financial instruments by asset groups. The table does not include fair value revaluation of non-financial items.

As at 31 December 2009 LVL '000	Carrying amount	Fair value	Difference
Financial assets			
Cash and demand deposits with central banks	44,332	44,332	-
Due from credit institutions	102,239	102,239	-
Loans and advances to customers	368,568	367,947	(621)
Financial assets at fair value through profit or loss	5,509	5,509	-
Held-to-maturity investments	11,108	10,966	(142)
Financial liabilities			
Due to credit institutions	16,431	16,431	-
Deposits from customers	480,418	480,307	111
Derivatives	172	172	-
Debt securities issued	3,546	3,546	-
Subordinated debt	15,181	15,244	(63)
Net position of accounting and fair value			**(715)**

As at 31 December 2008 LVL '000	Carrying amount	Fair value	Difference
Financial assets			
Cash and demand deposits with central banks	58,125	58,125	-
Due from credit institutions	220,500	220,500	-
Loans and advances to customers	341,814	341,628	(186)
Financial assets at fair value through profit or loss	6,114	6,114	-
Held-to-maturity investments	20,836	19,748	(1,088)
Financial liabilities			
Due to credit institutions	34,695	34,695	-
Deposits from customers	584,795	584,345	450
Derivatives	1,057	1,057	-
Debt securities issued	3,604	3,604	-
Subordinated debt	9,028	8,940	88
Net position of accounting and fair value			**(736)**

Financial assets/ liabilities whose fair value approximates to their carrying amount

For financial assets/ liabilities that are liquid or with a short-term maturity of less than one year it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits, saving accounts and financial instruments at a variable interest rate.

Fixed rate financial instruments

The fair value of the following classes of financial instruments - loans and advances to customers, deposits from customers and subordinated debt - with the maturity of more than one year is determined comparing their effective yield with the market rates and discounting the future cash flows.

The table below represents the Bank's financial assets and financial liabilities recorded at fair value according to different methods of valuation.

As at 31 December 2009 LVL '000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivatives	-	550	-	550
Financial assets at fair value through profit or loss	841	4,109	9	4,959
Total financial assets	**841**	**4,659**	**9**	**5,509**
Financial liabilities				
Derivatives	-	172	-	172
Total financial liabilities	**-**	**172**	**-**	**172**

As at 31 December 2008 LVL '000	Level1	level 2	Level 3	Total
Financial assets				
Derivatives	-	865	-	865
Financial assets at fair value through profit or loss	1,111	4,129	9	5,249
Total financial assets	**1,111**	**4,994**	**9**	**6,114**
Financial liabilities				
Derivatives	-	1,057	-	1,057
Total financial liabilities	**-**	**1,057**	**-**	**1,057**

The valuation based on market observable inputs was made for non-traded currency derivatives by comparing the contractual rate with the official exchange rate fixed by the Bank of Latvia and using the money market rates for cash flow discounting.

In 2009, there were no any changes in the valuation methods applied for each category of financial instruments as well as movements among the categories of revalued financial assets and financial liabilities.

38. CONCENTRATION OF ASSETS AND MEMORANDUM ITEMS BY GEOGRAPHICAL PROFILE

LVL '000 Group	Latvia	OECD countries	Other	Total as at 31/12/2009	Latvia	OECD countries	Other	Total as at 31/12/2008
Financial assets								
Cash and demand deposits with central banks	41,280	3,004	48	**44,332**	54,617	3,451	145	**58,213**
Due from credit institutions	40,533	24,926	37,005	**102,464**	19,989	72,296	129,419	**221,704**
Loans and advances to customers	289,175	20,230	51,781	**361,186**	293,875	6,682	37,973	**338,530**
Financial assets at fair value through profit or loss	3,354	1,283	1,084	**5,721**	4,474	1,083	994	**6,551**
Held-to-maturity investments	6,167	963	4,296	**11,426**	9,992	2,952	8,100	**21,044**
Other assets	41,095	465	79	**41,639**	34,963	92	378	**35,433**
Total	**421,604**	**50,871**	**94,293**	**566,768**	**417,910**	**86,556**	**177,009**	**681,475**
Financial liabilities								
Due to credit institutions	12,426	-	4,005	**16,431**	7,181	8,474	22,132	**37,787**
Deposits from customers	406,716	33,844	35,595	**476,155**	369,522	9,532	202,732	**581,786**
Derivatives	172	-	-	**172**	1,057	-	-	**1,057**
Debt securities issued	3,546	-	-	**3,546**	3,604	-	-	**3,604**
Subordinated debt	-	-	15,181	**15,181**	-	-	9,028	**9,028**
Other liabilities and equity	37,080	208	17,995	**55,283**	36,905	125	11,183	**48,213**
Total	**459,940**	**34,052**	**72,776**	**566,768**	**418,269**	**18,131**	**245,075**	**681,475**

LVL '000 Bank	Latvia	OECD countries	Other	Total as at 31/12/2009	Latvia	OECD countries	Other	Total as at 31/12/2008
Financial assets								
Cash and demand deposits with central banks	41,280	3,004	48	**44,332**	54,571	3,502	52	**58,125**
Due from credit institutions	40,308	24,926	37,005	**102,239**	19,740	72,296	128,464	**220,500**
Loans and advances to customers	296,557	20,230	51,781	**368,568**	300,238	6,682	34,894	**341,814**
Financial assets at fair value through profit or loss	3,778	1,039	692	**5,509**	4,251	1,067	796	**6,114**
Held-to-maturity investments	5,849	963	4,296	**11,108**	9,992	2,952	7,892	**20,836**
Other assets	37,908	163	79	**38,150**	32,304	58	98	**32,460**
Total	**425,680**	**50,325**	**93,901**	**569,906**	**421,096**	**86,557**	**172,196**	**679,849**
Financial liabilities								
Due to credit institutions	12,426	-	4,005	**16,431**	7,181	8,474	19,040	**34,695**
Deposits from customers	410,979	33,844	35,595	**480,418**	372,531	9,532	202,732	**584,795**
Derivatives	172	-	-	**172**	1,057	-	-	**1,057**
Debt securities issued	3,546	-	-	**3,546**	3,604	-	-	**3,604**
Subordinated debt	-	-	15,181	**15,181**	-	-	9,028	**9,028**
Other liabilities and equity	35,955	208	17,995	**54,158**	35,713	125	10,832	**46,670**
Total	**463,078**	**34,052**	**72,776**	**569,906**	**420,086**	**18,131**	**241,632**	**679,849**

39. CAPITAL ADEQUACY

Capital adequacy reflects capital resources necessary to cover credit, market and operational risks associated with the Bank's assets and memorandum exposures.

As at 31 December 2009, the Bank's capital adequacy ratio calculated in accordance with the Basel II guidelines was 12.70% (2008: 11.37%), exceeding the minimum ratio of 8% recommended by the Basel Committee and exceeding the minimum ratio of 8% imposed on the Latvian banks by the Law on Credit Institutions.

The Financial Capital and Market Commission requires credit institutions to calculate market risk capital requirements for the trading book positions. The Bank's management believes that the Bank's trading activities are insignificant; therefore, the calculation of capital requirements for market risk will not have a material impact on the Bank's capital adequacy ratio. As at 31 December 2009, the capital requirements for market risk had been calculated only for foreign exchange risks.

The Financial Capital and Market Commission's capital adequacy regulations are in conformance with the guidelines developed by the Basel Committee.

The Group's capital adequacy ratio as at 31 December 2009 was 12.66% (31 December 2008: 11.30%).

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Tier 1				
Paid-in share capital	19,324	12,149	19,324	12,149
Share premium	15,888	12,300	15,888	12,300
Non-controlling interest	-	658	-	-
Reserve capital	626	626	626	626
Foreign currency revaluation reserve	-	(322)	-	-
Audited retained earnings	10,782	8,030	11,293	8,286
Audited (loss) / profit for the year	(1,890)	2,770	(1,978)	3,008
Less				
Intangible assets	(1,537)	(1,561)	(1,191)	(1,260)
Participation in insurance companies in which the Bank, directly or indirectly, owns 20 and more per cent of the share capital or voting shares	(1,357)	(1,357)	(1,357)	(1,357)
Specific reduction of Tier 1 and Tier 2 prescribed by laws (-)	(1,012)	-	(1,012)	-
Total Tier 1	**40,824**	**33,293**	**41,593**	**33,752**
Tier 2				
Subordinated debt	14,995	9,013	14,995	9,013
Revaluation reserve	3,337	3,755	3,337	3,755
Less				
Participation in insurance companies in which the Bank, directly or indirectly, owns 20 and more per cent of the share capital or voting shares	(1,357)	(1,357)	(1,357)	(1,357)
Specific reduction of Tier 1 and Tier 2 prescribed by laws (-)	(1,012)	-	(1,012)	-
Total Tier 2	15,963	11,411	15,963	11,411
Equity to be utilised for the capital adequacy calculation according to the Basel II guidelines	**56,787**	**44,704**	**57,556**	**45,163**

The shareholders' meeting is empowered to make decisions on profit distribution, including payment of dividends.

