Investment management joint stock company

AB.LV ASSET MANAGEMENT

Unified registration number 40003814724

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009

Riga,
23 February 2010

CONTENTS

Business activity

In accordance with the new business strategy adopted for 2009–2013, AS Aizkraukles banka is offering its customers corporate banking services, services for affluent individuals, asset management and consulting combined in an integrated individual service. The investment services provided by the subsidiary IPAS AB.LV Asset Management (hereinafter also – the Company) is one of priority businesses to ensure a wide range of investment products to customers, as well as not only to strengthen the bank's positions in the Latvian financial sector but also to become a leading independent private bank in Eastern Europe.

Services and products

The year 2009 was the third business year for the open-end investment funds managed by IPAS AB.LV Asset Management. Currently, the Company is operating three investment funds having the US dollar as the base currency: AB.LV Emerging Markets USD Bond Fund, which is making investments in government bonds of emerging countries; AB.LV Global USD ETF Fund, which is dealing with exchange traded funds (ETF); and AB.LV High Yield CIS Bond Fond, which is basically investing in debt securities issued by corporations and financial institutions of the CIS countries.

In August 2007, AB.LV Emerging Markets Bond Fund and AB.LV Global ETF Fund had their subfunds - AB.LV Emerging Markets EUR Bond Fund and AB.LV Global EUR ETF Fund - established, having also the euro as the base currency.

Given the global financial crisis and the prices of financial instruments falling sharply on the global stock markets during 2008, at the end of the reporting year AB.LV Emerging Markets Bond Fund, which is pursuing the conservative investment policy, had the annualised return since inception of 3.48% and 2.59% (USD and EUR Funds respectively). As at 31 December 2009, the annualised return since inception of AB.LV Global ETF Fund pursuing the aggressive investment policy was -3.62% and -7.04% (USD and EUR Funds respectively), while AB.LV High Yield CIS Bond Fund pursing the moderate investment policy and intended for medium-term investments (3-5 years) had the annualised return since inception of 3.30%.

In August 2008, the investment funds managed by IPAS AB.LV Asset Management had the minimum investment amount reduced for funds or subfunds to USD/EUR 1 000. In addition, the minimum investment increment requirement was annulled.

To keep the existing and potential investors informed about the situation on the global financial markets, AS Aizkraukles banka has been publishing on its homepage the detailed monthly macroeconomic analysis of the chief analyst. Meanwhile, those customers that have made investments in the funds of IPAS AB.LV Asset Management receive monthly fund manager's commentaries and opinion regarding the market situation, performance of the funds, and activities of the fund manager.

In 2009, IPAS AB.LV Asset Management continued forming individual investment portfolios for its customers by making investments under several investment programmes to meet the requirements of all levels of investors. The investment programmes have wide geographic coverage and a broad range of financial instruments, meanwhile keeping to investment policies similar to those of the investment funds.

Financial performance

IPAS AB.LV Asset Management has closed the year 2009 with a loss of LVL 129 639. Post-crisis, investors remained cautious and investments were lower until the third quarter of 2009 when investors saw positive tendencies and started making investments actively both in investment funds and under individual investment programmes.
As at 31 December 2009, the total funds of customers managed by the Company based on the customers' authorisation were LVL 16 048 577, of which LVL 13 386 701 and LVL 2 661 876 represented the investments made by customers in the investment funds managed by IPAS AB.LV Asset Management and the assets managed under the individual investment programmes respectively.

Risk management

The Company has always been focusing specifically on risk management in order to ensure proper diversification and achieve risk minimisation. The Company has the Investment Committee set up, which determines the investment policy to be pursued by the Company, hedging limits, and financial markets to enter into transactions involving financial instruments. The members of the Investment Committee are the leading financial market specialists of AS Aizkraukles banka and the Company.
The Company analyses the political and economic situation on an ongoing basis, as well as conducts the comparative and technical analysis, the analysis of macroeconomic indicators, and the summary analysis of the recommendations for various financial markets given by the world's leading brokers and analysts.

Development in 2010

In 2010, IPAS AB.LV Asset Management intends to continue managing its open-end investment funds and individual investment programmes and bringing in new customers. Bond funds returned to pre-crisis levels in 2009 and it is planned that investors will be investing actively considering that most of the financial markets have recovered. It is also expected that the Company's result for the year 2010 will be positive.