Risk assets and memorandum items

LVL '000	Risk weighted assets and memorandum items		Risk weighted assets and memorandum items	
	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Total risk weighted assets and memorandum items	396,835	352,582	404,626	357,153
Capital requirements for credit and counterparty credit risks	31,747	28,207	32,370	28,572
Capital requirements for foreign exchange risks	122	327	-	97
Capital requirements for operational risks	4,007	3,117	3,896	3,103
Capital adequacy ratio	**12.66%**	**11.30%**	**12.70%**	**11.37%**

40. CURRENCY ANALYSIS

As at 31 December 2009 (Bank) LVL`000	LVL	USD	EUR	Other currencies	Total
Assets					
Cash and demand deposits with central banks	41,392	558	2,006	376	44,332
Due from credit institutions	16,669	47,369	37,183	1,018	102,239
Loans and advances to customers	56,775	36,584	275,209	-	368,568
Securities and investments	21,000	2,522	2,508	337	26,367
Fixed and intangible assets	20,504	-	-	-	20,504
Other assets	4,961	141	2,745	49	7,896
Total assets	161,301	87,174	319,651	1,780	569,906
Liabilities and shareholders' equity					
Due to credit institutions	12,077	2,146	2,207	1	16,431
Deposits from customers	211,944	37,420	227,242	3,812	480,418
Derivatives	172	-	-	-	172
Debt securities issued	-	-	3,546	-	3,546
Other liabilities	4,070	121	17	32	4,240
Subordinated debt	-	5,100	10,081	-	15,181
Shareholders' equity	49,918	-	-	-	49,918
Total liabilities and shareholders' equity	278,181	44,787	243,093	3,845	569,906
Net long/ (short) position	(116,880)	42,387	76,558	(2,065)	-
Memorandum items from foreign exchange*					
Unsettled spot foreign exchange transactions	96,248	(73)	(95,297)	-	878
Forward foreign exchange transactions	22,985	(41,872)	17,158	2,253	524
Net long/(short) position on foreign exchange	119,233	(41,945)	(78,139)	2,253	1,402
Net long/(short) position	2,353	442	(1,581)	188	1,402
Net long/(short) position, % of equity	4.09%	0.77%	(2.75%)	0.33%	2.44%
Financial commitments and contingencies					
Contingent liabilities	342	139	2,161	-	2,642
Financial commitments	4,832	388	8,222	-	13,442
Total financial commitments and contingencies	5,174	527	10,383	-	16,084

* These items are considered memorandum items for the purpose of this disclosure as required by local legislation.

As at 31 December 2008 (Bank) LVL`000	LVL	USD	EUR	Other currencies	Total
Assets					
Cash and demand deposits with central banks	54,383	649	2,577	516	58,125
Due from credit institutions	8,801	198,650	10,644	2,405	220,500
Loans and advances to customers	77,413	35,191	229,182	28	341,814
Securities and investments	22,385	5,898	2,704	342	31,329
Fixed and intangible assets	23,137	-	-	-	23,137
Other assets	4,684	141	104	15	4,944
Total assets	190,803	240,529	245,211	3,306	679,849
Liabilities and shareholders' equity					
Due to credit institutions	115	20,400	14,180	-	34,695
Deposits from customers	257,038	214,650	108,511	4,596	584,795
Derivatives	1,057	-	-	-	1,057
Debt securities issued	-	-	3,604	-	3,604
Other liabilities	4,788	58	78	14	4,938
Subordinated debt	-	5,162	3,866	-	9,028
Shareholders' equity	41,732	-	-	-	41,732
Total liabilities and shareholders' equity	304,730	240,270	130,239	4,610	679,849
Net long/ (short) position	(113,927)	259	114,972	(1,304)	-
Memorandum items from foreign exchange*					
Unsettled spot foreign exchange transactions	35,432	(769)	(34,228)	-	435
Forward foreign exchange transactions	80,402	924	(81,977)	1,529	878
Net long/(short) position on foreign exchange	115,834	155	(116,205)	1,529	1,313
Net long/(short) position	1,907	414	(1,233)	225	1,313
Net long/(short) position, % of equity	4.22%	0.93%	(2.74%)	(0.50%)	1,91%
Financial commitments and contingencies					
Contingent liabilities	314	252	8,406	-	8,972
Financial commitments	7,512	628	13,595	-	21,735
Total financial commitments and contingencies	7,826	880	22,001	-	30,707

* These items are considered memorandum items for the purpose of this disclosure as required by local legislation.

LVL is used as the functional currency by all Group entities, there is no significant difference between currency profiles of the Bank and the Group.

Consolidated companies use LVL as the functional currency; therefore, the Group's currency position does not materially differ from the Bank's currency position.

The banking laws of the Republic of Latvia prescribe that an open position in each foreign currency may not exceed 10% of the equity, but the total net open position may not exceed 20% of the equity.

As at 31 December 2009 and 2008, the Bank complied with the requirements as to the net open currency position.

41. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE

Group (Discounted table)

As at 31 December 2009 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and demand deposits with central banks	44,332	-	-	-	-	-	-	44,332
Due from credit institutions	91,655	4,712	-	-	-	4,605	1,492	102,464
Loans and advances to customers	44,368	33,154	13,389	53,634	146,457	70,184	-	361,186
Securities and investments	15,110	461	402	301	149	85	6,067	22,575
Fixed and intangible assets	-	-	-	-	-	-	21074	21,074
Other assets	3,727	-	-	345	315	5,979	4,771	15,137
Total assets	199,192	38,327	13,791	54,280	146,921	80,853	33,404	566,768
Liabilities and shareholders' equity								
Due to credit institutions	16,431	-	-	-	-	-	-	16,431
Deposits from customers	232,414	72,598	69,440	94,577	6,169	957	-	476,155
Debt securities issued	-	3,546	-	-	-	-	-	3,546
Derivatives	73	23	76	-	-	-	-	172
Deferred tax liability	-	45	-	-	-	-	847	892
Other liabilities	4,918	-	-	-	-	-	-	4,918
Subordinated debt	-	15	-	-	-	15,166	-	15,181
Shareholders' equity	-	-	-	-	-	-	49,473	49,473
Total liabilities and shareholders' equity	253,836	76,227	69,516	94,577	6,169	16,123	50,320	566,768
Net liquidity gap	(54,644)*	(37,900)	(55,725)	(40,297)	140,752	64,730	(16,916)	-
Financial commitments and contingencies								
Contingent liabilities	2,139	-	-	-	-	-	-	2,139
Financial commitments	12,147	-	-	-	-	-	-	12,147

* Net liquidity gap – on demand

As at 31 December 2008 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and demand deposits with central banks	58,213	-	-	-	-	-	-	58,213
Due from credit institutions	206,927	3,628	6,399	-	100	-	4,650	221,704
Loans and advances to customers	20,622	14,840	22,007	43,472	166,198	71,391	-	338,530
Securities and investments	20,983	3,719	1,439	164	897	18	375	27,595
Fixed and intangible assets	-	-	-	-	-	-	23,935	23,935
Other assets	3,226	-	-	-	-	6,467	1,805	11,498
Total assets	309,971	22,187	29,845	43,636	167,195	77,876	30,765	681,475
Liabilities and shareholders' equity								
Due to credit institutions	24,153	2,533	60	10,542	499	-	-	37,787
Deposits from customers	401,799	50,220	51,941	61,922	14,834	1,070	-	581,786
Debt securities issued	90	-	-	-	3,514	-	-	3,604
Derivatives	417	543	97	-	-	-	-	1,057
Deferred tax liability	-	-	-	-	-	-	930	930
Other liabilities	5,703	-	-	-	-	-	-	5,703
Subordinated debt	1	14	-	-	-	9,013	-	9,028
Shareholders' equity	-	-	-	-	-	-	41,580	41,580
Total liabilities and shareholders' equity	432,163	53,310	52,098	72,464	18,847	10,083	42,510	681,475
Net liquidity gap	(122,192)*	(31,123)	(22,253)	(28,828)	148,348	67,793	(11,745)	-
Financial commitments and contingencies								
Contingent liabilities	8,972						-	8,972
Financial commitments	20,848	-	-	-	-	-	-	20,848
Total financial commitments and contingencies	29,820						-	29,820

* Net liquidity gap – on demand

Bank (Discounted table)

As at 31 December 2009 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and demand deposits with central banks	44,332	-	-	-	-	-	-	44,332
Due from credit institutions	91,521	4,621	-	-	-	4,605	1,492	102,239
Loans and advances to customers	42,976	32,616	36,537	51,637	136,385	68,417	-	368,568
Securities and investments	14,628	406	236	197	-	-	10,900	26,367
Fixed and intangible assets	-	-	-	-	-	-	20,504	20,504
Other assets	2,780	-	-	345	-	-	4,771	7,896
Total assets	196,237	37,643	36,773	52,179	136,385	73,022	37,667	569,906
Liabilities and shareholders' equity								
Due to credit institutions	16,431	-	-	-	-	-	-	16,431
Deposits from customers	233,972	72,706	71,773	94,841	6,169	957	-	480,418
Debt securities issued	-	3,546	-	-	-	-	-	3,546
Derivatives	73	23	76	-	-	-	-	172
Deferred tax liability	-	-	-	-	-	-	847	847
Other liabilities	3,393	-	-	-	-	-	-	3,393
Subordinated debt	-	15	-	-	-	15,166	-	15,181
Shareholders' equity	-	-	-	-	-	-	49,918	49,918
Total liabilities and shareholders' equity	253,869	76,290	71,849	94,841	6,169	16,123	50,765	569,906
Net liquidity gap	(57,632)*	(38,647)	(35,076)	(42,662)	130,216	56,899	(13,098)	-
Financial commitments and contingencies								
Contingent liabilities	2,642	-	-	-	-	-	-	2,642
Financial commitments	13,442	-	-	-	-	-	-	13,442
Total financial commitments and contingencies	16,084	-	-	-	-	-	-	16,084

*Net liquidity gap – on demand

As at 31 December 2008 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and demand deposits with central banks	58,125	-	-	-	-	-	-	58,125
Due from credit institutions	206,297	3,154	6,399	-	-	-	4,650	220,500
Loans and advances to customers	19,373	36,387	24,401	40,979	151,365	69,309	-	341,814
Securities and investments	20,645	3,475	1,432	115	801	-	4,861	31,329
Fixed and intangible assets	-	-	-	-	-	-	23,137	23,137
Other assets	2,838	-	-	-	-	-	2,106	4,944
Total assets	307,278	43,016	32,232	41,094	152,166	69,309	34,754	679,849
Liabilities and shareholders' equity								
Due to credit institutions	24,153	-	-	10,542	-	-	-	34,695
Deposits from customers	404,709	50,235	51,962	61,985	14,834	1,070	-	584,795
Derivatives	417	543	97	-	-	-	-	1,057
Debt securities issued	90	-	-	-	3,514	-	-	3,604
Deferred tax liability	-	-	-	-	-	-	930	930
Other liabilities	4,008	-	-	-	-	-	-	4,008
Subordinated debt	1	14	-	-	-	9,013	-	9,028
Shareholders' equity	-	-	-	-	-	-	41,732	41,732
Total liabilities and shareholders' equity	433,378	50,792	52,059	72,527	18,348	10,083	42,662	679,849
Net liquidity gap	(126,100)*	(7,776)	(19,827)	(31,433)	133,818	59,226	(7,908)	-
Financial commitments and contingencies								
Contingent liabilities	8,972	-	-	-	-	-	-	8,972
Financial commitments	21,735	-	-	-	-	-	-	21,735
Total financial commitments and contingencies	30,707	-	-	-	-	-	-	30,707

*Net liquidity gap – on demand

42. REPRICING MATURITY OF ASSETS AND LIABILITIES BASED ON INTEREST RATE CHANGES

Group

As at 31 December 2009 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	33,769	-	-	-	-	-	10,563	44,332
Due from credit institutions	96,260	4,712	-	-	-	-	1,492	102,464
Loans and advances to customers	104,973	179,548	15,293	12,794	22,648	5,417	20,513	361,186
Securities and investments	2,590	3,372	742	3,967	4,930	455	6,519	22,575
Fixed and intangible assets	-	-	-	-	-	-	21,074	21,074
Other assets	-	-	-	-	-	-	15,137	15,137
Total assets	237,592	187,632	16,035	16,761	27,578	5,872	75,298	566,768
Liabilities and shareholders' equity								
Due to credit institutions	16,431	-	-	-	-	-	-	16,431
Deposits from customers	232,371	70,299	71,748	95,568	6,169	-	-	476,155
Debt securities issued	-	3,546	-	-	-	-	-	3,546
Other liabilities	73	23	76	-	-	-	5,810	5,982
Subordinated debt	-	-	-	-	-	15,181	-	15,181
Shareholders' equity	-	-	-	-	-	-	49,473	49,473
Total liabilities and shareholders' equity	248,875	73,868	71,824	95,568	6,169	15,181	55,283	566,768
Total interest sensitivity gap	(11,283)	113,764	(55,789)	(78,807)	21,409	(9,309)	20,015	-

As at 31 December 2008 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	39,731	-	-	-	-	-	18,482	58,213
Due from credit institutions	211,628	3,490	6,106	-	100	-	380	221,704
Loans and advances to customers	18,153	274,682	6,500	8,988	22,361	1,210	6,636	338,530
Securities and investments	5,833	5,550	1,823	2,351	9,838	887	1,313	27,595
Fixed and intangible assets	-	-	-	-	-	-	23,935	23,935
Other assets	-	-	-	-	-	-	11,498	11,498
Total assets	275,345	283,722	14,429	11,339	32,299	2,097	62,244	681,475
Liabilities and shareholders' equity								
Due to credit institutions	24,101	13,076	60	-	499	-	51	37,787
Deposits from customers	400,559	48,920	50,335	60,671	14,348	1,070	5,883	581,786
Derivatives	417	543	97	-	-	-	-	1,057
Debt securities issued	3,604	-	-	-	-	-	-	3,604
Other liabilities	-	-	-	-	-	-	6,633	6,633
Subordinated debt	-	-	-	-	-	9,028	-	9,028
Shareholders' equity	-	-	-	-	-	-	41,580	41,580
Total liabilities and shareholders' equity	428,681	62,539	50,492	60,671	14,847	10,098	54,147	681,475
Total interest sensitivity gap	(153,336)	221,183	(36,063)	(49,332)	17,452	(8,001)	8,097	-

Bank

As at 31 December 2009 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	33,769	-	-	-	-	-	10,563	44,332
Due from credit institutions	96,126	4,621	-	-	-	-	1,492	102,239
Loans and advances to customers	127,169	161,428	19,405	12,794	22,764	5,417	19,591	368,568
Securities and investments	2,572	3,317	593	3,863	4,781	370	10,871	26,367
Fixed and intangible assets	-	-	-	-	-	-	20,504	20,504
Other assets	-	-	-	-	-	-	7,896	7,896
Total assets	259,636	169,366	19,998	16,657	27,545	5,787	70,917	569,906
Liabilities and shareholders' equity								
Due to credit institutions	16,431	-	-	-	-	-	-	16,431
Deposits from customers	234,102	72,706	71,773	95,668	6,169	-	-	480,418
Debt securities issued	-	3,546	-	-	-	-	-	3,546
Other liabilities	73	23	76	-	-	-	4,240	4,412
Subordinated debt	-	-	-	-	-	15,181	-	15,181
Shareholders' equity	-	-	-	-	-	-	49,918	49,918
Total liabilities and shareholders' equity	250,606	76,275	71,849	95,668	6,169	15,181	54,158	569,906
Total interest sensitivity gap	9,030	93,091	(51,851)	(79,011)	21,376	(9,394)	16,759	-

As at 31 December 2008 LVL`000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and demand deposits with central banks	39,730	-	-	-	-	-	18,395	58,125
Due from credit institutions	210,998	3,016	6,106	-	-	-	380	220,500
Loans and advances to customers	13,323	275,027	10,063	8,988	26,567	1,210	6,636	341,814
Securities and investments	5,495	5,306	1,816	2,302	9,742	869	5,799	31,329
Fixed and intangible assets	-	-	-	-	-	-	23,137	23,137
Other assets	511	218	136	-	-	-	4,079	4,944
Total assets	270,057	283,567	18,121	11,290	36,309	2,079	58,426	679,849
Liabilities and shareholders' equity								
Due to credit institutions	24,101	10,543	-	-	-	-	51	34,695
Deposits from customers	403,469	48,935	50,356	60,734	14,348	1,070	5,883	584,795
Derivatives	417	543	97	-	-	-	-	1,057
Debt securities issued	3,604	-	-	-	-	-	-	3,604
Other liabilities							4,938	4,938
Subordinated debt	-	-	-	-	-	9,028	-	9,028
Shareholders' equity	-	-	-	-	-	-	41,732	41,732
Total liabilities and shareholders' equity	431,591	60,021	50,453	60,734	14,348	10,098	52,604	679,849
Total interest sensitivity gap	(161,534)	223,546	(32,332)	(49,444)	21,961	(8,019)	5,822	-

43. RELATED PARTIES

Related parties are defined as shareholders that have the ability to control the Bank, members of the Council and the Board, key management personnel, their close members of the families, and companies in which they have controlling interest as well as subsidiaries and associated companies.

LVL '000	Group 2009	Group 2008	Bank 2009	Bank 2008
Amounts receivable:				
Loans and advances to related parties:				
- Management	140	329	79	200
- Parent company	753	84,292	745	84,292
- Subsidiaries	-	-	26,478	-
- Other related legal entities	36,225	44,116	36,185	74,410
- Other related private individuals	64	38	64	42
Financial assets at fair value through profit or loss - currency derivative fair value:				
- Parent company	358	355	358	355
- Other related legal entities	-	1	-	1
Other assets - currency spot fair value:				
- Other related private individuals	-	169	-	169
Total amounts receivable:	**37,540**	**129,300**	**63,909**	**159,469**
Amounts payable:				
Deposits and funds received:				
- Management	353	387	195	189
- Parent company	3,923	18,971	3,923	18,971
- Subsidiaries	-	-	3,622	-
- Other related legal entities	67	62	67	3,044
- Other related private individuals	6,276	98	6,276	98
Derivative liabilities - currency derivative fair value:				
- Parent company	69	7	69	7
Other liabilities - currency spot fair value:				
- Other related legal entities	-	1,204	-	1,204
Total amounts payable:	**10,688**	**20,729**	**14,152**	**23,513**
Credit commitments and contingencies to related parties				
- Management	281	394	30	381
- Parent company	-	53,866	-	53,866
- Subsidiaries	-	-	1,295	-
- Other related legal entities	-	71,628	-	71,628
- Other related private individuals	909	795	909	808
Total commitments and contingencies to related parties:	**1,190**	**126,683**	**2,234**	**126,683**
Profit and loss items				
Interest revenue	434	1,133	1,753	1,196
Inc. interest revenue from parent company	432	1,133	432	1,133
Interest expense	(122)	(129)	(388)	(1,408)
Inc. interest expense from parent company	(104)	(129)	(104)	(129)
Commission and fee revenue	-	-	166	19
Commission expense			(462)	
Other revenue/ expense	(99)	9	(44)	9
Total profit or loss	**213**	**1,013**	**1,025**	**(184)**

All transactions with related parties are made in at terms equivalent to those that prevail in arm's length transactions. The Group has not recorded any impairment of receivables relating to amounts owned by related parties (2008: LVL 0). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The Bank has issued a EUR 770,000 guarantee in favour of AS Hansabanka to assist a related party with real estate acquisition. The standard fee has been charged. The guarantee expires on 8 June 2011. The guarantee has been secured by collateral with a value that exceeds the guarantee amount several times. The Bank also has issued a EUR 225,000 and USD 75,000 guarantee in favour of American Express Services Europe Ltd. to secure credit card transactions of related parties.