Employees

The Company's management and heads of the divisions and departments are professionals having more than 10-year experience on global financial markets. The Company has been specifically focusing on the improvement of professional qualifications of its employees by regularly taking part in local and international training projects and conferences.
We are confident that our staff's knowledge, long experience, high-quality customer service, and individual approach – all these factors give all grounds to believe that the Company will be developing successfully also in the future.
The management of IPAS AB.LV Asset Management would like to express their deep gratitude to customers for loyalty and successful cooperation.

Chairman of the Council	Ernests Bernis
Chairman of the Board	Leonīds Kiļs
Member of the Board, Proctor	Oļegs Fiļs

Riga, 23 February 2010

INVESTMENT MANAGEMENT JOINT STOCK COMPANY
AB.LV ASSET MANAGEMENT
THE COUNCIL AND THE BOARD

The Council of the Company:

Chairman of the Council:
Ernests Bernis

Deputy Chairman of the Council:
Māris Kannenieks

Member of the Council:
Vadims Reinfelds

The Board of the Company:

Chairman of the Board:
Leonīds Kiļs

Deputy Chairman of the Board:
Jevgēnijs Gžibovskis

Member of the Board:
Oļegs Fiļs

Chairman of the Council Ernests Bernis

Chairman of the Board Leonīds Kiļs

Member of the Board, Proctor Oļegs Fiļs

Riga, 23 February 2010

INVESTMENT MANAGEMENT JOINT STOCK COMPANY
AB.LV ASSET MANAGEMENT
STATEMENT OF RESPONSIBILITY OF THE COUNCIL AND THE BOARD

The Council and the Board of the Company (hereinafter – the Management) are responsible for the preparation of the financial statements of the Company. The financial statements are prepared in compliance with the requirements of the Financial Instrument Market Law, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to investment brokerage companies.

The financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company as at 31 December 2009, and the results of its operations, changes in equity and cash flows for the year then ended.

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

The Management of the Company are responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets, and the prevention and detection of fraud and other irregularities in the Company. The Management of the Company are also responsible for operating the Company in compliance with the Financial Instrument Market Law, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to investment brokerage companies.

Chairman of the Council Ernests Bernis

Chairman of the Board Leonīds Kiļs

Member of the Board, Proctor Oļegs Fiļs

Riga, 23 February 2010

INVESTMENT MANAGEMENT JOINT STOCK COMPANY
AB.LV ASSET MANAGEMENT
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009	2008
		LVL	LVL
Interest revenue	4	43 606	62 831
Commission and fee revenue	5	215 337	689 126
Commission and fee expense	5	(6 465)	(21 847)
Gain/ loss from foreign exchange trading and revaluation		286	(6 621)
Operating income		**252 764**	**723 489**
Administrative expense	6	(345 452)	(364 403)
Depreciation	10	(10 659)	(10 555)
Other expense	7	(26 856)	(151 443)
Loss/ profit before corporate income tax		**(130 203)**	**197 088**
Corporate income tax	8	564	(29 921)
NET LOSS/ PROFIT FOR THE YEAR		**(129 639)**	**167 167**
TOTAL COMPREHENSIVE EXPENSE/ INCOME		**(129 639)**	**167 167**

Chairman of the Council Ernests Bernis

Chairman of the Board Leonīds Kiļs

Member of the Board, Proctor Oļegs Fiļs

Riga, 23 February 2010

INVESTMENT MANAGEMENT JOINT STOCK COMPANY
AB.LV ASSET MANAGEMENT
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Notes	31/12/2009	31/12/2008
ASSETS		**LVL**	**LVL**
Balances due from credit institutions	9	489 138	779 131
Prepaid expense and accrued income		17 620	25 538
Corporate income tax asset	13	87 575	63 947
Property, plant and equipment	10	13 664	23 013
Intangible assets	10	2 863	4 173
Other assets		5 638	12 711
TOTAL ASSETS		**616 498**	**908 513**
LIABILITIES			
Deferred income and accrued expense	11	27 883	22 318
Deferred corporate income tax	8	-	564
Other liabilities		-	210
TOTAL LIABILITIES		**27 883**	**23 092**
EQUITY			
Paid-in share capital	12	700 000	700 000
Retained earnings		18 254	18 254
Loss/ profit for the year		(129 639)	167 167
TOTAL EQUITY		**588 615**	**885 421**
TOTAL EQUITY AND LIABILITIES		**616 498**	**908 513**
Memorandum items			
Funds under trust management	14	**16 048 577**	**13 657 992**