There is no accrued impairment loss in relation to the loans issued to related parties.

44. COMMITMENTS AND CONTINGENCIES

Memorandum items include the following contingent liabilities and financial commitments, as well as customer security account balances outstanding at the end of the year:

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Contingent liabilities				
Outstanding guarantees	2,139	8,972	3,545	8,972
Total contingent liabilities	**2,139**	**8,972**	**3,545**	**8,972**
Financial commitments				
Credit commitments	10,496	19,197	11,791	20,084
Other commitments	1,651	1,651	1,651	1,651
Total financial commitments	**12,147**	**20,848**	**13,442**	**21,735**
Total contingent liabilities and financial commitments	**14,286**	**29,820**	**16,987**	**30,707**

On 29 December 2009, a guarantee agreement was signed with LKB Līzings. According to the agreement, the Bank as the guarantor will be responsible for the debts of legal entities and private individuals, which meet certain requirements, in the amount of EUR 2,000,000 (two million euros).

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2009 amounted to LVL 3,239 thousand (2008: LVL 4,312 thousand).

45. RISK MANAGEMENT

Introduction

The Bank has developed a system for identification, supervision and management of the main financial risks to which the Bank and the Group entities are exposed. Risk management within the Group is governed by the Risk Management Policy and by the Group's regulations of the internal control system.

The main aim of the risk management is to prevent occurrences of significant losses that may affect the Group's shareholders' equity.

Timely identification of the risk factors, effective risk management, proper evaluation and continuous monitoring are the main risk management system principles.

Bank activities are closely related to the development of new market segments. Internal processes and technologies that support customer services are continuously improved. The effective management of these risks is ensured by the timely and full-fledged automation and process documentation. The tools for risk control and management are regularly improved to meet the requirements of effective risk management. Technological stability and safety of operations are the core principles that are stated in the Bank's Information Safety Policy.

In 2008, the Bank has implemented the Capital Management Policy and evaluates the capital adequacy in order to ensure the capital required to cover risks arising from the Bank's activities and possible risks.

In the course of the daily operations, the principle of independence is used to ensure balanced analysis of risk and business factors to secure optimal revenues.

Risk Management Structure

The Bank and the Group's Risk Management Policy is approved by the Council of the Bank. Principles of the Bank's Risk Management Policy are in conformance with the risk management principles set by the Snoras Bank.

The Board is responsible for implementation of the general principles of the Risk Management Policy. The Board also is responsible for implementation of the risk control to assure that the Bank assets are ensured against losses, unauthorised management and unauthorised use, the Bank's operating risks are continuously identified and managed, the Bank's capital in terms of its size, components and their relative weights is sufficient to cover identified and possible risks, transactions are executed in accordance with the internal regulations, the Bank acts reasonably, carefully and efficiently, fully complying with all applicable laws and regulations.

The Board had authorized the Assets and Liabilities Management Committee to manage asset allocation and funding risks, and to manage capital base to ensure its adequacy and development.

The main tasks of the Assets and Liabilities Management Committee are:

- Implementation of binding policy in risk elements arising from the Bank's operations, ensuring complete monitoring and management of the totality of these risks;
- Management of the Bank's capital resources to evenly distribute them between separate business lines to ensure adequate capitalisation of risk;
- Assessment and approval of adequate and valid risk position limits and methodology of limit calculation.

The Assets and Memorandum Item Assessment Committee is a permanent body mainly responsible for evaluation of all types of loans, other assets and memorandum items, which are subject to credit and market risks.

The Money Laundering Prevention Committee is a permanent body established to ensure and control the Bank's operations in accordance with the Republic of Latvia legislation, the Bank's policies and internal regulations, to prevent legalisation of illegally acquired funds and to prevent financing of terrorism. The Committee also ensures the process of customer and transaction monitoring and cooperates with the authorized state institutions.

Management of money laundering risks during daily activities is performed by the Customer Transaction Control Unit.

Management of other risks is performed by the Risk Management Department. The Risk Management Department is responsible for the implementation of risk management principles, evaluation of risk identification tools, oversight of risk assessment and management (including IT risk), planning of the Bank's further operations and disclosure of the relevant information. Each business function has its own responsible managers, which are independent and separated from business units.

Credit risk

Credit risk relates to potential losses arising for the Latvijas Krājbanka Group if a borrower is unable to meet its contractual obligations. The Bank is subject to credit risk mainly from lending operations. The amount of credit risk is significant, and it is reflected in the asset values.

The Bank is exposed to credit risk also from other products, including derivatives and investments in debt securities.

The Bank is subject to off-balance sheet credit risk that occurs from commitments to grant additional loans and from outstanding guarantees.

The Bank is exposed to credit risk in trading, lending and investing activities and also while acting as an intermediary on the customers' behalf or issuing guarantees to third parties.

Credit risk that arises from investing and trading activities is managed in accordance with the Bank's trading risk management procedures.

Credit risk arising from potential default on the part of the Bank's counterparties in transactions with derivatives or other financial instruments is managed on a daily basis.

To prevent occurrence of credit risk of derivatives, the Bank cooperates only with well-rated counterparties which has high ratings set by rating agencies.

The Group's main principles for credit risk management are included in the Loan Policy and are defined as follows:

- Risk should be undertaken only in well-known business lines;
- The main source of loan repayment funds are cash flow from core business, salary and other revenue;
- The price of the loan product should be adequate to the customer credit risk – risk should be evaluated based on future returns;
- The customer must be able to provide adequate contribution to the project financing;
- Each collateral must be liquid and sufficient;
- The loan should be issued only for a definite purpose, the term structure of the loan should be consistent with the aim;
- There are standardised criteria and procedures for handling lending transactions;
- Risk control should be ensured through segregation of the employee functions and necessary authorisations.

The core principle of credit risk management is adequate estimation of the customer's creditworthiness, as customer related risk increases, its creditworthiness is analysed more carefully. The daily credit risk management is ensured by the Credit Department, which is responsible for the implementation of the Credit Risk Management Policy principles and control of the Policy implementation.
The Bank continuously monitors the customer's creditworthiness, collateral sufficiency and fair value adequacy. The Assets and Memorandum Item Assessment Committee evaluates a loan to determine its fair value on a monthly basis. The Risk Management Department, an independent unit of the Bank, is responsible for the development of the credit risk evaluation methods and their application.

The Bank carries out sensitivity analysis each year to test the possible impact of different possible events on capital adequacy of the Bank and the Group.

Maximum exposure to credit risk

The table represents the maximum exposure of different categories of financial instruments to credit risk before accounting for the effects of credit risk mitigation instruments:

LVL '000	Notes	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Demand deposits with central banks	15	33,769	41,044	33,769	41,044
Due from credit institutions	16	102,464	221,704	102,239	220,500
Loans and advances to customers	18	361,186	338,530	368,568	341,814
Financial assets held for trading		-	297	-	-
Financial assets at fair value through profit or loss	17	5,721	6,253	5,509	6,114
Held-to-maturity investments	20	11,426	21,044	11,108	20,836
Total		**514,566**	**628,872**	**521,193**	**630,308**
Contingent liabilities	44	2,139	8,972	2,642	8,972
Financial commitments	44	10,496	20,848	11,791	21,735
Total	44	**12,635**	**29,820**	**14,433**	**30,707**
Total maximum credit risk exposure		**527,201**	**658,692**	**535,626**	**661,015**
Credit risk concentration to single customer		36,190	84,334	36,190	84,334

The Board has approved a regulation that the loan amount to a single customer or a group of related customers should not exceed the maximum credit limit of 25% of the Group's equity.

As at 31 December of 2009, the largest exposure to a single customer amounted to LVL 20,133 thousand (three loans to a Bank's subsidiary LKB Līzings). The Bank was granted permission by the Financial and Capital Market Commission not to limit the exposure to this customer.

As at 31 December 2009, the Bank's largest exposure to one customer, which was not related to the Bank, was a loan to a legal entity in the amount of LVL 10,542 thousand (2008: LVL 10,122 thousand). The loan is secured by a real estate pledge in the amount of LVL 16,100 thousand.

The Bank has defined risk concentration limits for industries. The maximum amount (33%) is set for to real estate operations (2009: 26.0%; 2008: 27.0%).

The Bank has defined maximum possible risk concentration limits by the loan type. The largest limit is for mortgage loans issued to residents - 40%.

The Bank has also set limits for country risk – the maximum limit of 600% of the equity applies to investments in countries having the highest ratings, with their financial environments assessed as stable (Fitch AAA, Moody's Aaa). There are no country risk limits for investments in the Republic of Latvia.

Maximum exposure to credit risk by industry

The table represents the Bank's (and the Group's) maximum exposure to credit risk by industry before accounting for the effect of the credit risk mitigation instruments:

LVL'000	Gross maximum exposure 31/12/2009	Gross maximum exposure 31/12/2008
Financial intermediaries	189,672	305,721
Private individuals	121,608	149,129
Real estate management	62,257	55,933
Transport, warehousing and communications	41,254	29,986
Manufacturing	27,821	19,001
Retail and wholesale	9,817	17,356
Construction	13,069	15,213
Government	8,494	12,806
Hotels and restaurants	15,874	9,866
Sports and leisure activities	8,093	8,554
Investment companies	8,144	7,936
Agriculture and forestry	4,755	6,243
Postal services	-	4,247
Debt collection	12,941	2,314
State administration and healthcare	1,191	1,497
Electricity, gas and water utilities	1,082	1,159
IT services	442	538
Other	9,112	13,516
Total	**535,626**	**661,015**

Maximum exposure to credit risk by countries

The table represents the Bank' s (and the Group's) maximum exposure to credit risk by countries and regions before taking into account any collaterals held or other credit enhancements:

LVL'000	31.12.2009	31.12.2008
Latvia	393,274	402,691
Other EU Member States	51,874	107,833
Other European countries	5,927	10,600
North America	2,905	57,566
Ex-CIS states	81,601	60,841
Other	45	21,484
Total	**535,626**	**661,015**

Credit quality of financial assets

The table describes the quality of the Bank's (and the Group's) financial assets according to the rating agency data. The Bank uses Fitch, Moody's, Standard&Poor's ratings to classify balances due from credit institutions and fixed income securities.

Financial assets are grouped according to the Basel II requirements. The Bank's (and Group's) loan portfolio does not contain loans to customers having international credit ratings.

As at 31 December 2009 LVL'000	**Neither past due nor impaired**				**Past due or individually impaired**	**Total**
	High grade	**Standard grade**	**Sub-standard grade**	**Individually evaluated without grade**		
Demand deposits with central banks	-	33,769	-	-	-	33,769
Due from credit institutions	25,311	799	-	76,129	-	102,239
Loans and advances to customers	-	-	-	292,455	76,113	368,568
Financial assets at fair value through profit or loss	3,432	471	253	803	-	4,959
Held-to-maturity investments	8,586	1,563	959	-	-	11,108
Derivatives	92	358	-	100	-	550
Total	**37,421**	**36,960**	**1,212**	**369,487**	**76,113**	**521,193**

As at 31 December 2008 LVL'000	**Neither past due nor impaired**				**Past due or individually impaired**	**Total**
	High grade	**Standard grade**	**Sub-standard grade**	**Individually evaluated without grade**		
Demand deposits with central banks	41,044	-	-	-	-	41,044
Due from credit institutions	72,250	89,441	-	58,809	-	220,500
Loans and advances to customers	-	-	-	285,980	55,834	341,814
Financial assets at fair value through profit or loss	4,031	595	12	611	-	5,249
Held-to-maturity investments	11,881	3,768	773	4,414	-	20,836
Derivatives	147	355	-	363	-	865
Total	**129,353**	**94,159**	**785**	**350,177**	**55,834**	**630,308**

The ratings are grouped according to the following rules (the example below uses ratings assigned by Moody's).

Rating value	**Moody's rating**
High grade	Aaa Aa1-A3 Baa1-Baa2
Standard grade	Baa3 Ba1 Ba2-Ba3 B1-B2
Sub-standard grade	B3- Caa-C
Individually evaluated	D or without rating

The Bank (and the Group) does not use any internal credit rating system to manage the quality of loans and advances to customers.

	Standard	Past due or individually impaired	Total	Standard	Past due or individually impaired	Total
LVL'000	31/12/2009	31/12/2009	31/12/2009	31/12/2008	31/12/2008	31/12/2008
Demand deposits with central banks	33,769	-	33,769	41,044	-	41,044
Due from credit institutions	102,239	-	102,239	220,500	-	220,500
Loans and advances to customers	292,455	76,113	368,568	285,980	55,834	341,814
Financial assets at fair value through profit or loss	4,959	-	4,959	5,249	-	5,249
Held-to-maturity investments	11,108	-	11,108	20,836	-	20,836
Derivatives	550	-	550	865	-	865
Total	**445,080**	**76,113**	**521,193**	**574,474**	**55,834**	**630,308**

Aging analysis of past due but not impaired financial assets (the Bank and the Group)

As at 31 December 2009	Past due but not impaired loans				
LVL'000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Business loans	2,485	729	10,390	10,822	24,426
Utilised credit lines	204	150	2	1,060	1,416
Mortgage loans	3,356	1,282	1,583	10,941	17,162
Consumer loans	1,324	648	476	1,870	4,318
Debit balances on settlement cards and overdrafts	-	-	-	-	-
Other loans	1,721	1,610	190	6,575	10,096
Total	**9,090**	**4,419**	**12,641**	**31,268**	**57,418**

As at 31 December 2009, the fair value of the collateral for the loans that are past due but not impaired was LVL 88,412 thousand.

As at 31 December 2008	Past due but not impaired loans				
LVL'000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Business loans	14,181	1,585	3,188	2,604	21,558
Utilised credit lines	181	76	270	601	1,128
Mortgage loans	7,064	2,954	1,810	2,628	14,456
Consumer loans	2,127	987	667	1,249	5,030
Debit balances on settlement cards and overdrafts	-	-	-	-	-
Other loans	3,852	3,330	3,904	1,267	12,353
Total	**27,405**	**8,932**	**9,839**	**8,349**	**54,525**

Gross loans and advances to customers by type of collateral (the Bank and the Group)

As at 31 December 2008 LVL'000	Real estate	Term deposits	Securities	Movable property	Commercial collateral	Guarantees	Other collateral and without collateral	Total
Business loans	130,481	2,819	-	15,303	39,591	9,798	2,413	**200,405**
Utilised credit lines	8,633	-	-	35	38,391	9,338	189	**56,586**
Mortgage loans	61,368	-	-	-	-	-	30	**61,398**
Consumer loans	3	-	-	-	-	455	16,796	**17,254**
Debit balances on settlement cards and overdrafts	5	10	-	-	-	266	5,179	**5,460**
Other loans	37,362	331	155	185	4	43	605	**38,685**
Total	**237,852**	**3,160**	**155**	**15,523**	**77,986**	**19,900**	**25,212**	**379,788**
Charged allowance for impairment	**6,245**	**-**	**-**	**67**	**1,252**	**137**	**3,518**	**11,219**

As at 31 December 2008 LVL'000	Real estate	Term deposits	Securities	Movable property	Commercial collateral	Guarantees	Other collateral and without collateral	Total
Business loans	113,034	1,326	-	14,997	21,853	179	2,420	**153,809**
Utilised credit lines	9,557	86	-	7,342	30,788	159	105	**48,037**
Mortgage loans	65,615	-	-	-	-	-	-	**65,615**
Consumer loans	4	-	-	-	-	616	27,881	**28,501**
Debit balances on settlement cards and overdrafts	5	45	-	-	9	214	5,807	**6,080**
Other loans	41,508	1,704	416	238	-	18	142	**44,026**
Total	**229,723**	**3,161**	**416**	**22,577**	**52,650**	**1,186**	**36,355**	**346,068**
Charged allowance for impairment	**2,208**	**0**	**0**	**43**	**233**	**35**	**1,735**	**4,254**

Renegotiated loans (the Bank and the Group)

LVL'000	2009	2008
Business loans	30,845	2,855
Utilised credit lines	565	587
Mortgage loans	6,582	3,707
Consumer loans	1,384	683
Debit balances on settlement cards and overdrafts	-	-
Other loans	12,262	3,134
Total	**51,638**	**10,966**

The table does not include past due loans where renegotiation of terms is not caused by the Client's inability to repay the loan.
The renegotiated terms of the credits and overdrafts of payment cards are disclosed under the loan types used for renegotiation purposes.
Loans which had their terms renegotiated with their maturities remaining unchanged were not disclosed in the prior year financial statements.

See Note 18 for more detailed information.

Impairment assessment

The Assets and Memorandum Item Assessment Committee is a Bank's institution responsible for the assessment and classification of financial assets carried at amortised cost, considering the credit risk inherent in such assets. The assessment process is documented according to the statutory requirements – the Bank has formulated the Loan Quality Assessment and Impairment Methodology to ensure the process of assessing and classifying financial assets carried at amortised cost in the event of a borrower's default, which, according to IAS, is recognised in the financial statements as an impairment loss.

Financial assets stated at amortised cost, i.e. loans and advances to customers and held-to-maturity investments, are subject to impairment assessment.

Loans may be assessed for impairment both individually and collectively.

A loan or a group of loans is impaired and impairment losses are incurred if there is objective evidence of impairment, which has an impact on future cash flows and can be reliably estimated. An impairment loss on financial assets at amortised cost is the difference between the carrying amount of the asset and the estimated present value of future cash flows from that asset.

Impairment allowances are established on the basis of discounted cash flows that are applied to the recovery period.

Future cash flows are discounted applying the effective interest rate.