Chairman of the Council Ernests Bernis

Chairman of the Board Leonīds Kiļs

Member of the Board, Proctor Oļegs Fiļs

Riga, 23 February 2010

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Paid-in share capital	Retained earnings/ (accumulated deficit)	Total equity
	LVL	**LVL**	**LVL**
As at 01/01/2008	**700 000**	**459 023**	**1 159 023**
Dividends paid	-	(440 769)	(440 769)
Profit for the reporting year	-	167 167	167 167
As at 31/12/2008	**700 000**	**185 421**	**885 421**
Dividends paid	-	(167 167)	(167 167)
Loss for the reporting year	-	(129 639)	(129 639)
As at 31/12/2009	**700 000**	**(111 385)**	**588 615**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
Cash flow from operating activities	**LVL**	**LVL**
(Loss)/ profit before corporate income tax	(130 203)	197 088
Amortisation and depreciation	10 659	10 555
Unrealised (gain)/ loss from foreign currency positions	(286)	6 621
Net cash flow from operating activities before changes in assets and liabilities	**(119 830)**	**214 264**
Decrease in prepaid expense and accrued income	7 918	47 155
Decrease/ (increase) in other assets	7 073	(10 607)
Increase/ (decrease) in accrued expense	5 565	(9 457)
(Decrease)/ increase in other liabilities	(210)	210
Net cash flow from operating activities before corporate income tax	**(99 484)**	**241 565**
Corporate income tax paid	(23 628)	(177 341)
Net cash flow from operating activities	**(123 112)**	**64 224**
Cash flow from investing activities		
Repayment of term deposits	-	600 000
(Purchase) of property, plant and equipment and intangible assets	-	(2 181)
Net cash flow from investing activities	**-**	**597 819**
Cash flow from financing activities		
Dividends paid	(167 167)	(440 769)
Net cash flow from financing activities	**(167 167)**	**(440 769)**
Net cash flow	**(290 279)**	**221 274**
Cash and cash equivalents at the beginning of the year	**779 131**	**564 478**
Gain/ (loss) from revaluation of foreign currency positions	286	(6 621)
Cash and cash equivalents at the end of the year*	**489 138**	**779 131**

* See the components of cash and cash equivalents in Note 9 *Balances due from credit institutions*.

NOTE 1 GENERAL INFORMATION

The investment management joint stock company AB.LV Asset Management (hereinafter – the Company) was registered with the Republic of Latvia Enterprise Register on 30 March 2006.

The investment management joint stock company AB.LV Asset Management is holding the licence to render asset management services issued by the Financial and Capital Market Commission on 4 August 2006.

The business activity of the investment management joint stock company AB.LV Asset Management is related to management of individual portfolios of financial instruments by making investments under various investment programmes, as well as management of open-end investment funds, and consulting about investing in financial instruments. As at 31 December 2009, IPAS AB.LV Asset Management managed the following open-end investment funds: AB.LV Emerging Markets Bond Fund with its subfunds AB.LV Emerging Markets USD Bond Fund and AB.LV Emerging Markets EUR Bond Fund, as well as AB.LV Global ETF Fund with its subfunds AB.LV Global USD ETF Fund and AB.LV Global EUR ETF Fund, and AB.LV High Yield CIS Bond Fund.

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

The financial statements cover the period 1 January 2009 through 31 December 2009.

The financial statements of the Company for the year ended 31 December 2009 were approved by the Board and the Council of the Company in Riga, on 23 February 2010. The Company's shareholders have the power to amend the financial statements after issue.

NOTE 2 INFORMATION ON PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2009 and 2008, is set out below.

a) *Statement of Compliance*

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

During 2009, the Company consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in *Amended IFRS and IFRIC that came into effect in the reporting period*.

Amended IFRS and IFRIC that came into effect in the reporting period

The Company has applied the following IFRS, IAS and IFRIC interpretations which are amended or enter into force in the reporting year, but which do not have an impact on the financial statements:

IAS 1 *Presentation of Financial Statements* (revised). This amendment requires the company to make disclosures of the objectives, policies and processes of managing capital. The key amendments presented in these financial statements refer to the following changes of statement headings: *Balance Sheet* and *Income Statement* have been replaced by a *Statement of Financial Position* and a *Statement of Comprehensive Income* respectively. According to the requirements of IAS 1, the Company presents its income statement and other comprehensive income in one single statement of comprehensive income. The amount of comprehensive income is also shown in the statement of changes in equity.