For impairment assessment purposes, the net loan value is used to calculate interest revenue. Cash flows from the collateral realisation at the market value at the assessment date are included in the cash flow forecasts.

Collective assessment is performed for loans that are not assessed on an individual basis as well as individually significant loans that are not impaired individually.

Loans are grouped on the basis of similar credit risk characteristics.

To determine which loans are individually significant, the Bank considers the relation between the relative value (outstanding balance) of the loan and the Bank's loan portfolio. Other circumstances which expose/ may expose the Bank to an elevated credit risk (industry, country, transactions between related customers, etc.) may also be considered during the classification.

The Bank and the Group have introduced a unified procedure for assessment of assets carried at amortised cost.

Market risk

Market risk is the probability of incurring losses due to the revaluation of balance sheet and memorandum items, caused by fluctuations in market prices of financial instruments, commodities and commodity derivatives, due to changes in interest rates, foreign exchange rates and other factors.

The Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk is determined to the extent of the effect that changes in the market rates have on the Bank's profit and net interest revenue, as well as equity. Net interest revenue will increase or decrease as a result of fluctuations in interest rates to the extent of the difference in the term structures of interest bearing assets and liabilities.

Interest rate risk indicates the market risk impact on the financial situation of the Group and the Bank.

To determine the possible interest rate risk impact on the Bank's future income and net equity, the Bank uses GAP analysis.

GAP analysis – analysis of term structure mismatch for interest rate sensitive assets and liabilities subject to repricing.

Using GAP analysis, the Bank determines the value describing the amount of interest rate risk – sensitivity to interest rate change, by changing interest rates by 100 basis points and evaluating the risk effect on the Bank's profit and loss.

To calculate the amount of interest rate risk, the Bank uses cumulative weighted GAP with the remaining term of one year. The acceptable amount of possible impact on the Bank's income or equity market value should not exceed 5% of equity.

The Treasury Department performs interest rate control and supervision on a daily basis.

The Assets and Liabilities Management Committee evaluates the interest rate risk value on a monthly basis.

The Risk Management Department reports to the Board.

The Bank does not use VaR method to determine the risk impact amount, because the value of assets classified as the trading portfolio is insignificant and the Bank's Investment Policy does not stipulate active involvement into speculative deals.

The following table shows the split of interest bearing assets and liabilities at their nominal value as at 31 December 2009 (the Bank and the Group):

LVL '000	Fixed rate	Floating rate	Total
Cash and demand deposits with central banks	33,769	-	**33,769**
Due from credit institutions	96,034	4,605	**100,639**
Securities	13,368	1,733	**15,101**
Loans and advances to customers	62,428	274,966	**337,394**
Total interest bearing assets	**205,599**	**281,304**	**486,903**
Due to credit institutions	16,431	-	**16,431**
Deposits from customers	455,578	25,369	**480,947**
Debt securities issued	-	3,546	**3,546**
Subordinated debt	15,181	-	**15,181**
Total interest bearing liabilities	**487,190**	**28,915**	**516,105**

The following table shows the split of interest bearing assets and liabilities at their nominal value as at 31 December 2008 (the Bank and the Group):

LVL '000	Fixed rate	Floating rate	Total
Cash and demand deposits with central banks	39,740	-	**39,740**
Due from credit institutions	216,889	4,650	**221,539**
Securities	24,631	2,403	**27,034**
Loans and advances to customers	63,774	271,628	**335,402**
Total interest bearing assets	**345,034**	**278,681**	**623,715**
Due to credit institutions	24,102	10,542	**34,644**
Deposits from customers	544,000	32,663	**576,663**
Subordinated debt	9,013	-	**9,013**
Total interest bearing liabilities	**577,115**	**43,205**	**620,320**

Interest rate sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant of the Bank's and the Group's profit and loss and equity for the currencies to which the Bank and the Group had significant exposure.

The sensitivity of the Bank's and Group's profit and loss is the effect on the net interest revenue for one year, based on the repricing maturity analysis of the Bank's and Group's financial assets and financial liabilities in respective currencies under the assumption of respective change in interest rates for all maturities. The additional effect on the Bank's and Group's profit and loss is calculated by revaluing financial instruments at fair value for the effects of the assumed changes in interest rates as at the reporting date.

Currency	Interest rate increase/ decrease in base points 2009	Effect on profit before taxes 2009	Effect on equity before taxes 2009	Interest rate increase/ decrease in base points 2008	Effect on profit before taxes 2008	Effect on equity before taxes 2008
LVL	+200	+1,299	-	+200	+778	-
EUR	+50	+225	-	+50	+109	-
USD	+50	(15)	-	+50	+48	-
LVL	-200	(1,299)	-	-200	-778	-
EUR	-50	(225)	-	-50	-109	-
USD	-50	+15	-	-50	-48	-

Currency risk

The Bank manages foreign currency risk by establishing and regulating the principles related to foreign exchange risk control and governance to minimise the impact of exchange rate volatility on the Bank's financial results.

Foreign currency risk arises if the Bank has an open position in currency, which is subject to exchange rate fluctuations.

The open currency position can arise:

- From the Bank's core business operations – customer driven currency buying/selling transactions, foreign exchange transactions in the interbank market, crediting and deposits taking;
- By engaging in speculative foreign exchange transactions;
- As a result from internal foreign exchange transactions;
- Through expenses in foreign currency.

The maximum admissible foreign currency open position is regulated by the legislative acts of the Republic of Latvia.

The Bank's Council has approved the following limits. The foreign currency position limit for individual currencies is defined as 10% of equity. The foreign currency position limit in aggregate is defined as 20% of equity.

To restrict foreign currency risk, the Bank chooses the most favourable hedging method that is appropriate for hedging the particular risk. Hedging tools are chosen depending on the currency, term, amount and associated expenses. The Bank employs the following financial instruments to hedge foreign currency risk:

- Spot and forward forex deals;
- Currency swaps.

The Investment Department implements the Foreign Currency Risk Management Policy. The Risk Management Department controls compliance with the limits stated in the policy and reports to the Bank's Board.

Foreign currency risk sensitivity analysis

The table represents the Bank's and the Group's sensitivity analysis of EUR. The Bank and the Group have a significant open position in this currency so there is a possible future impact on the Bank's and the Group's profit and loss and the Bank's and the Group's equity.

Currency	Change in currency rate %, 2009	Effect on P/L before taxes 2009	Effect on equity before taxes 2009	Change in currency rate % 2008	Effect on P/L before taxes 2008	Effect on equity before taxes 2008
USD	+5.0	+22	-	-	-	-
USD	-5.0	(22)	-	-	-	-
EUR	-	-	-	+0.2	(2)	-
EUR	-2.0	+2	-	-1.8	21	-

The expected changes in the EUR/LVL exchange rate are based on the EUR/LVL exchange rate effective at the end of the year and the fluctuation corridor of the EUR/LVL exchange rate of -1%/+1% stated by the Bank of Latvia.

Management of liquidity risk and investments

The liquidity risk is the risk which is incurred in case the Bank is unable to repay deposits with past due dates in a timely fashion and/or meet other obligations.

The Council of the Bank has approved the Liquidity Risk Management Policy.

The Policy determines and regulates the permitted differences between the Bank's assets and liabilities, evaluating them according to the remaining maturity, managing, overseeing and planning changes in the Bank's demand deposits, cash and also investing certain part of assets into liquid financial instruments and short-term assets.

Liquidity is managed to meet the following aims:

- The Bank's assets should be allocated to meet the legally sound claims of the Bank's creditors at any time (liquidity);
- To ensure the Bank's operations are in accordance with the Liquidity maintenance ratio requirements;
- To ensure compliance with the internal liquidity risk limits.

Liquidity risk may occur if:

- The Bank is not able to meet its obligations and to ensure performance of the transactions by the Bank and customers due to internal factors;
- The Bank's solvency is limited due to external factors.

The Bank's current liability base consists of:

- Demand deposits by customers (private individuals (also banks) and legal entities);
- Term deposits by customers;
- Other financial resources, which the Bank has attracted as payment for services etc. (money in transit, other current liabilities);
- The Bank issued debt securities;
- Off-balance sheet liabilities, if there are reasons to believe that the counterparty may require their settlement.

Liquid assets are the following unencumbered Bank assets:

- Cash;
- Demand deposits with central banks and other solvent credit institutions;
- Balances due from central banks and other solvent credit institutions, if their remaining maturity does not exceed 30 days, and other assets, if the transaction terms permit early withdrawal of the funds (less the contractual fee for early withdrawal);
- Investments in financial instruments, if there is a continuous unrestricted market for these instruments, i.e. it is possible to sell them at short notice without incurring significant losses or use as collateral to receive loans.

Loans and advances to customers are not classified as liquid assets.

To assess the difference between assets and liabilities during each period as well as the possibility of covering it from demand deposits and deposits with a one-month withdrawal notice, the Bank uses statistical information on "sticky" deposits.

The Bank has set a limit for deposits that can be accepted from one person or a group of related persons.

While managing liquidity, the Bank assesses its assets and liabilities according to the remaining maturities:

- The remaining maturities for the assets are set according to the maturities specified by effective contracts or accepted notices about early withdrawal;
- Assets that are invested with an option of receive them on demand can be classified as demand assets;
- The maturities of financial instruments held for trading and available for sale that can be sold at short notice without significant losses and also other financial instruments that can be used as collateral to receive a loan can be classified based on the conditions of the deal;
- Assets that do not have any definite maturities are open-ended assets;
- Assets or any part thereof that are more than 14 days past due can be classified as past due assets.