IAS 23 *Borrowing Costs*. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The adoption of this standard did not have any impact on the financial position or performance of the Company.

IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement.* This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this amendment did not have any impact on the financial position or performance of the Company.

IFRIC 13 – *Customer Loyalty Programmes.* This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The adoption of this interpretation did not have any impact on the financial position or performance of the Company.

IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation.* The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation did not have any impact on the financial position or performance of the Company.

IFRS 7 *Financial Instruments: Disclosures.* These amendments were issued in March 2009 and are applicable to annual periods beginning on or after 1 January 2009. The amendments outline additional disclosure requirements for fair value measurement and liquidity risk. The adoption of this amendment will have no impact on the financial position or performance of the Company, as the Company does not have financial instruments.

IFRS 8 *Operating Segment Information*. The standard sets out requirements for disclosure of information about an entity's operating segments in breakdown by components that management uses to make operating decisions. According to the requirements of this IFRS, information on operating segments shall be disclosed by the companies, whose debt or equity instruments are traded in a public market. The Company does not have any debt or equity instruments and, therefore, the operating segment information is not disclosed in these financial statements.

IFRSs and IFRIC Interpretations that have been issued but are not yet effective

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

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2010, once adopted by the EU). The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Company, as the Company does not have share-based payments.

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009). Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS *31 Interests in Joint Ventures*. The amendment will have no impact on the financial position or performance of the Company, as the Company does not have business combinations.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The amendment will have no impact on the financial position or performance of the Company, as the Company does not have financial instruments.

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 Company, 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 Company, as the Company 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. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

Improvements to IFRSs

In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The second omnibus, issued in April 2009, is still to be adopted by the EU. The adoption of the following amendments (all not adopted by the EU yet) may result in changes to accounting policies but will not have any impact on the financial position or performance of the Company:

- 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 Company:

- 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. This interpretation has no impact on the Company’s financial statements.

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 financial statements because the Company 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 financial statements because the Company 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 financial statements because the Company 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 Company does not have such transactions, IFRIC 19 will not have any impact on its financial statements.

Significant accounting estimates and assumptions

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

b) Basis of Preparation

The accounting records are maintained under the historical cost convention, modified for revaluation and adjustments as disclosed below, made to ensure that these financial statements prepared in accordance with the requirements of IFRS and the FCMC regulations give a true and fair view of the Company.

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

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

Reporting date	USD	EUR
31 December 2009	0.489	0.702804
31 December 2008	0.495	0.702804

Information given herein in brackets represents comparative figures for the year ended 31 December 2008, unless otherwise stated.

These financial statements are prepared in accordance with IFRS as adopted in the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

c) Comparative information

Comparative figures for the year ended 31 December 2008 have been presented in a manner ensuring their comparability and adjusted to conform to changes in presentation in the current year.

d) Recognition and Derecognition of Financial Assets and Liabilities

A financial asset is any asset classified as cash, a contractual right to receive cash or another financial asset from the counterparty or to exchange financial instruments under conditions that are potentially favourable to the entity, or shares, as well as derivative or non-derivative contracts that will or may be settled in the Company's own equity instruments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to the counterparty or to exchange financial instruments with the counterparty under conditions that are potentially unfavourable to the entity, as well as derivative or non-derivative contracts that will or may be settled in the Company's own equity instruments.

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

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Company has transferred the financial asset and all the risks and rewards of the asset to the counterparty.

A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

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

e) Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions.

f) Revenue and Expense Recognition

All major revenue and expense items are recognised on an accrual basis.

Interest revenue/ expense is recognised in the statement of comprehensive income for financial assets/ liabilities measured at amortised cost using the effective interest method.

Commission and fee revenue and expense are included in the statement of comprehensive income 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.

g) Foreign Currency Translation

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

h) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

i) Intangible Assets

Intangible assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.
The Company has applied the annual rate of 20% to amortise its intangible assets.

j) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset.

The Company has applied the following depreciation rates:

Category	Annual rate
Transport vehicles	20%
EDP equipment and software	16-33%
Office equipment	10-33%

Costs of maintenance are charged to the statement of comprehensive income as incurred.

k) Employee Benefits

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

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

l) Corporate Income Tax

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

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Company's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on non-current assets and accrual for employee vacation pay.

m) Impairment of Non-financial Assets

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

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

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

n) Cash and Cash Equivalents

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

o) Funds under Trust Management

Funds managed by the Company on behalf of its customers, funds and other institutions are not regarded as assets of the Company and, therefore, these are not included in the Company's statement of financial position. Funds under trust management are disclosed in these financial statements for information purposes only.