The Bank maintains the liquidity ratio at least equal to 30% of total current liabilities.

The Treasury Department plans the asset and liability term structure and necessary liquid asset amounts on a daily basis.

The Risk Management Department regularly examines the liquidity ratio and reports to the Board.

The principles of managing large risk exposures (exposure to a single customer or a group of related customers in excess of 10% of the Bank's equity) are defined in the Liquidity Management Policy.

The Risk Management Department is responsible for the control of compliance of large risk exposures with limits set by the Parent company for the Group companies.

The Bank has developed Payment and Liquidity Crisis Battling Rules, stipulating crisis criteria and signs, and granting certain authorisations for action in crisis situations.

The Investment Policy regulates investment of available resources in financial instruments as part of the investment portfolio.

This policy states all aims, requirements, allowed financial instruments and describes the principles of portfolio management and supervision as well as sets the rules for value assessment.

The Investment Policy is approved by the Council and the Board of the Bank.

Changes in the policy are introduced based on proposals from the Assets and Liabilities Management Committee.

Changes in the Investment Policy are implemented at least once in a year or when necessary.

The Assets and Liabilities Management Committee also defines the investment portfolio management strategy and structure by approving limits for investment and financial instrument groups.

The Treasury Department, the Investment Department and the Risk Management Department ensure compliance of the investments with the Bank's development targets.

The table shows changes in the liquidity ratio during the reporting period:

	2009 %	2008 %
Average during the period	46.03	52.15
Highest	55.55	60.83
Lowest	40.64	46.43

As at 31 December 2009 LVL`000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to credit institutions	16,433	-	-	-	-	-	16,433
Deposits from customers	233,421	74,133	74,355	100,713	6,861	1,085	490,568
Debt securities issued	-	3,552	-	-	-	-	3,552
Derivatives	73	23	76	-	-	-	172
Subordinated debt	57	152	209	418	3,341	21,951	26,128
Total financial liabilities	249,984	77,860	74,640	101,131	10,202	23,036	536,853
Total contingent liabilities and financial commitments	16,084	-	-	-	-	-	16,084
Total financial liabilities, contingent liabilities and financial commitments	266,068	77,860	74,640	101,131	10,202	23,036	552,937

The table represents the analysis of the term structure of the financial liabilities and off-balance liabilities after non-discounted contractual cash flows (the Bank and the Group):

As at 31 December 2008 LVL`000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to credit institutions	24,102	136	10,657	-	-	-	34,895
Deposits from customers	404,466	51,119	53,686	65,684	16,211	1,246	592,412
Debt securities issued	-	108	-	108	3,622	-	3,838
Derivatives	417	543	97	-	-	-	1,057
Subordinated debt	57	153	210	420	3,363	11,079	15,282
Total financial liabilities	429,042	52,059	64,650	66,212	23,196	12,325	647,484
Total contingent liabilities and financial commitments	29,820	-	-	-	-	-	29,820
Total financial liabilities, contingent liabilities and financial commitments	458,862	52,059	64,650	66,212	23,196	12,325	677,304

Operational risk management

Operational risk is a possibility to incur loss due to the inadequate or incomplete internal process, human or system operation, or due to the impact of external conditions, including legal risk, but excluding strategic and reputation risk.

Bank has developed the Operational Risk Management Policy.

The main aim of operational risk management is to ensure identification of the Bank's processes exposed to operational risk, to analyse and mitigate the causes and potential loss.

The Bank employs a system for identification of operational risk factors. The system ensures gathering of operational risk events related information.

The Bank facilitates development of operational risk management environment and takes measures to reduce the possibility of operational risk occurrences by:

- Developing already existing internal regulations and procedures and creating new procedures before the Bank starts offering new products;
- Introducing changes to the Bank's structure and management model;
- Ensuring participation of structural unit managers and responsible employees in the operational risk management process;
- Ensuring involvement of internal control bodies and increasing efficiency of their operations;
- Improving the system for defining transaction limits and signature rights;
- Facilitating segregation of functions in the Bank's operations;
- Expanding the use of the "four eyes" principle in authorization of all major deals;
- Ensuring mutual authorisation of significant deals;
- Updating the Bank's contingency plan;
- Creating the strategy for response to emergencies;
- Implementing recommendations by internal and external auditors;
- Ensuring training of the employees;
- By ensuring continuity of the operational risk management process.

The Bank continuously takes measures to prevent or decrease occurrence of operational risk:

- Information about development, approval and implementation of the Bank's key products, operations, assets, processes and systems is being analysed;
- Possible threats to major positions are being identified;
- Factors affecting risk occurrence are being identified;
- Types of risks, likely consequences and possible control measures are being analysed;
- Several other risk mitigation measures are being implemented (avoidance, prevention, mitigation, insurance).

The Bank's structural units supporting the Bank's operations and customer service are responsible for direct identification, mitigation and prevention of operational risk:

- The head of each unit has designated a person responsible for identification and reporting of the structural unit's operational risk;
- The responsible employees also prepare reports about operational risk occurrences within the structural unit which include information about internal data, external events and market conditions that may materially affect the Bank's operations as well as about results of the operational risk monitoring and the problems identified.

The Risk Management Department is responsible for coordination of the operational risk managing process and analysis and systematisation of operational risk occurrences. The Risk Management Department initiates measures to restrict and mitigate risks and prepares a monthly report about the operational risk level for the Board and unit managers.

The recipients of the report ensure analysis of the information in order to improve the Bank's operational risk management practices and further develop management policy and procedures.

46. CAPITAL

The Bank maintains its capital resources at a level sufficient to sustain financial operations appropriate to its activities, volumes and risks. The Law on Credit Institutions stipulates the minimum requirement with respect to the ratio of the Bank's capital resources to risk weighted assets and memorandum items at 8%.

The Financial and Capital Market Commission has developed rules regulating the calculation of the capital requirements (Basel II). In 2009, the Bank fully complied with the regulatory capital adequacy requirements.

Capital management

The Bank's Capital Management Policy has been developed in order to:

- Ensure the monitoring of the Bank's operations;
- Regulate capital planning, ensuring capital adequacy evaluation process (evaluation of the risk exposure impact on the capital adequacy);
- Plan the Bank's capital position appropriateness to the development strategy;
- Foster the development of the Bank's Risk Exposure Management Strategy for Meeting Capital Requirements, delineating the Bank's risk profile;
- Determine methods and basic principles for calculation of the required capital;
- Calculate the required capital and determine its adequacy;
- Determine the roles of the structural units involved in the capital management process and their responsibilities in the capital adequacy evaluation process;
- Ensure the evaluation of the efficiency of the equity;
- Determine actions to maintain the acceptable risk level.

In managing the capital and grouping assets according to their risk level, the Bank strives to achieve optimal balance between risk and return with the aim of:

- Optimising the balance sheet risk profile;
- Optimise the tiers of the Bank's equity;
- Integrating risk, return and capital in a unified system;
- Ensuring operational risk management;
- Ensuring risk tolerance level and its appropriateness to the risk profile;
- Evaluating the complexity of exposures.

The Policy defines types and structure of the capital, sets requirements with respect to the process of the capital adequacy evaluation to ensure the necessary capital to cover identified and possible risks of the Bank's operations.

The Bank has identified the following risks as significant in its operations – risks with regulated minimum capital requirements (credit risk, operational risk) and risks that are not fully included in the regulatory minimum capital requirements (interest rate risk in the non-trading portfolio, business risk). Unidentified risks are accepted as unavoidable.

The Bank determines the required capital resources by assessing the capital required to cover the risks associated with its current and prospective activities, plans the measures to maintain the capital, and ensures that the available capital is at all times larger than or equal to the required capital resources.

The Bank ensures that its capital is at all times larger than or equal to the total of the following requirements:

- Capital requirement for credit risk and dilution risk;
- Capital requirement for foreign currency risk;
- Settlement risk and counterparty risk for trading book transactions;
- Capital requirement for operational risk.

The Bank carefully monitors the Bank's capitalisation level by analysing the possible changes in legislation, regulations and standards and forecasting possible impact of economic and political factors on the results of the activities by the Bank and customers.

To ensure the adequacy of the capital structure to the capital management strategy (capitalisation increase), in 2009 the Bank increased its capital. The Tier 1 capital was increased by the new share issue. As a result of the share issue, the Bank's share capital grew to LVL 19,324,248 (EUR 27,495,928). The increase of the subordinated debt totalled EUR 8.6 million (LVL 6,044,114). The agreement was concluded for 10 years. The Bank includes the tangible assets revaluation reserve in the Tier 2 capital if material changes have occurred to the value of its assets. The revaluation value is the lowest of the real estate value estimates provided by two certified real estate valuation experts. External funds for capital are planned if the amount of the capital, generated by the Bank's activities, is insufficient to support the Bank's future development.

	Group 31/12/2009	**Group 31/12/2008**	**Bank 31/12/2009**	**Bank 31/12/2008**
Total risk weighted assets and memorandum items	448,448	395,643	453,325	397,158
Required regulatory capital	35,876	31,651	36,266	31,773
Tier 1	40,824*	33,293*	41,593*	33,752*
Tier 2	15,963	11,411	15,963	11,411
Capital adequacy ratio	12.66%	11.30%	12.70%	11.37%
Tier 1 capital adequacy ratio	9.10%	8.42%	9.18%	8.50%
Tier 2 capital adequacy ratio	3.56%	2.88%	3.52%	2.87%

*The 50% decrease of Tier 1 capital and the 50% decrease of Tier 2 capital comprise investments in insurance, reinsurance and insurance management companies and subordinated capital, in which the Bank, directly or indirectly, owns 20 and more per cent of the share capital or voting shares (the investment in AAS LKB Life) as well as the specific reduction of Tier 1 and Tier 2 prescribed by laws.

The Bank applies the standardised approach to calculate the risk weighted value of the exposures.

In calculating the capital requirement for operational risk, the Bank applies the basic indicator approach.

In 2008 and 2009, the Bank chose the Basel II standardised approach to calculate the risk weighted value of the exposures.

47. SEGMENT ANALYSIS

The following analysis of segments is based on the Group's and Bank's internal reports.

(1) Statement of financial position

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Assets				
Cash and demand deposits with central banks	43,563	57,213	43,563	57,124
Due from credit institutions	98,405	218,092	98,272	216,888
Loans and advances to customers	368,738	343,141	375,218	344,510
Fixed income securities	15,722	25,309	15,101	24,665
Derivatives	550	865	550	865
Shares and other investments	531	483	4,852	4,861
Fixed assets and intangible assets	21,073	23,935	20,504	23,137
Other assets	35,518	23,355	28,228	16,803
Total assets	**584,100**	**692,393**	**586,288**	**688,853**
Liabilities				
Due to credit institutions	16,426	37,736	16,426	34,644
Deposits from customers	467,635	573,654	471,898	576,663
Debt securities issued	3,514	3,514	3,514	3,514
Derivatives	172	1,057	172	1,057
Other liabilities	17,562	16,891	15,136	15,247
Impairment and accrued liabilities	14,323	8,948	14,229	6,983
Subordinated debt	14,995	9,013	14,995	9,013
Equity	49,473	41,580	49,918	41,732
Total shareholders' equity and liabilities	**584,100**	**692,393**	**586,288**	**688,853**
Total assets per internal reporting	**584,100**	**692,393**	**586,288**	**688,853**
Reconciling items:				
Impairment [1]	**(12,291)**	**(6,375)**	**(11,389)**	**(4,461)**
Other reconciling items [2]	**(5,041)**	**(4,543)**	**(4,993)**	**(4,543)**
Total assets per IFRS statements	**566,768**	**681,475**	**569,906**	**679,849**
Latvia	**421,604**	**417,910**	**425,680**	**421,096**
Other countries	**145,164**	**263,565**	**144,226**	**258,753**
Total liabilities per internal reporting	**534,627**	**650,813**	**536,370**	**647,121**
Reconciling items				
Impairment *	**(12,291)**	**(6,375)**	**(11,389)**	**(4,461)**
Other reconciling items **	**(5,041)**	**(4,543)**	**(4,993)**	**(4,543)**
Total liabilities per IFRS statements	**517,295**	**639,895**	**519,988**	**638,117**
Latvia	**428,554**	**387,636**	**431,247**	**389,301**
Other countries	**88,741**	**252,259**	**88,741**	**248,816**

* For internal reporting purposes impairment is shown as a liability and not netted with related assets.

** Other reconciling items mostly represent cut-off and classification required by IFRS.

(2) Income statement/ statement of comprehensive income

LVL '000	Group 31/12/2009	Group 31/12/2008	Bank 31/12/2009	Bank 31/12/2008
Interest revenue	30,626	39,399	28,834	37,716
Commission and fee revenue	10,070	9,789	9,690	9,580
Dividend revenue	-	-	100	30
Trading/ revaluation result	8,216	6,398	8,308	6,426
Impairment [1]	1,887	590	1,887	590
Other revenue	12,823	3,726	10,990	3,192
Total revenue	**63,622**	**59,902**	**59,809**	**57,534**
Interest expense	(24,672)	(22,390)	(24,437)	(21,998)
Commission and fee expense	(2,471)	(2,709)	(2,933)	(2,701)
Administrative expense	(20,752)	(22,590)	(19,429)	(21,050)
Depreciation and amortisation expense	(2,229)	(2,517)	(2,065)	(2,371)
Tax expense	(60)	(624)	(7)	(597)
Impairment	(13,231)	(5,679)	(11,640)	(5,200)
Other expense	(1,711)	(609)	(845)	(609)
Revaluation of non-current assets	(431)	-	(431)	-
Total expense	**(65,557)**	**(57,118)**	**(61,787)**	**(54,526)**
Profit/(loss)	**(1,935)**	**2,784**	**(1,978)**	**3,008**
Total revenue per internal reporting	61,372	58,785	57,557	56,418
Total revenue per IFRS statements	**61,372**	**58,785**	**57,557**	**56,418**
Total expense per internal reporting	(63,307)	(56,001)	(59,535)	(53,410)
Total expense per IFRS statements	**(63,307)**	**(56,001)**	**(59,535)**	**(53,410)**

The Group and Bank do not analyse income and expense based on geographical areas.

48. GOING CONCERN

Global financial crisis, sharp slow-down of the local economy and the result of nationalisation of the largest local bank which took place in 2008 are factors that affected further development and stability of the entire banking sector, including also AS Latvijas Krājbanka.

Ensuring steady and predictable cash flows is the key target set for the year 2010 to maintain continuous operations of the Bank.

Household deposits are the main source of financing for AS Latvijas Krājbanka. Households and enterprises account for more than 90% of all attracted resources. In 2009, the household deposit amount remained at prior year level. The policy pursued by the Bank in the customer attraction and servicing makes it possible to maintain the steady growth of deposits also in 2010 and shows the Bank's ability to attract free cash of households on the local market. Under the current turbulent market circumstances, the fluctuations of deposits were not significant. In May 2009, AS Latvijas Krājbanka successfully repaid the syndicated loan according to the terms of the loan agreement without attracting any additional financing on external financial markets.

The Bank has assessed the cash flow scenarios for the year 2010 and defined the efforts aimed at maintenance its strong liquidity. The Bank is going to continue diversify its risks associated to financing by attraction of various industries, geographical regions and state entities deposits. Depending on the market circumstances, Bank has plans to increase share of external financing in the format of syndicated loans or bonds. Such activities would significantly decrease moderate Banks dependence on local financing market as well as on possible increase of such financing cost. In case of necessity, as a resort of additional financing the parent AB Bankas SNORAS is ready to provide financial support to the Bank's liquidity position.

The Bank's capital ensures the most optimum relationship between risk and return. In 2009, the Bank's capital adequacy ratio exceeded the minimum statutory 8% limit considerably, reaching as much as 10.3% -12.7%. As of 31 December 2009 CAD ratio stood at 12.7% (31 December 2008 – at 11.4%).

Although no new large exposures are planned for 2010, the Bank still intends to increase the total Tier 1 by LVL 6.5 million, so confirming its willingness to promote its further development, ensuring sufficient capitalisation to cover the risks assumed, carry on and develop its business as well as to maintain its status as a reliable cooperation partner. The projected capital adequacy ratio following the planned attraction of capital is 14.5%.

Based on the above, the management has made reasonable judgements and estimates aimed at sustaining the Group and the Bank as going concern entities in 2010 and beyond. Having assessed the recent developments in Latvia and across the world, the Group's and Bank's management is confident that Latvijas Krājbanka 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. Therefore, 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.

49. SUBSEQUENT EVENTS

AS Latvijas Krājbanka has registered its first foreign representation office. It is located in London, Lombard Street 6, EC3V 9AA. The office will present the Bank and the services offered by the Bank and its subsidiaries to existing and potential customers, using the extensive international experience gained and its position as part of the international financial group. The representation office will research and analyse the possibilities of the financial, investment and business environment. In addition, this entity will improve the relations with correspondent banks.

On 29 January 2010, in accordance with the terms set out in the CA series mortgage bonds prospectus of AS Latvijas Krājbanka, CA series mortgage bonds were extinguished for the total amount of EUR 5 million.

AS Latvijas Krājbanka announces that an arbitration application has been filed to the London Court of International Arbitration to consider the dispute between the Bank and AS Parex banka regarding the repayment of EUR 2,000,000 and the payment of interest charged pursuant to the escrow account agreement in the amount of EUR 139,761.

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SIA LKB līzings
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AS IBS Renesource Capital
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INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Latvijas Krājbanka

Report on the Financial Statements

We have audited 2009 consolidated financial statements of AS Latvijas Krājbanka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS Latvijas Krājbanka (hereinafter - the Bank), which are set out on pages 9 through 74 of the accompanying 2009 Consolidated Annual Report and which comprise the statement of financial position as at 31 December 2009, the income statement and statement of comprehensive income, changes in equity and cash flows the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
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.

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 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 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.

Ernst & Young

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (included on pages 3 through 5 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.

Report on Corporate Management Report

We have assured ourselves that the Bank has prepared the corporate management report for the year 2009 and verified information presented in the report according to the requirements listed in the section $56.^1$ first paragraph clauses 3, 4, 6, 8 and 9 and in the section $56.^2$ second paragraph clause 5 in the Law on Financial Instruments Market.

Ernst & Young Baltic SIA
License No. 17

Diāna Krišjāne
Chairwoman of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga, 12 March 2010