NOTE 3 RISK MANAGEMENT

Risk management is one of the Company's strategic values. In the ordinary course of business, the Company is exposed to various financial risks, the most significant of which being credit risk, liquidity risk, and market risks arising from changes in interest rates, foreign exchange rates and other factors. The risk management policies are designed and approved by the Board and implemented by the structural units operating in the respective areas.

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

As at 31 December 2009, the financial assets shown in the Company's statement of financial position comprised balances due from credit institutions in the amount of LVL 489 138 (2008: LVL 779 131), which are stated at amortised cost.

a) Credit risk

Credit risk is exposure to potential losses in case the Company's counterparty or debtor is unable to settle the contractual obligations to the Company. The maximum credit risk exposure of the Company's assets as at 31 December 2009 was LVL 506 758 (2008: LVL 804 669).

According to the Company's investment policy, cash is placed in term deposits considering the credit rating of a respective credit institution and the interest rate offered.

As at 31 December 2009, the Company had no past due or impaired financial assets (2008: 0).

b) Liquidity risk

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

ASSETS	On demand	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	**Total**
Balances due from credit institutions	2 950		486 188				489 138
Prepaid expense and accrued income		14 416			3 204		17 620
Corporate income tax asset					87 575		87 575
Property, plant and equipment						13 664	13 664
Intangible assets						2 863	2 863
Other assets			2 726			2 912	5 638
TOTAL ASSETS	**2 950**	**14 416**	**488 914**	**0**	**90 779**	**19 439**	**616 498**
LIABILITIES							
Deferred income and accrued expense		27 883					27 883
TOTAL LIABILITIES	**0**	**27 883**	**0**	**0**	**0**	**0**	**27 883**
NET ASSETS	**2 950**	**(13 467)**	**488 914**	**0**	**90 779**	**19 439**	**588 615**

c) Currency risk

The Company is exposed to the effects of fluctuations of foreign currency exchange rates on its financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies. The Company had no material assets and liabilities denominated in foreign currencies as at the year end.

d) Interest rate risk

The Company is not exposed to significant interest rate risk. The Company generates income from term deposits bearing fixed interest.

e) Operational risk

In the ordinary course of business, the Company encounters also non-financial risks with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Company makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the structural units is one of the measures taken to prevent the potential loss.

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

NOTE 4 INTEREST REVENUE

	2009	2008
Interest revenue	**LVL**	**LVL**
On balances due from credit institutions	43 606	62 831
Total interest revenue	**43 606**	**62 831**

NOTE 5 COMMISSION AND FEE REVENUE AND EXPENSE

	2009	2008
Commission and fee revenue	**LVL**	**LVL**
Service fees	215 337	689 126
Total commission and fee revenue	**215 337**	**689 126**
Commission and fee expense		
Other commission and fee expense	6 127	21 648
Bank charges	338	199
Total commission and fee expense	**6 465**	**21 847**

NOTE 6 ADMINISTRATIVE EXPENSE

	2009	2008
	LVL	**LVL**
Remuneration to personnel	129 997	120 510
Remuneration to the Council and the Board	84 041	94 422
Statutory social insurance contributions	43 213	27 830
Professional fees	21 872	14 729
Rent of premises, repairs and maintenance costs	21 709	27 188
Accounting expense	9 921	9 435
Business trips	9 627	26 097
Equipment maintenance expense and stationery	8 423	22 571
Audit fee	4 391	2 523
Communications expense	497	1 926
Improvement of staff's qualifications	-	2 751
Other administrative expense	11 761	14 421
Total administrative expense	**345 452**	**364 403**

In 2009, the Company employed an average of 9 persons.

The number and categories of the Company's employees are as follows:

	31/12/2009	31/12/2008
Management	2	2
Heads of divisions and departments	2	4
Other personnel	5	5
Total	**9**	**11**

NOTE 7 OTHER EXPENSE

	2009	2008
	LVL	**LVL**
Payment to the FCMC	4 328	14 056
Other expense related to attraction of new customers	22 528	137 387
Total other expense	**26 856**	**151 443**

NOTE 8 CORPORATE INCOME TAX

	2009	2008
Current corporate income tax charge for the reporting year	-	30 562
Deferred corporate income tax due to changes in temporary differences	(564)	(641)
Corporate income tax charged to the statement of comprehensive income:	**(564)**	**29 921**

Deferred corporate income tax:

	Statement of financial position		Statement of comprehensive income	
	31/12/2009	31/12/2008	2009	2008
Deferred corporate income tax liability				
Accelerated depreciation for tax purposes	(1 038)	(1 883)	845	240
Gross deferred tax liability	**(1 038)**	**(1 883)**	**845**	**240**
Deferred corporate income tax asset				
Tax loss carried forward	17 744	-	17 744	-
Accrual for employee vacation pay	2 118	1 319	799	401
Valuation allowance for deferred tax asset	(18 824)	-	(18 824)	-
Gross deferred tax asset	**1 038**	**1 319**	**(281)**	**401**
Net deferred corporate income tax	**0**	**(564)**	**564**	**641**

Tax loss carried forward may be utilised as follows:

	Tax loss	Expiry term
Tax loss for 2009	118 291	2017
TOTAL:	**118 291**	

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	2009	2008
(Loss)/ profit before tax	(130 203)	197 088
Tax at the applicable tax rate of 15% (2008: 15%)	(19 530)	29 563
Permanent differences:		
Non-operating expense	62	158
Other	80	200
Unrecognised deferred tax asset	1 645	-
Tax loss carried forward	17 744	-
Actual corporate income tax for the reporting year:	**-**	**29 921**

NOTE 9 BALANCES DUE FROM CREDIT INSTITUTIONS

	31/12/2009	31/12/2008
	LVL	**LVL**
Cash at bank	2 950	4 550
Term deposits	486 188	774 581
Total cash and cash equivalents	**489 138**	**779 131**

NOTE 10 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	31/12/2009	31/12/2008
	LVL	**LVL**
Intangible assets	2 863	4 173
Total intangible assets	**2 863**	**4 173**
Transport vehicles	11 079	18 076
Office equipment		
EDP equipment	537	1 645
Other property, plant and equipment	2 048	3 292
Total property, plant and equipment	**13 664**	**23 013**

The movements in the Company's intangible assets and property, plant and equipment in 2008 are as follows:

	Intangible assets	Property, plant and equipment	TOTAL
	LVL	**LVL**	**LVL**
As at 1 January 2008	**5 782**	**43 498**	**49 280**
Additions	768	1413	2 181
As at 31 December 2008	**6 550**	**44 911**	**51 461**
As at 1 January 2008	**(1 195)**	**(12 525)**	**(13 720)**
Depreciation/ amortisation charge	(1 182)	(9 373)	(10 555)
As at 31 December 2008	**(2 377)**	**(21 898)**	**(24 275)**
As at 1 January 2008	**4 587**	**30 973**	**35 560**
As at 31 December 2008	**4 173**	**23 013**	**27 186**

NOTE 10 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT (cont'd)

The movements in the Company's intangible assets and property, plant and equipment in 2009 are as follows:

	Intangible assets	Property, plant and equipment	TOTAL
	LVL	**LVL**	**LVL**
As at 1 January 2009	**6 550**	**44 911**	**51 461**
Additions	-	-	-
As at 31 December 2009	**6 550**	**44 911**	**51 461**
As at 1 January 2009	**(2 377)**	**(21 898)**	**(24 275)**
Depreciation/ amortisation charge	(1 310)	(9 349)	(10 659)
As at 31 December 2009	**(3 687)**	**(31 247)**	**(34 934)**
As at 1 January 2009	**4 173**	**23 013**	**27 186**
As at 31 December 2009	**2 863**	**13 664**	**16 527**

NOTE 11 ACCRUED EXPENSE

	31/12/2009	31/12/2008
	LVL	**LVL**
Accrual for employee vacation pay	14 122	8 794
Provisions for bonuses	-	-
Other accrued expense	13 761	13 524
Total accrued expense	**27 883**	**22 318**

NOTE 12 PAID-IN SHARE CAPITAL

As at 31 December 2009 and 2008, the share capital of the investment management joint stock company AB.LV Asset Management amounted to LVL 700 000. The share capital of the Company consists of only ordinary shares. The par value of each share is LVL 1.

As at 31 December 2009 and 2008, the Company had 1 (one) shareholder - AS Aizkraukles banka.

NOTE 13 TAXATION

The movements in the Company's tax accounts are as follows:

	Personal income tax	Statutory social insurance contributions	Value added tax	Corporate income tax
	LVL	**LVL**	**LVL**	**LVL**
(Payable)/ receivable as at 01/01/2008	**-**	**-**	**1 776**	**(82 832)**
Calculated	(48 600)	(61 491)	649	(30 562)
Adjustment for the prior periods	-	14 314	(713)	-
Paid	48 810	55 167	-	177 341
(Payable)/ receivable as at 31/12/2008	**210**	**7 990**	**1 712**	**63 947**
Calculated	(41 537)	(68 442)	1 105	-
Adjustment for the prior periods	-	8 432	37	-
Paid	41 327	52 020	-	23 628
(Payable)/ receivable as at 31/12/2009	**-**	**-**	**2 854**	**87 575**

NOTE 14 MEMORANDUM ITEMS

Funds managed on behalf of customers (including the investment funds managed by the Company) by customer profile:

	31/12/2009	**31/12/2008**
	LVL	**LVL**
Corporate securities under trust management	2 008 361	780 287
Securities of private individuals under trust management	653 515	351 178
Investment funds managed by AB.LV Asset Management	13 386 701	12 526 527
Total funds under trust management	**16 048 577**	**13 657 992**

NOTE 15 CAPITAL ADEQUACY

The objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the Company maintains healthy capital ratios in order to support its business and maximise the shareholders' value.

The goals and procedures of the Company's capital management are consistent with those of the previous years.

Capital adequacy refers to the sufficiency of the Company's capital resources to cover credit risk and market risks arising from the Company's assets and off-balance sheet exposures.

NOTE 15 CAPITAL ADEQUACY (cont'd)

The capital adequacy ratio of the Company is calculated in accordance with the relevant FCMC requirements.

	31/12/2009	31/12/2008
Tier 1	**LVL**	**LVL**
Paid-in share capital	700 000	700 000
Intangible assets	(2 863)	(4 173)
Retained earnings	18 254	18 254
Audited (loss)/ profit for the year	(129 639)	167 167
Total Tier 1	**585 752**	**881 248**
Total equity	**585 752**	**881 248**
Capital charge for credit risk on banking book	128 086	74 073
Total capital charge 8%	**128 086**	**74 073**
Capital adequacy ratio (%)	**36.65**	**95.18**
Minimum capital adequacy ratio (%)	8.00	8.00

NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS

According to the estimates of the Company, the fair value of the Company's assets and liabilities does not differ materially from their carrying amount.

NOTE 17 EVENTS AFTER REPORTING DATE

On 22 February 2010, the extraordinary shareholders' meeting of IPAS AB.LV Asset Management resolved to reduce the share capital of the Company by LVL 300,000.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

NOTE 18 RELATED PARTY DISCLOSURES

Related parties are defined as shareholders who have the ability to exercise significant influence over the Company. Transactions with related parties are made according to the generally accepted principles of the Company's operations and current market rates.

Interest revenue from transactions with related parties

	2009	2008
	LVL	**LVL**
Interest revenue	**43 606**	**62 831**

NOTE 18 RELATED PARTY DISCLOSURES (cont'd)

Balances due from related parties

	31/12/2009	31/12/2008
	LVL	**LVL**
Balances due from credit institutions	**489 138**	**779 131**

Expense from transactions with related parties

	2009	2008
	LVL	**LVL**
Expense related to attraction of new customers	22 528	-
Rent of premises, repairs and maintenance costs	21 704	27 109
Professional fees	17 275	-
Accounting expense	9 921	9 435
IT maintenance expense	8 289	22 464
Internal audit	5 111	-
Personnel management expense	2 476	3 247
Currency exchange loss	696	6 621
Communications expense	494	-
Bank charges	338	199
Total	**88 832**	**69 075**

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INDEPENDENT AUDITORS' REPORT

To the shareholders of IPAS "AB.LV Asset Management"

Report on the Financial Statements

We have audited 2009 financial statements of IPAS "AB.LV Asset Management" (the "Company"), which are set out on pages 7 through 28 of the accompanying 2009 Annual Report and which comprise the balance sheet as at 31 December 2009, the statements of income, changes in equity and cash flows for 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. 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.

Auditor's 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 financial statements give a true and fair view of the financial position of IPAS "AB.LV Asset Management" 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.

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 4 of the accompanying 2009 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Personal ID code: 250873-12964
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga, 23 February 2010